



Gilles Gagnon, MSc, MBA
President & CEO

Eric Dupont, PhD
Executive Chairman of the Board

MESSAGE TO SHAREHOLDERS

In 2006, the progress of our lead drug candidates through advanced clinical trials and the spin-off of our subsidiary Atrium Biotechnologies enabled us to successfully achieve our goal of emerging as a late-stage, pure play biopharmaceutical company. Reaching this milestone in our evolution represents a fulfillment of both our drug development and corporate strategies that we have tediously executed for many years.

Driven by positive clinical results, we are aggressively moving two product candidates through late-stage trials. In early clinical and preclinical development, we are targeting several extremely promising compounds with high future potential. In our library of 120,000 proprietary molecules resides the currency of a fruitful pipeline for many years to come. In addition, and perhaps most critically, the members of Æterna Zentaris' management have collectively participated during their careers in the development and launch of over twenty drugs; this resource of talent powerfully distinguishes the Company in a marketplace that rewards depth of experience.

UNLOCKING THE FULL VALUE OF THE COMPANY

While very encouraging data resulted from our clinical trials in 2006, conditions grew increasingly ripe for Æterna Zentaris to become a pure play company. Accordingly, in October of 2006, we sold 24% of our equity in our subsidiary, Atrium Biotechnologies, raising nearly \$45 million through a secondary offering. Subsequent to year end, the Company distributed the remainder of our equity in Atrium to Æterna Zentaris shareholders as a return on their investment – with that, we emerged as a pure play biopharmaceutical company.

Since 1991 our ownership of Atrium – a leading developer, manufacturer and marketer of value-added products for the cosmetics, pharmaceutical, chemical and nutrition industries – had served us well as a strong financial leverage. With our pipeline carrying us closer to major breakthroughs, the route that promises optimal benefit became clear. By divesting our stake in Atrium, we began unlocking the full value of our pipeline. Æterna Zentaris is now devoted exclusively to discovering, developing and marketing biopharmaceutical products with a focus on endocrine therapy and oncology.

DELIVERING CLINICAL RESULTS

CETRORELIX

In 2006, our flagship product candidate, cetorelix, reached a pivotal evolutionary milestone in the history of Æterna Zentaris. After a successful end-of-Phase 2 meeting with the FDA, we received approval to file for a Phase 3 program targeting benign prostatic hyperplasia (BPH) and as we closed the year, we initiated the first study of this extensive Phase 3 program.

The launch of our extensive 1,500 patient Phase 3 program in BPH with cetorelix brings us yet another step closer to bringing this compound to market. Importantly, we have all of the resources to advance cetorelix in BPH on our own through to an NDA submission. We are very excited about the fact that cetorelix has not only the potential to conveniently, safely and effectively treat men who suffer from BPH, but also create tremendous value to our shareholders. The global commercial opportunity in treating BPH cannot be overstated as it represents a market that exceeds \$4 billion.

Furthermore, we achieved another milestone by launching cetorelix - under the brandname Cetrotide® - on the Japanese market through our partner Shionogi for *in vitro* fertilization. Cetrotide®, the first LHRH antagonist to be marketed in Japan for this indication, has been on the market since 1999. Again, this demonstrates our capacity to bring therapies to market for conditions affecting millions of people.

OZARELIX

Clinical trial results over the past year for our second LHRH antagonist lead compound, ozarelix, have been similarly exciting and could have a very significant commercial outcome.

In October, with our partner Spectrum Pharmaceuticals, we disclosed highly statistically significant Phase 2 results evidencing the alleviation of BPH clinical symptoms. Ozarelix also showed an excellent safety profile with no serious side effects. Following these positive results, we expanded the program to a Phase 2b trial. With both cetorelix and ozarelix in late-stage clinical trials, we are now leading the LHRH antagonist class in the development of treatments for BPH.

In August, we announced positive Phase 2 results for this fourth generation LHRH antagonist in hormone-dependent, inoperable prostate cancer. The trial was conducted in Europe again in collaboration with Spectrum. The results confirmed the mechanism of action of our LHRH antagonist approach, showed that ozarelix provides a unique and rapid onset of action, and demonstrated that ozarelix holds promise for the treatment of other hormonal-dependent cancers. We then expanded the program in prostate cancer to a Phase 2b trial to further verify and optimize our findings, and expect results from this trial in 2007.

Further validation of the potential of ozarelix in cancer came with a licensing and collaboration agreement with Nippon Kayaku, our Japanese partner. We granted Nippon Kayaku the exclusive rights to develop and commercialize ozarelix for oncology indications in Japan.

PERIFOSINE

Our third promising compound, perifosine, has shown positive Phase 1 and Phase 2 data for the treatment of patients suffering from different forms of cancer. Along with our partner Keryx Biopharmaceuticals, we are pursuing multiple Phase 2 trials in cancer with perifosine as a single agent or in combination with other treatments for which results will be disclosed throughout the year. Additional Phase 2 trials in cancer are planned over the next twelve months. Furthermore, we expect to complete enrollment of patients for our own Phase 2 trial with perifosine in non-small cell lung cancer in combination with radiotherapy in the upcoming months. The year ahead could contain some very exciting announcements from these trials as perifosine's unique mechanism of action allows for a number of anti-cancer treatment opportunities in monotherapy as well as in combination therapy.

TARGETING EARLIER-STAGE COMPOUNDS WITH HIGH POTENTIAL

Our drug development strategy is also aimed at establishing a risk-adverse profile by targeting earlier-stage programs with high potential. In line with this strategy, we reported top line positive Phase 1 results with our LHRH specific cytotoxic conjugate, AN-152, for ovarian, breast and endometrial cancers. These results obtained with this novel approach lend further credibility to our very promising oncology platform while also enabling our Company to step into the era of personalized medicine. Indeed, by targeting patients suffering from ovarian and endometrial cancers with confirmed presence of LHRH receptors, we are increasing the probabilities of bringing AN-152 specifically to the tumor, therefore increasing our chances of success for our Phase 2 program which we expect to launch later this year in these indications. We also initiated a Phase 1 trial for solid tumors with ZEN-012, a new small molecule. We believe this oral compound has the potential to be a novel, promising multi-targeted intermittent cancer therapy and look forward to further developments in the clinic this year.

MOVING FORWARD AS A LATE-STAGE COMPANY

With two product candidates slated to be in Phase 3 for the year ahead, Æterna Zentaris begins a new era as a late-stage pure play biopharmaceutical company. With \$60 million in cash and no significant long-term debt, a prudent risk management approach, as well as a new focused drug development strategy, we are now in an even better position to execute our highly focused business plan as the future of Æterna Zentaris could prove quite exciting.

Permit us to take this opportunity to recognize all members of the Æterna Zentaris team for their dedication to achieving the Company's objectives, and to thank our shareholders for their support and continuing confidence. We look forward to continue to deliver clinical results and report important commercial developments to you in the year ahead.



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