

TAKING INNOVATION TO THE NEXT LEVEL

Jerini AG | Annual Report 2007



JERINI

RESEARCH & DEVELOPMENT PIPELINE

| Target (Compound) | Partner | Indication | Discovery | Preclinical | Phase I | Phase II | Phase III | Submission |
|---------------------------------|---------|---|-----------|-------------|---------|----------|-----------|------------|
| Bradykinin B2R (Icatibant) | | Hereditary Angioedema | | | | | | |
| Bradykinin B2R (Icatibant) | | Drug-Induced Angioedema ¹ | | | | | | |
| Bradykinin B2R (Icatibant) | | Capillary Leak Syndrome ² | | | | | | |
| Bradykinin B2R (JSM 10292) | | Pain/ Inflammation | | | | | | |
| C5aR (JPE 1375) | | Ophthalmology ³ | | | | | | |
| C5aR (JSM 7717) | | Inflammation | | | | | | |
| α5β1 Integrin (JSM 6427) | | Ophthalmology ³ | | | | | | |
| α5β1 Integrin (JSM 8757) | | Oncology | | | | | | |
| Bradykinin B1R (undisclosed) | | Pain/ Inflammation | | | | | | |
| Undisclosed | Alcon | Ophthalmology | | | | | | |
| Undisclosed | Baxter | Hemophilia | | | | | | |

B2R: Bradykinin B2 Receptor

¹ Phase III/IV trial in drug-induced angioedema planned in 2008

² Icatibant is currently being tested in several preclinical Capillary Leak Syndrome models

³ Ophthalmology compounds to be further developed by US-based Jerini Ophthalmic, Inc.

KEY FIGURES (IFRS)

(in thousand EUR if not indicated otherwise)

| | 2007 | 2006 |
|---|---------|---------|
| Revenues | 18,614 | 13,124 |
| Research and development expenses | 29,337 | 23,185 |
| Operating results (EBIT) | -31,164 | -25,117 |
| EBITDA | -29,232 | -23,604 |
| Net loss | -29,058 | -22,909 |
| Cash flow from operating activities | -26,462 | -27,962 |
| Cash flow from financing activities | -568 | 516 |
| Net cash flow | -28,059 | -29,879 |
| Cash and cash equivalents | 37,907 | 66,611 |
| Total assets | 45,771 | 76,040 |
| Shareholders' equity | 32,495 | 60,836 |
| Loss per share, basic and diluted (EUR) | -0.55 | -0.44 |
| Share price year-end (EUR) | 2.99 | 3.70 |
| Number of employees year-end | 166 | 140 |

OUR MISSION

Improving Lives with Innovative Therapies

Jerini's focus is on the discovery, development, and commercialization of novel medicines to treat diseases with limited or no treatment options. The driving force behind this strategy is our dedication to improving the lives of those faced with unmet medical needs.

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EXPECTED HIGHLIGHTS 2008

FDA and EMEA regulatory decisions
for Icatibant in HAE

•
Planned product launch of Icatibant for HAE
in the EU and the United States

•
Jerini Ophthalmic to report Phase I results for
JSM 6427 in the treatment of AMD

•
Start of investigator initiated drug-induced
angioedema trial for Icatibant

LETTER TO SHAREHOLDERS

Dear Shareholders,

In 2007, Jerini once again achieved important milestones. We are pleased to report that we submitted marketing applications for our lead compound, Icatibant, in the treatment of hereditary angioedema (HAE) to the European Medicines Agency (EMA) and US Food and Drug Administration (FDA). Our EMA application was accepted in August, and we expect a decision from the agency's Committee for Medicinal Products for Human Use (CHMP) as early as the end of April 2008. The FDA accepted our submission last December, granting expedited review, and has set April 26, 2008 as its decision date.

Bringing a first product to market is a breakthrough for a young pharmaceutical company, especially in light of the enormous costs and risks associated with the drug development process. I am hopeful that Jerini will achieve this goal in the coming year and thereby become a fully integrated pharmaceutical company. In both the US and European trials, Icatibant demonstrated safety and efficacy, supporting our confidence in the drug's approvability. Given the overwhelmingly positive feedback from physicians who have treated patients with Icatibant, I look forward to the day when we can bring this promising



left to right: Berndt Modig, Prof. Dr. Jens Schneider-Mergener,
Dr. Jochen Knolle, Dr. Adi Hoess

medication to HAE patients. With a team of some 20 qualified and experienced sales and marketing professionals in Europe, we are well prepared to launch Icatibant in the major European markets. In the United States, we have also established core sales and marketing structures, and plan to expand these teams once we have a positive FDA response.

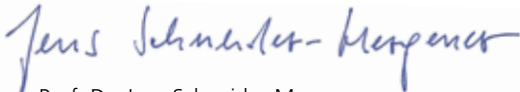
Another highlight was that in September 2007, Jerini regained the North American commercialization rights to Icatibant from Abbott. We now hold the worldwide rights to Icatibant in all indications, except osteoarthritis pain, giving us the option of either marketing Icatibant independently in both Europe and North America or entering into a licensing agreement. Whereas marketing Icatibant on our own would present an attractive opportunity, substantial funding would be required for a successful product launch. At the same time, several companies have shown strong interest in licensing our product. Share price development and overall capital market sentiment are among the factors that will determine whether we market Icatibant on our own or with a partner.

The founding of our US subsidiary, Jerini Ophthalmic, Inc. (JOI), was another high point of 2007. Based in New York and headed by renowned scientist and ophthalmologist Dr. Anthony Adamis, JOI focuses on the development of therapeutics for unmet medical needs in the area of ophthalmology. JOI has begun clinical trials to evaluate JSM 6427, its drug candidate for the treatment of age-related macular degeneration (AMD), a disease that can lead to complete vision loss. JSM 6427 is Jerini's first in-house developed drug candidate to begin clinical testing in humans.

We believe that at this time Jerini is undervalued, attributable in part to the generally negative sentiment currently enveloping the German biotech market, and we are hopeful that Icatibant's approval will have a positive effect on the share price. Revenues increased in 2007 by 42 percent to EUR 18.6 million, due to revenues generated by our former licensing agreement with Abbott, research collaborations with Baxter and Alcon, and product sales generated through our subsidiary, Jerini Peptide Technology GmbH (JPT). Jerini's year-end cash position was EUR 38.2 million. Our 2008 cash consumption will depend on upcoming strategic decisions such as whether to market Icatibant on our own and whether to finance our US subsidiary, Jerini Ophthalmic, Inc., independently or with a partner. Another strategic determination to be made is whether to sell JPT, since its fee-for-service business model is no longer Jerini's company focus.

I would like to express my sincere gratitude to the employees of Jerini and its subsidiaries: JPT, JOI, and Jerini US, Inc. Their continuous efforts and dedication are the basis for our success. In addition, I would like to thank our shareholders for their steadfast support in 2007, especially in view of the strained German biotech markets. Jerini stands ready to launch its first product and, in the interest of patients suffering from HAE, we will do everything in our power to reach this goal. I am confident that 2008 will be a successful year for Jerini.

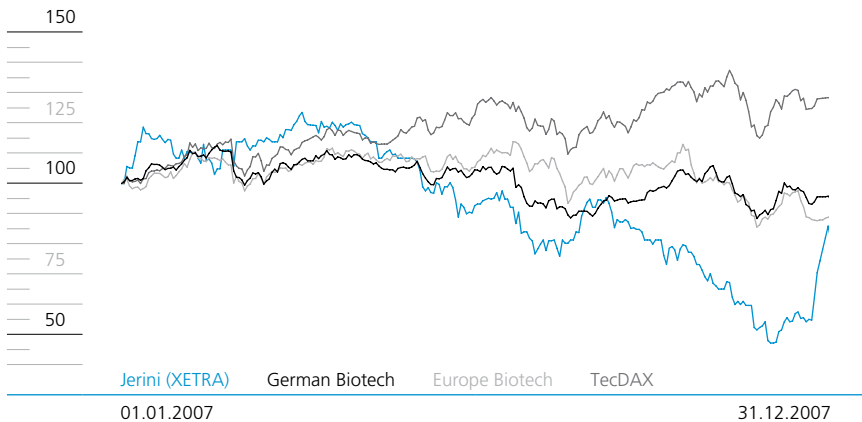
Sincerely,

A handwritten signature in blue ink that reads "Jens Schneider-Mergener". The signature is written in a cursive style with a light blue background behind it.

Prof. Dr. Jens Schneider-Mergener
Chief Executive Officer

INVESTOR RELATIONS REPORT

JERINI SHARE IN %



Overall Market Development

In 2007, the German stock markets performed very positively, building on the upward trend of the last three years. Both the German DAX and TecDAX indexes reported significant gains, with the DAX closing at 8,067, an increase of 22 percent for the year, and the TecDAX closing at 974, up approximately 30 percent. The biotech industries performed weaker in 2007 including the German Prime Biotechnology Index, which closed at 190.95, a five percent drop for the year. The European biotechnology index also closed lower for the year reporting a three percent loss.



Jerini Share Price Performance

Jerini shares closed 2007 at EUR 2.99, down 19 percent for the year. Trading in 2007 ranged from a closing high of EUR 4.56 (April 3, 2007) to closing lows of EUR 1.74 (November 28 and 29, 2007), with an average daily volume of approximately 29,000 shares. Although Jerini reported significant regulatory progress in the second half of the 2007, the positive news was not reflected in the company's overall share price development. Icatibant's accepted regulatory filings and accelerated review timelines by both the FDA and EMEA for the treatment of HAE along with regaining worldwide marketing rights to Icatibant were key events for the company, although their impact was only moderate and short term on the share price. Overall negative market sentiment in the German biotech industry was triggered by disappointing clinical and regulatory results reported by other German biotech companies. As a result, investors have become more wary of the inherent risk factors associated with the biotech industry as a whole, especially in light of consistently positive results associated with other sectors.

DEVELOPMENT

| | 2007 | 2006 |
|---------------------------------------|--------|--------|
| Share price year begin (EUR) | 3.70 | 3.45 |
| Market cap year begin (million EUR) | 194.0 | 179.6 |
| Share price year-end (EUR) | 2.99 | 3.70 |
| Market cap year-end (million EUR) | 157.0 | 194.0 |
| Performance (%) | -19.2 | +7.3 |
| Average daily trading volume (shares) | 29,000 | 45,500 |
| Year closing low (EUR) | 1.74 | 2.90 |
| Year closing high (EUR) | 4.56 | 5.14 |

Investor Relations at Jerini AG

Jerini is in regular contact with its shareholders and the investment community in both the United States and Europe. Clear communications and transparency are the company's core objectives, along with providing financial reports and corporate news promptly and in a concise manner. Company management presented company updates at 11 international investor conferences in 2007 and held numerous one-on-one meetings and conference calls with investors. Due to the expected regulatory decisions for Icatibant from the European and US regulatory agencies in the treatment of HAE, Jerini's newsflow will be of great importance to the capital markets. The IR team will continue to provide investors,

capital markets, and the public in general with the most updated information, respond quickly to questions, and reach out to the investment community. The Jerini website is highly frequented by international visitors and their feedback underscores the usability and easy information access of the website.

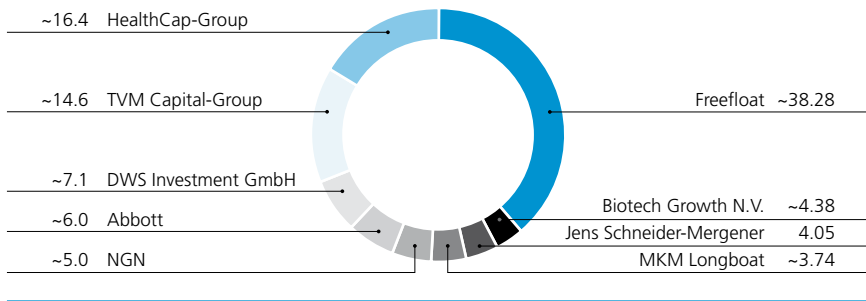
On June 13, 2007, Jerini held its Annual Shareholders` Meeting. More than 72 percent of the voting rights were represented, and all 12 agenda points were approved. A proxy voting service was provided for those unable to attend the meeting.

Two directors` dealings took place in fiscal year 2007:

| Date | Person subject to disclosure requirements | Position | Transaction | No. of units | Price in EUR |
|------------|---|-----------------------------------|-------------|--------------|--------------|
| 04.12.2007 | Dr. Karl-Gerhard Seifert | Chairman of the Supervisory Board | Buy | 3,000 | 1.94 |
| 07.11.2007 | Dr. Stephan Goetz | Member of the Supervisory Board | Buy | 80,000 | 2.50 |

Jerini has been covered by five noted analysts, namely, Ravi Mehrotra (Credit Suisse) Brian White (Deutsche Bank), Geraldine O`Keefe (Fortis Bank), Andreas Theisen (West LB), and Richard Parkes of Piper Jaffray.

SHAREHOLDER STRUCTURE AS OF JANUARY 31, 2008 IN %



KEY JERINI SHARE DATA

| | |
|---------------------------------|---|
| Reuters Code | J14Gn.DE |
| Bloomberg Code | J14 |
| German SIN | 678 747 |
| ISIN | DE0006787476 |
| Prime sector | Pharma |
| Industry group | Biotechnology |
| Market segment | Prime Standard |
| Designated sponsors | West LB und Credit Suisse (from Close Brothers Seydler AG) |
| Member of the following indices | CDAX, Prime All Share, Technology All Share |
| Class of shares | no-par-value bearer stock |
| Subscribed capital (in EUR) | 52,534,705 |
| Number of shares | 52,534,705 |

Contact

Our IR team will be glad to answer any of your questions:

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STRATEGY

Product launch advances us
to the next level: a fully-integrated
pharmaceutical company





INNOVATIVE TECHNOLOGY

Jerini's proprietary Peptides-to-Drugs (P2D) technology is used to identify peptide drug lead structures and systematically transform them into peptidomimetic (injectable) and small-molecule (oral) drugs, depending on the indication. As a result, Jerini is able to develop novel drug candidates against disease targets that are often difficult to address using traditional discovery methods.

PRODUCT FOCUS AND SELECTION

Jerini is dedicated to the research and development of first-in-class therapies for diseases with limited or no treatment options. Through close contact with its network of renowned scientists, clinical researchers, and industry experts, Jerini is able to ensure the optimal product selection and development strategy. Jerini focuses on therapeutic targets addressing more than one disease indication, thereby creating greater market potential along with additional partnering opportunities.

ADVANCEMENT AND EXPANSION

In preparation for Icatibant's planned 2008 market launch, Jerini has assembled a team of marketing experts and begun building the sales force and infrastructure necessary to launch Icatibant in both the United States and Europe. Jerini's commitment to building commercialization expertise reflects the company's expansion and goal of becoming an integrated pharmaceutical company.



ICATIBANT
A novel treatment for HAE





Lauge
Base

THE DISEASE

Hereditary angioedema (HAE) is a debilitating and potentially life-threatening genetic disease characterized by spontaneous and recurring swelling attacks in various parts of the body. Currently, there are approximately 10,000 patients diagnosed in the US and Europe, although the disease is believed to be severely under-diagnosed due to the lack of physician awareness and approved treatments worldwide.

PRODUCT ATTRIBUTES

Icatibant is a potent and highly specific bradykinin B2 receptor antagonist, potentially offering a novel treatment for HAE. If approved, Jerini intends to market Icatibant in a prefilled syringe for subcutaneous use. Subcutaneous administration along with Icatibant's room temperature stability both offer key advantages to physicians and patients.

REGULATORY STATUS

Jerini's marketing applications for Icatibant in the treatment of HAE have been accepted for review by both the US Food and Drug Administration (FDA) and the European Medicines Evaluation Agency (EMA). Regulatory decisions are expected in the first half of 2008. In addition, the FDA and the EMA have granted Icatibant orphan drug status, potentially securing market exclusivity for seven and ten years, respectively, upon approval.



PRODUCT LAUNCH

Once approved,
we are prepared for product launch
in both the US and Europe





WORLDWIDE MARKETING RIGHTS

After regaining the North American marketing rights from Abbott in September 2007, Jerini now holds the worldwide commercialization rights to Icatibant in HAE.

Abbott's acquisition of Kos Pharmaceuticals created a unique opportunity for Jerini to resecure Icatibant's North American marketing rights. Jerini has established and will continue to expand the sales and marketing structures needed to successfully launch Icatibant in both Europe and the United States.

EUROPE AND THE UNITED STATES

Jerini has established a team of marketing experts and continues to expand its sales team of commercial directors and key account managers. The company's prelaunch activities focus on cooperation with patient organizations, key opinion leaders, and HAE-treating physicians to raise awareness of Icatibant, HAE, and bradykinin as its key mediator.

The commercial teams will also work closely with national reimbursement authorities to ensure Icatibant's full reimbursement.

Jerini also has manufacturing and logistic plans in place to ensure rapid product distribution following product launch.



JERINI OPHTHALMIC, INC.
Specializing in the development
of compounds for the
treatment of eye diseases





ESTABLISHMENT AND GOAL

To concentrate on the further development of its ophthalmology drug candidates, Jerini established in 2007 a wholly-owned US subsidiary, Jerini Ophthalmic, Inc., Headed by Dr. Anthony P. Adamis, the company's goal is the rapid development of novel, highly specific therapeutics for eye diseases along with extended-release formulations for chronic eye diseases.

PHASE I

Jerini Ophthalmic began in 2007 a Phase I clinical study evaluating JSM 6427 for the treatment of age-related macular degeneration (AMD). The Phase I study will assess the safety of JSM 6427 in patients suffering from AMD, and results from the study are expected in the second half of 2008.

RESEARCH COLLABORATION WITH UCL

Jerini Ophthalmic signed a research collaboration agreement with University College London (UCL) Institute of Ophthalmology.

The collaboration explores the novel signaling pathways targeted by two of Jerini Ophthalmic's leading drug candidates and will build on the exceptional ophthalmology infrastructure to help develop and advance the compounds.



PIPELINE

We specialize in the development of novel therapeutics for patients with unmet medical needs





PROGRAM FOCUS

Jerini's research and development programs focus on product candidates addressing indications within the therapeutic areas of ophthalmology, oncology, and inflammatory disease. The ability to create both peptidomimetic and small-molecule drug candidates facilitates parallel development of acute and chronic treatment possibilities for the same disease target.

ICATIBANT IN OTHER INDICATIONS

Excessive bradykinin levels have been demonstrated in several diseases, including HAE, other forms of angioedema, severe liver disease, burn injuries, and in allergic and inflammatory conditions. Icatibant's high potency and specificity as a bradykinin B2 receptor antagonist support the strong scientific rationale for its further development as a safe and effective treatment in other indications.

BUSINESS COLLABORATIONS

Although the Jerini's primary focus is to discover and develop its own drug products, Jerini's technology platform and discovery programs generate more product leads than the company can develop on its own. To ensure optimal development of its product candidates, Jerini collaborates with other pharmaceutical companies, including Baxter AG and Alcon Research Ltd. These partnerships further validate Jerini's P2D technology and enable the company to take advantage of potential commercial benefits from products generated through them.



GROUP MANAGEMENT REPORT

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GROUP MANAGEMENT REPORT OF JERINI AKTIENGESELLSCHAFT, BERLIN, GERMANY

Business and Economic Conditions

Business Structure

Jerini AG (Jerini) is a Berlin-based pharmaceutical company specializing in the discovery, development, and commercialization of innovative peptide-based drugs for disease indications that have limited or no treatment options. Jerini owns either directly or indirectly eight subsidiaries. The consolidated group is more fully described in note 2.1 of the consolidated financial statements.

In 2004, the business unit providing peptide services was transferred to a wholly-owned subsidiary, JPT Peptide Technologies GmbH (JPT). In turn, JPT Peptide Technologies, Inc. was established as a wholly-owned sales subsidiary of JPT, registered in the United States.

In November 2005, Jerini established another subsidiary, Jerini US, Inc., which will promote the sales of Jerini AG products in the United States.

In 2006, Jerini established another wholly-owned subsidiary, Jerini Ophthalmic, Inc., with headquarters in the United States. Jerini licensed the relevant North American rights of its $\alpha 5\beta 1$ integrin antagonists to Jerini Ophthalmic, Inc., and they will further develop these compounds. The financing of Jerini Ophthalmic, Inc. (in the amount of USD 6 million) was provided by Jerini Ophthalmic Holding GmbH, founded in December 2006.

In December 2007, Jerini acquired Jerini Beteiligungen GmbH and transferred all shares of its Maltese subsidiaries to this company. Jerini Beteiligungen GmbH will market the Icatibant rights in certain regions of Europe together with its subsidiaries Jerini Holding Ltd. and Jerini Trading Ltd. For this purpose, the rights for the development and marketing of Icatibant in respective regions have been transferred to Jerini Beteiligungen GmbH, which then licensed the rights to Jerini Trading Ltd.

Group Management

For corporate management purposes, Jerini uses established financial control instruments group wide along with financial and non-financial performance indicators. The financial performance indicators are derived from budget and actual performance analyses, and are used to determine whether the company's business activities have met specific targets. As Jerini is a research company with no products currently on the market, rather than using revenue-based performance indicators, project costs are monitored and the degree of deviation from the budget serves as a performance indicator. These performance indicators are used in conjunction with quantitative and qualitative non-financial performance indicators to measure project progress and their results.

Jerini monitors these indicators as part of its integrated project management and financial control. Periodic reports are regularly made to the company's Management Board, with additional reports when necessary. All projects are analyzed in detail for the purposes of reporting, taking into account all performance indicators.

In addition, certain results and decisions are discussed with members of the company's Advisory and Supervisory Boards.

Products

In the second half of 2007, the Marketing Authorization Application (MAA) and the New Drug Application (NDA) for Icatibant in the treatment of hereditary angioedema (HAE) were accepted by the European Medicines Evaluation Agency (EMA) and the US Food and Drug Administration (FDA), respectively.

Icatibant has been granted orphan drug status in both the United States and the European Union for the treatment of HAE, a designation that potentially provides Jerini with market exclusivity for seven years and ten years respectively, following marketing approval.

In addition to Icatibant, Jerini's product pipeline is composed of other drug candidates developed using Jerini's P2D discovery platform, some independently and others in collaboration with partners.

Strategy

Drug development for medical innovation

Using a focused research and development strategy, Jerini has built a highly innovative product pipeline with programs in all phases of preclinical and clinical development. Project candidates are evaluated using stringent scientific and medical criteria, the focus being the development of novel therapeutic products.

Compounds offering treatment of multiple diseases

Jerini pursues product candidates that have the potential to address more than one disease indication. Developing compounds that can treat several disease indications also creates multiple partnering opportunities. Jerini selectively develops and markets some products independently, while collaborating with partners to achieve optimal advancement in other programs.

Optimal use of resources

The company's strategy optimizes the synergetic use of its internal capabilities and resources, enabling Jerini to independently advance drug candidates through all stages of drug development. Moreover, Jerini works closely with a network of renowned scientists, clinical researchers, and industry experts to ensure the optimal product selection and development strategy.

With the anticipated market launch of Jerini's lead compound, Icatibant, the company has made several strategic marketing decisions. On September 4, 2007, Jerini announced the termination of the license agreement between its affiliate, Jerini US, Inc., and Kos Life Sciences, Inc. for the development, marketing, and distribution of Icatibant in the United States and Canada. The license agreement between Jerini US, Inc. and Kos Life Sciences,

Inc. was acquired by Abbott as part of the company's December 2006 acquisition of Kos Pharmaceuticals. Under the terms of the termination agreement concluded on September 4, 2007, Jerini regains all rights licensed to Kos Life Sciences, Inc., including Icatibant's North American commercialization rights in all forms of angioedema as well as its North American development and commercialization rights in other licensed indications.

In preparation for Icatibant's European and US market launch, Jerini has established a team of marketing experts and continues to build the sales force and additional infrastructure necessary to address the major European and US markets. After evaluating the commercialization and financial potential associated with these HAE markets, the company concluded that Jerini would allocate its resources to address this niche market on its own although due to the additional financial investment needed for a successful product launch, Jerini is still considering the option to enter into a licensing agreement.

The degree to which each element of Jerini's strategy is implemented is an important indicator of the company's performance. Jerini monitors and controls the implementation of the various elements with the help of the risk management system.

Research and Development

Progress in the development of Icatibant for the treatment of HAE

On August 16, 2007 Jerini announced that the EMEA accepted its Marketing Authorization Application (MAA) on August 15, 2007 for Icatibant in the treatment of HAE. Jerini expects to receive a regulatory decision in the first six months of 2008.

On December 21, 2007 Jerini announced that its NDA for Icatibant in the treatment of HAE has been accepted by the FDA and designated for priority review. Priority review is granted to those products that address significant unmet medical needs and provides for a review period of six months from the date of submission. The FDA has issued an action date of April 26, 2008, under the Prescription Drug User Fee Act (PDUFA) for the NDA.

R&D EXPENSES IN TEUR



Successful Development of Other Compounds

Age-related macular degeneration

A product of Jerini's P2D platform, JSM 6427 is the first small molecule $\alpha 5\beta 1$ integrin receptor antagonist of its kind to be developed. It has been biologically validated for therapeutic use in the prevention and treatment of wet AMD, the leading cause of blindness in people over the age of 55. In comparison to other therapies, JSM 6427 not only blocks angiogenesis induced by multiple growth factors such as VEGF (Vascular Endothelial Growth Factor), but also inhibits the effects of other growth factors and cytokines leading to angiogenesis, inflammation, and fibrosis. To address patient convenience as well as compliance, Jerini Ophthalmic, Inc. is currently conducting preclinical tests using slow release formulations of JSM 6427 for AMD and other fibrotic eye diseases. JSM 6427 is also a promising potential drug candidate for combined use with other approved anti-VEGF therapies. Initial assessment studies with JSM 6427 have shown positive efficacy in all preclinical models.

On July 13, 2007, Jerini AG announced that the US Food and Drug Administration accepted the Investigative New Drug (IND) application submitted by Jerini's wholly-owned subsidiary, Jerini Ophthalmic, Inc., for JSM 6427 in the treatment of age-related macular degeneration.

On October 9, 2007, Jerini announced that Jerini Ophthalmic, Inc. had treated the first patient in its Phase I clinical trial evaluating JSM 6427 for the treatment of age-related macular degeneration. The Phase I trial will assess the safety of JSM 6427 in patients suffering from AMD and treat up to 36 patients with either single or repeat intravitreal doses. Results are expected in the second half of 2008.

Treatment for cancer – inhibition of angiogenesis

Given that tumors are unable to grow beyond a volume of 1-2 mm³ without blood supply, the inhibition of angiogenesis is an important approach to cancer therapy. The therapeutic potential of angiogenesis inhibitors to treat tumor diseases has been demonstrated by the approved drugs Avastin® and Nexavar®. However, the currently marketed angiogenesis inhibitors are mainly used in combination with chemotherapy.

Most important is that $\alpha 5\beta 1$ integrin has been shown to be highly expressed in the tumor vasculature of cancer patients, with only low expression seen in the patient's normal blood vessels. This selective integrin expression opens up a new approach for improved cancer therapy. With an $\alpha 5\beta 1$ integrin antagonist, tumor vessels can be specifically targeted, and the undesirable side effects of chemotherapy, which acts on normal as well as cancer cells, can be minimized.

Jerini is developing highly specific, orally available small molecule $\alpha 5\beta 1$ integrin antagonists for the treatment of solid tumors. Initial testing of these drug candidates has shown positive efficacy and tolerability, and, consequently, preclinical development is planned to start in 2008.

The next generation B2 receptor antagonist

Jerini has leading expertise in the pathophysiology of bradykinin and has established the utility and efficacy of bradykinin B2 receptor antagonists in clinical trials with the peptidomimetic Icatibant. Since a pathophysiological level of bradykinin is associated with a variety of disease conditions, both chronic and acute, Jerini has begun the development of an orally-available small molecule bradykinin B2 receptor antagonist compound. At this time, the company has identified small molecules showing high activity and good oral bioavailability.

**Additional Collaboration with Baxter to Develop Novel Peptide
for Use in Therapeutic Protein Purification**

On January 10, 2008, Jerini announced the signing of a research collaboration agreement with Baxter AG to develop a novel synthetic molecule for use in affinity purification of a therapeutic protein. Under the terms of the agreement, Jerini will use its Peptides-to-Drugs (P2D) technology platform to identify and develop a specific binding molecule for protein purification, which potentially offers key advantages over conventional antibody-assisted protein purification.

Under the terms of the agreement, Jerini will receive an upfront payment and full time equivalents (FTE) funding along with potential milestone payments for the achievement of discovery, preclinical, and clinical goals and royalties on eventual product sales.

In 2007, Jerini announced the expansion of its current research collaboration with Baxter AG for the development of a non-intravenous therapy for the treatment of hemophilia. This collaboration is the fourth in a series of collaborations between the two companies. The first collaboration between Baxter and Jerini was initiated in 2001 and expanded in 2004.

Patents

The company's patent portfolio for existing patents remains unchanged from the previous year. However, Jerini's total patent portfolio increased, as new applications were filed. Overall, Jerini AG holds a solid, comprehensive patent portfolio comprising:

- patents for technology protection
- patents for substances
- the worldwide exclusive license for the human application of Icatibant except for certain indications
- patents for the application of substances for certain medical conditions

State of the Economy

Following the surprisingly strong upturn in 2006, which was reflected in an increase in gross domestic product (GDP) of almost 3 percent, the German economy remained healthy in 2007. According to the German Council of Economic Experts (Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung), GDP grew by 2.6 percent despite the dampening effects of the increase in value-added tax (VAT) and the uncertainty engendered by the virulent crisis in the financial markets in the third quarter. As the global economic risks have increased, however, the pace of expansion is expected to slow down. Consequently, German GDP is likely to grow by 1.9 percent in 2008.

The economic situation in 2007

The global economy was in a very robust state in 2007 when it was hit, in the third quarter, by the financial crisis emanating from the real estate market in the United States. Moreover, the course of global economic development was less heterogeneous than in the preceding years, with the macroeconomic momentum in the United States and Japan slackening while the euro area and the emerging market economies of Southeast Asia recorded another sharp rise in GDP.

In Germany GDP in 2007 grew by a healthy rate of 2.6 percent. The dampening effects of the increase in valued-added tax were largely offset by the buoyant underlying dynamics of the cyclical upturn. Economic development was fuelled by a strong rise in investment in machinery and equipment and by a sustained high external demand. By contrast, private consumption stagnated in the wake of the restrictive fiscal policy.

The outlook for 2008

Following a prolonged and very strong upturn, the world economy will grow at a slower pace in 2008. In the United States, the course of development will again lie below the long-run potential growth rate. In the euro area and in Japan, the pace of expansion will decelerate. The other economies in Asia, by contrast, will continue to drive global growth.

In Germany, GDP will expand at the rate of 1.9 percent in 2008. The lower growth rate compared with 2007 is attributable, in particular, to a smaller contribution from the external sector. Domestic demand, particularly private consumption, will become the mainstay of economic development.

The recovery of the labor market will continue in 2008 in a weaker form. The level of employment will increase by 0.8 percent to 40 million persons, with the number of jobs subject to full social security contributions rising by 1.0 percent to 27.2 million. Unemployment will fall further to 3.46 million persons on an annual average.

The rate of increase in consumer prices in Germany in 2008 will amount to 2.0 percent; there is no sign of inflationary dangers.

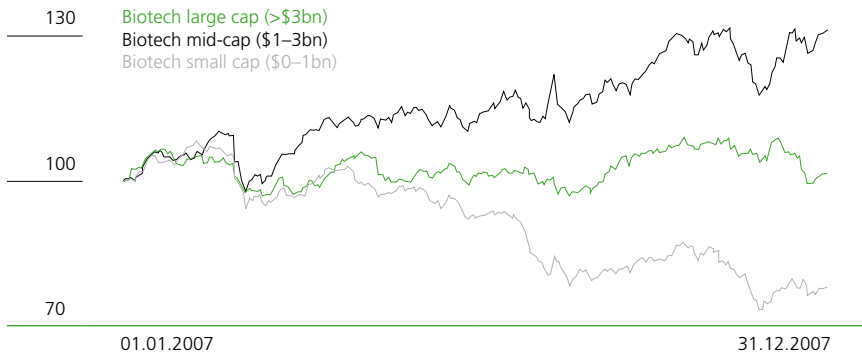
Developments in the Pharmaceutical and Biotechnology Sectors

Although in 2006, the European biotechnology sector outperformed both the general market indices and the US biotechnology sector with a market performance of 45 percent, in 2007 the European biotechnology sector underperformed.

The dominance of mid-cap companies in the US biotechnology sector is widely seen as the reason for the uncoupling of the market in Europe, which is more focused on small-cap companies. In addition, in both the US and Europe, 2007 was a year in which small-cap companies lagged market expectations.

The following chart shows the differences in market-performance weighted by market capitalization:

**PERFORMANCE OF GLOBAL BIOTECH IN 2007
SPLIT BY MARKET CAPITALIZATION**

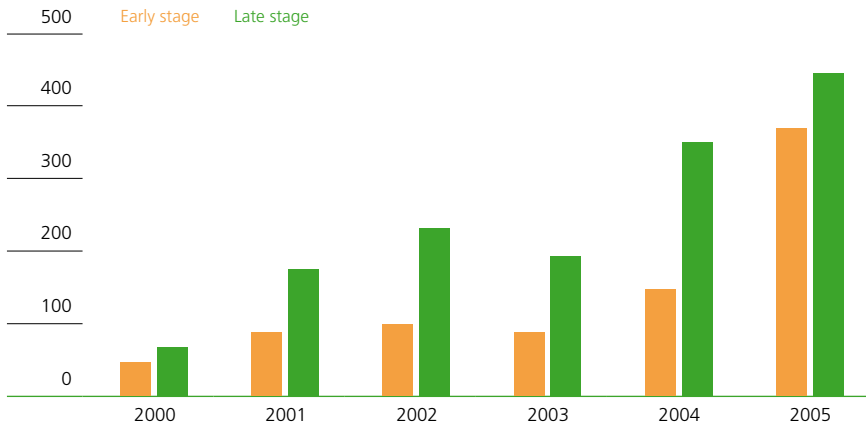


Source: Datastream, Credit Suisse research

With respect to the IPO market, Europe has closed the gap with the US in terms of number of IPOs and total offering volume. Only the market for secondary public offerings is still much larger in the US as compared to Europe.

In 2007, the trend was for big pharmaceuticals to acquire or in-license late stage development projects under increasingly lucrative terms. The pharmaceutical company Roche estimates that by 2010, 40 percent of the pharmaceutical sector's revenues will come from external sources of innovation. This increased demand by pharmaceuticals for products has not been matched by the biotechnology supply, resulting in a significant increase in deal terms for products.

Roche estimates that the average cost of in-licensing deals has risen 40 percent since 2000.



Source: Roche presentation November 2006, Credit Suisse research

Jerini's Business Performance

Development of Business Units

Revenues of the Group increased by 41.8 percent compared to 2006 from EUR 13.1 million to EUR 18.6 million, of which EUR 14.2 million can be allocated to collaborations and EUR 4.4 million to product sales from JPT. The increase in collaboration revenues can be attributed to a one time termination payment from Abbott to Jerini under the termination agreement concluded on September 4, 2007. In addition the termination agreement resulted in the immediate release of the remaining portion of an upfront payment received in November 2005 that was deferred until April 2008.

The ongoing collaboration agreements with Baxter and Alcon contributed EUR 2.4 million and EUR 1.9 million, respectively, to revenue growth in 2007 compared to EUR 1.3 million and EUR 1.9 million in 2006.

In the pharmaceutical drug development unit, pharmaceutical compounds are developed in-house as well as in cooperation with other pharmaceutical companies. The unit's activities cover both preclinical and clinical phases, including monitoring and project management. Currently marketing authorization applications for Icatibant in the indication HAE have been submitted to the EMEA and FDA and are under review by the authorities. A decision is expected for the first half of 2008. At the same time, Icatibant is in various stages of preclinical and clinical development for additional indications.

JPT Peptide Technologies GmbH sells custom-made synthetic peptides and proteins as a service to other companies. Included in its product portfolio are tools for use in pharmaceutical research on proteome analysis and the validation of new targets and target families, among them, peptide chips and ready-to-screen microtiter plates. The unit also manufactures products and provides services for research projects for the pharmaceutical drug development unit.

Expansion of Business Units

Jerini continues to build sales in 2008.

On September 4, 2007, Jerini announced the termination of the license agreement between Jerini US, Inc. and Kos Life Science, Inc. for the development and commercialization of Icatibant in the North America. Under the terms of the termination agreement, Jerini regains all rights licensed to Kos Life Sciences, Inc., including Icatibant's North American commercialization rights in all forms of angioedema as well as its North American development and commercialization rights in other licensed indications. As part of the termination agreement, Abbott has agreed to pay Jerini an undisclosed amount, and Jerini will pay Abbott undisclosed royalties on North American sales for the first 24 months following product launch.

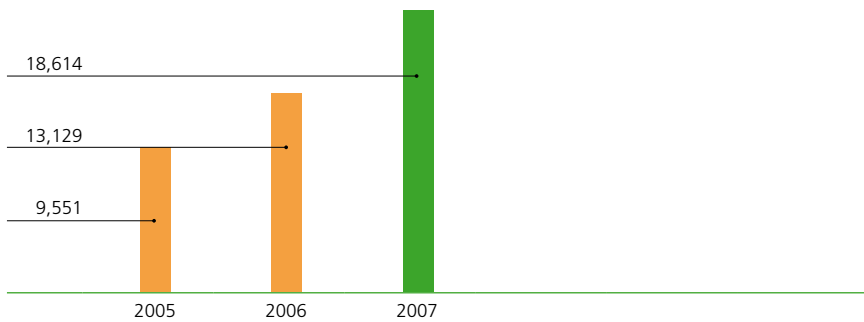
As a result of the termination agreement Jerini will market Icatibant in the United States independently and has initiated preparatory marketing activities, although due to the additional financial investment needed for a successful product launch, Jerini is still considering the option to enter into a licensing agreement..

Financial Overview

Results of Operations

Jerini met its order and revenue targets in 2007, taking into account the revised commercialization strategy for $\alpha 5\beta 1$ integrin antagonists. Total revenues for the year increased by approximately 41.8 percent to EUR 18.6 million (compared to EUR 13.1 million in 2006).

REVENUES IN TEUR



The drug development and research unit generated revenues of EUR 14.2 million (compared to EUR 9.4 million in 2006), representing a 50.9 percent increase. This rise was primarily attributable to the termination agreement with Abbott resulting in an undisclosed one-time payment as well as two new collaborations with Baxter from 2006 that resulted in revenues in 2007. Collaboration agreements already in place with Alcon and Baxter were continued.

The peptide services unit contributed EUR 4.4 million to total revenues compared to EUR 3.7 million in the previous year.

Of the EUR 49.8 million in operating expenses (increased from EUR 38.2 million in 2006), about 58.9 percent (prior year: 60.6 percent) was invested in research and development activities.

As in prior years, the pharmaceutical drug development unit experienced higher spending in ongoing investments in internal drug development programs and drug development infrastructure. A decrease of EUR 6.0 million in EBIT compared to 2006 is attributable to preparing clinical Phase I studies of JSM 6427 in the indication age-related macular degeneration and to milestone accruals as a result of the acceptance of the MAA (by the EMEA) and the NDA (by the FDA) for Icatibant for the treatment of HAE. In addition, marketing and sales expenses increased by EUR 3.3 million to EUR 7.9 million in 2007.

The total net loss increase (from EUR 22.9 million in 2006 to EUR 29.1 million in 2007) is mainly due to the increase in operating expenses of EUR 11.6 million.

Financial Position and Cash Flow

The company disclosed a net cash outflow from operating activities of EUR 26.5 million in 2007 (compared to EUR 28.0 million in 2006). The cash outflow for investments in property, plant, and equipment amounted to EUR 1.0 million (EUR 2.4 million in 2006). At EUR 0.6 million, a net cash outflow from financing activities resulting from the repayment of bank loans was generated in 2007, while a net cash inflow from financing activities amounting to EUR 0.5 million resulting from the exercise of stock options was generated in 2006.

The cash burn (defined as the net cash inflow/outflow from operating and investing activities) decreased slightly by 9.5 percent and amounted to EUR 27.5 million compared to EUR 30.4 million in 2006. The higher net loss of the year was partly offset by the accrual of milestone payments to sanofi-aventis, which are due in 12 months after submission of marketing authorization applications to the FDA and EMEA, resulting in a lower cash outflow.

Cash and cash equivalents, including restricted cash for lease deposits of EUR 0.3 million in 2007 and 2006, amounted to EUR 38.2 million as of December 31, 2007 (compared to EUR 66.9 million in 2006).

The company continues to generate public and private financial support for preclinical programs.

Investments

In fiscal year 2007, Jerini invested a total of EUR 1.0 million in property, plant, and equipment, which was generally related to laboratory equipment, especially technical equipment in the amount of EUR 0.7 million.

Net Assets

Fixed assets for property, plant, equipment, and intangible assets decreased by 16.9 percent from EUR 5.3 million to EUR 4.4 million.

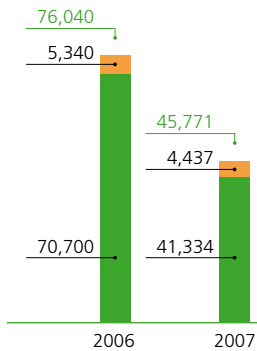
Cash and cash equivalents in 2007 decreased by EUR 28.7 million (from EUR 66.9 million in 2006) to EUR 38.2 million. Jerini's equity increased by EUR 0.1 million, due to the exercise of 76,234 stock options in 2007.

The company's trade payables and other liabilities increased to EUR 11.1 million (from EUR 7.0 million in 2006) as a result of the accrual of milestone payments to sanofi-aventis due to the submission of marketing authorization applications to the FDA and EMEA. The decrease of upfront and prepaid research fees by EUR 4.9 million was mainly attributable to the release of deferred one-time upfront payments of revenue from Abbott.

BALANCE SHEET STRUCTURE IN TEUR

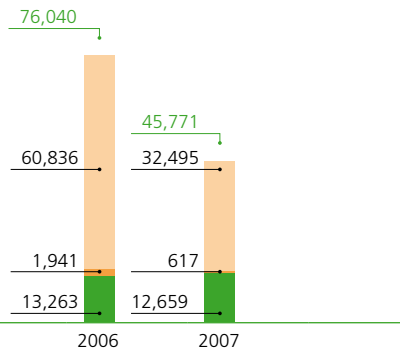
ASSETS

Longterm assets
Shortterm assets



LIABILITIES

Equity
Longterm liabilities
Shortterm liabilities



Conclusion Company Position

The overall results of operation, financial position, cash flow situation, net assets regarding the development of net results, development of cash flow, and the composition of net assets show that Jerini remains in a financially secure position. If approved, Jerini will be able to launch Icatibant for HAE in Europe on its own and anticipates successfully developing additional products based on its product pipeline, further strengthening its economic position.

Personnel and Benefits

As of December 31, 2007, Jerini AG employed 166 people (including Management Board members), of whom 83 held research and development posts, 24 worked in the sales and marketing department, 23 were engaged in peptide services, and 36 worked in other areas of the company. All employees participated in the stock option plan launched in 2006, through which Jerini offers its employees the opportunity to actively participate in its success. By setting reasonable vesting periods, the company motivates its employees to actively contribute toward Jerini's success.

Environmental Report

The company has no environmental matters to report as this is not applicable to the operations of Jerini. Jerini does not operate any production facilities for pharmaceutical products.

Subsequent Events

For further explanations regarding subsequent events, please refer to note 27 to the consolidated financial statements.

Remuneration Report

Management Board remuneration consists of a fixed and a variable component and stock-based compensation. The variable component is determined by various criteria, including the achievement of certain individual and company performance goals that are set annually by the Supervisory Board. The members of the Management Board also receive certain benefits, such as a company car and disability insurance.

If a Management Board member's employment ends due to a "Change of Control," the Management Board member in question is entitled to a payout of his/her earnings (annual salary plus tantieme) for the residual term of his/her employment contract up to a maximum of 3 years ("Change of Control" settlement). If the residual term of the employment contract is less than 2 years, the amount of the Change of Control settlement is based on annual salary plus tantieme for 2 years. The Change of Control settlement shall be reduced by 10 percent for purposes of discounting interest and setting off other income.

In accordance with the articles of association, remuneration for duties carried out by the members of the Supervisory Board will be paid at a fixed rate of EUR 20,000 for every full fiscal year of Supervisory Board membership. All expenses incurred by Supervisory Board members are reimbursed. The chairman of the Supervisory Board receives double this amount and the deputy chairman one and a half times this amount. Pro-rated remuneration is paid for parts of a fiscal year. The company concluded a D&O liability insurance policy on behalf of the members of the Supervisory Board and Management Board.

Further details are included in note 26 to the company's consolidated financial statements.

Risk Report

As an internationally operating pharmaceutical company, Jerini's activities are subject to various risks which are linked to activities in the field of pharmaceutical research and development. Furthermore, the group's services are subject to risks common to that business. The occurrence of one or more of the risks set forth below could have materially adverse

effects on the company's business, financial position, and results of operations. Therefore, Jerini has established a risk management system in accordance with standards customary to its business and statutory requirements to identify, observe, and assess potential risks throughout its business functions. The risk management system is an important component of Jerini's corporate management system as it is an integral part of the business, planning, and control processes, embedded in the company's information and communications system. Jerini's Management Board is responsible for the design of the risk management system. The company actively monitors all identified risks and projects.

Business Risks

- Jerini is substantially dependent on the success of its lead drug candidate, Icatibant, as a treatment for HAE, and is currently awaiting regulatory decisions for marketing authorization in Europe and the United States. If Jerini is unable to obtain regulatory and marketing approvals for Icatibant, the value of the company could decrease significantly and its shareholders could lose significant value in their investment. In this case, Jerini would have to concentrate on developing its other drug candidates, which are still in the early phases of development. As a result, its ability to become profitable could be significantly delayed.
- Jerini's competitors are also developing new drug candidates for the treatment of HAE, a rare disease with a relatively small patient population. Jerini's products will have to compete with products from other companies. The drug candidates of its competitors may reach the market earlier than Icatibant, may prove to be superior treatment alternatives, or may be better accepted by patients, physicians, or third-party payers.

- In addition to Icatibant, Jerini has four drug candidates in the preclinical and clinical development phase. The development of a new drug takes, on average, between 10 to 15 years. All new drug candidates must undergo rigorous testing, the results of which are uncertain. A compound may generally fail in any stage of this process. Accordingly, it is possible that none of Jerini's drug candidates will receive marketing approval. In addition, given the highly competitive nature of the pharmaceutical industry, its competitors may have significantly greater financial resources and know-how relating to the development, commercialization, and manufacturing of drug candidates.
- If Jerini's other drug candidates fail in clinical trials or if Jerini experiences substantial delays either in their development or in obtaining marketing approvals, its business prospects could be substantially impaired. The level of revenues that Jerini may generate from its drug candidates also depends on the extent to which governmental authorities, health insurers, and other third-party payers establish appropriate reimbursement levels, which cannot be guaranteed.
- Should Jerini obtain marketing approval for its drug candidates, such approval may be subject to limitations on the indicated uses for which a drug may be marketed. In addition, its drug candidates may prove to be ineffective or exhibit unforeseen side effects, and may have to be withdrawn from the market. Jerini may be exposed to substantial liabilities if any of its drug candidates were to cause adverse side effects.
- Jerini relies on the limited protection of Icatibant's orphan drug status in the European Union and in the United States for the treatment of HAE. This status may be revoked in the European Union.

- Jerini has never commercialized a drug. Lacking manufacturing facilities and expertise, Jerini depends on a sole-source supplier to manufacture Icatibant and will be reliant on third parties to manufacture other drug candidates.
- Jerini has in-licensed its lead drug candidate, Icatibant, from sanofi-aventis. Termination of the license agreement would have a material adverse impact on its business. If Jerini commercializes Icatibant, Jerini will be obligated to pay to sanofi-aventis royalties of up to 12 percent of the revenues from the sale of Icatibant worldwide, which would reduce profits.
- Jerini has never generated profits, and it may never become profitable. Before the company achieves profitability, it will be dependent on funds raised through equity and debt financing, which could impair its business and even lead to insolvency.

Intellectual Property Risks

- Jerini depends on the protection of its drug candidates and technologies by patents and other intellectual property rights. If unable to protect or to enforce its rights, Jerini's ability to compete effectively may be materially adversely affected.
- If Jerini's development projects were to infringe upon the intellectual property rights of third parties of which the company is not aware, the company could be subject to expensive litigation.

Outlook

Given the progress in developing Icatibant for the treatment of HAE and the positive development of its other drug candidates, Jerini intends to concentrate on developing its own drug candidates in the future rather than pursuing collaborative discovery projects, thereby channeling its resources mainly into its own development projects.

Until the products have been successfully launched on the market, strategic partnerships and current collaborations will continue to be Jerini's main source of income. In the medium to long term, Jerini plans to derive the majority of its revenues from the sale of its own products, either as part of strategic partnerships or through internal sales structures. In the near future, the company expects a rise in research and development expenses in connection with both the advancement of its drug development pipeline and the filing of further INDs, along with rising marketing and sales expenses for the launch of Icatibant in the indication HAE.

In the first half of 2008, Jerini expects to receive a regulatory decision from the EMEA regarding its marketing authorization application for Icatibant in the indication HAE. In the event of a market launch of Icatibant in Europe it is expected that product sales will result in an increase in revenues. However, revenues for the year 2008 in Europe are not expected to be sufficient to cover expenses resulting from market launch activities.

A regulatory decision from the FDA is expected in late April. If approved, Jerini currently plans to either partner Icatibant in the US or market it independently. The latter would require that Jerini further invest in infrastructures and market launch activities, which would lead to a substantial mid-term increase in operating loss. US product launch would require additional expenses of double-digit million euro amounts over the next two years.

Management expects to reach operational goals and continue to increase revenues by closing new collaboration and co-marketing agreements for selected territories.

As of December 31, 2007, cash and cash equivalents amounted to EUR 38.2 million. In the event of a positive regulatory approval decision, there would be a further need for additional funding. Jerini is currently evaluating several alternatives for funding and also conducting discussions to secure funding of operations. These discussions include, but are not limited to, strategic partnerships and capital market transactions. Jerini also is considering other options for financing that would allow the company to continue as a going concern and expects to generate significant double-digit million euro amounts.

Management's business strategy is based on the generation of revenues through its product sales and the development of new drugs, either independently or with a partner. Jerini is evaluating several strategic options for its ophthalmology business represented by Jerini Ophthalmic, Inc. The development of compounds by Jerini Ophthalmic, Inc will require significant funding over the next four years. A decision to use external sources to provide these funds would result in a dilution of Jerini's ownership in Jerini Ophthalmic, Inc.

The company anticipates a higher net loss for the year 2008. As of year-end 2008, available financing is expected to be sufficient for the reasons outlined above, allowing Jerini to continue as a going concern.

Opportunities Resulting from Business Activities

As a result of transferring the ophthalmology compounds JSM 6427 und JPE 1375 to Jerini Ophthalmic, Inc., Jerini has set the strategic prerequisites for the successful development and marketing of these compounds through Anthony P. Adamis, CEO of the subsidiary, and a team of renowned scientists. Through the establishment of an independent subsidiary located in the US, Jerini has created the transparency necessary for the successful development and marketing of its ophthalmology compounds.

The termination of the strategic partnership with Abbott will enable Jerini to market Icatibant in the US independently, thereby, generating higher revenues than would have been possible in the partnership. Higher potential revenues will require higher expenses for marketing and sales, which will have a mid-term relevance only. Jerini will continue to evaluate strategic partnerships to increase the marketing success of Icatibant. One measure to achieve this goal is to bundle and transfer territorial licenses to independent units whose sole business purpose is to maximize the revenue stream resulting from these rights.

Additional Mandatory Disclosures for Listed Companies

Composition of Share Capital

The company's share capital consists of 52,534,705 common shares with a nominal value of EUR 1.00 per share. For further details, please refer to notes of the consolidated financial statements.

SHAREHOLDERS WITH DIRECT OR INDIRECT SHAREHOLDINGS OF MORE THAN 10 PERCENT OF THE VOTING RIGHTS OF THE COMPANY

| Name | Shareholdings in % |
|-----------------------------|--------------------|
| Health Cap-Companies | 16.4 |
| TVM V Life Science Ventures | 14.6 |

Appointment of Members of the Management Board

The appointment of members of the Management Board is ruled by sections 84 and 85 of the German corporation law (Aktengesetz). According to the articles of association members of the Management Board are appointed by the Supervisory Board for a term of up to five years. Recurring appointments and the extension of the term for a period of up to five years are allowed.

Change of the Company's Bylaws

Sections 133 and 177 of the German corporation law (Aktengesetz) apply to changes of the company's bylaws. The Supervisory Board is authorized to resolve changes of and amendments to the articles of association, as necessary.

Authorizations of Management

The Management Board is authorized, subject to the Supervisory Board's consent, to increase Jerini AG's registered share capital one or more times, by issuing up to 26,213,135 new no par value ordinary bearer shares by a nominal amount of EUR 26,213,135.00 in exchange for cash or non-cash contributions until June 13, 2012. For further details, please refer to the notes to the consolidated financial statements.

Berlin, March 2008
Management Board

RESPONSIBILITY STATEMENT

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

Berlin, March 2008

Prof. Dr. Jens Schneider-Mergener
(Chief Executive Officer)

Berndt Modig
(Chief Financial Officer)

Dr. Jochen Knolle
(Chief Scientific Officer & Head of R&D)

Dr. Adi Hoess
(Chief Commercial Officer)

CONSOLIDATED FINANCIAL STATEMENTS

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Consolidated Income Statement for the year ended December 31, 2007 (IFRS)

| in TEUR, except share and per share data | Note | 2007 | 2006 |
|---|-------|----------------|----------------|
| Revenues: | | | |
| Collaboration agreements | 3, 22 | 14,222 | 9,422 |
| Product sales | | 4,392 | 3,702 |
| Total revenues | | 18,614 | 13,124 |
| Other income | 4 | 587 | 457 |
| Cost of product sales | 4 | -2,737 | -2,257 |
| Research and development expenses | 4 | -29,337 | -23,185 |
| General and administrative expenses | 4 | -10,165 | -8,538 |
| Selling and distribution costs | 4 | -7,914 | -4,626 |
| Other expenses | 4 | -212 | -92 |
| Loss from operations before tax and finance cost | | -31,164 | -25,117 |
| Finance income | 4 | 2,134 | 2,245 |
| Finance cost | 4 | -28 | -37 |
| Net loss | | -29,058 | -22,909 |
| Attributable to: | | | |
| Minority interests | | -44 | - |
| Equity holders of the parent | | -29,014 | -22,909 |
| Basic and diluted net loss per share | 5 | -0.55 | -0.44 |
| Shares used in computing basic and diluted net loss per share | 5 | 52,481,310 | 52,152,518 |

Consolidated Balance Sheets as of December 31, 2007 (IFRS)

Assets

| in TEUR | Note | 2007 | 2006 |
|---------------------------------|------|---------------|---------------|
| Assets | | | |
| Non-current assets | | | |
| Intangible assets | 6 | 169 | 216 |
| Equipment | 7 | 4,268 | 5,124 |
| Total non-current assets | | 4,437 | 5,340 |
| Current assets | | | |
| Inventories | 8 | 54 | 58 |
| Trade accounts receivable | 9 | 837 | 1,078 |
| Other current assets | 10 | 401 | 1,238 |
| Capital interest tax receivable | 11 | 1,428 | 1,019 |
| Other financial assets | 12 | 191 | 134 |
| Cash and cash equivalents | 13 | 38,180 | 66,884 |
| Prepaid expenses | 14 | 243 | 289 |
| Total current assets | | 41,334 | 70,700 |
| Total assets | | 45,771 | 76,040 |

Liabilities and shareholders' equity (deficit)

| in TEUR | Note | 2007 | 2006 |
|--|-------|---------|---------|
| Liabilities and shareholders' equity (deficit) | | | |
| Shareholders' equity (deficit) | | | |
| Issued Capital: | | | |
| Common shares | 15 | 52,535 | 52,458 |
| Additional paid-in capital | 15,16 | 72,365 | 71,119 |
| Foreign currency differences | 15 | -645 | 5 |
| Retained loss | 15 | -91,760 | -62,746 |
| Total shareholders' equity | | 32,495 | 60,836 |
| Non-current liabilities | | | |
| Trade accounts payable and other liabilities | 19 | 31 | 54 |
| Upfront and prepaid research fees | 22 | - | 650 |
| Government grants | 18 | 486 | 737 |
| Bank loans | 17 | 100 | 500 |
| Total non-current liabilities | | 617 | 1,941 |
| Current liabilities | | | |
| Trade accounts payable and other liabilities | 19 | 11,029 | 6,956 |
| Upfront and prepaid research fees | 22 | 911 | 5,203 |
| Government grants | 18 | 511 | 395 |
| Bank loans | 17 | 200 | 501 |
| Provisions | 20 | 8 | 208 |
| Total current liabilities | | 12,659 | 13,263 |
| Total shareholders' equity and liabilities | | 45,771 | 76,040 |

Consolidated Statements of Shareholders' Equity (Deficit) (Note 15, 16)

| in TEUR, except share data | Common Shares Shares | Common Shares Amount | Additional Paid-in Capital |
|---|-------------------------|-------------------------|-------------------------------|
| Balances as of January 1, 2006 | 52,077,231 | 52,077 | 70,085 |
| Translation adjustment | - | - | - |
| Net Loss | - | - | - |
| Net Loss = Total income and expense for the period | - | - | - |
| Stock based compensation | - | - | 1,309 |
| Final payment of second tranche of the share issuance on February 4, 2005 | - | - | 1 |
| Issuance of shares from the exercise of stock options | 381,240 | 381 | 431 |
| Subsequent transaction costs | - | - | -707 |
| Balances as of Decemeber 31, 2006 | 52,458,471 | 52,458 | 71,119 |
| Balances as of January 1, 2007 | 52,458,471 | 52,458 | 71,119 |
| Translation adjustment | - | - | - |
| Net Loss | - | - | - |
| Total income and expense for the period | - | - | - |
| Stock based compensation | - | - | 1,190 |
| Issuance of common shares by subsidiary | - | - | - |
| Issuance of shares from the exercise of stock options | 76,234 | 77 | 56 |
| Balances as of December 31, 2007 | 52,534,705 | 52,535 | 72,365 |

| Foreign Currency Differences | Accumulated Deficit | Shares of group | Shares of other shareholders | Total |
|------------------------------|---------------------|-----------------|------------------------------|---------|
| – | –39,837 | 82,325 | – | 82,325 |
| 5 | – | 5 | – | 5 |
| – | –22,909 | –22,909 | – | –22,909 |
| 5 | –22,909 | –22,904 | – | –22,904 |
| – | – | 1,309 | – | 1,309 |
| – | – | 1 | – | 1 |
| – | – | 812 | – | 812 |
| – | – | –707 | – | –707 |
| 5 | –62,746 | 60,836 | – | 60,836 |
| 5 | –62,746 | 60,836 | – | 60,836 |
| –650 | – | –650 | – | –650 |
| – | –29,014 | –29,014 | –44 | –29,058 |
| –650 | –29,014 | –29,664 | –44 | –29,708 |
| – | – | 1,190 | – | 1,190 |
| – | – | – | 44 | 44 |
| – | – | 133 | – | 133 |
| –645 | –91,760 | 32,495 | – | 32,495 |

Consolidated Statements of Cash Flows

| in TEUR | Note | Year ended December 31 | |
|--|-----------|------------------------|----------------|
| | | 2007 | 2006 |
| Operating activities: | | | |
| Net loss | | -29,058 | -22,909 |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Depreciation expense | 7 | 1,885 | 1,467 |
| Amortization expense | 6 | 47 | 46 |
| Interest received | | -2,134 | -2,245 |
| Other interest expense | 4 | 28 | 37 |
| Net release of government grants | 18 | -135 | 245 |
| Employee stock-based compensation | 16 | 1,190 | 1,309 |
| Other non-cash transactions | | 44 | - |
| | | -28,133 | -22,050 |
| Changes in operating assets and liabilities: | | | |
| Inventories | 8 | 4 | -6 |
| Trade accounts receivable | 9 | 241 | -579 |
| Other current assets, capital interest tax receivable, other financial assets and prepaid expenses | 10-12, 14 | 417 | -558 |
| Trade accounts payable and other liabilities | 19 | 4,045 | -309 |
| Accrued expenses | 20 | -200 | -6 |
| Restricted cash for lease deposits | 13 | - | -13 |
| Upfront and prepaid research fees | 22 | -4,942 | -6,654 |

| in TEUR | Note | Year ended December 31 | |
|---|-----------|------------------------|---------------|
| | | 2007 | 2006 |
| Cash generated from operations | | -28,568 | -30,175 |
| Interest received | | 2,134 | 2,245 |
| Interest paid | | -28 | -32 |
| Net cash used in operating activities | | -26,462 | -27,962 |
| Investing activities | | | |
| Purchases of intangible assets | 6 | - | -2 |
| Purchases of equipment | 7 | -1,029 | -2,431 |
| Cash used in investing activities | | -1,029 | -2,433 |
| Financing activities | | | |
| Final payment regarding issuance of cumulative preferred shares, net of issuance cost | 15 | - | 1 |
| Subsequent transaction cost | 15 | - | -707 |
| Issuance of shares from the exercise of stock options | 15 | 133 | 812 |
| Taking out of bank loans | 17 | - | 600 |
| Payment of bank loan | 17 | -701 | -190 |
| Net cash provided by financing activities | | -568 | 516 |
| Net change in cash and cash equivalents | | -28,059 | -29,879 |
| Cash and cash equivalents at beginning of year | 13 | 66,611 | 96,490 |
| Translation adjustment | | -645 | - |
| Cash and cash equivalents at end of the year | 13 | 37,907 | 66,611 |

Supplemental disclosure of cash flow information see Note 23

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

The consolidated financial statements for the year ended December 31, 2007 and the Group's management report of Jerini AG (the Company, the Group or Jerini) were authorized by the Management Board for issuance to the Supervisory Board on March 17, 2008 (date of authorization for issuance pursuant to IAS 10.6).

Jerini AG's shares are listed on the Prime Standard of the Frankfurt Stock Exchange.

The principal activities of the Group are described in Note 3.

2. Summary of Significant Accounting Policies

2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis except for derivative financial instruments (derivatives). The consolidated financial statements are presented in euros and all values are rounded to the nearest thousand except when otherwise indicated.

Statement of compliance

The consolidated financial statements of Jerini AG and all of its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) as in force in the European Union and as supplemented by Sec. 315a of the German Commercial Code (HGB) as required for statutory purposes.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Jerini AG and its subsidiaries at December 31 each year. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

All intra-group balances, transactions, income, expenses, and profits and losses resulting from intra-group transactions that are recognized in assets are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity. The disposal of shares of subsidiaries while keeping the majority voting interest is accounted for using the entity method. The disposal is treated as a transaction between stockholders which does not affect income.

The consolidated Group comprises the following entities:

| Name | Office | Shareholding |
|---------------------------------------|----------------------|-----------------------|
| Jerini AG | Berlin, Germany | Parent company |
| Jerini US, Inc. | Morristown, NJ, USA | 100.00% |
| JPT Peptide Technologies GmbH (JPT) | Berlin, Germany | 100.00% |
| JPT Jerini Peptide Technologies, Inc. | Springfield, VA, USA | 100.00% ¹⁾ |
| Jerini Ophthalmic Holding GmbH | Berlin, Germany | 100.00% |
| Jerini Ophthalmic, Inc. | New York, NY, USA | 96.00% ²⁾ |
| Jerini Beteiligungen GmbH | Berlin, Germany | 100.00% |
| Jerini Holding Ltd. | St. Julians, Malta | 99.96% ³⁾ |
| Jerini Trading Ltd. | St. Julians, Malta | 100.00% ⁴⁾ |

1) Indirect shareholdings via JPT

2) 77.4% direct interest and 18.6% indirect interest via Jerini Ophthalmic Holding GmbH

3) Indirect shareholdings via Jerini Beteiligungen GmbH 99.96%

4) Indirect shareholdings via Jerini Holding Ltd. 99.96% and indirect shareholdings via Jerini Beteiligungen GmbH 0.04%

Changes to the consolidated Group

The consolidated Group was expanded to include a company purchased on December 7, 2007, Jerini Beteiligungen GmbH, which had no revenues or expenses during the period from December 7, 2007 to December 31, 2007. When purchasing the company, Jerini AG only acquired cash amounting to TEUR 25 for TEUR 25. In the course of the intragroup reorganization the shares which the Jerini AG holds of Jerini Holding Ltd. and Jerini Trading Ltd.

were transferred to the Jerini Beteiligungen GmbH via a share purchase and transfer agreement. Furthermore the marketing and sales rights for Icatibant for the countries Belgium, Denmark, Ireland, Greece, Luxembourg, Netherlands, Austria, Portugal, Finland and Sweden were transferred from the Jerini AG to the Jerini Beteiligungen GmbH via an assignment agreement. Jerini Beteiligungen GmbH then granted a sublicense to Jerini Trading Ltd. The assets and liabilities as well as the income and expenses which were accounted for before intragroup reorganization remained unchanged for these companies.

2.2 Significant accounting judgments and estimates

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have a significant effect on the amounts recognized in the financial statements:

Deferred upfront payments

Upfront payments received in connection with development projects are deferred and released into income over the expected minimum term of the project. The deferral of upfront payments approximates the economic terms of the agreements.

Treatment of development expenses

Due to regulatory and other uncertainties, the Company has not capitalized any development costs. Milestone payments in connection with compounds licensed to the Company are expensed for the same reason.

Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models used are disclosed in Note 16.

Deferred Tax Assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. As in the previous years no deferred taxes were capitalized for tax losses as of December, 31, 2007.

2.3 Summary of significant accounting policies

Foreign currency transactions

The consolidated financial statements are presented in euros, which is the Company's presentation currency. Each entity in the Group determines its own functional currency, and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

The functional currency of the foreign operations, Jerini US, Inc., Jerini Ophthalmic, Inc., and JPT Jerini Peptide Technologies, Inc., is the US Dollar. As of the reporting date, the assets and liabilities of these subsidiaries are translated into the presentation currency of Jerini at the rate of exchange ruling at the balance sheet date, and their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. All other affiliates have their domiciles in Europe and have the Euro as functional currency.

Intangible assets

Intangible assets acquired separately and intangible assets acquired in a business combination

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as of the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and method for an intangible asset with a finite useful life is reviewed, at a minimum, at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the income statement in the expense category consistent with the function of the intangible asset.

The Group-wide standardized useful lives are as follows:

- Patents and Licenses: 8 to 15 years
- Other: 3 and 4 years

Currently all of the Company's intangible assets have finite lives.

Research and development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an individual project is recognized only when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the ability of resources to complete, and the availability to measure reliably the expenditure during the development.

In the opinion of management, due to the regulatory and other uncertainties inherent in the development of the Company's new products, the criteria for development costs to be recognized as an asset, as prescribed by IAS 38, Intangible Assets, are not met until the product has received regulatory approval and when it is probable that future economic benefits will flow to the Company. Accordingly, the Company has not capitalized any development costs.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

Equipment

Equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of such equipment when that cost is incurred if the recognition criteria are met.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

- Laboratory and technical equipment: 3 to 10 years
- Office equipment: 2 to 10 years
- Software: 3 to 5 years

The carrying values of equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

When each major inspection is performed, its cost is recognized in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied.

Grants received with regard to equipment are not deducted from the carrying value but are deferred as a liability.

An item of equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

The asset's residual values, useful lives, and methods are reviewed and adjusted, if appropriate, at each financial year-end.

Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the income statement in those expense categories consistent with the function of the impaired asset.

In determining fair value less cost to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost incurred in bringing each product to its present location and condition is accounted for as follows for both the current and previous year:

- Raw materials and supplies
- Finished and unfinished goods
- purchase cost on a first-in, first-out basis;
- cost of direct materials and labor and appropriate portions of personnel cost and depreciation.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Inventories consist of finished and unfinished goods for which sales are guaranteed by orders.

Investments and other financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate in the individual case. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value, through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognized on the trade date (i.e., the date that the Group commits to purchase the asset). Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognised in profit or loss. As of December, 31, 2007 and 2006 the company had no financial assets at fair value through profit or loss.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. After initial measurement held-to-maturity investments are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process. As of December, 31, 2007 and 2006 the company had no held-to-maturity investments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade accounts receivable, other financial assets and cash and cash equivalents included in the balance sheets have been grouped with loans and receivables. Such assets are carried at amortized cost using the effective interest method less any allowance for impairment. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial investments

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. As of December, 31, 2007 and 2006 the company had no available-for-sale financial investments.

Impairment of financial assets

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in profit or loss.

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a pass-through arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

Provisions are made for trade receivables and other receivables when there is objective evidence that the Company will not be able to collect the debts. Bad debts are written off when identified.

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less (except for lease deposits).

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Financial liabilities

The company's financial liabilities consist of loans from banks and trade accounts payable.

Interest bearing loans and borrowings

All loans are initially recognized at the fair value of the consideration received less directly attributable transaction costs, and have not been designated 'as at fair value through profit or loss'.

After initial recognition, financial liabilities are measured at amortized cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. As of December, 31, 2007 and 2006 the company had no financial liabilities at fair value through profit or loss.

Trade accounts payable

Trade accounts payable are generally due within 30 days and are initially recognised at the fair value of the received services. After initial recognition trade accounts payable are measured at amortized cost.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

Share-based payment transactions

Employees (including management) of the Company receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for stock option awards (“equity-settled transactions”).

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. With respect to stock option awards granted under the stock option plan 2006, the fair value is determined by an external appraiser using a Monte-Carlo-Simulation while the fair value of stock option awards granted under all other plans is determined by the Company using a Black-Scholes model (see Note 16 for further details). In valuing equity-settled transactions, no account is taken of any performance conditions other than conditions linked to the price of the shares of the Company, if applicable.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (“vesting date”). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company’s best estimate (excluding market conditions) of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognized as of the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for those awards where vesting is conditional upon a market condition, which are treated as vesting regardless of whether the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, at a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The effect of outstanding options is not reflected in the computation of loss per share as the effect is antidilutive (see Note 5).

The Company has taken advantage of the exemption in IFRS 1.25B related to equity-settled awards and has applied IFRS 2 only to equity-settled awards granted after November 7, 2002 that had not vested on or before December 31, 2002.

Leases – Group as lessee

The determination whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date (i.e., whether the fulfillment of the arrangement depends on the use of a specific asset or assets or the arrangement conveys a right to use the asset).

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual installments.

Taxes

Current income tax

Income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted by the balance sheet date.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

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

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses, can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in cases of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted at the balance sheet date.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

The Company's revenues consist of fees earned from research and development collaborations, license agreements, and sales of the Company's peptide products. Revenues from research and development agreements generally consist of upfront licensing fees, fees for ongoing research support, as well as milestone and royalty payments.

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. This is usually fulfilled if goods or products have been sent.

Rendering of services

Non-refundable upfront licensing fees and certain guaranteed, time-based payments that require continuing involvement in the form of research and development, manufacturing, or other commercialization efforts by the Company are recognized as revenue ratably over the base period of the underlying contract, which approximates the timing of costs incurred under the research and development portion of the agreement. The ongoing research support provided for the Company's customers, which may or may not be related to the licensing arrangements, relates to full time-equivalent researchers who perform relevant research activities for the customers. Fees for research support are recognized as revenue when the support is provided to the customer.

Royalty revenues are recorded when earned by the Company. Insignificant amounts of royalty revenues have been recorded to date.

Research and development expenses

Research and development (R&D) expenses include salaries, benefits and other personnel-related costs, clinical trial and related clinical manufacturing costs, contract and other outside service fees, and facilities and overhead costs. R&D expenses consist of independent R&D costs and costs associated with collaborative R&D and in-licensing arrangements. R&D costs, including upfront fees and milestones paid to collaborative partners, are generally expensed as incurred.

Cost of product sales

Cost of product sales include expenses for material used in product sales, changes in inventory, services received in connection with product sales, and allocable portions of personnel expense and depreciation. They meet the definition of cost of inventories recognized as expense according to IAS 2.39.

Selling, general and administrative expenses

accrue at the time services are rendered or expense occurs.

Interest income

is recognized as interest accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Finance cost

is not capitalized as cost of acquisition.

2.4 Adoption of IFRSs and IFRIC interpretations without effect

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures.

- IAS 1: Presentation of Financial Statements – Capital Management
- IFRS 7: Financial Instruments: Disclosures
- IFRIC 7: Applying the Restatement Approach under IAS 29 – Financial Reporting in Hyperinflationary Economies
- IFRIC 8: Scope of IFRS 2
- IFRIC 9: Reassessment of Embedded Derivatives
- IFRIC 10: Interim Financial Reporting and Impairment

The principal effects of these changes are as follows:

IFRS 7 – Financial Instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

IAS 1 – Presentation of Financial Statements

This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 25.

IFRIC 8 – Scope of IFRS 2

This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are only issued to employees in accordance with the employee share scheme and in one case in accordance with a participation agreement over registered shares with restricted transferability of a subsidiary, the interpretation had no impact on the financial position or performance of the Group.

The adoption of the new accounting policies IFRIC 7, IFRIC 9 and IFRIC 10 had no effect on the consolidated financial statement.

IFRSs and IFRIC interpretations not yet effective

The Group has not applied the following IFRSs and IFRIC Interpretations which are not yet effective and were only partially passed by the European Union:

- IAS 1: Presentation of Financial Statements (effective after January 1, 2009)
- IAS 23 Borrowing Costs (effective after January 1, 2009)
- IAS 32: Financial Instruments: Presentation and the corresponding changes in IAS 1 (effective after January 1, 2009)
- IFRS 2: Share-based Payment (effective after January 1, 2009)
- IFRS 3: Business Combinations and the corresponding changes in other standards (IAS 27, IAS 28, IAS 31), (effective after July 1, 2009)
- IFRS 8: Segment Reporting (effective after January 1, 2009)

- IFRIC 11: IFRS 2 – Group and Treasury Share Transactions (effective after March 1, 2007)
- IFRIC 12: Service Concession Arrangements (effective after January 1, 2008)
- IFRIC 13: Customer Loyalty Programmes (effective after July 1, 2008)
- IFRIC 14: IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective after January 1, 2008)

The Group has not yet adopted the above-listed pronouncements. At the time being Jerini is examining the effect which the first time adoption of these pronouncements will have on the consolidated financial statements, especially IAS 1, IFRS 2, IFRS 8 and IFRIC 11. Except from additional disclosures in the Notes to the consolidated financial statements, no impact on the Group's financial statements is expected in the period of initial application. IFRS 8 and IFRIC 11 have already been passed by the European Union in accordance with the Endorsement-Process, while the rest of the standards and interpretations are still in the Endorsement-Process.

3. Segment Information

The primary segment reporting format is determined to be business segments, as the Group's risks and rates of return are affected predominantly by differences in the products and services produced. Secondary information is reported geographically. The operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties.

Reportable segments

The Company is organized based on the products and services that it offers and operates in the life science industry through two reportable segments:

JPH: Jerini AG together with Jerini US, Inc., Jerini Ophthalmic Holding GmbH, Jerini Ophthalmic, Inc., Jerini Beteiligungen GmbH, Jerini Holding Ltd. and Jerini Trading Ltd. and

JPT: JPT Peptide Technologies GmbH together with JPT Peptide Technologies, Inc.

JPH comprises those activities of the Group that focus on the discovery and development of innovative drugs pursuing disease indications for which limited or no treatment options exist.

JPT Peptide Technologies GmbH is a leading provider of innovative peptide-based services and products for a variety of biomedical research purposes. Using its proprietary technologies, JPT supplies customers with a broad spectrum of services ranging from peptide synthesis and high-throughput screening to the production of sophisticated peptide chips and ready-to-use test kits. JPT offers customized tools for exploring protein-protein interactions and identifying new peptide biomarkers.

Business segments

The following table presents revenue and profit information and certain asset and liability information regarding the Company's business segments for the years ended December 31, 2007 and 2006.

| 2007 in TEUR | JPH | JPT | Elimi- nations | Total |
|--|---------|-------|-------------------|---------|
| Revenues: | | | | |
| External revenues | 14,222 | 4,392 | – | 18,614 |
| Inter-segment revenues | 92 | 504 | –596 | – |
| Total segment revenues | 14,314 | 4,896 | –596 | 18,614 |
| Segment result | –31,736 | 572 | – | –31,164 |
| Net finance result | | | | 2,106 |
| Net loss for the year | | | | –29,058 |
| Segment assets | 42,537 | 3,974 | –740 | 45,771 |
| Segment liabilities | 12,875 | 1,141 | –740 | 13,276 |
| Capital expenditures | 664 | 365 | – | 1,029 |
| Depreciation and amortization | 1,436 | 496 | – | 1,932 |
| Non-cash expenses other than depreciation and amortization | –1,190 | – | – | –1,190 |

| 2006 in TEUR | JPH | JPT | Elimi- nations | Total |
|--|---------|-------|-------------------|---------|
| Revenues: | | | | |
| External revenues | 9,422 | 3,702 | – | 13,124 |
| Inter-segment revenues | 106 | 334 | –440 | – |
| Total segment revenues | 9,528 | 4,036 | –440 | 13,124 |
| Segment result | –25,375 | 258 | – | –25,117 |
| Net finance result | | | | 2,208 |
| Net loss for the year | | | | –22,909 |
| Segment assets | 72,151 | 3,936 | –47 | 76,040 |
| Segment liabilities | 13,575 | 1,676 | –47 | 15,204 |
| Capital expenditures | 1,833 | 600 | – | 2,433 |
| Depreciation and amortization | 1,112 | 401 | – | 1,513 |
| Non-cash expenses other than depreciation and amortization | –1,309 | – | – | –1,309 |

Geographic information

The Company has a diverse customer base throughout various regions of the world. It sells products to customers and derives revenues from collaboration agreements with partners located in regions including, but not limited to, Europe and the United States of America.

Net revenues are attributable to geographic areas based on the region of destination. The following table shows revenues by region of destination:

| in TEUR | Year ended December 31 | |
|------------------------------|------------------------|--------|
| | 2007 | 2006 |
| USA | 13,026 | 9,318 |
| Germany | 1,770 | 1,193 |
| European Union (w/o Germany) | 3,232 | 2,283 |
| Other Countries | 586 | 330 |
| | 18,614 | 13,124 |

Substantially all of the Company's assets are located in Germany except for cash and cash equivalents of the Group's foreign subsidiaries in the amount of TEUR 4,200 (prior year: TEUR 4,604) and some equipment (office supplies) in the amount of TEUR 26 (prior year: TEUR 3). Capital expenditures outside of Germany amounted to TEUR 26 (prior year: TEUR 4).

4. Revenues and Expenses

Other income

| in TEUR | Year ended December 31 | |
|------------------------------|------------------------|------|
| | 2007 | 2006 |
| Release of government grants | 383 | 404 |
| Other | 204 | 53 |
| | 587 | 457 |

Other income consists of foreign exchange differences amounting to TEUR 172 (prior year: TEUR 53)

See Note 18 for a description of unfulfilled conditions and other contingencies attaching to government subsidies that have been recognized.

Cost of product sales

| in TEUR | Year ended December 31 | |
|---------------------|------------------------|--------|
| | 2007 | 2006 |
| Personnel expenses | -969 | -828 |
| Material expenses | -668 | -591 |
| Depreciation | -339 | -274 |
| Subcontracting fees | -271 | -172 |
| Other | -490 | -392 |
| | -2,737 | -2,257 |

Research and development expenses

| in TEUR | Year ended December 31 | |
|-------------------------------|------------------------|---------|
| | 2007 | 2006 |
| Subcontracting fees | -10,581 | -12,172 |
| Personnel expenses | -5,531 | -4,599 |
| Legal and Consulting expenses | -4,321 | -2,606 |
| Milestone payments | -4,000 | - |
| Material expenses | -1,242 | -1,686 |
| Depreciation | -1,218 | -1,069 |
| Other | -2,444 | -1,053 |
| | -29,337 | -23,185 |

General and administrative expenses

| in TEUR | Year ended December 31 | |
|-------------------------------|------------------------|--------|
| | 2007 | 2006 |
| Personnel expenses | -3,426 | -2,614 |
| Legal and consulting fees | -2,037 | -2,029 |
| Compensation expense | -1,190 | -1,309 |
| Rental expense | -783 | -774 |
| Travel expenses | -590 | -327 |
| IT-consulting fees | -335 | -325 |
| Depreciation and amortization | -315 | -251 |
| Advertising | -314 | -128 |
| Other | -1,175 | -781 |
| | -10,165 | -8,538 |

Selling and distribution costs

| in TEUR | Year ended December 31 | |
|------------------------------|------------------------|--------|
| | 2007 | 2006 |
| Marketing and subcontracting | -3,507 | -1,581 |
| Personnel expenses | -2,043 | -1,531 |
| Legal and consulting fees | -1,001 | -132 |
| Travel expenses | -542 | -296 |
| Material expenses | -116 | -804 |
| Other | -705 | -282 |
| | -7,914 | -4,626 |

Other expenses

Other expenses consist of foreign exchange differences amounting to TEUR 172 (prior year: TEUR 132), and unallocable banking fees.

Finance income / (cost)

| in TEUR | Year ended December 31 | |
|---|------------------------|-------|
| | 2007 | 2006 |
| Interest income from money market funds | 2,134 | 2,245 |
| Interest expense on bank loans | -28 | -37 |
| | 2,106 | 2,208 |

Personnel-related expenses

During the year 2007, personnel-related expenses consisted of salaries in the amount of TEUR 10,273 (prior year: TEUR 7,775), benefits in the amount of TEUR 1,270 (prior year: TEUR 1,079) and share-based compensation in the amount of TEUR 1,190 (prior year: TEUR 1,309). Social security contributions include contributions for statutory pension insurance in the amount of TEUR 676 (prior year: TEUR 457).

5. Loss per share

Basic loss per share amounts are calculated by dividing net loss for the year attributable to common shareholders by the weighted average number of common shares outstanding during the year.

Diluted loss per share amounts are calculated by dividing the net loss attributable to common shareholders by the weighted average number of common shares outstanding during the year (adjusted for the effects of dilutive stock options).

The following reflects the income and share data used in the total operations basic and diluted earnings per share computations:

Loss attributable to common shareholders

| in TEUR | Year ended December 31 | |
|---|------------------------|---------|
| | 2007 | 2006 |
| Net loss | -29,058 | -22,909 |
| Minority interest | -44 | - |
| Net loss = Profit attributable to common shareholders of parent company | -29,014 | -22,909 |

Weighted average number of common shares for basic loss per share

| | Year ended December 31 | |
|--|------------------------|------------|
| | 2007 | 2006 |
| Weighted average number of common shares | 52,481,310 | 52,152,518 |

The following securities have been excluded from the computation of loss per share, as the effect would have been antidilutive:

| | Year ended December 31 | |
|---|------------------------|-----------|
| | 2007 | 2006 |
| Antidilutive potential ordinary shares excluded from calculation of loss per share: | | |
| Employee stock option plan | 1,041,931 | 1,298,515 |

6. Intangible Assets

| 2007 in TEUR | Patents and Licenses | Other | Total |
|----------------------------------|----------------------|-------|-------|
| Cost | | | |
| Balance at January 1, 2007 | 367 | 53 | 420 |
| Balance at December 31, 2007 | 367 | 53 | 420 |
| Amortization | | | |
| Balance at January 1, 2007 | 180 | 24 | 204 |
| Amortization charge for the year | 33 | 14 | 47 |
| Balance at December 31, 2007 | 213 | 38 | 251 |
| Carrying amounts | | | |
| At January 1, 2007 | 187 | 29 | 216 |
| At December 31, 2007 | 154 | 15 | 169 |

| 2006 in TEUR | Patents and Licenses | Other | Total |
|----------------------------------|-------------------------|-------|-------|
| Cost | | | |
| Balance at January 1, 2006 | 367 | 51 | 418 |
| Additions | – | 2 | 2 |
| Balance at December 31, 2006 | 367 | 53 | 420 |
| Amortization | | | |
| Balance at January 1, 2006 | 148 | 10 | 158 |
| Amortization charge for the year | 32 | 14 | 46 |
| Balance at December 31, 2006 | 180 | 24 | 204 |
| Carrying amounts | | | |
| At January 1, 2006 | 219 | 41 | 260 |
| At December 31, 2006 | 187 | 29 | 216 |

7. Equipment

| 2007 in TEUR | Machinery and equipment | Furniture and fixtures | Software (Hardware-component) | Total |
|----------------------------------|-------------------------|------------------------|-------------------------------|--------|
| Cost | | | | |
| Balance at January 1, 2007 | 9,316 | 953 | 1,198 | 11,467 |
| Additions | 663 | 94 | 272 | 1,029 |
| Disposals | – | –69 | – | –69 |
| Balance at December 31, 2007 | 9,979 | 978 | 1,470 | 12,427 |
| Depreciation | | | | |
| Balance at January 1, 2007 | 4,918 | 607 | 818 | 6,343 |
| Depreciation charge for the year | 1,319 | 293 | 273 | 1,885 |
| Disposals | – | –69 | – | –69 |
| Balance at December 31, 2007 | 6,237 | 831 | 1,091 | 8,159 |
| Carrying amounts | | | | |
| At January 1, 2007 | 4,398 | 346 | 380 | 5,124 |
| At December 31, 2007 | 3,742 | 147 | 379 | 4,268 |

| 2006 in TEUR | Machinery and equipment | Furniture and fixtures | Software (Hardware- component) | Total |
|-------------------------------------|-------------------------------|------------------------------|--------------------------------------|--------|
| Cost | | | | |
| Balance at January 1, 2006 | 7,352 | 871 | 816 | 9,039 |
| Additions | 1,967 | 82 | 382 | 2,431 |
| Disposals | -3 | - | - | -3 |
| Balance at December 31, 2006 | 9,316 | 953 | 1,198 | 11,467 |
| Depreciation | | | | |
| Balance at January 1, 2006 | 3,849 | 385 | 645 | 4,879 |
| Depreciation charge for the year | 1,072 | 222 | 173 | 1,467 |
| Disposals | -3 | - | - | -3 |
| Balance at December 31, 2006 | 4,918 | 607 | 818 | 6,343 |
| Carrying amounts | | | | |
| At January 1, 2006 | 3,503 | 486 | 171 | 4,160 |
| At December 31, 2006 | 4,398 | 346 | 380 | 5,124 |

8. Inventories

Inventories consist of the following:

| in TEUR | December 31 | |
|--------------------------------------|-------------|------|
| | 2007 | 2006 |
| Raw materials and supplies (at cost) | 18 | 16 |
| Unfinished goods (at cost) | 8 | 28 |
| Finished goods (at cost) | 28 | 14 |
| | 54 | 58 |

Raw materials and supplies are used in the production process for custom and catalogue peptides or small molecules. Furthermore, kits for the testing and screening of substances are included in these positions.

Finished and unfinished goods consist of custom and catalogue peptides or small molecules produced for customers.

9. Trade Accounts Receivable

As of December 31, 2007 and 2006, the Company carried trade receivables in the amount of TEUR 837 and TEUR 1,078, respectively, in its accounts. The net book value approximates the fair value due to the short term nature of the asset. It also represents the maximum amount that might be at risk theoretically.

Trade receivables are non-interest bearing and are generally on 30-day terms. A bank received a global assignment for receivables amounting to TEUR 696 (2006: TEUR 1,078) from the Company.

As at December, 31 2007, trade receivables at nominal value of TEUR 7 (2006: TEUR 17) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

| in TEUR | December 31 | |
|-------------------------|-------------|------|
| | 2007 | 2006 |
| At January 1, | 17 | 5 |
| Charge for the year | – | 12 |
| Utilised | – | – |
| Unused amounts reversed | –10 | – |
| At December 31, | 7 | 17 |

As at December 31, 2007, the ageing analysis of trade receivables is as follows:

| in TEUR | Total | Neither past due nor impaired | Past due but not impaired | | | | |
|---------|-------|-------------------------------|---------------------------|------------|------------|-------------|------------|
| | | | < 30 days | 30–60 days | 60–90 days | 90–120 days | > 120 days |
| 2007 | 837 | 444 | 263 | 65 | 23 | 26 | 16 |
| 2006 | 1,078 | 315 | 581 | 91 | 50 | 38 | 3 |

10. Other Current Assets

Other current assets consist of the following:

| in TEUR | December 31 | |
|------------------------------|-------------|-------|
| | 2007 | 2006 |
| VAT | 263 | 848 |
| Refund foreign VAT | 38 | – |
| Investment grant receivables | 73 | 390 |
| Research grant receivables | 27 | – |
| | 401 | 1.238 |

VAT (“Value added tax”) reflects claims of the Company against local tax authorities for VAT on services received. The decrease is attributable to the refund of VAT in 2007 in connection with the initial public offering of the Company’s shares in 2005. The net amount of VAT receivable and VAT payable is non-interest bearing and is remitted to the appropriate taxation authorities on a monthly basis.

11. Capital Interest Tax Receivable

The Company earns interest on its money market funds and short-term deposits. Respective financial institutions are required to withhold capital interest tax from these earnings. As the Company produced a net loss in the years ended December 31, 2007 and 2006, withheld capital interest tax was refundable in the amount of TEUR 1,428 and TEUR 1,019, respectively.

12. Other Financial Assets

Other financial assets are non-interest bearing and consist of the following:

| in TEUR | December 31 | |
|-------------------------------|-------------|------|
| | 2007 | 2006 |
| Receivable from R&D projects | 49 | 89 |
| Suppliers with debit balances | 121 | 16 |
| Other | 21 | 29 |
| | 191 | 134 |

The net book value approximates the fair value due to the short term nature of the asset. It also represents the maximum amount that might be at risk theoretically. All other financial assets are neither past due nor impaired.

13. Cash and Cash Equivalents

Cash and cash equivalents consist of the following components:

| in TEUR | December 31 | |
|---|-------------|--------|
| | 2007 | 2006 |
| Cash at bank and in hand | 37,695 | 66,605 |
| Cash in transit | 212 | 6 |
| Cash and cash equivalents in the consolidated statements of cash flows | 37,907 | 66,611 |
| Restricted cash for lease deposits | 273 | 273 |
| | 38,180 | 66,884 |

Cash at bank of which 88.0 percent (prior year: 93.1 percent) are denominated in euro and 12.0 percent (prior year: 6.9 percent) are denominated in US-\$ earns interest with the weighted average of the EONIA minus 30 basis points per year. Money market funds earn interest at floating rates based on daily bank deposit rates and can be sold at any time depending on the immediate cash requirements of the Company. Restricted cash for lease deposits earns interest at the respective monthly deposit rates. The net book value approximates the fair value due to the short term nature of the asset. It also represents the maximum amount that might be at risk theoretically. As of December 31, 2007 the Company had unutilized credit lines with banks in the amount of TEUR 100 (prior year: TEUR 250).

14. Prepaid Expenses

Prepaid expenses consist of prepaid annual fees for insurance and service contracts, which are deferred over the term of respective agreements. All prepaid expenses are short term in nature.

15. Shareholders' Equity

Common shares

At December 31, 2007 and 2006, the Company had 52,534,705 and 52,458,471 common shares authorized and outstanding.

As a result of the exercise of stock options, 76,234 no par value ordinary bearer shares have been issued out of authorized capital 2002, 2005/I, and 2005/II. Consequently, common shares increased by TEUR 77.

As of December 31, 2007 common share capital amounts to TEUR 52,535 consisting of 52,534,705 no par value ordinary bearer shares.

Pursuant to a shareholders' resolution adopted on June 13, 2007 the shareholders' resolution from June 30, 2006 has been cancelled and management has been authorized to acquire and use treasury shares under certain conditions in the amount of 10.0 percent of the share capital in existence at June 13, 2007 for purposes other than trading own shares. The authorization terminates on December 12, 2008 and may be exercised in once or on several occasions either in full or in parts thereof. The acquisition of treasury shares by group companies as well as third parties on account of Jeirini or group companies is permitted.

Authorized Capital

The shareholders adopted a resolution on June 13, 2007 to increase, prolongate and amend Authorized Capital 2005/II with the possibility to exclude the subscription right and to amend Sec. 6 Para. 6 of the Articles of Association. Share capital has been increased in 2006 to EUR 52,458,471.00 as a result of the issuance of shares out of conditional Capital 2002/I (Sec. 6 Para. 1 of the articles of association). Conditional capital 2005/II has been increased to EUR 26,213,135.00 in consideration of conditional capital 2002/I (consultant options) and Sec. 202 Para. 3, 1st sentence AktG. The term of the newly Authorized Capital 2005/II was prolonged until June 13, 2012. The issuance of shares out of Authorized Capital 2005/II to distribution and collaboration partners excluding the shareholders' subscription right according to Sec. 6 Para. 6 sentence 5a) of the articles of association is permitted at the occurrence of conclusion, implementation, amendment and termination of a partnership. The term of the authorization ends on June 13, 2012.

Conditional Capital

Conditional capital amounted to a total of TEUR 5,169 and TEUR 4,824 as of December 31, 2007 and December 31, 2006, respectively. Conditional capital was created pursuant to shareholders' resolutions to satisfy grants under the Company's stock option plans.

At the shareholders' meeting on February 4, 2005, and June 13, 2007 shareholders resolved to increase conditional capital 2005/I by TEUR 1,117 in connection with establishing a new stock option plan (plan 2005/I) under which 1,117,532 options may be granted to members of the Management Board and employees. The amendment of the capital increase was registered with the commercial register of the local court at Berlin-Charlottenburg on October 18, 2007.

At the shareholders' meeting on June 13, 2007 shareholders resolved to increase conditional capital to TEUR 480 in connection with establishing a new stock option plan (plan 2005/II). The capital increase was registered with the commercial register of the local court at Berlin-Charlottenburg on October 18, 2007.

Furthermore pursuant to a shareholders' resolution adopted on June 13, 2007, conditional capital 2006/I was increased to of TEUR 2,747 in connection with 2006/I stock option plan (plan 2006/I).

Under plan 2006/I the stock options may be issued solely to members of the Management Board of the Company, employees of the Company, managers of affiliates, and employees of affiliates according to the shareholders resolution dated June 30, 2006 and June 13, 2007. Of this amount, up to 1,181,633 stock options are intended for Management Board members of the Company, up to 1,328,857 stock options are intended for employees of the Company, up to 118,108 stock options are intended for managers of affiliates and up to 118,108 stock options are intended for employees of affiliates. The stock options expire five years after the grant date.

The resolutions from the shareholders' meeting dated June 13, 2007 were registered with the commercial register of the local court at Berlin-Charlottenburg on October 18, 2007.

Additional paid in capital

In connection with the capital increase pursuant to the shareholders resolution adopted on February 4, 2005, by issuance of 4,914,063 Series B preferred shares final payments to additional paid in capital according to Sec. 272 Para. 2 Nr. 4 HGB in the amount of TEUR 1 have been received in 2006.

Payments to additional paid in capital according to Sec. 272 Para. 2 Nr. 1 HGB in the amount of TEUR 56 were received as a result of the exercise of 76,234 employee stock options.

Subsequent expenses in connection with the initial public offering have been recorded as a deduction from additional paid in capital in the previous year.

As of December 31, 2007 and 2006 additional paid in capital comprised as follows:

| in TEUR | Dec. 31, 2007 | Dec. 31, 2006 |
|---|---------------|---------------|
| Sec. 272 Para. 2 Nr. 1 HGB (restricted capital reserve) | 42,871 | 42,814 |
| Sec. 272 Para. 2 Nr. 4 HGB (free capital reserve) | 25,516 | 25,517 |
| Compensation expense stock options | 3,978 | 2,788 |
| | <u>72,365</u> | <u>71,119</u> |

According to Sec. 150 Para. 2 AktG an amount equal to 10 percent of the Company's registered capital cannot be distributed to shareholders. The remainder of TEUR 38,584 (prior year: TEUR 37,568) of the restricted capital reserve according to Sec. 272 Para. 2 Nr. 1 HGB is subject to the restrictions according to Sec. 150 Para. 4 AktG and the measures described herein.

Capital reserve for effects of foreign exchange differences

The capital reserve for effects of foreign exchange differences accounts for the effect of changes in foreign exchange rates arising from the translation of foreign subsidiaries's financial statements. It is also used to record the effect of hedging net investments in foreign operations.

Retained loss

The position comprises net loss for the year, the revaluation reserve resulting from the first time adoption of IFRS and cumulated net loss carry forwards from prior years. The revaluation reserve amounts to minus TEUR 14,678.

16. Share-based Compensation

Jerini AG:

Description of Stock Option Plans

During the year ended December 31, 2002, the shareholders authorized management to grant a maximum of 1,408,209 stock options to employees and other key individuals who perform services for the Company under a stock option plan (2002 plan). The options have been issued with a strike price equivalent to the common stock's fair market value at the date of grant and generally have a life of ten years.

During the year ended December 31, 2005, the shareholders authorized management to grant a maximum of 1,641,294 stock options to employees under the stock option plans (2005/I plan, 2005/II plan). During the years ended December 31, 2007, 2006 and 2005 20,901, 54,175 and 1,200,563 options had been granted under the plans.

In addition, the Company issued 89,556 options, which had been returned by employees, and the remainder of options under the 2002 plan with an exercise price of EUR 3.32 per share. The 89,556 returned options have been accounted for pursuant to IFRS 2.28(b) as a repurchase of an equity interest (i.e. as a deduction from equity).

During the year ended December 31, 2006 management was authorized to grant a maximum of 2,324,426 stock options to members of management, employees of the Company as well as managers and employees of affiliated companies under a new plan 2006/I. During the year ended December 31, 2007 and December 31, 2006 227,390 and 1,121,683 stock options were granted under the 2006/I plan.

Stock option forfeitures as a result of employee exits as of December 31, 2007 amounted to 33,334, 25,567, 19,343 and 10,837 under the stock option plans 2002, 2005/I, 2005/II and 2006/I, respectively.

Vesting conditions

The option-vesting periods under the 2002, 2005/I, and 2005/II plans range between immediate vesting to three years. Stock options under the 2006/I plan vest after two years.

Compensation expense is recognized over the vesting period.

Exercise of options under the plans 2002, 2005/I, and 2005/II plans issued before an initial public offering is subject to a minimum stock price of EUR 3.16. The exercise of stock options issued under the plans after an initial public offering is subject to a stock price performance of 5 percent since the grant date. Cash settlement of the options is excluded.

Each stock option entitles the holder to subscribe for one ordinary share in Jerini AG in exchange for payment of the strike price. The strike price is equal to the value of one Jerini AG share on the issuance day (day of submission of an offer to conclude an option agreement or other point in time determined in the offer). The value is to be calculated pursuant to the weighted average of the closing quotations of one share of the Company on XETRA (or a comparable successor system) during the last 30 stock trading days prior to the issuance day.

The stock options of the 2006/I plan may be exercised only upon achievement of the following targets and in the following amounts:

Targets I:

Each stock option holder may exercise up to 50 percent of the stock options if the stock price of the Company's share has increased during the two-year period following the issuance day (Reference Period I) by at least 5 percent.

Each stock option holder may exercise up to 60 percent of the stock options if the stock price of the Company's share has increased during the Reference Period I by at least 10 percent.

Each stock option holder may exercise up to 80 percent of the stock options if the stock price of the Company's share has increased during the Reference Period I by at least 15 percent.

Each stock option holder may exercise up to 100 percent of the stock options if the stock price of the Company's share has increased during the Reference Period I by at least 20 percent.

Targets II:

If no target I has been achieved, stock options may, however, be exercised in the following amounts upon achievement of the following targets II:

Each stock option holder may exercise up to 50 percent of the stock options if the stock price of the Company's share has increased during the three-year period following the issuance day (Reference Period II) by at least 7.5 percent.

Each stock option holder may exercise up to 60 percent of the stock options if the stock price of the Company's share has increased during the Reference Period II by at least 15 percent.

Each stock option holder may exercise up to 80 percent of the stock options if the stock price of the Company's share has increased during the Reference Period II by at least 22.5 percent.

Each stock option holder may exercise up to 100 percent of the stock options if the stock price of the Company's share has increased during the Reference Period II by at least 30 percent.

If both a target I and a target II have been achieved, then – in addition to the number of exercisable shares accruing from the achievement of target I – additional stock options may be exercised in the amount by which the number of exercisable stock options accruing from the achievement of target II exceeds, as the case may be, the number of exercisable stock options accruing from the achievement of target I.

For purposes of determining the increase of the stock price of the Company's share, the stock price on the issuance day is compared with the stock price on the day after expiration of Reference Period I or II respectively. The stock price on the issuance day and the stock price on the day after expiration of the Reference Period I or II, respectively (in each case: cut-off date), is calculated as the weighted average of the closing quotations of one share of the Company on XETRA (or a comparable successor system) during the last 30 stock trading days prior to the cut-off date.

Development of stock options

The granted, exercised, forfeited and expired employee stock options and their weighted average exercise price were as follows:

| | Stock Options | Exercise Price in EUR |
|--|---------------|--------------------------|
| Outstanding on January 1, 2006 | 2,455,500 | 1.64 |
| Granted | 1,265,317 | 4.44 |
| Exercised | 381,240 | 2.13 |
| Forfeited | 11,253 | 1.37 |
| Outstanding on December 31, 2006 | 3,328,324 | 2.69 |
| Exercisable on December 31, 2006 | 777,877 | 2.33 |
| Shares available on December 31, 2006 or options that may be granted | 1,514,326 | – |
| Outstanding on January 1, 2007 | 3,328,324 | 2.69 |
| Granted | 248,291 | 3.62 |
| Exercised | 76,234 | 1.74 |
| Forfeited | 89,081 | 2.67 |
| Outstanding on December 31, 2007 | 3,411,300 | 2.78 |
| Exercisable on December 31, 2007 | 1,854,360 | 1.59 |
| Shares available on December 31, 2007 for options that may be granted | 1,757,746 | – |

At December 31, 2007 and 2006 the Company's stock options have a weighted-average exercise price of EUR 2.78 and EUR 2.69, respectively, and a weighted average remaining life of 5.5 years and 6.6 years, respectively. Exercise prices range from EUR 1.00 to EUR 4.72 per share (prior year EUR 1.00 to EUR 4.72 per share).

The fair values related to stock options under the 2002, 2005/I and 2005/II plans are based on a Black-Scholes model using the following assumptions:

| Stock option plan 2002: | 2006 | |
|---------------------------------------|-----------|-----------|
| Expected dividend yield | | 0% |
| Risk-free interest rate | | 3.7% |
| Expected life | | 2–3 years |
| Volatility | | 32% |
| <hr/> | | |
| Stock option plan 2005/I and 2005/II: | 2007 | 2006 |
| Expected dividend yield | 0% | 0% |
| Risk-free interest rate | 4.3% | 3.7% |
| Expected life | 2–3 years | 2–3 years |
| Volatility | 39% | 32% |

The fair values related to stock options under the 2006/I Plan are based on a Monte-Carlo simulation using the following assumptions:

| | 2007 | 2006 |
|-------------------------|-----------|-----------|
| Expected dividend yield | 0% | 0% |
| Risk-free interest rate | 4.3% | 3.7% |
| Expected life | 2–3 years | 2–3 years |
| Volatility | 39% | 32% |

Volatility has been set using historical stock quotations of peer group companies.

The valuation of the stock options under the 2006 Plan is based on the Monte-Carlo simulation, not on the Black-Scholes model like the other stock option plans, because the targets of the stock option plan 2006 cannot be included in the Black-Scholes model.

Jerini Ophthalmic, Inc.

Description of Stock Option Plans

During the year ended December 31, 2007, the board of directors of Jerini Ophthalmic, Inc. adopted the Jerini Ophthalmic, Inc. 2007 stock option plan (plan). Pursuant to the resolution 3,320,000 shares of Jerini Ophthalmic, Inc. were reserved and put aside for issuance as restricted stock or as stock options to board members, employees and other key individuals who perform services for the Company under the plan. The shareholders have ratified the resolution on April 5, 2007.

The strike price of the options shall not be below the common stock's fair market value at the date of grant and generally have a life of ten years.

During the year ended December 31, 2007 100,000 options were granted under the plan.

Vesting conditions

The options vest over four years after the grant date. 25 percent of the options vest during the first year after the grant date. The remaining 75 percent vest monthly over the the remaining three years.

Stock options are exercisable in exchange for payment of the strike price at dates specified in the employees' stock option agreements.

Compensation expense is recognized over the vesting period.

Development of stock options

The granted employee stock options and their weighted average exercise price were as follows:

| | Stock Options | Exercise Price in USD |
|--|---------------|--------------------------|
| Outstanding on January 1, 2007 | – | – |
| Granted | 100,000 | 0.05 |
| Outstanding on December 31, 2007 | 100,000 | 0.05 |
| Exercisable at December 31, 2007 | – | – |
| Shares available on December 31, 2007 for options that may be granted | 3,130,000 | – |

At December 31, 2007 the Jerini Ophthalmic, Inc. stock options have a weighted-average exercise price of USD 0.05 and a weighted average remaining life of 9.88 years. The exercise price is USD 0.05 per share.

The fair value related to stock options under plan is based on a Black-Scholes model using the following assumptions:

| Stock option plan: | 2007 |
|-------------------------|---------|
| Expected dividend yield | 0% |
| Risk-free interest rate | 4.03% |
| Expected life | 3 years |
| Volatility | 50% |

Information regarding the derivatives can be found in Note 25.

17. Bank Loans

The the bank loan (prior year: three bank loans) in the amount of TEUR 300 (prior year: TEUR 1,001) is interest bearing at variable rates, 3 month-EURIBOR plus 1.40 percent margin, and matures in June 2009 (prior year: December 2009) due to an exceptional repayment of TEUR 100 in 2007. Variable interest rates are adjusted quarterly. The net book value approximates the fair value of the loan. The net present value was deemed to exceed the net book value by up to TEUR 1 in prior year. During the years ended December 31, 2007 and 2006, bank loans in the amount of TEUR 300 and TEUR 1,001 were fully secured by assets pledged under the loans (Cash at bank for assumed bank securities in the amount of TEUR 332) and a global assignment of all trade receivables.

18. Government Grants

During the years ended December 31, 2007 and 2006, the Company applied for investment grants in accordance with the German tax provisions for federal investments grants (Investitionszulagengesetz). The Investitionszulagengesetz limits grants to a percentage of eligible capital expenditures. Grants totaling approximately TEUR 493 and TEUR 579 related to qualifying expenditures during the years ended December 31, 2007 and 2006, respectively, have been deferred in a special account and are released to income over the useful life of respective assets.

At December 31, 2007, and 2006, the Company had approximately TEUR 73 and TEUR 332 receivable under the grants according to the Investitionszulagengesetz, respectively.

Under the terms of the Investitionszulagengesetz, the Company is obligated to fulfill certain requirements. The Company is obligated to utilize the assets acquired with the grant proceeds in its business for a period of five years. If the economic lives of the assets purchased are shorter than five years, then the assets must remain in use over the course of their economic lives. If the requirements of Investitionszulagengesetz are not fulfilled, the Company could be required to refund amounts previously granted.

At December 31, 2007 and 2006 the Company had approximately TEUR 27 and TEUR 58 receivable, respectively, under the grants awarded by Investitionsbank Berlin. Grants totaling approximately TEUR 504 and TEUR 553 related to qualifying capital expenditures during the years ended December 31, 2007 and 2006, respectively, have been deferred in a special account and are released to income over the useful life of respective assets.

In connection with these grants, there are additional requirements that the Company must meet. The Company must hire 39 additional full-time employees since the year 2000 until the end of the subsidized period in 2009, 20 of whom must be women. Such full-time employment must be maintained for a period specified under the terms of the grants. In addition, the assets purchased with these investment grants must remain in use in Berlin, Germany for a minimum period. If the Company fails to meet the terms of the grant, the grants received, plus interest, may have to be refunded.

Grants received in accordance with the Investitionszulagengesetz and grants received from Investitionsbank Berlin for the years ended December 31, 2007 and 2006 were TEUR 537 and TEUR 627, respectively.

The Company recognizes all amounts under the grants as no conditions exist that might indicate that the Company will not be able to meet the requirements of the grant. If such conditions arise the Company will set up appropriate allowances to reserve for a possible repayment.

19. Trade Accounts Payable and Other Liabilities

The following table shows the composition of other liabilities at year end:

| in TEUR | December 31 | |
|--|---------------|--------------|
| | 2007 | 2006 |
| Milestone liabilities | 4,570 | – |
| Trade accounts payable | 2,978 | 3,516 |
| Clinical studies | 912 | 1,301 |
| Professional fees | 253 | 140 |
| Legal professional fees | 245 | 157 |
| Supervisory Board | 190 | 75 |
| Patent defense | 94 | 94 |
| Consulting fees | – | 453 |
| Outstanding invoices | – | 168 |
| Other | 400 | 155 |
| Subtotal financial liabilities | 9,642 | 6,059 |
| Bonus payments | 545 | 328 |
| Wage tax and other non-financial liabilities | 542 | 331 |
| Accrued employee related costs and benefits | 331 | 292 |
| | 11,060 | 7,010 |

The increase of trade accounts payable and other liabilities is mainly due to milestone liabilities which Jerini has to pay to sanofi-aventis amounting to TEUR 4,570. Liabilities for clinical and pre-clinical studies relate to services received that were not billed yet. All accrued liabilities are expected to be due in less than twelve months after the balance sheet date except for anticipated rent increases for offices in the amount of TEUR 31. The carrying amount of trade payables is considered to approximate their fair value.

20. Provisions

Provisions developed as follows:

| in TEUR | Other Accruals |
|------------------------------|----------------|
| Balance at January 1, 2007 | 208 |
| Utilized | 200 |
| Additions | – |
| Balance at December 31, 2007 | 8 |

All provisions are expected to have a term of less than one year. Other accruals consist of provisions for repayment of government grants.

21. Income Taxes

According to German tax provisions in years of tax profits any tax loss carry forward can fully be used up to an amount of EUR 1 million. Any excess tax profit will be reduced with remaining tax loss carry forwards by 60 percent. Thus, 40 percent of all tax profits exceeding EUR 1 million will be subject to taxation.

As in prior year deferred taxes of German companies are calculated with a combined income tax rate charge of 38.65 percent for the year ended December 31, 2007. As a result of the Corporation tax reform law 2008 (Unternehmensteuerreformgesetz 2008) corporation tax applicable to domestic companies will decrease to 15.00 percent for fiscal years starting in 2008 while the average trade tax rate will increase slightly to 15.10 percent. Therefore, at year-end December 31, 2007, deferred taxes of German companies are calculated with a combined income tax rate of 30.20 percent (2007: 38.65 percent) including solidarity charge. No tax benefit or expense resulted from the decrease in the German tax rate for the year ended December 31, 2007.

The applicable tax rates employed for companies outside Germany range from 4.15 percent to 36.50 percent.

Net operating loss carry forwards are subject to review and possible adjustment by the German tax authorities. Furthermore, under current German tax laws, certain substantial changes in the Company's ownership and business may further limit the amount of net operating loss carry forwards, which could be utilized annually to offset future taxable income.

Deferred tax assets and liabilities are offset if they pertain to future tax effects for the same taxable entity towards the same taxation authority.

No income taxes were paid and no deferred income tax was expensed or recognized through the income statement in the years ended December 31, 2007 and 2006. Losses are mainly attributable to operations in Germany. Losses in the amount of TEUR 18,518 are attributable to German business activities and TEUR 13,928 are attributable to foreign business activities.

Major components of income tax for the years ended December 31, 2007 and 2006 are as follows:

| in % | December 31 | |
|--|-------------|--------|
| | 2007 | 2006 |
| German statutory tax rate | -38.65 | -38.65 |
| Potential forfeiture of German tax loss carry forward (including amounts offset with deferred tax liabilities) | 43.16 | 17.04 |
| Not capitalized deferred tax asset on temporary differences | 18.31 | 32.94 |
| Reversal of differences from previous years for which no deferred tax assets were capitalized | -9.26 | -11.48 |
| Offset of deferred tax assets of German tax losses carried forward with deferred tax liabilities | -12.89 | - |
| Effects of permanent differences | 1.34 | 0.68 |
| Effects from tax rate differences outside of Germany | - | - |
| Other | -2.01 | -0.53 |
| Income tax reported in consolidated income statement: | - | - |

As a result of the negative loss before taxes the applicable tax rate is negative (profit from taxes).

| Loss carry forwards: in TEUR | December 31 | |
|---------------------------------|-------------|--------|
| | 2007 | 2006 |
| Income tax loss carry forwards: | 57,542 | 25,096 |

Deferred tax liabilities and assets are comprised of the following:

| in TEUR | December 31 | |
|-----------------------------------|-------------|------|
| | 2007 | 2006 |
| Deferred tax assets: | | |
| Net operating loss carry forwards | 2,924 | - |
| Deferred tax liabilities: | | |
| Consolidation of liabilities | -2,924 | - |
| Net deferred taxes | - | - |

The Company has unused temporary differences as described below. The realization of these amounts is dependent upon future taxable income, if any, the timing and amount of which is uncertain. Accordingly, net deferred tax assets could not be recognized in the Company's balance sheets at December 31, 2007 and 2006 as it is not probable that they will be utilized in the near future.

| in TEUR | December 31 | |
|-------------------|---------------|---------------|
| | 2007 | 2006 |
| Deferred revenues | 116 | 5,476 |
| Intangible assets | 18,964 | 4,765 |
| Other | 156 | 16 |
| Total | 19,236 | 10,257 |

US subsidiaries have federal and state tax loss carryforwards in the amount of TEUR 14,372 (prior year: TEUR 475). Maltese subsidiaries have tax loss carryforwards in the amount of TEUR 31 (prior year: TEUR 0).

US tax losses can be carried back for 2 years and forward for 20 years. There are no limitations with regard to maltese tax losses.

22. Collaboration Agreements

Baxter AG

The Company performs research and development for Baxter AG relating to the development, identification, and optimization of a lead structure in an undisclosed target. In 2006, the collaboration with Baxter AG was expanded by two new projects.

Alcon Research Ltd.

In December 2004, Jerini AG entered into a four-year agreement with Alcon Research Ltd. to perform research and development to identify and generate compounds directed at the collaboration target as well as to assess the in vitro activity of such compounds with respect to the applicable target.

Kos Life Sciences, Inc.

On November 7, 2005, Kos Life Sciences, Inc., a subsidiary of Kos Pharmaceuticals, Inc. and Jerini US Inc., signed an exclusive agreement for the development, marketing, and distribution of Jerini's compound Icatibant in the United States and Canada. The strategic partnership included an upfront licensing payment, which has been deferred over a period of two years. On November 6, 2006 Kos Pharmaceuticals, Inc. was acquired by Abbott, Inc. Since then Kos Pharmaceuticals, Inc. and its subsidiaries are part of the Abbott Group.

On September 4, 2007, Abbott and Jerini US, Inc. entered a termination agreement which was made effective on September 17, 2007. Through the termination agreement, Jerini regained the commercialization rights to Icatibant for the treatment of HAE in North America. As part of the termination agreement, Abbott paid Jerini US, Inc. an undisclosed amount and Jerini US, Inc. will pay Abbott royalties on Icatibant's North American sales for the first 24 months following product launch.

The termination agreement resulted in an increase of revenues from collaboration agreements, due to the payment from Abbott to Jerini US, Inc. Furthermore the on-time upfront payment that Jerini received from Kos in November 2005, which was deferred until April 2008, was released to revenue completely (EUR 2.4 million) in 2007. The upfront and pre-paid research fees decreased accordingly.

23. Notes to the Cash Flow Statement

Paid / Received Interest / Cash Flows from Income Taxes

Cash flow from operating activities includes interest received in the amount of TEUR 2,134 (prior year: TEUR 2,304), interest paid in the amount of TEUR 28 (prior year: TEUR 32), and reimbursed capital gain tax including solidarity charges in the amount of TEUR 409 (prior year: TEUR 40).

Non-cash Operating Activity

As a result of stock option grants, additions to additional paid-in capital in the amount of TEUR 1,190 (prior year: TEUR 1,309) have been eliminated in cash flow from operating activities.

24. Commitments and Contingencies

The Company is subject to various claims that arise in the ordinary course of business. Based on all the facts available to management, the Company believes that the ultimate resolution of these claims would not likely have a material adverse effect on the results of its operations, financial position or liquidity, although no assurances can be given with respect to the ultimate outcome of such claim or litigation.

With regard to an amendment of the licence agreement with sanofi-aventis dated November 28, 2007 the Company is required to make payments of EUR 8.0 million in total upon obtaining marketing approval by the relevant authority of any member state of the EU for the first product and upon grant of the first market approval by the FDA for the first product. If the Company grants a sublicense of the sanofi-aventis license to a third party for the USA or Japan before the grant of the market approval for the United States, the Company is obligated to pay sanofi-aventis 20 percent of any payments which Jerini receives from any third party during the term of the agreement. If Jerini grants a sublicense of the sanofi-aventis license to a third party for the USA or Japan after the grant of the market approval for the United States, the Company is obligated to pay sanofi-aventis 10 percent of any payments which Jerini receives from any third party during the term of the agreement. In case Jerini enters into any sublicense with a third party relating to the licenced technology which is applicable to the United States and/or Japan and also other countries of the world, Jerini shall pay to sanofi-aventis that portion of the 20 percent additional remuneration or the 10 percent additional remuneration, as applicable, which corresponds to the reasonably anticipated economic value of the United States and/or Japan for the commercialization of the sublicensed product only. In addition, Jerini is obligated to pay royalties in the amount of up to 12 percent of the net sales of Icatibant worldwide.

The Company leases certain office space, equipment and cars under various non-cancelable operating leases with third parties. The lease agreements with third parties expire at various dates through 2010. Jerini AG was required to provide cash collateral in the amount of TEUR 273 (prior year: TEUR 273), which is included in cash on the Company's consolidated balance sheets. Rent expense under these operating leases totaled TEUR 1,173 and TEUR 1,106 for the years ended December 31, 2007 and 2006, respectively.

Rental agreements for office space includes preset rent increase for which TEUR 92 had been deferred in prior years. An amount of TEUR 28 had been released to income in 2006 and TEUR 10 in 2007.

Future minimum payments under non-cancelable operating leases with initial terms exceeding one year at December 31, 2007, and in the aggregate, are as follows:

| in TEUR | 2008 | 2009 | 2010 | 2011 | 2012 | There- after | Total |
|---------------------|------|------|------|------|------|-----------------|-------|
| Operating Leases | 723 | 614 | 292 | 2 | – | – | 1,631 |

Prior year amounts disclosed were as follows:

| in TEUR | 2007 | 2008 | 2009 | 2010 | 2011 | There- after | Total |
|---------------------|-------|------|------|------|------|-----------------|-------|
| Operating Leases | 1,217 | 636 | 509 | 152 | – | – | 2,514 |

25. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise bank loans, cash money market funds, and short-term deposits. The main purpose of these financial instruments is to finance the Company's operations. The Company has various other financial instruments, such as trade debtors and trade creditors, as well as other current non-interest bearing assets, which arise directly from its operations.

The Company places its excess available funds during the year in money market funds seeking to ensure both liquidity and security of principal in accordance with Company policy. It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Company's financial instruments are foreign currency risk, credit risk and liquidity risk. Management reviews and agrees policies for managing each of these risks, as summarized below.

Credit risk

The Company's accounts receivables' are unsecured and the Company is at risk to the extent such amounts become uncollectible. The Company has historically not experienced substantial losses related to individual customers or groups of customers.

During the year ended December 31, 2007, the Company derived revenues from collaboration agreements of 50.0 percent, 13.4 percent and 10.2 percent from three collaboration partners and customers. At December 31, 2007, there was an amount of TEUR 137 outstanding from these three customers.

During the year ended December 31, 2006, the Company derived revenues from product sales and collaboration agreements of 44.5 percent and 14.5 percent from two collaboration partners and customers. At December 31, 2006, no amount was outstanding from these two customers.

Foreign currency risk

As a result of increasing business activities with the United States, the Company's balance sheet can be affected significantly by movements in the USD/EUR exchange rates. A limited number of transactions denominated in foreign currency have been hedged so far to minimize a foreign currency risk. These transactions are generally short term in nature, thus the Company's exposure to currency risk is immaterial.

The following table demonstrates the sensitivity to a reasonably possible change in the USD exchange rate, with all other variables held constant, of the Group's profit before tax.

| in TEUR | Increase/decrease in USD rate | Effect on profit before tax |
|---------|-------------------------------|-----------------------------|
| 2007 | + 10% | 10 |
| | - 10% | -20 |
| 2006 | + 10% | 6 |
| | - 10% | -14 |

Liquidity risk

The Group monitors its risk to a shortage of funds using a cash forecast. This tool considers the maturity of both its financial investments and financial assets (eg accounts receivables, other financial assets) and projected cash flows from operations-

Derivative Financial Instruments

As part of a sale of shares in a subsidiary conditional rights and obligations were negotiated that are treated as embedded derivatives pursuant to IAS 39.10. The derivative is a repurchase option for the shares sold as well as a restricted anti-dilution clause for the new minority shareholder. It is disclosed as "financial assets/liabilities" with a value of EUR 0.00. No premium was paid or received for any of the derivatives for which a fair value can not be determined reliably according to IAS 39.46 in connection with IAS 39 AG80 and AG81 and in connection with IAS 39.13.

Under the agreement Jerini is entitled to repurchase the issued shares if certain condition occur. Potential transaction volumes have already been agreed for the life of the repurchase option. The agreement is limited in time and is considered a call option that vests upon occurrence of a condition precedent. As this condition was not precedent as of December 31, 2007 no disclosure was made in the financial statements. The minority shareholder is entitled to receive further restricted shares or stock options under at the occurrence of certain events. The anti-dilution right of the minority shareholder is limited by the volume of future capital increases.

The table below summarises the maturity profile of the Group's financial liabilities at December 31, 2007 based on contractual undiscounted payments.

| Year ended December 31, 2007 in TEUR | On demand | Less than 3 months | 3 to 12 months | 1 to 5 years | > 5 years | Total |
|--|--------------|-----------------------|-------------------|-----------------|--------------|-------|
| Trade accounts payable and other liabilities | – | 5,025 | 4,586 | 33 | – | 9,644 |
| Bank loans | – | 51 | 154 | 108 | – | 313 |
| | – | 5,076 | 4,740 | 141 | – | 9,957 |

| Year ended December 31, 2006 in TEUR | On demand | Less than 3 months | 3 to 12 months | 1 to 5 years | > 5 years | Total |
|--|--------------|-----------------------|-------------------|-----------------|--------------|-------|
| Trade accounts payable and other liabilities | – | 3,797 | 2,208 | 56 | – | 6,061 |
| Bank loans | – | 51 | 473 | 542 | – | 1,066 |
| | – | 3,848 | 2,681 | 598 | – | 7,127 |

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business.

| in TEUR | 2007 | December 31 2006 |
|-------------------|--------|---------------------|
| Equity | 32,495 | 60,836 |
| Total capital | 45,771 | 76,040 |
| Equity ratio in % | 70.99 | 80.01 |

The main focus of Jerini is on liquidity risk, not on capital management.

Fair values

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments.

| in TEUR | Carrying amount | | Fair Value | |
|---|-----------------|--------|------------|--------|
| | 2007 | 2006 | 2007 | 2006 |
| Financial assets | | | | |
| Trade accounts receivable (loans and receivables) | 837 | 1,078 | 837 | 1,078 |
| Other financial assets (loans and receivables) | 191 | 134 | 191 | 134 |
| Cash and cash equivalents (loans and receivables) | 38,180 | 66,884 | 38,180 | 66,884 |
| Financial liabilities | | | | |
| Floating rate borrowings (financial liabilities at amortized costs) | 300 | 1,000 | 300 | 1,001 |
| Trade accounts payable and other liabilities (financial liabilities at amortized costs) | 9,642 | 6,059 | 9,642 | 6,059 |

The net book value approximates the fair value of the floating rate borrowings. The net present value exceeded the net book value by TEUR 1 in the prior year.

Net Gains and Losses

The following table shows net gains and losses of financial instruments recognized in the financial statements:

| in TEUR | 2007 | 2006 |
|-----------------------|-------|-------|
| Loans and receivables | 2,106 | 2,198 |
| Financial liabilities | -79 | -83 |

26. Related Parties and Total Remuneration of the Management and Supervisory Board

Apart from the board members listed in note 29, there are no further related parties.

Total Remuneration of Members of the Management Board

Total remuneration of members of the Management Board is comprised of fixed remuneration and performance-based remuneration. Performance-based remuneration is based on various criteria, such as grade of fulfillment of individual goals and performance goals of the Company. Performance-based remuneration is subject to approval of the Supervisory Board after year end.

Remuneration received by management during the year ended December 31, 2007 was as follows:

| Name | Fixed remuneration in TEUR | Other fixed remuneration in TEUR | Performance-based remuneration in TEUR |
|-----------------------------------|----------------------------|----------------------------------|--|
| Prof. Dr. Jens Schneider-Mergener | 235 | 36 | 118 |
| Dr. Jochen Knolle | 225 | 34 | 113 |
| Dr. Adi Hoess | 203 | 31 | 102 |
| Berndt Modig | 203 | 35 | 102 |

The Company makes payments of an average amount of EUR 1,500.00 out of each Management Board member's gross salary to relief and pension funds (Unterstützungs- und Pensionskassen). In addition, the Company makes contributions into a direct insurance policy for two members of the Management Board, up to the maximum amount allowed under section 40b of the German Income Tax Act (Einkommensteuergesetz).

Total short-term remuneration received by members of management amounted to TEUR 1,321 (prior year TEUR 1,192) during the year ended December 31, 2007.

Remuneration with long-term incentives

Management participated in the year ended December 31, 2006 in stock option programs.

| Name | Options granted in 2006 | | Options held as of Dec. 31, 2007 Number |
|-----------------------------------|-------------------------|----------------------------------|---|
| | Number | Fair value at grant date in TEUR | |
| Prof. Dr. Jens Schneider-Mergener | 250,000 | 315 | 531,750 |
| Dr. Jochen Knolle | 250,000 | 315 | 789,532 |
| Dr. Adi Hoess | 250,000 | 315 | 541,750 |
| Berndt Modig | 250,000 | 315 | 511,342 |

No options were granted in 2007. Dr. Jochen Knolle was awarded a stock option grant of 300,000 options in January 2008 by under the Jerini Ophthalmic, Inc. stock option plan. The fair value of the options as of the grant date was TUSD 213 (TEUR 149). Compensation expense for stock options granted to management amounted to TEUR 630 and TEUR 833 for the years ended December 31, 2007 and 2006, respectively.

Total Remuneration of the Supervisory Board

Total remuneration of the members of the Supervisory Board amounted to TEUR 190 during the year ended December 31, 2007 (prior year TEUR 75). Members of the Supervisory Board were reimbursed for traveling expenses totaling TEUR 17 (prior year: TEUR 21).

**Advance payments to members of the Management Board and
the Supervisory Board as well as contingent liabilities favoring members of the
Management Board and the Supervisory Board**

Members of the Management Board occasionally received advance payments for traveling expenses in the due course of the business. All amounts have been repaid during the year or had been used in full. The Company has a contingent liability in favor of one of the members in the amount of TEUR 2 related to a rental security.

Contingent liabilities in favor of members of the Supervisory Board did not exist as of or in the period ended December 31, 2007. Members of the Scientific Advisory Board did not receive any amounts, advances or loans during the year. No contingent liabilities exist with regard to these individuals.

27. Subsequent Events

On January 1, 2008 Jerini AG signed a research collaboration agreement with Baxter AG to develop a novel synthetic molecule for use in affinity purification of a therapeutic protein. With the signing of the contract a non refundable upfront payment of TEUR 100 was received from Baxter.

No other events took place after the balance sheet date that have a significant effect on the Company's net assets, financial position, or results of operations, and that would either need to be included in this report or change the statements made in the financial statements.

**28. Additional Information provided pursuant to Sec. 315a
of the German Commercial Code (HGB)**

Employees

Average number of employees during the year ended December 31, 2007:

| | JPH | JPT | Total |
|----------------------|-----|-----|-------|
| Employees | 123 | 30 | 153 |
| Temporary assistants | 11 | 8 | 19 |
| | 134 | 38 | 172 |

Report pursuant to Sec. 161 of the German Stock Corporation Code (AktG)
regarding the Corporate-Governance-Code

The Company has published the report pursuant to Sec. 161 German Stock Corporation Code (AktG).

Auditors fees

| in TEUR | 2007 |
|----------------------------|------|
| Statutory audit | 107 |
| Other attestation services | 97 |
| Tax advisory services | – |
| Other services | – |
| | 204 |

29. Boards of the Company and Registered Office

Supervisory Board

Dr. Karl-Gerhard Seifert

Chairman of the Supervisory Board since February 2001

Member of the Supervisory Board of

- AllessaChemie GmbH, Frankfurt/Main, Germany (Chairman)
- Messer Group GmbH, Sulzbach, Germany
- Athenix Corp., Durham, NC, USA
- TFL International GmbH, Weil a.R., Germany
- SpePharm Holding BV, Amsterdam, Niederlande

Member of the Advisory Board of

- Deutsche Bank AG, Frankfurt, Germany
- Conduit Ventures Ltd., London, UK

Dr. Hubert Birner

Member of the Supervisory Board since October 2001

General Partner, TVM Capital GmbH, Munich, Germany

Member of the Supervisory Board of

- Direvo Biotech AG, Cologne, Germany
- Argos Therapeutics, Inc.,

Durham, NC, USA

- Evotec OAI AG, Hamburg, Germany
- Spepharm Holding BV, Amsterdam, Netherlands
- BioXell SA, Mailand, Italy
- Proteon Therapeutics, Waltham, MA, USA

Dr. Stephan Goetz

Member of the Supervisory Board since February 2001

Managing Director goetzpartners Corporate Finance GmbH, Munich, Germany

Zsolt Lavotha

Member of the Supervisory Board since June 30, 2006

President and CEO of Orexo AB, Uppsala, Sweden (until November 2007), Senior advisor to the management board of Orexo AB

Member of the Supervisory Board of

- Pantarhei Bioscience BV, Netherlands

Dr. Björn Odlander

Member of the Supervisory Board
since June 2004

Managing Director HealthCap, Stockholm,
Sweden

President and Director of Odlander,
Fredrikson & Co AB, Stockholm, Sweden

President und Director OFF V Advisor AB,
Stockholm, Sweden

Chairman

- HealthCap AB, Sweden
- HealthCap 1999 GP AB, Sweden
- HealthCap IV GP AB, Sweden
- HealthCap Annex Fund I-II GP AB,
Sweden
- HealthCap III Sidefund GP AB,
Sweden
- HealthCap AEROC Holding AB,
Sweden
- HealthCap 1999 ORX Holding AB,
Sweden
- HealthCap Gbr ORX Holding AB,
Sweden
- HealthCap Sidefund ORX Holding AB,
Sweden
- HealthCap XC Holding AB, Sweden

Member of the Supervisory Board of

- Affibody Holding AB, Bromma,
Sweden
- Bone Support AB, Lund, Sweden
- Cardoz AB, Stockholm, Sweden
- CC10 Sweden AB, Stockholm,
Sweden
- Faucon AB, Stockholm, Sweden
(deputy chairman)
- Hydragyr AB, Stockholm, Sweden
- LTB4 Sweden AB, Stockholm,
Sweden
- OxThera AB, Uppsala, Sweden
- Ultrazonix Holding AB, Lund,
Sweden

Prof. Dr. Dr. h.c. Günter Stock

Member of the Supervisory Board
since June 30, 2006

President of the Berlin-Brandenburg
Academy of Sciences

Member of the Supervisory Board of

- Central European University,
Budapest, Hungary
- Charité – University hospital Berlin,
Germany
- University hospital Würzburg, Germany
- Biomedical Research-campus
Berlin-Buch, Germany

Committees of the Supervisory Board of Jerini

General Committee

Dr. Karl-Gerhard Seifert (Chairman)
Dr. Hubert Birner
Dr. Stephan Goetz

Audit Committee

Dr. Hubert Birner (Chairman)
Dr. Karl-Gerhard Seifert
Zsolt Lavotha

Nomination Committee

Dr. Stephan Goetz (Chairman)
Dr. Hubert Birner
Dr. Björn Odlander

Management Board

Prof. Dr. Jens Schneider-Mergener,
Chemistry graduate
Chief Executive Officer

Dr. Jochen Knolle, Chemistry graduate,
Chief Scientific Officer
& Head of R&D

Dr. Adi Hoess, Chemistry graduate,
Chief Commercial Development Officer

Berndt Modig, MBA, CPA
Chief Financial Officer

Members of management do not sit on any Supervisory Boards pursuant to statutory regulations or similar boards with power to supervise companies.

Registered Office and Name of the Parent Company

Jerini AG
Invalidenstraße 130, 10115 Berlin
Germany
Trade register at the local court of Berlin-Charlottenburg: HRB 79648 B

REPORT OF INDEPENDENT AUDITORS

We have audited the consolidated financial statements prepared by the Jerini Aktiengesellschaft, Berlin, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1, to December 31, 2007. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a para. (Abs.) 1 HGB are the responsibility of the company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW: Institut der Wirtschaftsprüfer). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a para. (Abs.) 1 HGB give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Without qualifying our opinion, we make reference to the section "Outlook" in the group management report stating that in the event of a positive regulatory approval decision, there would be further need for additional funding. Jerini is currently evaluating several alternatives for funding and also conducting discussions to secure funding of operations. Management is of the opinion that as of year-end 2008, available financing is expected to be sufficient, allowing Jerini to continue as a going concern.

Berlin, March 17, 2008

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Schepers
German Public Auditor
(Wirtschaftsprüfer)

Stander
German Public Auditor
(Wirtschaftsprüfer)

SUPERVISORY BOARD REPORT

Dear Shareholders,

Jerini made significant progress in 2007, achieving two regulatory milestones for Icatibant in the treatment of hereditary angioedema (HAE). The acceptance of the company's Marketing Authorization Application by the European Medicines Agency (EMA) as well as its New Drug Application by the US Food and Drug Administration (FDA) represented key advancements. In addition, the EMA and the FDA granted accelerated assessment and Priority Review, respectively, procedures designed to ensure shortened regulatory review periods for drug candidates addressing major public health interest and therapeutic innovation. For the planned 2008 European and North American market launches, Jerini's marketing and sales teams have intensified their preparations in both regions and continue to focus on strengthening the company's ties with patient organizations, key opinion leaders, and HAE-treating physicians. Jerini continues its targeted pre-marketing efforts to raise awareness, among patients and medical professionals, of Icatibant, HAE, and bradykinin as its key mediator.

With the start of a Phase I trial in age-related macular degeneration (AMD), Jerini Ophthalmic, Inc. has advanced Jerini's promising drug candidate JSM 6427 to patients and expects to report trial results in the second half of 2008. Furthermore, continued advancement of its product pipeline will enable the company to generate further company value. If approved, Jerini plans to launch Icatibant for the treatment of HAE in both Europe and the United States, bringing the company to a new level in its development.

Rules of Procedure and Committees of the Supervisory Board

In accordance with its internal rules of procedure from September 19, 2007, the Supervisory Board has established a General Committee, an Audit Committee and a Nomination Committee.

The General Committee coordinates the work of the Supervisory Board, organizes its meetings and, in particular, prepares the Supervisory Board's decisions regarding the appointment, employment contracts, and bonus payments of Management Board members. However, the Supervisory Board makes the final decisions regarding these matters. The current members of the General Committee are Dr. Karl-Gerhard Seifert who, in his



Dr. Karl-Gerhard Seifert,
Chairman of the
Supervisory Board

function as Supervisory Board Chairman, also acts as Chairman of the General Committee, Dr. Hubert Birner, and Dr. Stephan Goetz. The General Committee held a meeting on December 12, 2007 as well as conference calls on March 20, and July 18, 2007. The General Committee discussed and reviewed, in particular, bonuses, a salary increase, and regulations regarding change-of-control compensation for the Management Board, and the issuance of stock options according to the Stock Option Plan 2006-I.

The Audit Committee prepares, inter alia, Supervisory Board decisions regarding approval of the annual financial statements, the consolidated financial statements, and the engagement and fees of the company's auditors. Further, the Audit Committee supports the Supervisory Board in monitoring the Management Board and addressing risk management and compliance issues. The members of the Audit Committee are Dr. Hubert Birner (Chairman of the Audit Committee), Dr. Karl-Gerhard Seifert, and Mr. Zsolt Lavotha. The Audit Committee held meetings on March 21 and December 12, 2007 and telephone conferences on March 19, May 11, August 10, as well as on November 13, 2007. The Audit Committee discussed and reviewed, in particular, the annual and consolidated financial statements for 2006, the financial reporting for 2007, and the selection of auditors.

The Nomination Committee is responsible for proposing suitable candidates to the Supervisory Board for recommendation to the shareholders. Members of the Nomination Committee are Dr. Stephan Goetz (Chairman), Dr. Björn Odlander, and Dr. Hubert Birner. In 2007, no meetings were held by the Nomination Committee.

Supervisory Board Meetings and Conference Calls

In 2007, the Supervisory Board held a total of four regular meetings, which took place in Berlin on the following dates: March 21, June 13, September 19, and December 12. The Supervisory Board held telephone conferences on January 30, July 23, November 14, and December 20. All Supervisory Board meetings had a quorum; no member took part in fewer than half of the meetings. The Management Board participated in all meetings.

The Supervisory Board performed the functions in accordance with the applicable laws, articles of association, German Corporate Governance Code, and its internal rules of procedure. The most important sources of information for the Supervisory Board were regular reports by the Management Board (with accompanying documents), especially in preparation for Supervisory Board meetings and conference calls, along with direct exchanges of information during Supervisory Board meetings and conference calls. In addition to meetings and conference calls, there were several discussions among members of the Supervisory Board and between Supervisory and Management Board members, especially with the Chief Executive Officer and the Chief Financial Officer.

Ongoing Supervision and Core Advising Areas

The Supervisory Board oversaw the activities of the Management Board and advised it on strategic and other important issues. The Management Board provided regular oral and written information to the Supervisory Board both at and in preparation for its meetings in the following areas: intended business policy, corporate planning including deviations from previously reported goals, the general and financial state of the company, the business operations, the company's financial results and substantial business developments, and important investment, operational, and liquidity transactions. On other important issues, the Chairman of the Supervisory Board and other Supervisory Board members received information through written reports and conference calls. The Supervisory Board examined

the activities of the Management Board through oral and written questions to the Management Board and through an examination of the written documents submitted by the Management Board. The document review took place in preparation for and during the Supervisory Board meetings and conference calls.

In its second year as a public company, the Supervisory Board's discussions focused chiefly on the company's research and business development, commercial and regulatory matters, corporate governance, and a range of general business topics. Business development discussions dealt with the expansion of collaborations with existing partners as well as Jerini's continued interest in potential new business associations. Marketing and regulatory discussions centered on the marketing of Icatibant in Europe and, in particular, in the US in light of Jerini's re-acquisition of commercialization rights to Icatibant in HAE in North America. General business meetings held throughout the year also served to keep the Supervisory Board informed of the progress of Jerini's other research and development programs and those matters relating to overall business activities. Corporate Governance discussions focused, *inter alia*, on the establishment of a Nomination Committee. Recommendations made by the Supervisory Board were discussed extensively with the Management Board.

Special Management Board reports as outlined in § 90 para. 3 of the German Stock Corporation Act (AktG) or separate inspections of the books and records were not required by the Supervisory Board in 2007. For Management Board decisions requiring Supervisory Board approval, the Supervisory Board examined the proposals and corresponding documents. All 13 decisions presented in 2007 requiring its approval were agreed to by the Supervisory Board. Those decisions included matters associated with the prior year's financial statements, approval of the agenda for the 2007 Annual Shareholders' Meeting, the issuance of stock options, the issuance of shares in satisfaction of advisor stock options, and the corporate and contractual structure of the marketing of Icatibant in Europe.

The Supervisory Board also discussed the extended recommendations of the German Corporate Governance Code and agreed that the company would continue to pursue the fullest possible observance of these recommendations.

Changes in the Composition of the Supervisory Board

In 2007, there were no changes in the composition of the Supervisory Board. Pursuant to the recommendation in number 5.3.3 of the German Corporate Governance Code in its version as of June 14, 2007, a Nomination Committee was created. Dr. Stephan Goetz was elected Chairman, Dr. Björn Odlander and Dr. Hubert Birner were elected members of the committee.

The term of the Supervisory Board's current members will conclude at the General Shareholders' Meeting in 2011, which will decide on the exoneration for the financial year 2010. As seats become free, the Supervisory Board intends, in accordance with the German Corporate Governance Code, to propose independent Supervisory Board members for election.

Corporate Governance

Jerini AG is steadfastly committed to good corporate governance. The Supervisory Board examines the effectiveness of its activities on an annual basis. There were no conflicts of interest involving individual Supervisory Board members in 2007. An overview of all mandates involving members of the Supervisory Board outside of their duties at Jerini AG can be found on pages 145 ff. of the Annual Report. For more information on corporate governance, Directors' Dealings, and independence of Supervisory Board members, please refer to pages 160 ff. of the Corporate Governance Report. This report also contains information on Supervisory Board compensation.

2007 Annual Financial Statements and Consolidated Financial Statements

At the General Shareholders' Meeting on June 13, 2007, Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft was elected as the auditing firm for the 2007 business year. The auditing appointment for the annual financial statements, the consolidated financial statements, and the management and group management reports was made by the Supervisory Board on October 1, 2007 and provided, inter alia, for the following audit priorities: clinical expenses and accrued liabilities, revenue recognition, consolidation of US entities, financial statement closing process, and the payment cycle. The annual financial statements, the consolidated financial statements, the management report, and the group management report were examined by the auditors and each was given an unqualified

opinion. The Audit Committee prepared the Supervisory Board's review of the 2007 annual and consolidated financial statements, the management and group report, and held a committee meeting on March 12, 2008 at which the auditors reported the audit results and answered questions. On March 12, 2008, the Audit Committee reported the results of its review to the Supervisory Board. The Supervisory Board, after examining the documents, discussed their content with the Management Board. The auditors were in attendance at the Supervisory Board's March 12, 2008 meeting to report on the audit results and answer questions. The Supervisory Board agreed with the audit results. After concluding, and pursuant to the results of its own examination, the Supervisory Board has no objections to the annual and consolidated financial statements and the management and group management reports. In its resolution dated March 25, 2008, the Supervisory Board approved the 2007 annual financial statements and the consolidated financial statements submitted by the Management Board. The 2007 annual financial statements are, therefore, established in accordance with § 172 of the German Stock Corporation Act (AktG). Due to the lack of annual profit, no proposal was to be made for its use. The net loss for the business year 2007 will be carried forward to the next business year.

The Supervisory Board wishes to thank the Management Board and all Jerini employees for their commitment and hard work in 2007.

Berlin, March 25, 2008



Dr. Karl-Gerhard Seifert
Chairman of the Supervisory Board

CORPORATE GOVERNANCE REPORT

Responsible corporate governance is an integral part of successful and transparent business management. Jerini's Management and Supervisory Boards are committed to the principles contained in the German Corporate Governance Code (last amended on June 14, 2007), namely, to support and encourage superior, trustworthy management in the interests of shareholders, employees, and clients. The underlying objective at Jerini is to continually increase the value of the company. The company has substantially adhered to the recommendations of the German Corporate Governance Code. In cases where certain recommendations have not been or will not be followed, the Management and Supervisory Boards of Jerini AG have accounted for and explained the exception in a declaration of conformity (Entsprechenserklärung) in accordance with §161 of the German Stock Corporation Act (AktG). Jerini's declaration of conformity can be found at the end of this report. The company's Supervisory Board also conducted an efficiency assessment, details of which can be found below.

Shareholders and Annual General Shareholders' Meeting

Information about important company dates, including the Annual General Shareholders' Meeting, is available to Jerini shareholders on the financial calendar published in the annual report and on the company's website. At the Annual General Shareholders' Meeting, shareholders have the opportunity to exercise their share voting rights either in person or through an authorized individual of their choice or company representatives. Further information on the voting process, along with the items on the agenda, will be published in a timely manner on Jerini's website. The company's next Annual General Shareholders' Meeting is scheduled to take place on June 26, 2008 in Berlin.

Cooperation Between the Management and Supervisory Boards

The Management and Supervisory Boards of Jerini AG continued to maintain close contact with each other in 2007. Communication between the respective chairmen of the Supervisory and Management Boards took place through weekly telephone calls. Four regular meetings were held, as well as various telephone and personal conversations. All Supervisory Board meetings took place in the presence of the Management Board. When necessary, the Supervisory Board withdrew for consultation without the Management Board. In the 2007 business year, Supervisory Board approval was sought on 13 transactions. The decisions reached by the Supervisory Board in each of these matters were positive. The Management Board reported to the Supervisory Board on a regular basis regarding its intended business approach and other fundamental questions of business planning. The Supervisory Board received information by the Management Board in a timely manner. The reporting obligations, along with the management actions subject to approval by the Supervisory Board, are detailed in the Management Board's rules of procedure.

Management Board

The Management Board conducts Jerini's business in compliance with all relevant laws, articles of association, and internal procedural guidelines. Furthermore, the Management Board, which acts as the company's representative to third parties, is responsible for ensuring a risk management system within the company to address potentially threatening developments at an early stage. The Management Board ensures that the law and the internal policies are abided by and works to achieve their compliance by group companies. Jerini AG's Management Board currently comprises four members including the Chairman of the Management Board. A list of the current members of the Management Board and their functions can be found on page 147. In 2007, no changes were made to the Management Board members' functions; nor were there any conflicts of interest. No member of the Management Board serves on a supervisory board or in a similar position outside of the Jerini group.

Compensation of the Management Board

Remuneration of Management Board members consists of a fixed amount, a variable amount, and stock-based compensation.

The fixed component consists of an annual salary, pension, and ancillary payments and considerations. The Supervisory Board has agreed to the annual salaries of the Management Board members, as of November 1, 2007, as follows:

| Name | Annual Salary in TEUR |
|-----------------------------------|-----------------------|
| Prof. Dr. Jens Schneider-Mergener | 260 |
| Dr. Jochen Knolle | 250 |
| Dr. Adi Hoess | 220 |
| Berndt Modig | 220 |

The company makes monthly payments of an average amount of EUR 1,500.00 from each Management Board member's gross salary to relief and pension funds (Unterstützungs- und Pensionskassen). For two members of the Management Board, the company makes an additional contribution into a direct insurance policy up to the maximum amount allowed under section 40b of the German Income Tax Act (Einkommensteuergesetz). Remuneration in kind, mainly relating to company cars, and premium payments for an occupational disability insurance policy, is also made.

The variable component consists of an annual bonus (Tantieme), granted through the discretion of the Supervisory Board, in relation to the preceding business year, of up to 50 percent of the annual salary, taking into account the manager's performance and company's results, financial condition, target achievement, and future prospects. The Supervisory Board

may, in its discretion, grant an additional bonus for the preceding business year, not to exceed 50 percent of the fixed annual salary and tantieme, if important milestones have been reached that lead to a significant increase of the company's stock price.

Management Board members have in the past received a further long-term incentive remuneration component in the form of stock options. No further stock options were issued in 2007.

Fixed and variable remuneration of Management Board members for the year ended December 31, 2007, is as follows:

| in TEUR | Fixed Remuneration | | Variable Remuneration* | Total Remuneration 2007* |
|-----------------------------------|--------------------|--------------------------|------------------------|--------------------------|
| Name | Annual Salary | Other Fixed Remuneration | Variable Remuneration | |
| Prof. Dr. Jens Schneider-Mergener | 235 | 36 | 88 | 359 |
| Dr. Jochen Knolle | 225 | 34 | 84 | 343 |
| Dr. Adi Hoess | 203 | 31 | 76 | 310 |
| Berndt Modig | 203 | 35 | 76 | 314 |

* A difference, if any, in the numbers in the Notes to the Consolidated Financial Statements would be due to the Supervisory Board's having made the final decision regarding the variable remuneration after the preparation of the Consolidated Financial Statements, however, before the approval of the Corporate Governance Report.

For further information regarding the stock options, see the description of the company's stock option plans below and refer to the Consolidated Financial Statements on pages 116 ff. and the Group Management Report on page 51 f.

Compensation in the Case of Termination – Non-Competition Clause

In the case of termination of a Management Board member's contract, the member is subject to a non-competition clause for two years after the contract's termination. During this period, the member is eligible to receive a maximum monthly compensation of up to 50 percent of the monthly average of the total fixed and variable remuneration, excluding any additional milestone bonus, received in the last full calendar year prior to termination.

If a Management Board member's employment ends due to a "Change of Control," the Management Board member in question is entitled to a payout of his/her earnings (annual salary plus *tantieme*) for the residual term of his/her employment contract up to a maximum of 3 years ("Change of Control" settlement). If the residual term of the employment contract is less than 2 years, the amount of the Change of Control settlement is based on annual salary plus *tantieme* for 2 years. The Change of Control settlement shall be reduced by 10 percent for purposes of discounting interest and setting off other income.

Supervisory Board

The Supervisory Board is responsible for appointing Management Board members in addition to advising the Management Board and monitoring its activities vis-à-vis the company's management. Jerini's Supervisory Board is currently made up of six members, none of whom is a former member of Jerini AG's Management Board. Further, the Supervisory Board has a General Committee (Präsidialausschuss), an Audit Committee (Prüfungsausschuss), and a Nomination Committee (Nominierungsausschuss).

The General Committee coordinates the work of the Supervisory Board, prepares its meetings and, in particular, its decisions regarding the appointment of Management Board members, their employment contracts and bonus payments. However, the Supervisory Board makes the final decisions regarding these matters.

The Audit Committee prepares Supervisory Board decisions regarding approval of the annual financial statements, the consolidated financial statements, and compensation of the company's auditors. Further, the Audit Committee supports the Supervisory Board in monitoring the Management Board and addressing risk management and compliance issues.

The Nomination Committee consists of shareholder representatives and is responsible for proposing potential candidates to the Supervisory Board for recommendation to the Shareholders.

In its own judgment, the Supervisory Board is made up of a sufficient number of independent members. Dr. Hubert Birner and Dr. Björn Odlander, current Supervisory Board members, are affiliated with venture capital investors in the pre-IPO financing rounds. No Supervisory Board member has a business or personal relationship with the company or its Management Board.

Compensation of the Supervisory Board

In accordance with § 12 of the company's articles of association, with respect to the business year 2007, each member of the Supervisory Board received the following remuneration, in addition to expense reimbursement: the Chairman received EUR 40,000, the Vice Chairman received EUR 30,000, and each of the four remaining members received EUR 20,000. Supervisory Board members who acted as a regular member of one or more committees received additional compensation of EUR 5,000 per committee, and Supervisory Board members acting as chairman of one or more committees received additional compensation of EUR 10,000 per committee.

Compensation for the individual Supervisory Board members was as follows:

- **Dr. Karl-Gerhard Seifert:** EUR 40,000 for the position of Chairman of the Supervisory Board, EUR 10,000 for the position of Chairman of the General Committee, EUR 5,000 as member of the Audit Committee
- **Dr. Hubert Birner:** EUR 30,000 for the position of Vice Chairman of the Supervisory Board, EUR 10,000 for the position of Chairman of the Audit Committee, EUR 5,000 as member of the General Committee
- **Dr. Stephan Goetz:** : EUR 20,000 as member of the Supervisory Board, EUR 5,000 as member of the General Committee
- **Dr. Björn Odlander:** EUR 20,000 as member of the Supervisory Board
- **Zsolt Lavotha:** EUR 20,000 as member of the Supervisory Board, EUR 5,000 as member of the Audit Committee
- **Prof. Dr. Dr. h.c. Günter Stock:** EUR 20,000 as member of the Supervisory Board.

Supervisory Board compensation does not contain any variable components, and members received no compensation for personal services such as providing consultations or acting as intermediaries.

Efficiency Assessment of the Supervisory Board

The Supervisory Board performed an efficiency assessment using a detailed questionnaire completed by its members. All Supervisory Board members took part in the assessment, in which the number and composition of committees, and the cooperation between the individual members of the Supervisory Board and the Management Board scored highly. The Supervisory Board came to the unanimous decision that the cooperation meets the highest standards of efficiency and trustworthiness. Proposals for improvement were discussed by the entire Supervisory Board and will be implemented accordingly. The Supervisory Board intends to assess its efficiency on an annual basis.

Transparency

In accordance with legal provisions, the company is obliged to disclose insider information. Four ad-hoc announcements were published in the 2007 financial year.

As soon as the company was informed that an individual acquired, exceeded, or fell below 3, 5, 10, 15, 20, 25, 30, 50, or 75 percent of the voting rights in the company, it published this information and submitted a record of publication of this information to the German Federal Financial Supervisory Authority (BaFin).

In accordance with § 15a of the Securities Trading Act (WpHG), the company is required to publish reports about transactions (Directors' Dealings) with Jerini AG shares (ISIN: DE0006787476) or relevant financial instruments of persons in leading positions of the company (Führungspersonen) or in a close relationship with persons in these positions. Two such transactions were reported in the 2007 financial year: the purchase of 80,000 shares by Supervisory Board member Dr. Stephan Goetz, and the purchase of 3,000 shares by Chairman of the Supervisory Board, Dr Karl-Gerhard Seifert. Further details of these transactions have been published on the company's website.

As of December 31, 2007, Professor Dr. Jens Schneider-Mergener, Chairman of the Management Board, owns 2,126,409 shares in the company (corresponding to 4.05 percent of all shares issued); Dr. Karl-Gerhard Seifert, Chairman of the Supervisory Board, owns 3,000 shares; and Dr. Stephan Goetz, member of the Supervisory Board, owns 1,737,903 shares (corresponding to a current value of 3.31 percent of all shares issued).

As of December 31, 2007, Management Board members held the following shares and stock options in Jerini AG:

| Name | Number of shares | Number of stock options |
|-----------------------------------|------------------|-------------------------|
| Prof. Dr. Jens Schneider-Mergener | 2,126,409 | 531,750 |
| Dr. Jochen Knolle | 0 | 789,532 |
| Dr. Adi Hoess | 0 | 541,750 |
| Berndt Modig | 0 | 511,342 |

Stock Option Plans

Jerini has issued a variety of stock option plans designed to allow its employees, Management Board members, and its affiliates' employees and managers to participate in the long-term success of the company. A more detailed description of the company's stock option plans is contained in note 16 of the Consolidated Financial Statements.

Overview of Stock Options Outstanding as of December 31, 2007

| | Number of shares held by the Management Board | Number of options held by employees of the company and employees and managers of affiliates |
|----------------------------------|---|---|
| Stock Option Plan 2002/2003 | 593,451.00 | 214,129.00 |
| Strike Price: EUR 2.10 | 474,676.00 | 133,700.00 |
| Strike Price: EUR 3.16 | – | 35,331.00 |
| Strike Price: EUR 3.32 | 118,775.00 | 45,098.00 |
| Stock Option Plan 2005-I | 780,923.00 | 330,941.00 |
| Strike Price: EUR 1.00 | 780,923.00 | 330,941.00 |
| Stock Option Plan 2005-II | – | 144,536.00 |
| Strike Price: EUR 1.00 | – | 88,653.00 |
| Strike Price: EUR 3.20 | – | 55,883.00 |
| Stock Option Plan 2006-I | 1,000,000.00 | 347,320.00 |
| Strike Price: EUR 4.72 | 1,000,000.00 | 119,961.00 |
| Strike Price: EUR 3.68 | – | 219,859.00 |
| Strike Price: EUR 4.03 | – | 7,500.00 |
| Total | 2,374,374.00 | 1,036,926.00 |
| Vested | 1,374,374.00 | 538,562.00 |
| Exercisable | 1,374,374.00 | 479,986.00 |
| Total Options Outstanding | | 3,411,300.00 |

Further information, also on the value of stock options, is available on pages 118 ff. of the annual financial statements and on the company's website.

Financial Reporting

Jerini's consolidated financial statements are in compliance with the principles of the International Financial Reporting Standards (IFRS). In accordance with the recommendations of the German Corporate Governance Code, the company's annual financial statements and its consolidated financial statements will be published within 90 days of the end of the financial year. The quarterly reports will be published within 45 days of the end of each quarter.

Auditing

A resolution passed at the Annual General Shareholders' Meeting on June 13, 2007 elected Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft as the company's auditor for the 2007 financial year. The appointment of Ernst & Young AG was made by the Supervisory Board on October 1, 2007. The auditors report the results of the audit directly to the Supervisory Board.

Declaration of Jerini AG's Management and Supervisory Boards on Recommendations of the Government Commission German Corporate Governance Code according to § 161 of the German Stock Corporation Act (AktG)

The Management Board and the Supervisory Board of Jerini AG hereby announce that the company has substantially adhered and intends to substantially adhere to the recommendations made by the "Government Commission German Corporate Governance Code" and published by the Federal Ministry of Justice in the official section of the electronic edition of the Federal Gazette. The only recommendations that were and will not be adhered to are set forth in the following. With respect to the time period from March 2007 through July 19, 2007 this announcement refers to the German Corporate Governance Code in its version as of June 12, 2006, published in the electronic Federal Gazette on July 24, 2006. For the time period beginning on July 20, 2007 the announcement refers to the German Corporate Governance Code in its version as of June 14, 2007, published in the electronic Federal Gazette on July 20, 2007.

Deductible as Part of D&O Insurance (Number 3.8 para. 2)

The Directors & Officers (D&O) Insurance provided by Jerini AG to members of its Management and Supervisory Boards does not include insurance protection for deliberate actions and omissions or intentional dereliction of duty. Insurance protection is granted only for breaches of duty resulting from the negligence on the part of Management and Supervisory

Board members. There is no deductible as it is not, in our view, a necessary precondition for responsible business practices. Rather, we believe that responsible business practices reflect a basic, self-evident principle of the behavior of each member of the Management and Supervisory Boards. Moreover, given that deductibles are uncommon internationally, it would also run contrary to Jerini AG's efforts to attract outstanding businessmen and businesswomen from Germany and abroad to serve on its Supervisory Board.

Basic Principles and Variable Components of the Compensation System (Number 4.2.3 para. 3)

Stock options given to Management Board members are not related to any relevant comparison parameters. Existing stock option plans may be changed retroactively with respect to performance targets. No cap has been agreed upon in the case of extraordinary and unforeseen developments. It is doubtful that a reference to comparison parameters is suitable when seeking to increase the incentive effect on Management Board members. Considering the structure of our existing stock options plans, a cap does not appear necessary. We do not plan any subsequent change in the performance targets.

Age Limit for Members of the Management Board (Number 5.1.2 para. 2)

An age limit for members of the Management Board has not been specified. In our opinion, age is an unproductive criterion for the qualification and suitability of Management Board members, and it would unnecessarily limit the Supervisory Board's search for qualified, experienced Management Board members.

Basic Principles of the Supervisory Board Compensation (Number 5.4.7 para. 2)

Supervisory Board members do not receive performance-related compensation. At this time, establishing performance-related compensation would result in considerable juridical uncertainty due to the difficulties associated with defining success criteria. In addition, considering the current composition of the Supervisory Board, the question of whether performance-related compensation would create an additional incentive is debatable. If necessary, performance-oriented compensation will be considered at a future Annual General Shareholders' Meeting.

Berlin, Germany – March 2008

The Management Board

The Supervisory Board

FINANCIAL CALENDAR 2008

March 27, 2008

Announcement on Annual Account 2007
Publication Annual Report 2007

May 15, 2008

Announcement Quarterly Report QI 2008

June 26, 2008

General Shareholders' Meeting in Berlin, 10:00 CET

August 14, 2008

Announcement Half Year Financial Report 2008

November 10–12, 2008

Analyst Conference
held as part of the German Eigenkapitalforum – Frankfurt a. M.

November 14, 2008

Announcement Quarterly Report QIII 2008

IMPRINT

Publisher

Jerini AG
Invalidenstraße 130
10115 Berlin
Germany
Phone +49-30-978 93-0
Fax +49-30-978 93-105
Email: info@jerini.com
www.jerini.com

Editor

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Concept and Design

IR-One AG & Co., Hamburg
www.ir-1.com

Photography

Peter Hundert Photography, Hamburg and New York

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