Biotest AG

2003 Annual Report

2003

At a Glance

Group	2003 € million	2002* € million	Change %
Sales	221.9	257.9	– 14.0
of which: Germany	73.1	82.2	– 11.1
Rest of world	148.8	175.7	– 15.3
of which: Pharmaceutical division	146.0	166.7	– 12.4
Diagnostical division	75.9	75.8	0.1
Medical Devices division	–	13.5	–
Not allocated sales	–	1.9	–
Profit before tax	– 1.4	– 17.3	–
Profit before tax as % of sales	– 0.6 %	– 6.7 %	
Net loss	– 5.7	– 20.0	–
EBIT	7.7	– 6.8	–
EBITDA	18.7	12.8	–
Structure of expense, by nature:			
– Cost of materials	95.4	96.0	– 0.6
– Personel cost	67.0	75.1	– 10.8
– Research and development	18.4	19.3	– 4.7
– Research and development as % of sales	8.3 %	7.5 %	
Capital expenditure:			
– Property, plant and equipment and intangible assets	20.7	32.0	–
Financing:			
– Cash flow from operating activities	21.4	14.2	50.7
– Depreciation and amortisation	11.0	19.6	– 43.9
Shareholders' equity	101.9	108.5	– 6.1
Shareholders' equity as % of balance sheet total	29.1 %	29.2 %	
Balance sheet total	350.0	372.0	– 5.9
Number of employees as at December 31	1,037	1,263	– 17.9
Net earnings per share in €	– 0.77	– 2.56	
Result per non-voting preference share in €	– 0.66	– 2.45	

* The allocation into continued operations and discontinued operations see page 36.

In its almost 60-year company history, Biotest AG has gained a lasting reputation for high competence in all aspects of haematology and on the prevention of damage to human beings and property through germs that are pathogenic or pollute the environment. The company's activities focus on areas of indication such as transfusion and transplantation medicine, auto-immune diseases as well as infection and hygiene monitoring. The synergies from the Diagnostic and Therapy divisions, the sound knowledge and the interaction of exact diagnosis and effective therapy continuously lead to innovative products, turning Biotest into a forerunner of modern medicine. Clinical trials are being conducted for new monoclonal antibodies, produced biotechnically, which over the medium term are to complement the product range for treating auto-immune diseases such as for instance rheumatic arthritis.

Diagnostic devices ensure successful therapy

From the outset the Diagnostic division had a pioneering character. Shortly after the company was founded, Biotest introduced the test serum Anti-D, the world-wide first product for determining the Rhesus factor. Risks encountered during blood transfusions were thus reduced substantially. Even today the test is indispensable to the diagnosis of Rhesus antibodies between mother and unborn child. The innovative drive on this sector has not abated to this day. Biotest was the first company, for instance, to receive approval for a monoclonal antibody for transfusion diagnosis from the Paul-Ehrlich-Institut. Together with new test formats they formed the basis for the fully automated blood group device, TANGO, with which new quality and security standards in the transfusion medicine sector were set, allowing Biotest to successfully migrate from supplier of reagents to systems provider.

In addition to monoclonal antibodies for cell diagnosis, genetic engineering changed infectious disease diagnosis and tissue typing both of which are responsible for ensuring the compatibility of donor organs, for instance, during bone marrow donations. In this case, too, Biotest was quick to recognise the developing technological changes, and now offers diagnostic devices that are suitable for full automation.

The claim of being a forerunner with innovative products did not stop at these divisions which deal with human blood. In hygiene monitoring, e.g. during drug production, Biotest also developed high-performance systems which lead to new quality standards throughout the world and, what is more, where applied by NASA on their flights to space.

Certified quality

As a manufacturer of diagnostic systems it is our aim to convert complex diagnosis processes into simple, safe and proven testing systems for routine application. CE certification of our diagnostic devices clearly documents the compliance with European IVD guidelines and ensures that our products are sold on the growing, uniformly regulated European market.

Haemotherapy made-to-measure

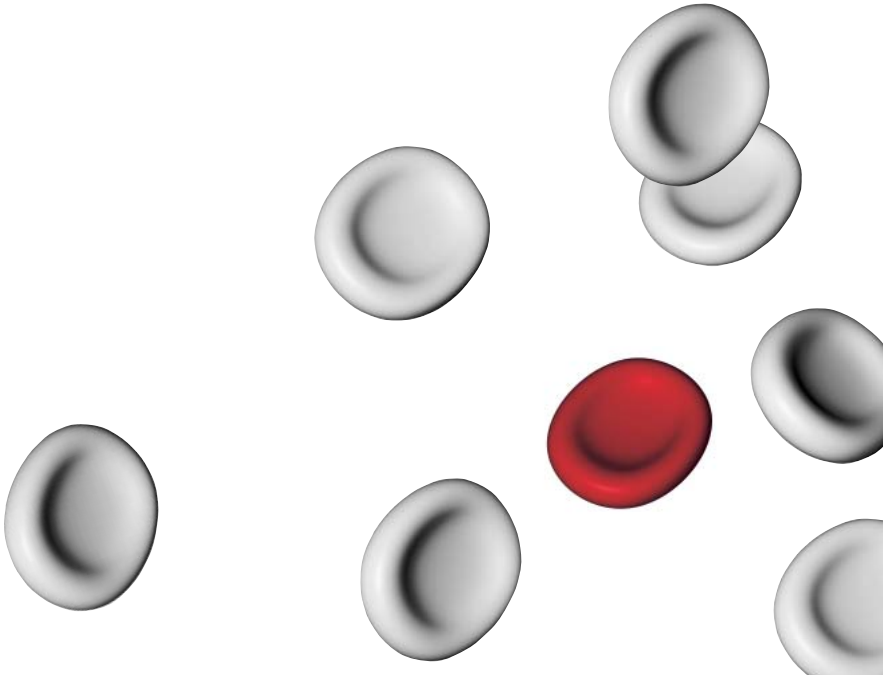
Therapeutic preparations are biological products derived from human blood plasma. The liquid part of blood, i.e. the plasma, is a mixture of water, proteins and electrolytes. The complex interaction between individual components allows blood to fulfil many vital functions all at the same time. It is a supply, disposal and regulation system. The blood's individual functions are connected to certain carriers and constituents which can be separated and enriched. The results are highly efficient drugs that are given to patients whose own blood no longer or only to an insufficient extent fulfils the respective function.

Biotest's range of products comprises immunoglobulin preparations (antibody preparations) for a congenital or acquired deficiency against bacterial or viral infections, coagulation preparations for treating haemophilia, human albumin as a volume substitute, e.g. after burns, and a conserved serum for protein and antibody substitution for deficiency conditions.

Safety from the very beginning

Throughout the world, patients and physicians trust on our safe and innocuous plasma preparations which must fulfil the highest quality and safety standards. Owing to the fact that we continually adapt to state-of-the art production technologies and scientific findings, Biotest uses the most modern technological procedures to derive different protein fractions. Today, the procedures for approving preparations for safe use with patients are precisely defined and integrated into a comprehensive safety and quality management system.

The quality and safety of our preparations is not least influenced by the raw material used. Biotest has been repeatedly presented with awards for the consistency in which we adhere to international standards when selecting plasma and executing voluntary measures beyond those stipulated by these official regulations.



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Preface

Dear Shareholders,

The global economic weakness continued in 2003. Consumer and investor sentiment was characterised by uncertainty due to the breakout of the war in Iraq and the respiratory disease SARS. Even though a slight recovery of the global economy became apparent in the second half of the year, Germany was not able to benefit from this development. The gross domestic product even declined somewhat in 2003.

On top of this, excess capacities of plasma products and structural reforms of the health-care systems resulted in a dramatic plunge in prices for such drugs world-wide.

Such unfavourable general conditions also influenced Biotest's corporate development. Upon conclusion of restructuring activities, revenues of the remaining divisions Pharmaceutical and Diagnostic were down by 9 % compared to the previous year to € 222 million. We nonetheless managed to record a positive EBIT of € 7.7 million following the loss-making previous year. Although pressure on the operating result was increased due to factors which had a negative effect on revenues, such as the increasingly fierce price war on the international markets for plasma derivatives, the decline of the US dollar and the strong feeling of uncertainty on the German health-care market resulting from discussions on reforms, we were able to counteract such negative factors with successfully implemented restructuring measures.

The year 2003 was characterised by the rigorous continuation of measures regarding the company's strategic realignment. With the sale of our French subsidiary Diaclone and the majority interest in Envitec-Wismar GmbH, we almost concluded the concentration on the Pharmaceutical and Diagnostic divisions. In addition to implementing a range of measures to improve the result, we were also able to significantly reduce inventories and accounts receivable.

The disinvestment of both Group companies and the restructuring measures executed at the Dreieich location resulted in a reduction of staff levels at Biotest Group by 227.

At the same time, work on our new production facilities in the Pharmaceutical division continued as scheduled. After having completed the majority of investments in the previous year, the new fractionation facility was inspected by the authorities (Regierungspräsidium Darmstadt – regional council) in autumn and the manufacturing license was extended. The production of consistency batches was commenced at the same time. Upon approval in Germany our new immunoglobulin preparation Intratect is expected to be one of the first of a new generation of preparations to go into production in this facility in autumn.

Clinical studies on our fully automated blood group device TANGO were also brought to a successful conclusion in the US. After evaluating the collected data, our distribution partner Olympus filed for FDA approval for TANGO in January 2004. The planned start of distribution from 2005 onwards will provide further strong growth impetus to our automation business which was already able to record substantial revenue growth due to, among others, the increasing acceptance of our fully automated device for tissue typing, QuickStep, within the context of bone marrow donations, for instance.

Biotest responded to the requirements resulting from the profound and rapid changes of national and international economic circumstances by resolutely implementing the necessary restructuring measures. Thus the company's image today is clearly that of an international specialist for innovative diagnostic systems and therapeutic preparations in immunology and haematology. By concentrating resources and know-how, the company will also be able to successfully build on its competitive edge in the markets of its core business.

In the 2003 financial year Biotest managed to successfully make a significant step in its strategic realignment concept. The restructuring process will be brought to a successful conclusion in 2004. I am convinced that we will accomplish our objectives not least due to our committed employees who had a major part in the successful change last year. In the name of the Board of Management I extend my special thanks to all members of staff as well as to our business partners for a successful co-operation and to our shareholders for their confidence in Biotest.

On behalf of the Board of Management
Your

Prof. Dr. Gregor Schulz

Management Report Biotest Group

Management Report Biotest Group

Current Situation

In 2003 Biotest Group constantly continued the strategic realignment and restructuring measures which had been implemented in autumn 2002. Loss-making activities were discontinued and non-core activities sold.

These structural, conceptional and cost-cutting measures involved all Group companies. Adjustments were made to the organisation and the overall budget.

The former Medical Devices division was closed down according to plan with the discontinuance of Biotest Medizintechnik GmbH's operating activities and the sale of Envitec-Wismar GmbH. Charges resulting form Biotest Medizintechnik GmbH's insolvency were already recorded in the 2002 financial statements.

The second step in closing down the Medical Devices division was the sale of shares in Envitec-Wismar GmbH in early summer 2003.

The company Diaclone SAS, Besançon, France, which had been part of the Diagnostic division, was also sold in spring 2003 with effect from 1 January 2003.

In order to collateralise the high level of financing needs for the Pharmaceutical division's investment programme, a collateral trustee agreement (CTA) – expiring on 31 December 2004 – was entered into with a group of banks at the beginning of 2003. In this agreement, the banks declared their general consent to continue to provide existing short-term credit lines of around € 100 million.

Pre-conditions for maintaining the credit lines included Biotest achieving turnaround according to the plans verified by the consulting company mantated by Biotest, implementing the measures established in the restructuring plan and reducing the credit lines by at least € 4 million in 2003 and by at least € 10 million in 2004. Credit lines are to be further reduced if the liquidity reserve exceeds € 5 million.

In 2003, Biotest reported on the progress of the restructuring activities and the development of its financial position and performance to the banks on a regular basis. In December, credit lines were reduced as planned: by € 4 million for short-term loans and by € 1.4 million for long-term loans. The collateral trustee agreement enables Biotest to continue ongoing restructuring and strategic realignment activities.

In the context of the collateral trust agreement, the Dr. Schleussner family agreed to increase shareholder loans to € 10 million, to not withdraw the loan and to subordination.

Market and competitive environment. After streamlining the portfolio of activities, Biotest Group's range of products only comprises products of the Pharmaceutical and Diagnostic division in the period under review.

The Pharmaceutical division focuses on products derived from human blood plasma for highly ethical therapeutic applications which are used in the treatment of immunological diseases and coagulation defects. As such the division is active in an attractive international market characterised by high barriers of entry which stagnated in 2003 but should resume its growth trend in the short term.

The market and competitive environment in the Pharmaceutical division temporarily changed substantially in the 2003 financial year. World-wide excess capacities in the collection of the raw material blood plasma exercised considerable pressure on the supply side and resulted in a significant market squeeze, stemming from international suppliers of plasma products in particular.

The difficult situation was further compounded by interventions affecting various national health systems.

Plasma-manufacturing companies are currently undergoing a process of consolidation which probably will extend into 2005. The Pharmaceutical division of Biotest Group clearly feels the consequences of such trends.

Suppliers' markets for diagnostic tests and systems are characterised by high competition and cost-cutting efforts – not least for political reasons. Biotest AG's answer to this situation is a wider range of automated laboratory systems which, due to their increased level of automation, give customers the edge. As in recent years, this tendency is accompanied by the concentration efforts of the laboratories. Larger laboratories are more able for their part to justify the use of a fully automated system which may be more expensive to buy but more cost-effective in operation.

Biotest continued along its path of turning system provider in 2003 and launched automation systems for virus diagnosis (QuickStep) and transplantation diagnosis (Tecan) in addition to the already well-established fully automated device for blood group diagnosis (TANGO).

In December 2003, CE marking was irrevocably prescribed for all preparations used in diagnosis by the Medical Devices Act.

A labour-intensive programme documenting all production stages was set up by Biotest in order to successfully achieve certification for CE marking of all products in due time.

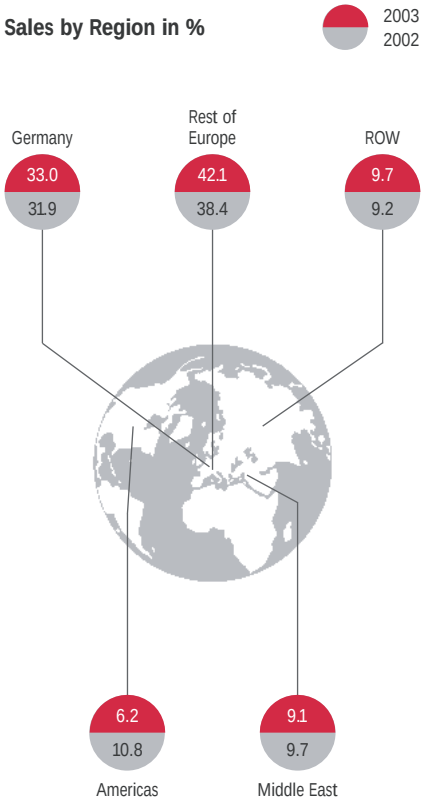
Special factors recorded in the 2003 financial year. In the 2003 financial year, both positive and negative factors influenced the current result and the future development of the Biotest Group.

The above-mentioned detrimental market developments in the Pharmaceutical division further increased pressure on the strategic realignment process in the current financial year.

Successful cost-cutting measures in the areas of personnel as well as other expenses were supplemented by measures to improve the earnings position, liquidity and balance sheet structure.

As national and international markets continue to be under pressure, the restructuring measures commenced and accompanied by renowned consultants are consistently continued in order to improve competitiveness in 2004.

Sales by Region in %



We were able to continue with large-scale investments in new plasma fractionation facilities and further production units according to plan. Within the scope of official release procedures, first product batches were manufactured.

We also continue to constantly optimise our portfolio of investments. The disinvestment of two more non-core shareholdings is scheduled for 2004.

Conversely, business trends in the Diagnostic division remained solid, showing minor negative and positive changes offsetting each other in sales in the individual markets. The decline of the US dollar against the euro had a negative effect on the division's development of revenues of just under € 3 million.

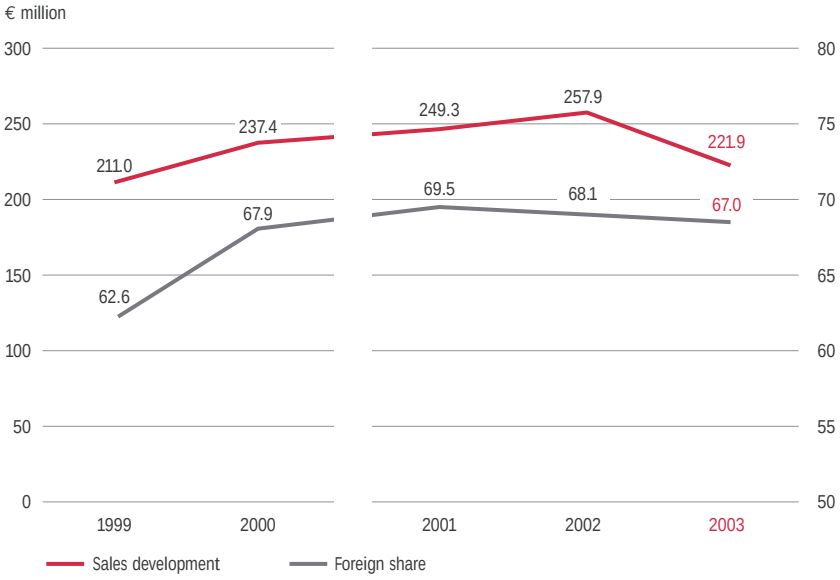
Revenue level reaches € 222 million. Biotest Group recorded revenues of € 221.9 million (continued operations) in the period under review (2002: € 244.3 million).

The decline was almost exclusively attributable to the Pharmaceutical division.

The Diagnostic division shows an overall stable development, with revenues on the previous year's level. In its major markets it managed to keep revenues unchanged. New customer business with the TANGO system was conducted carefully.

On the other hand, changes in the US dollar exchange rate burdened the Group's revenue development.

Sales trend (€ million) and percentage of foreign share (%)



Data before 2001 according HGB

Turnaround in EBIT. Despite declining revenues, cost-cutting measures resulted in a turnaround in the EBIT which now is distinctly positive, amounting to € 7.3 million. A loss of € 1.2 million was recorded in the previous year due to high adverse one-off effects.

While write-downs and restructuring expenses in the previous year amounted to € 10.0 million, these items affected EBIT only to the tune of € 3.6 million in 2003.

Moreover, in addition to the distinct cost-cutting effects achieved with the restructuring programme, the € 4.3 million increase in other operating income also contributed to EBIT. Further improvement, however, was prevented by simultaneously declining revenues in the Pharmaceutical division as a result of price reductions.

In the area of personnel cost, the entire scope of the restructuring success will only manifest itself from 2004 onwards.

Upfront cost, in particular expenditure in the context of admission of plants, for the completely renewed production of pharmaceuticals reached their peak in 2003. We envisage first revenues from the new fractionation facility at the end of 2004.

Due to the simultaneous improvement of the financial result the loss before tax was reduced to minus € 1.7 million, after minus € 11.2 million in 2002. Excluding cost for consultants required during the restructuring period, we would have recorded a profit before tax.

Management Report Biotest Group

Business Development and Earnings Position

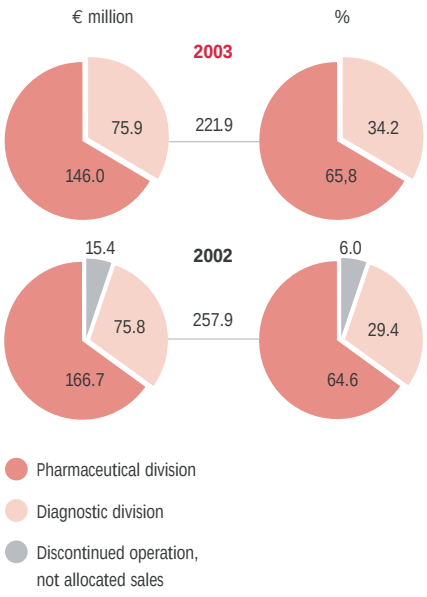
The development of Group revenues in the reporting period was similarly disappointing as in the second half of 2002.

In particular in the Pharmaceutical division the squeeze-out of leading suppliers in the international plasma derivatives market became increasingly fierce. Moreover, the situation for physicians was characterised by increasing uncertainty due to cost-cutting programmes in the national health systems of some important European markets.

Revenue by quarter developed as follows (continued divisions only):

	2003 (€ million)	2002 (€ million)	Change (%)
1st Quarter	59.2	64.3	– 7.9
2nd Quarter	53.7	61.7	– 13.0
3rd Quarter	51.2	61.5	– 16.7
4th Quarter	57.7	56.8	+ 1.6
	221.9	**244.3**	**– 9.2**

Sales by divisions in € million (%)



In the fourth quarter of 2003, we were able to reverse the negative revenue trend for the first time and recorded a slight increase in revenue. The Pharmaceutical division in particular contributed towards this increase.

In comparison to the previous year, the earnings position in the continued, restructured divisions developed as follows:

	2003 (€ million)	2002 (€ million)	Change (%)
Revenue	221.9	244.3	– 9.2
Operating cost	– 210.7	– 235.5	– 10.5
Operating profit before special factors	10.9	8.8	+ 23.9
Special factors	– 3.6	– 10.0	+ 64.0
Operating profit	7.3	– 1.2	n.m.
Financial result	– 9.1	– 10.0	– 9.0
Profit before tax	– 1.7	– 11.2	84.8
Profit after tax	– 5.5	– 13.6	59.6

In 2003, Biotest's consolidated earnings position was again characterised by temporarily detrimental factors. In the context of building new manufacturing plants, the company once more incurred upfront costs – but for a last time to such an extent. In the meantime the main facility, the fractionation, has been completed. In addition to the above-mentioned decline in revenue and earnings, the financing and consulting costs in the context of the CTA added a substantial burden.

We managed to make up for such detrimental factors by successfully reducing personnel cost as well as other expenses, in particular in the area of distribution and administration. The full scope of these effects will only manifest itself in 2004.

With the exception of a write-down of inventories to the tune of € 1.2 million, there were no one-off charges such as the impairment of assets, specific write-downs and bad debt which characterised the 2002 financial year. The write-down was recorded for a product which will be discontinued over the medium term.

Expenditure for special factors was recorded at € 3.6 million, compared to € 10.0 million in the previous year.

Owing to successful measures to substantially reduce operating cost we were able to compensate the majority of the loss in earnings which was due to a decline in revenue. After minus € 1.2 million in the previous year, the operating result increased distinctly to € 7.3 million.

The Group financial result slightly improved against the previous year. Due to additional burdens from the CTA, interest expenditure increased from € 11.1 million to € 13.4 million. This was offset by higher income from foreign exchange gains so that the negative balance of the Group's financial result was reduced by 10 % from minus € 10.1 million in 2002 to minus € 9.1 million in 2003.

Thanks to an improved management of accounts receivable and cash and special programmes to trim down inventories we were able to reduce the level of debt and, consequently, the balance sheet total.

Statement of Assets and Financial Position

The aggregated values on the assets side of the balance sheet are as follows:

	2003 (€ million)	%	2002 (€ million)	%
Fixed assets	150	42.9	147	39.5
Inventories	117	33.4	130	34.9
Accounts receivable	59	16.9	64	17.2
Other assets	12	3.4	23	6.2
Cash and cash equivalents	12	3.4	8	2.2
Total assets	**350**	**100**	**372**	**100**

Compared to the previous year's total of € 372 million, Biotest Group's balance sheet total decreased by 6.0 % to € 350 million as at the end of 2003.

In 2003, the sale of shareholdings resulted in a substantial reduction of fixed assets with the disposal of the companies Envitec-Wismar GmbH and Diaclone SAS. Investments in, among other things, the completion of production facilities of Biotest Pharma GmbH in 2003 resulted in additions (including leasing additions) of € 20.7 million. Net fixed assets thus increased by only € 3 million from € 147.0 million to € 150 million in the property, plant and equipment line item.

Due to continued efforts to reduce inventories at Biotest Group, we were able to trim down inventories by approximately € 13 million (–10.0 %), from € 130 million to € 117 million. This decline is attributable to reductions due to the sale of plasma raw materials as well as to the inventory measures taken by the Group companies.

The decline of accounts receivable is primarily due to a more pro-active management of accounts receivable, in particular at Biotest Pharma GmbH.

We were moreover able to reduce the balance of other assets to a normal level, which, at the end of 2002, still were on an exceptionally high level due to accounts receivable from a leasing company.

Owing to these measures we managed to reduce financial liabilities during the year as scheduled. We did not utilise the full amount of credit lines at any time during the year 2003. The Group's liquidity situation improved constantly during 2003 and allowed us to redeem short-term and long-term bank loans and liabilities from leasing contracts to a total of € 16.8 million.

The granted credit lines are sufficient for funding our current level of activities. On the balance sheet date, unused credit lines to the tune of € 5 million were available for Biotest AG and Biotest Pharma GmbH following the redemption of loans in the amount of € 5.4 million at year end.

The aggregated values on the equity and liabilities side of the balance sheet are as follows:

	2003 (€ million)	%	2002 (€ million)	%
Shareholders' equity	102	29.1	109	29.3
Provisions	54	15.4	59	15.9
Current liabilities	116	33.2	114	30.6
Non-current liabilities	47	13.4	53	14.2
Other liabilities	31	8.9	37	10.0
Total equity and liabilities	**350**	**100**	**372**	**100**

Equity capital declined from € 109 million in 2002 to € 102 million due to a loss of minus € 5.2 million and an foreign currency effect of approximately minus € 1.0 million. The share of equity capital in the balance sheet total remains unchanged at just under 30 %.

Provisions recognised by the end of 2002 for expenses for a social compensation plan and other severance pay were almost fully exhausted. The unused part of € 0.3 million was released.

Short-term liabilities were reduced in accordance with the provisions of the CTA which stipulated that an amount of € 4 million had to be repaid by the end of 2003.

The development of long-term liabilities reflects the balance of changes in the scope of consolidated companies, mortgage redemptions of € 1.4 million and further capital expenditure, in particular for fractionation, of € 3.1 million financed by way of leasing contracts.

The collateral trust agreement entered into with the banks in spring 2003 has proven successful and no changes had to be made to the agreement during the year. Biotest was thus able to complete the measures commenced and to continue to invest in new production facilities in order to lay the foundation for positive results in the future.

Capital Expenditure/Depreciation and Amortisation/Cash Flow

The majority of the capital expenditure volume was again attributable to production in the Pharmaceutical division in 2003. Smaller, scheduled expansions were classified "not urgent" due to the changed market situation and postponed for the time being. Overall, € 20.7 million were invested in intangible assets and property, plant and equipment; € 18 million of which were attributable to the Dreieich location.

€ 16.1 million were invested in the Pharmaceutical division in the renewal and expansion of production facilities.

€ 4.6 million were invested in the Diagnostic division. The amounts invested primarily went towards the optimisation of the finished goods warehouse (€ 1 million) and the acquisition of a new software for an integrated management information system (€ 0.9 million).

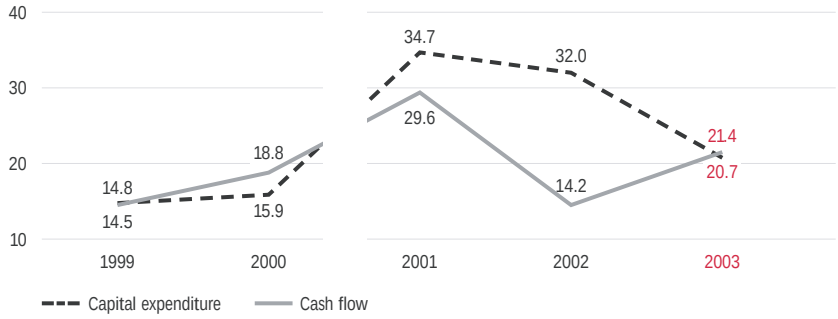
Depreciation of € 11 million was mainly recognised as scheduled depreciation.

Cash flow from operating activities before changes in working capital increased from € 14.2 million to € 21,4 million.

Cash flow from operating activities improved by € 19 million in the previous year from € –2.5 million to € 16.5 million.

Successful measures to reduce tied-up capital by means of a proactive management of accounts receivable, stretching investments and inventory reduction efforts increased our financial leeway.

Capital expenditure/Cash flow in € million



Data before 2001 according HGB; from 2001: according IAS; including leasing; operational cash flow

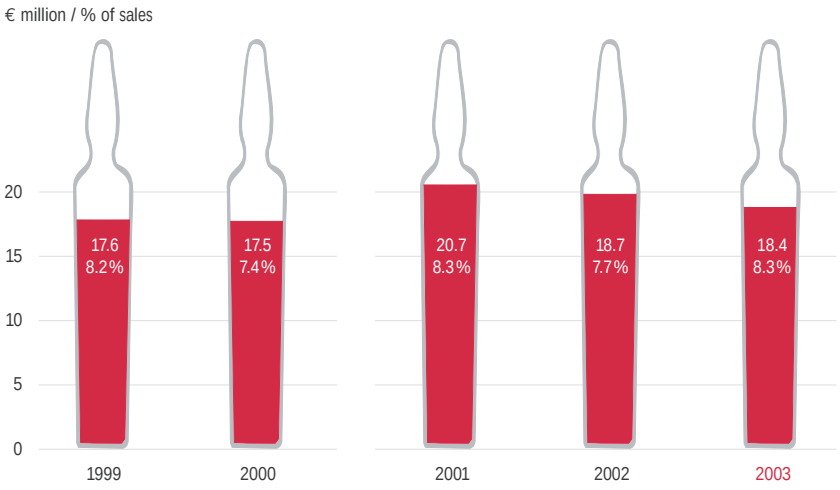
Research and Development

Research and development expenses amounted to € 18.4 million in 2003, after € 18.7 million (continued operations) in 2002. € 12.6 million of this amount are attributable to direct research and development and € 5.8 million to cost associated with product development. (Further details see chapter Segment Reporting.) This corresponds to a 8.3 % share of revenues, after 7.5 % in the previous year.

The Pharmaceutical division continued its work on developing products and transferring research and development results to production processes for the new product generation of plasma derivatives.

The R&D activities of the Diagnostic division focussed on projects in the area of transfusion and transplantation diagnostics. In 2003 we thus were able to launch a new test system for tissue typing (ELPHA).

Research and development expense



Data before 2001 according HGB

Dividend

The Board of Management and the Supervisory Board propose to distribute the minimum dividend of € 0.11 per preference share and the payment in arrears of an equal amount of dividend of € 0.11 per preference share for the previous year out of the distributable profit.

Supervisory Board and Board of Management

Dr. Dr. h.c. Hans Schleussner, Chairman of the Supervisory Board and founder of Biotest, resigned from office by reason of age with effect from 30 September 2003. Werner Spinner was appointed new member of the Supervisory Board on 1 October and elected chairman on 17 October.

On 14 September 2003, a new employees' representative was elected for the Supervisory Board. This became necessary due to the exclusion of Envitec-Wismar GmbH from the group of consolidated companies. Kerstin Birkhahn, the new employees' representative of the Supervisory Board, is an employee of Biotest Pharma GmbH.

Prof. Dr. Gregor Schulz succeeded Dr. Dieter Merz in the office of the Chairman of the Board of Management following the end of the Annual General Meeting on 10 July 2003. Dr. Merz retired in September 2003 after working for 35 years in the company.

Staff

The number of employees at Biotest Group declined distinctly in the year under review. As at 31 December 2003 the Group employed a total of 1,117 employees. This corresponds to 1,037 full-time jobs compared to 1,263 full-time jobs as at the previous year's balance sheet date.

Of this overall reduction in the number of employees, 140 jobs were lost due to a reduction through the sale of companies, and the number of full-time jobs was reduced by more than 90 owing to restructuring measures at Biotest AG and Biotest Pharma GmbH.

Product programme streamlining and the reorganisation process also reduced the number of employees of the foreign affiliated companies.

The number of full-time jobs within the Group developed as follows:

	31.12.2003 Balance sheet date	2003 Average	31.12.2002 Balance sheet date
Distribution	310	332	373
Administration	129	132	140
Production	494	518	635
Research & Development	104	106	115
Group	**1,037**	**1,088**	**1,263**

Due to the decline in the number of employees, staff cost fell by 10.8 % to € 67.0 million compared to 2002.

Employee appreciation. The Board of Management and the management of all Group companies express their sincere appreciation to all employees for their extraordinary performance over the past year. The restructuring and strategic realignment process put a special strain on all employees.

Segment Reporting

Pharmaceutical division

Characterised by considerable market changes and simultaneous continuation of extending new production facilities. The heart of the new pharmaceutical production, the fractionation plant, was completed in summer 2003 and successfully approved by the authorities after inspection.

Biotest Group thus disposes of one of the most state-of-the-art and efficient fractionation facilities in Europe. In addition to a distinct capacity improvement, this facility will lead to a significant improved cost efficiency due to higher yields. It fulfils the latest regulatory requirements and thus facilitates registration of the new product generation not only in Europe but across the globe. Due to the already produced consistency batches we expect the new immunoglobulin preparation Intratect® to be registered in autumn 2004.

However, in 2003 the division was subject to an increasingly fierce competition due to excess capacities in particular from large US suppliers of plasma products. For one thing this led to losses in revenue on international markets. Followed in the second half of the year by the revenue situation deteriorating on the German market as well. In Germany, the health-care reform and ongoing discussions about cost-cutting measures in the health-care market were strongly felt on the market. The compulsory rebates introduced at the beginning of 2003 to stabilise contributions to health insurances and applicable to sales at the chemist's reduced the level of revenue and income.

Such detrimental influencing factors resulted in a decline in revenue of approximately € 21 million, from € 166.7 million in 2002 to € 146.0 million in 2003. While revenues of our foreign subsidiaries remained almost unchanged, Biotest suffered heavy losses in exports to other foreign countries and in the German market as well.

Revenue by region developed as follows:

	2003 (€ million)	2002 (€ million)	Change (%)
Germany	47.1	52.6	– 10.5
Rest of Europe	58.6	59.9	– 2.2
North and South America	4.2	13.5	– 68.9
Middle East	18.6	23.0	– 19.3
Asia	13.7	13.6	+ 0.7
Rest of the world	3.8	4.1	– 7.3
Pharmaceutical division	**146.0**	**166.7**	**– 12.4**

The products human albumin and factor VIII above all were subject to fierce competition. Hyperimmunoglobulins were affected to a lesser extent as Biotest products display particular properties.

Declines in revenue were not only recorded in the German market but particularly in regions with a high share of public tenders. In some cases, competitors offered extremely aggressive prices in these regions.

Operating profit. Operating profit amounted to € 5.5 million in 2003, after € 5.8 million in the previous year.

In this division, the deterioration in revenue and the restructuring charges are almost exclusively reflected in the EBIT of Biotest Pharma GmbH.

Capital expenditure. Investments in the Pharmaceutical division are exclusively attributable to Biotest Pharma GmbH. In this company, the programme for modernising and expanding the production facilities for plasma derivatives was and will be continued to 2006.

In August 2003, we were able to achieve another milestone of this investment programme with the new fractionation. In 2003, more than € 2.7 million were expensed on this project. The leasing-financed part of the overall investment programme in the amount of € 33.0 million is thus completed.

Parallel to building the plasma fractionation facility, we also commenced the expansion of the production facility for coagulation factors in 2002. We invested around € 7 million in this project both in 2002 and 2003. Around € 0.5 million remain to be invested in order to finish the facility in 2004.

On the whole, the pace of investments in the Pharmaceutical division was brought in line with the changed financial circumstances. In light of the changed market conditions we decided to postpone the planned expansion of the "Column Purification" (CP) facility by one year.

Capital expenditure in the Pharmaceutical division amounts to approximately € 16.1 million. Taking into consideration depreciation, net fixed assets of the division increased by € 8.2 million to € 121.2 million.

Research and development. In January 2003, the approval dossier for the new polyspecific immunoglobulin Intratect® was filed with the German registration authorities. As this process is proceeding according to schedule, approval in Germany is envisaged for autumn 2004. Afterwards we will file for European approval via the so-called "mutual recognition" procedure.

The extensive qualification and validation measures pertaining to our new fractionation facility were concluded as scheduled at the end of 2003.

Approval documents for our new generation of hyperimmunoglobulins will be filed by mid-2004.

Clinical studies for Haemoctin SDH®, a factor VIII preparation, have been concluded successfully and were assessed positively in the scientific opinion relating to approval.

For Pentaglobin®, the only immunoglobulin M preparation in the world, the independent board of experts recommended to continue the current large-scale study for treatment of peritonitis. We envisage to be able to present final results in 2005.

We plan to improve the application of our immunoglobulins and to supplement them with intramuscular (i.m.) and subcutaneous (s.c.) versions. Pre-clinical studies have been completed, clinical studies are scheduled for 2004.

A Von-Willebrand factor preparation, which is used on a special form of congenital coagulopathy, is in the development phase. Pre-clinical studies for this preparation will be completed in 2004.

Prior to the sale of Diaclone, Biotest secured exclusive rights for the development, production and sale of monoclonal antibodies of Diaclone. These antibodies have an immunregulatory effect and the first clinical data from patients with rheumatoid arthritis, psoriasis and other auto-immune diseases show that they are very compatible and effective. The method of action differs substantially from other biological drugs that are currently on the market and in use for such indications. However, clinical development has only just started and further controlled studies with more patients are necessary in order to achieve for such antibodies.

As the number of patients with auto-immune diseases is increasing worldwide and many of the drugs used with these indications do not display the best possible action, Biotest's new monoclonal antibodies show substantial potential. We are currently conducting negotiations with potential cooperation partners to lower development cost.

Employees. The number of employees in the Pharmaceutical division at the Dreieich production site declined by approximately 10 %, from 583 full-time employees to 526 full-time employees. The reduction were borne by the distribution, administration and production areas.

Diagnostic division

Characterised by continued automation and fierce competition. The Diagnostic division comprises revenues achieved with Biotest AG's products, products of foreign subsidiaries with own production (in particular Biotest Diagnostics Corp., USA) and products of the German Group companies Heipha Dr. Müller GmbH as well as Viro-Immun Labordiagnostik GmbH.

Within the scope of the restructuring process, the Diagnostic segment also streamlined its range of products and optimised its structures. In Biotest's view, focal points in this segment are the automation features in transfusion and transplantation diagnostics with innovative test systems on a DNA basis and the microbiological programme in hygiene monitoring.

The economic environment in clinical diagnostics is also very competitive and subject to enormous pricing pressure, in particular due to the financial situation of various health-care systems. Biotest continues its migration from supplier of reagents to systems provider with innovative systems that increase efficiency for customers. New customer business with TANGO was however conducted carefully. Regarding Europe we were mainly able to sell devices in France.

Together with the devices placed in other markets this led to higher sales with special system-specific test reagents.

An improved DNA system was introduced at the same time.

In the area of bacteriological test systems for the industry, the new, repeatedly sterilised products, which keep longer, contributed to a solid development of revenues in this market segment.

Growth in Europe was stronger than on other markets.

The development on the North and South American markets is moreover influenced by the US dollar. The exchange rate development reduced revenue by 3 %, or more than € 2 million.

Stronger growth in Europe is due among other things to the successful marketing of TANGO in France. Of 76 devices already sold or leased under reagent leasing contracts across the world a total of 23 devices were put on the market in France.

A distinct increase in sales is also recorded in the area of test systems for transplantation diagnosis.

Heipha Dr. Müller GmbH was able to record double-digit growth rates in its first full business year after starting operations at the new production site. The high quality in the manufacturing processes in the new facilities provided the company with competitive advantages and enabled us to expand the range of industrial customers.

Sales in the individual regions developed as follows:

	2003 (€ million)	2002 (€ million)	Change (%)
Germany	26.1	24.4	7.0
Rest of Europe	34.9	33.1	5.4
North and South America	9.5	12.3	– 22.7
Middle East	1.6	1.9	– 15.8
Asia	3.1	2.8	10.7
Rest of the world	0.7	1.2	– 41.7
Pharmaceutical division	**75.9**	**75.7**	**0.3**

Operating profit. With an increased contribution to the Group result of € 3.1 million, the division's operating profit distinctly increased from the previous year (minus € 3.1 million). This is due to improvements recorded at the affiliated companies Heipha Dr. Müller GmbH and Biotest AG.

Cautious capital spending. Following the completion of the construction of a new production site of Heipha Dr. Müller GmbH and the optimisation of manufacturing lines in transfusion and transplantation diagnostics at Biotest AG, we were able to keep investments in property, plant and equipment at a low level. Total capital expenditure in the division amounted to € 4.6 million.

Research and development. R&D in the Diagnostic division was realigned in accordance with the division's strategic orientation. As was the case in 2003 we will concentrate our activities on projects in transfusion and transplantation medicine in the future.

An important milestone was the introduction of a more powerful test system for tissue typing (ELPHA DL) at the end of 2002 / the beginning of 2003. Our development activities in transplantation diagnostics will focus on the completion of this system for donor screening and concentrate on making available adapted automation and software solutions.

In transfusion diagnostics, we focussed on the conduct and successful completion of studies in the run-up to the approval procedure for the fully automated device TANGO with the respective reagents in the US. Extensive approval documents were filed with the US Food and Drug Administration (FDA) in January 2004.

Another important area of activity was the software optimisation of selected components of TANGO with the aim to further improve the system's quality.

In the area of hygiene monitoring, two new microbial air samplers reached the stage of marketability. One of them is a device for monitoring special clean rooms in the pharmaceutical industry, the so-called isolators. We were also able to make available culture media which were developed especially for this purpose. The other device resulted from the fundamental revision of the electronics and software of the current leading RCS High Flow device. It has been on sale since October 2003.

In the US, the subsidiary Biotest Diagnostics Corp. was able to finalise the development of a new particle counter for larger-sized particles and thus for a broader field of use.

The affiliated companies Heipha Dr. Müller GmbH and Viro-Immun Labor-Diagnostik GmbH developed new culture media for industrial monitoring and new diagnostics kits for industry laboratories.

Employees. In the Diagnostic division, the number of employees also declined owing to restructuring activities and the amalgamation of distribution functions in particular. The number of employees was reduced in many companies with the exception of Heipha Dr. Müller GmbH.

On the whole, the number of full-time jobs declined from 557 to 505 as at the balance sheet date.

Risks in Future Development and Risk Management

Entrepreneurial activity is by definition associated with the taking of risks. The primary aim of risk management systems therefore is not to avoid all risks but to identify and actively control them. Biotest always endeavours to improve risk monitoring instruments and systems and provide management with more timely information.

Biotest uses budgeting systems and internal reporting systems on a monthly basis. The analyses furthermore enable management to react in a quick and timely manner. The monitoring systems also include limit systems, approval procedures for investments, for hiring additional employees and for any decisions which tie up funds or involve hedge transactions in the context of interest rate and foreign exchange management. Furthermore, a risk management committee analyses the risk situation in Biotest Group's core businesses every six months and provides the Board of Management with a summarised risk report.

Such controlling systems of the company were further expanded by installing an integrated controlling and accounting system, an EDP-aided risk management system and by extending monthly reporting.

The following individual factors influencing risks should be mentioned:

Product and environmental risks are controlled by means of strict quality management. This includes certification of our activities in accordance with international standards and acts, constant improvement of processes and facilities as well as the enhancement of products.

Possible liability risks and damages are covered by insurance contracts in order to eliminate or limit the resulting financial consequences for the company. The scope of insurance coverage is constantly reviewed and adjusted should the need arise.

Biotest AG still faces a market characterised by cost-cutting measures in the highly industrialised countries, resulting in a decline of margins. Biotest's response to the market pressure is to develop ultra-modern, highly secure and inexpensive systems, such as TANGO (automated blood group device), QuickStep (infectious disease diagnosis system) and ELPHA (tissue typing), to meet the requirements of laboratory diagnosis functions.

We responded to the marketing risk inherent in the fully automated blood group device TANGO by consistently optimising the system. In the 2003 financial year, a distinct increase in revenue could be observed in France in particular and in Germany with regard to reagent leasing contracts.

The risk from marketing the TANGO system in the United States was accounted for by the joint definition of a second generation device together with our US partner. Studies and trials required for FDA approval were successfully conducted and completed in the United States. The data was filed with the FDA in January 2004. We envisage approval of the system at the beginning of 2005.

The current modernisation of production and the shift to a new product generation in the Pharmaceutical division within the scope of realignment activities is accompanied by high start-up cost and inevitable inefficiencies due to temporary parallel production.

We were able to implement a further element of our strategic realignment with the completion and successful inspection of the new fractionation facility by the authorities.

Currently, we assume that the first product registration will be granted at the end of 2004. Such registration in Germany is prerequisite for the European registration procedure. We will thus be able to achieve accelerated registration in the most important European pharmaceutical markets by way of the mutual recognition procedure for decisions made by national registration authorities in Europe.

Biotest's answer to pricing pressure in the world-wide markets for plasma products is a new, high-quality product generation of immunoglobulins, a broad range of specific hyperimmunoglobulins and the improved coagulation preparation Haemoctin®. At the moment, this product represents the state-of-the-art quality of plasmatic coagulation factors.

Foreign tender transactions reached a sizeable share of Biotest Pharma GmbH's business. This type of business entails uncertainties regarding timing, winning or postponement of regional tender offers. Tender offers awarded to others due to reasons outside our sphere of influence may impair the performance of the current year. We increasingly strive for direct marketing that is not geared towards tender transactions. This presupposes that our products are approved in the major European markets in accordance with the mutual recognition procedures (MR). We expect to obtain such approval after mid-2005 on the basis of the German approval of our new product generation which is scheduled for 2004.

In the important Italian market, the demand for our Hepatect® preparation for post-treatment following liver transplantations stabilised on a high level. Biotest moreover intends to backup its own position with an additional dosage form: an intramuscular (i.m.)/subcutaneous (s.c.) Hepatect®.

A tighter management of accounts receivable led to a lower risk level in the area of accounts receivable. The potential risk from accounts receivable from a distribution company in Greece is met by the establishment of a separate subsidiary, funded locally.

With the continuous expansion of the central purchase and materials management functions, the risks inherent in plasma purchase planning are being minimised and the supply chain process is being optimised. Capital tied up in raw materials and intermediate products will thus be further reduced.

In order to maintain short-term bank loans, a collateral trustee agreement was concluded in spring 2003 with the banks involved in short-term funding. This agreement permits a constructive reorganisation of the Group while maintaining credit lines, provided that the agreed objectives to improve the earnings situation will be met. The realignment and restructuring conducted in 2003 is in line with the objectives phrased in the agreement. For the time being, credit lines are thus confirmed until 31 March 2004 and afterwards until the end of the year 2004, provided that the agreed structural and earnings improvements is achieved. Judging from the current negotiations with the banks we expect credit lines to be further extended in the future although not all requirements originally agreed with the banks were met in the period under review.

The existence of the company will not be at risk if the short-term credit lines are extended as expected and banks continue to sustainedly support Biotest. A review of the current situation has produced no ascertainable further risks that might jeopardise the company's existence.

Outlook

Changes in the Group of companies. Biotest founded a new subsidiary in Greece in March 2004. It is planned to transfer the existing business of the current distributor to this company and to improve our market position in Southern Europe.

The investment portfolio is subject to consistent improvement. The disinvestment of further non-core shareholdings is scheduled for the year 2004. The at equity interest in SIFIN Institut für Immunpräparate und Nährmedien GmbH, Berlin, was sold in February 2004.

Group revenue. The first months of the 2004 financial year present an inconsistent picture. In Germany, customers remained cautious as expected. Abroad, the strong competitive pressure in the pharmaceutical segment continued above all in the emerging markets.

However, first signals point to a situation in which realisable prices are starting to rise.

Approval of the new immunoglobulin Intratect® for the German market is envisaged for autumn 2004. While Biotest expects to benefit from a clear competitive advantage due to the product profile, it will nevertheless require great efforts to launch such a product in a well-established market. With the Europe-wide approval by way of mutual recognition (MR procedure), Biotest's sales potential will distinctly increase.

With the new main product Intratect®, an immunoglobulin of the latest generation that has clear pharmaceutical advantages over other preparations already on the market, Biotest expects market entry to France and Great Britain, markets which were until now closed by approval restrictions, alongside higher sales in traditional markets. A distinct increase in revenue and improvement of the result would be the consequence. Biotest at the same time reduces its dependence on tender transactions in third world countries, which by nature are difficult to plan.

To a certain extent the certification requirements recently introduced by the authorities and the fact that customers increasingly focus on state-of-the-art automated systems also resulted in improved market opportunities for Biotest.

Against the background of a higher number of existing laboratory automation devices, and the TANGO device in particular, Biotest thus envisages further sales growth in transfusion medicine in the Diagnostic division. Sales of disposals for these purposes, such as serological test systems, are constantly rising.

The successful conclusion of approval studies in the US is another prerequisite for increasing revenue and earnings contributions in the future.

In transplantation diagnostics, Biotest was able to achieve a distinct improvement in earnings by means of an enhanced cost structure of the organ compatibility test system ELPHA.

In the area of bacteriological diagnostics and the HYCON product line, we will optimise the distribution structure and production capacity utilisation by merging those areas at Heipha Dr. Müller GmbH. From our current point of view, revenue growth of Heipha Dr. Müller GmbH commenced in 2003 will continue.

On the whole, Biotest envisages that the level of Group revenue in 2004 will slightly exceed the revenue level of 2003.

Consolidated earnings. For the 2004 financial year, we expect consolidated earnings to increase above the level of 2003.

Restructuring and cost-cutting measures will fully come to fruition for the first time in 2004. The new Group structure, concentrating activities in Biotest AG, will be established in spring 2004 following official approval.

These cost savings effects, however, will be offset to a certain extent by lower earnings per unit in the Pharmaceutical division.

The final completion of investment activities, which meanwhile have been conducted to a large extent, is another focal point in improving competitiveness. A higher number of approvals of the new product generation in important European pharmaceutical markets will be the consequence and, from a technical point of view, higher yields will be achieved.

For the year 2004, we envisage only minor effects from the new fractionation as approval in Germany is expected in autumn 2004. Biotest intends to conclude farming-out contracts for fractionation with several countries to ensure a continued high level of capacity utilisation. In one first case, such contracts have already been signed and a first plasma processing run is intended to be carried out in 2004. This will be accompanied by additional capacity utilisation of the facility and a good level of proceeds.

In 2004, Biotest will have to cope with additional, temporarily higher funding cost and consulting services – although the level is expected to be lower than in 2003.

Hence, Biotest expects an overall positive result for the year 2004. The completion of restructuring measures, the implementation of the strategic focus, the completion of the pharmaceutical large-scale investment programme and European approvals for the new product generation are the prerequisites for a distinct improvement of annual net profits from 2005 onwards.

Further Information on the Financial Year

The Biotest Group

Biotest AG, Frankfurt am Main

Germany

100 %	Biotest Pharma GmbH, Dreieich
100 %	Plasma Service Europe GmbH, Dreieich
98 %	Biotest Grundstücksverwaltungs GmbH, Dreieich
51 %	Heipha Dr. Müller GmbH, Eppelheim
51 %	Viro-Immun Labor-Diagnostika GmbH, Oberursel
26 %	SIFIN Institut für Immunpräparate und Nährmedien GmbH Berlin, Berlin

Production and distribution

Sales and distribution

Other

Rest of World

100 % Biotest Pharmazeutika Ges.m.b.H., Vienna/Austria

100 % Plasmadienst Tirol GmbH, Innsbruck/Austria

100 % Biotest Italia S.r.l., Trezzano/Italy

100 % Biotest Seralc° N.V., Kortenberg/Belgium

100 % Biotest (UK) Ltd., Solihull/Great Britain

100 % Biotest (Schweiz) AG, Rupperswil/Switzerland

100 % Biotest S.a.r.l., Buc/France

100 % Biotest Hungaria Kft., Budapest/Hungary

100 % Biotest Diagnostics Corporation, Denville/USA

100 % Biotest K.K., Tokio/Japan

(December 31, 2003)

Further Information on the Financial Year

Biotest Shares

Equity markets recovered in 2003. The dramatic slide of prices on German equity markets continued over the first three months of the year, leading to a decline in the DAX of approximately 30 %. With the breakout of the war in Iraq in March, the index finally bottomed out yet manged an impressive recovery later on in the year, rising by almost 83 % by the end of the year The three-year decline was thus put to an end.

Substantial factors in this development included above all the continued cautious attitude of investors due to a weak economic situation at the beginning of the year, the rapid spreading of SARS and the growing signs of military intervention in Iraq. The quick end of the war in Iraq and the increasing signals of an US-led economic upturn consequently resulted in a surge of equity prices across the world and in particular on German equity markets.

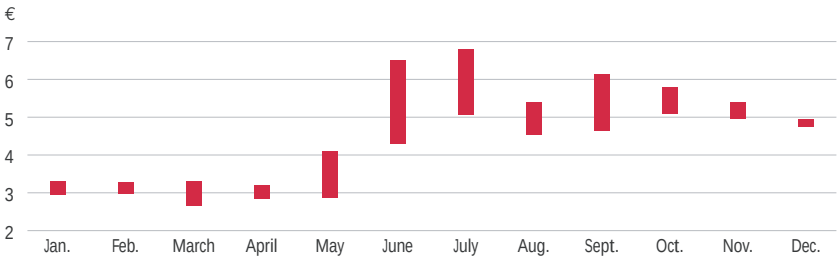
Above-average increase in Biotest share price. At the beginning of the year Biotest shares suffered from the difficult market situation to the same extent as the overall environment. The decline in share prices of both ordinary shares and preference shares was moreover accelerated by the net loss recorded for the 2002 financial year announced on 11 March. This brought the shares down to historical lows of € 3.18 for ordinary shares and € 2.75 for preference shares. Biotest then however benefited from an improvement in stock market sentiment. Combined with our expectations of a distinct improvement of results in 2003 compared to the previous year, this development led to a recovery in our share price. Share prices finally temporarily rallied to an annual high of € 8.50 (ordinary shares) and € 6.8 (preference shares), triggered by reports of the successful use of our sepsis preparation Pentaglobin® in treating severe infections resulting from the respiratory disease, SARS, and the approval granted for the antibody preparation Cytotect® CP, which is produced with the new CP procedure and aims at avoiding infections with the cytomegalus virus after transplantation. The share price settled down at € 7.30 and € 4.95, respectively, at the end

Share Price 2003 (Index)

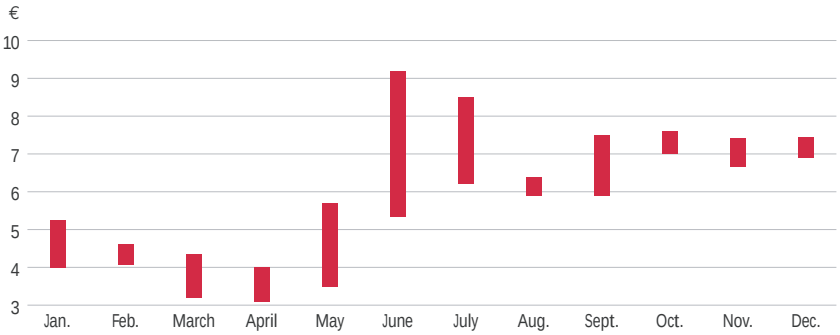
of the year. Biotest shares thus recorded a price increase of 46 % for ordinary shares and 50 % for preference shares from the beginning of the year and outperformed the Pharma & Healthcare industry index by far (19.8 %).

Position on the stock market. Biotest AG's share capital of € 20,480,000 is divided into 4 million notional no-par value ordinary shares and the same number of no-par value, non-voting preference shares. Major shareholders include the Dr. Schleussner family which holds 60 % of Biotest AG's ordinary shares and SüdKA Kapitalanlagegesellschaft mbH which holds 5.357 %. The remaining ordinary shares and all of Biotest AG's preference shares are broadly dispersed across the stock exchange. Biotest AG's ordinary shares are traded with ISIN DE0005227201, WKN 522720, preference shares with ISIN DE0005227235, WKN 522723 on the official trading segment (amtlicher Handel) in Berlin, Düsseldorf, Frankfurt/Main, Hamburg and Stuttgart.

Share Price (high/low) 2003; Preference Shares Frankfurt/M.



Share Price (high/low) 2003; Ordinary Shares Frankfurt/M.



Following the new stock market segmentation, Biotest no longer is a component of the SDAX. However, Biotest is listed in the new "Prime Standard" quality segment and thus is included in the Pharma & Helthcare industry index. The previous SMAX participation was revoked upon admission to the above segment.

We apply the high quality requirements of this segment to publications, IFRS accounting and timely information of market participants by way of press releases, via the Internet and at analyst conferences.

2004 Annual General Meeting. Our Annual General Meeting will take place on 8 July 2004 at 10.30 a.m. in the Congress Center Messe Frankfurt, Frankfurt/Main.

Key figures Biotest Shares		2003	2002	2001
Number of ordinary shares per December 31		4,000,000	4,000,000	4,000,000
Number of preference shares per December 31		4,000,000	4,000,000	4,000,000
		8,000,000	8,000,000	8,000,000
Dividend		880,000	–	€ 2,240,000
per share				
Dividend on ordinary shares		0	–	€ 0.25
Dividend on preference shares		0.11	–	€ 0.31
Backpayment preference shares of 2002		0.11		
Earnings per share in €		–0.77	– 2.56	0.53
Additional dividend rights in 2003 per preference share in €		0.11	0.11	0.06
Earnings per preference share in €		–0.66	– 2.45	0.59
Cash flow[1)]		2.67	€ 1.77	€ 3.70
Ordinary shares	Closing price at year-end	7.30	4.90	13.40
	High	8.50	14.57	18.32
	Low	3.18	4.83	9.20
Preference shares	Closing price at year-end	4.15	3.07	12.10
	High	6.80	13.75	15.89
	Low	2.75	2.95	8.40

[1)] from 2001: operational cash flow before changes in working capital

Consolidated Financial Statements

According with International Financial Reporting Standards (IFRS)

Consolidated Financial Statements

Biotest Aktiengesellschaft, Group Income Statement for the Year Ended 31 December 2003

	Note	Continued operations		Discontinued operation		Total	
		2003 € thousands	2002 € thousands	2003 € thousands	2002 € thousands	2003 € thousands	2002 € thousands
Revenue		221,889	244,341	–	13,515	221,889	257,856
Costs of good sold		–124,395	–132,311	–	–9,756	–124,395	–142,067
Gross profit		**97,494**	**112,030**	**–**	**3,759**	**97,494**	**115,789**
Distribution expense		–52,547	–61,175	–	–2,739	–52,547	–63,914
Administrative expense		–16,225	–18,671	–	–1,167	–16,225	–19,838
Research and development expense		–18,364	–17,971	–	–1,311	–18,364	–19,282
Other operating income	E1	10,600	6,304	303	938	10,903	7,242
Other operating expenses	E2	–10,026	–11,675	–	–3,089	–10,026	–14,764
Profit from operations before special effects		**10,932**	**8,842**	**303**	**–3,609**	**11,235**	**5,233**
Write-offs	E3	–160	–6,758	–	–1,977	–160	–8,735
Restructuring cost	E4	–3,423	–3,283	–	–	–3,423	–3,283
Operating profit		**7,349**	**–1,199**	**303**	**–5,586**	**7,652**	**–6,785**
Financial result	E7	–9,079	–10,084	–	–449	–9,079	–10,533
Income from associated companies		–20	41	–	–	–20	41
Profit before tax		**–1,750**	**–11,242**	**303**	**–6,035**	**–1,447**	**–17,277**
Income tax	E8	–3,797	–2,350	–	–170	–3,797	–2,520
Profit after tax		**–5,547**	**–13,592**	**303**	**–6,205**	**–5,244**	**–19,797**
Minority interest		–483	–203	–	–37	–483	–240
Consolidated net loss		**–6,030**	**–13,795**	**303**	**–6,242**	**–5,727**	**–20,037**
Earnings per share in €	F10					**–0.77**	**–2.56**
Additional dividend rights per preference share in €						**0.11**	**0.11**
Earnings per preference share in €						**–0.66**	**–2.45**

The Notes are an integral part of the consolidated financial statements.

Consolidated Financial Statements

Biotest Aktiengesellschaft, Group Balance Sheet as at 31 December 2003

Assets	Note	31.12.2003 € thousands	31.12.2002 € thousands
Intangible assets	F1	3,477	4,829
Property, plant and equipment	F2	112,701	110,383
Finance lease assets	F2	32,285	30,756
Investments in associates	F3	400	420
Other investments	F4	580	643
Fixed assets		**149,443**	**147,031**
Inventories	F5	117,223	129,896
Trade receivables	F6	58,965	63,571
Other assets	F7	8,907	19,128
Cash and cash equivalents	F8	12,118	8,073
Current assets		**197,213**	**220,668**
Deferred tax assets	F9	**3,322**	**4,295**
Total assets		**349,978**	**371,994**
Equity and liabilities			
Issued capital		20,480	20,480
Share premium		78,964	78,964
Reserves		8,137	29,095
Consolidated net loss		–5,727	–20,037
Shareholders' equity	F10	**101,854**	**108,502**
Minority interest		**1,433**	**2,292**
Provisions for pensions and similar obligations	F11	34,557	32,755
Provisions for taxes		837	3,015
Other provisions	F12	18,666	22,824
Provisions		**54,060**	**58,594**
Non-current liabilities	F13	46,646	52,717
Current financial liabilities	F13	116,319	114,703
Trade payables		14,819	22,053
Other liabilities	F14	12,915	11,149
Liabilities		**190,699**	**200,622**
Deferred tax liabilities	F9	**1,932**	**1,984**
Total equity and liabilities		**349,978**	**371,994**

The Notes are an integral part of the consolidated financial statements.

Biotest Aktiengesellschaft, Statement of Changes in Equity for the Year Ended 31 December 2003

	in € thousands				
	Issued capital	Capital reserves	Accumulated differences from currency translation	Consolidated earnings and retained earnings	Total
Balance at 1 January 2002	**20,480**	**78,964**	**658**	**31,351**	**131,453**
Difference from currency translation	–	–	–674	–	–674
Consolidated net loss	–	–	–	–20,037	–20,037
Dividend distributions for 2001	–	–	–	–2,240	–2,240
Balance at 31 December 2002	**20,480**	**78,964**	**–16**	**9,074**	**108,502**
Balance at 1 January 2003	**20,480**	**78,964**	**–16**	**9,074**	**108,502**
Difference from currency translation	–	–	–921	–	–921
Consolidated net loss	–	–	–	–5,727	– 5,727
Dividend distributions for 2002	–	–	–	–	–
Balance at 31 December 2003	**20,480**	**78,964**	**–937**	**3,347**	**101,854**

Explanations on shareholders' equity are contained in the Notes under F10 Shareholders' equity.

The Notes are an integral part of the consolidated financial statements.

Biotest Aktiengesellschaft, Cash Flow Statement for the Year Ended 31 December 2003

	Note	2003 € thousands	2002 € thousands
Net profit before tax		–1,447	–17,277
Depreciation and amortisation of intangible assets and property, plant and equipment	F1; F2	11,015	19,570
Income from associates		20	–41
Write-downs on investment securities		2	4
Gains from the disposal of fixed assets		–602	–131
Gains from the disposal of affiliated companies		–888	–
Increase in provisions for pensions	F11	1,802	1,504
Net interest income		11,490	10,533
Cash flow from operating activities before changes in working capital		**21,392**	**14,162**
Increase (2002: decrease) in other provisions	F12	–5,485	5,261
Decrease (2002: increase) in inventories, accounts receivable, and other assets		19,147	–9,584
Decrease (2002: increase) in liabilities and other items on the liabilities side of the balance sheet		–4,203	453
Cash flow from changes in working capital		**9,459**	**–3,870**
Interest paid		–10,900	–9,790
Taxes paid		–3,434	–2,963
Net cash from operating activities (2002: Net cash used in operating activities)		**16,517**	**–2,461**
Cash from the disposal of fixed assets		988	616
Cash used for investments in fixed assets	F1; F2	–20,511	–30,801
Cash used for the acquisition of additional shares		–	–1,238
Cash from the disposal of affiliated companies less cash equivalents from deconsolidation		6,318	–19
Changes in other financial assets		–31	–43
Interest received		1,252	1,025
Net cash used in investing activities		**–11,984**	**–30,460**
Dividend payments for 2002		–	–2,240
Cash changes in minority interests		–97	830
Cash changes from the sale of accounts receivable	F6	–22	–1,326
Proceeds from borrowings	F13	16,822	44,982
Payments for redemption of debt	F13	–16,820	–11,085
Net cash used in financing activities (2002: Net cash from financing activities)		**–117**	**31,161**
Cash changes in cash and cash equivalents		4,416	–1,760
Exchange rate-related changes		–371	–87
Cash and cash equivalents at beginning of period	F8	8,073	9,920
Cash and cash equivalents at end of period	F8	**12,118**	**8,073**

The Notes are an integral part of the consolidated financial statements.

Notes of the Consolidated Financial Statements

of Biotest AG

Notes of the Consolidated Financial Statements

of Biotest AG

A General Information

Biotest Aktiengesellschaft (Biotest AG) is the Group's parent company with registered office in Frankfurt/Main. The Group's headquarters are located in Landsteinerstr. 5, 63303 Dreieich, Germany. With its Pharmaceutical and Diagnostic divisions, Biotest AG and its subsidiaries are active in research, production and marketing. The Pharmaceutical division is primarily represented by Biotest Pharma GmbH, producing and distributing banked serum, protein solutions, immunoglobulins and coagulation preparations. The products are manufactured on the basis of blood plasma and human blood. Plasma Service Europe GmbH, Dreieich, which was established in 2001, and Plasmadienst Tirol GmbH, Austria support the supply of blood plasma within the Group. The Diagnostic division manufactures serology and microbiology products and is active in research and development in these areas. The products include test sera, culture media and hygiene monitoring devices as well as similar merchandise. The Medical Devices division, which was to be discontinued, was sold with effect from 1 January 2003.

The consolidated financial statements of Biotest AG and its subsidiaries have been prepared in accordance with the accounting provisions published or adopted by the International Accounting Standards Board (International Financial Reporting Standards – "IFRS" – and IAS). All International Financial Reporting Standards in effect at 31 December 2003 or 2002 and all Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC" – previously known as "SIC") were applied in the preparation of the financial statements.

No new or amended IFRS standards or IFRIC interpretations were applied in the 2003 financial year.

The consolidated financial statements are consistent with the European Union's Consolidated Accounts Directive (Directive 83/349/EEC). Additional disclosure was made and information provided in accordance with the German Commercial Code (HGB) in order to obtain consolidated financial statements complying with the provisions of German Commercial Code.

As these consolidated accounts discharge us of the obligation to prepare consolidated accounts in accordance with the provisions of the German Commercial Code (§ 292a), we will not prepare such a set of accounts.

Amounts are stated in thousands of euros (€ '000), if not stated otherwise.

B Accounting and Consolidation Policies Inconsistent with German Law

Below, we disclose material accounting and consolidation policies which are inconsistent with German law.

Leasing. In some cases, IFRS provisions stipulate that leased assets which would still be accounted for by the lessor pursuant to the German Commercial Code are already accounted for by the lessee.

The company owning the economic interest in an asset and thus carrying the risks and rewards of utilisation of the leased asset must account for such leased asset.

Derivative financial instruments. According to IFRS, all derivative financial instruments must be recorded at market value which leads to the recognition of unrealised profits. The German Commercial Code provides for the recognition of unrealised profits only in accordance with the "imparity principle". If all documentation requirements have been satisfied and an effective hedging relationship is in place, a hedging relationship may be accounted for correspondingly in accordance with IFRS, and partially unrealised profits and losses directly offset against reserves.

Deferred taxes. Pursuant to IFRS, deferred taxes must be recognised for all temporary differences (including quasi-permanent differences) between the tax base of assets and liabilities and the amounts accounted for in accordance with IFRS. Moreover, in contrast to the German Commercial Code deferred tax assets must be recognised for carryforwards of tax losses to the extent that these can be offset against future tax losses.

Inventories. Pursuant to IFRS the cost of work in progress and finished goods as well as self-constructed plants should comprise all costs. These also include overheads for which an option to capitalise exists pursuant to the tax laws. Raw materials, consumables and merchandise are only written off to lower replacement cost in the event that it is no longer possible to sell the corresponding finished goods at their cost of conversion.

Foreign currency translation. Accounts receivable and liabilities in foreign currency must be valued at the prevalent rates at the relevant balance sheet date which, in contrast to the German Commercial Code procedures, results in the recognition of unrealised profits.

Provisions for pensions. Provisions for pensions and similar obligations are determined using the projected unit credit method, taking into account market rates and future increases in salary and benefit levels. Provisions for pension benefits must be set aside from the time the liability arises, taking into account current fluctuation rates.

Other provisions. IFRS provides for setting aside provisions for liabilities to third parties only. Contrary to the provisions of the German Commercial Code, it is not allowed to set aside provisions for future expenses, i.e. provisions for which no liability to parties outside the company exists. All long-term liabilities must be discounted in accordance with IFRS. Valuation of provisions is accounted for in accordance with the principle of prudence contained in the commercial law, while IFRS requires that a future utilisation must be probable.

First-time consolidation. Pursuant to IFRS (in contrast to the German Commercial Code) the book value method does not limit the recognition of undisclosed accruals and provisions upon first-time consolidation to the cost of purchase of the investment. A resulting difference on the liabilities side will be offset against capitalised goodwill and amortised over the average life of amortisable assets with an effect on the income statement in accordance with IFRS.

Minority interests. In contrast to the German Commercial Code, minority interests in subsidiaries' equity are not recognised as part of shareholders' equity but as a separate line item under shareholders' equity and above liabilities. Pursuant to IFRS, net profit attributable to minority interests reduces the consolidated net profit for the year.

C Material Accounting Policies

C1 Scope of consolidation. All material subsidiaries are included in Biotest AG's consolidated financial statements. Biotest AG directly or indirectly holds the majority of voting rights in 5 (2002: 6) German and 10 (2002: 12) foreign companies. In November 2002 Biotest Medizintechnik GmbH was eliminated from the scope of consolidated companies due to having filed for insolvency proceedings. The company's income statement has been included in the 2002 consolidated financial statements until the time of its exclusion. With effect from 1 January 2003, Envitec-Wismar GmbH, Umweltschutz und Medizintechnik, Wismar, Envitec-Denmark APS, Copenhagen/Denmark and Diaclone SAS, Besançon/France were eliminated from the scope of consolidated companies. The change in the scope of consolidation does not materially affect comparability with the previous year. Detailed information on the effects of the elimination of these companies from the scope of consolidated companies is given in notes D2 to D3.

One company, SIFIN Institut für Immunpräparate und Nährmedien GmbH Berlin with registered office in Berlin, has been included in the consolidated financial statements as an associated company at equity.

The material companies included in the consolidated financial statements have been included in note G5 of the notes to the consolidated financial statements. A complete listing of all companies in which an equity interest is held by Biotest Group is filed with the commercial register of the local court (Amtsgericht) of Frankfurt/Main under number HR B 27614.

The balance sheet date for the consolidated financial statements and all consolidated companies is 31 December 2003.

C2 Consolidation principles. Capital consolidation has been accomplished pursuant to the book value method, and cost of purchase have been offset against the market value of the shareholders' equity attributable to the parent company at the time of purchase on a pro-rata basis. Remaining differences are capitalised as goodwill and amortised over the expected useful life. Negative differences are offset against goodwill and released over the average life of the amortisable/depreciable assets with an effect on the income statement.

The book value of investments in associated companies includes profits not yet distributed on a pro-rata basis from the time a material influence is exercised. Corresponding losses are offset against the book value of the investment on a pro-rata basis.

Intragroup sales, expenses and income as well as all accounts receivable and all liabilities between the consolidated companies have been eliminated.

C3 Currency Translation. Currency translation follows the concept of the functional currency. When translating annual accounts of subsidiaries whose functional currency is not the euro, assets and liabilities have been translated using the mean rate of exchange at the balance sheet date and income and expenses have been translated using annual average rates. The resulting accumulated differences are recognised in a separate equity capital item without effect on the income statement. This separate equity capital item is disclosed under reserves in the balance sheet.

Where monetary items (cash and cash equivalents, accounts receivable and liabilities) are recorded in local currency in the consolidated companies' individual balance sheets, these items are valued at the exchange rate as at the balance sheet date. Resulting currency differences are recorded under other operating income or expenses.

The following exchange rates were used for translating currencies of the most important countries.

	Averages rates		Rates at the balance sheet date	
Equivalent for € 1	2003	2002	2003	2002
US dollar	1.1309	0.9449	1.2630	1.0487
Pound sterling	0.6919	0.6288	0.7048	0.6505
Japanese yen	130.96	118.07	135.05	124.39
Swiss franc	1.5207	1.4672	1.5579	1.4524
Hungarian forint	253.52	242.89	262.50	236.29

C4 Derivative financial instruments. To hedge interest rate and currency risks, the Group uses derivative financial instruments such as foreign exchange contracts, interest rate swaps, payer swaps and cross currency swaps. No derivative financial instruments were purchased for trading purposes.

Derivative financial instruments are valued at market value which is determined on the basis of market conditions at the balance sheet date. For derivative financial instruments held for hedging purposes, changes in the market value are accounted for in accordance with the type of the corresponding hedge transaction.

Derivative financial instruments which do not meet Biotest Group's strict formal requirements for hedge accounting, even though it is Biotest's intention to hedge its activities, are accounted for in accordance with the provisions for trading derivatives. Derivative financial instruments are consequently recorded at cost of purchase first and then shown at market values afterwards. Changes in the valuation are reflected in the income statement correspondingly.

Market values of foreign currency forward transactions are determined on the basis of market conditions at the balance sheet date. The market value of interest rate swaps, payer swaps and cross currency swaps is determined by banks as at the valuation date.

C5 Intangible fixed assets.

C5.1 Goodwill. Goodwill arises on the acquisition of companies or shares in companies ("share deal") as well as on the acquisition of business divisions ("asset deal") from the difference between the cost of purchase (purchase price) and the fair values of acquired assets and liabilities. Goodwill is recorded at cost of purchase less accumulated amortisation. The goodwill recorded is amortised on a straight-line basis over useful lives of between 5 and 15 years.

Goodwill in the context of the acquisition of foreign companies is translated at the exchange rate at the time of first-time consolidation.

Any negative goodwill of Diaclone SAS, Besançon, resulting from first-time consolidation of this company was amortised over the remaining useful life of the long-term assets of 45 years with an effect on income. Diaclone SAS, Besançon was disposed of in 2003. Therefore the Group no longer records any negative goodwill.

Associated companies included "at equity" in the consolidated financial statements are recognised at goodwill and changes thereof.

C5.2 Other intangible fixed assets. Other intangible fixed assets purchased for a consideration are recorded at the cost of purchase and are amortised over their estimated useful lives pursuant to the straight-line method. Where necessary, a write-down of these assets has been recorded. The useful lives last between 3 and 5 years.

C6 Property, plant and equipment. Property, plant and equipment are recorded at cost less accumulated depreciation. Depreciation has been effected on a straight-line basis over the expected useful life. The following terms were estimated for the individual items:

Buildings	up to 50 years
Machinery	5–12 years
Plant and equipment	3–10 years

Write-downs are effected pursuant to IAS 36 to such an extent as necessary. Cost of conversion of self-constructed property, plant or equipment includes cost of materials and staff cost as well as adequate overhead cost on a pro-rata basis. Repair and maintenance expenses are recognised when incurred with an effect on income. Extensions and major improvements are capitalised. Interest cost is recognised as expense. Government grants reduce the cost of purchase or conversion.

C7 Leasing. Contracts for rented or leased fixed assets which transfer substantially all the risks and rewards incident to ownership of such asset are classified as finance leases. They are capitalised at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of the minimum lease payments in accordance with IAS 17. They are depreciated over their expected useful life. Write-downs are effected pursuant to IAS 36 to such an extent as necessary. Respective payment obligations from future lease payments are correspondingly recognised in the balance sheet as liabilities. The interest element of leasing payments is recorded over the term of the leasing contract with effect on income.

The assets capitalised in the context of finance leases are production plants.

If the condition that substantially all the risks and rewards incident to ownership of an asset are transferred to the Group is not fulfilled, such asset is recognised in the balance sheet of the lessor (operating lease). The leasing payments are recorded as expense when they are incurred.

C8 Impairment. Should certain facts or circumstances imply the impairment of long-lived assets, the recoverable amount of such assets, which corresponds to the higher of the net selling price and the value in use, is determined. If this amount falls short of the book value, a write-down will be recognised. With the exception of goodwill, write-ups are effected when the estimated recoverable amount exceeds amortised cost.

C9 Inventories. Inventories are carried at cost or lower recoverable net selling value at the balance sheet date. The latter is equal to the estimated selling price which may be recovered in the course of the ordinary business reduced by expected completion or disposal cost. The cost of purchase should be determined on the basis of the first-in, first-out method or on the basis of the weighted average. Pursuant to IAS 2, cost of conversion includes cost directly related to the units of production. It also includes an adequate share of the overheads attributable to the production process.

C10 Trade receivables and other assets. Trade receivables and other assets are recorded at their nominal value. Receivables denominated in foreign currencies are translated at the exchange rates prevailing at the balance sheet date. Foreign exchange rate gains or losses are recorded with effect on income or expenses. Default and transfer risks are accounted for by the recognition of allowances. The allowances are determined on the basis of experience and individual risk assessment.

C11 Cash and cash equivalents. The item cash and cash equivalents includes cash and current account balances as well as investments which can be disposed of at any time with times to maturity of less than three months.

C12 Pension provisions. Biotest Group operates several defined benefit pension plans. Such plans are valued on the basis of actuarial opinion in accordance with the so-called projected unit credit method. In this context, the pension expense for the financial year is projected on the basis of the approaches determined at the beginning of the financial year. The parameter used (interest rate, fluctuation rate, salary increases, etc.) are expected values. Any actuarial gains or losses at year-end will not influence the pension expense in the financial year but shall be amortised in the following year on a pro-rata basis (in accordance with the average remaining aggregate employees' overall length of service). In accordance with the corridor approach pursuant to IAS 19.92, the Group does not record amortisation amounts within a range of 10 % of the present value of the defined benefit liability.

A pension liability from a retrospective change of benefit obligations in any financial year should be determined separately and amortised over the period until the claims are vested. If claims are already vested at the time of the change, the pension expense is recorded in that period with effect on the income statement.

C13 Other provisions. In accordance with IAS 37 provisions should be recognised when an enterprise has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the outflow of resources. It is valued at the probable amount. Provisions are recorded at present value, taking into account their materiality.

C13.1 Liabilities for part-time work for elder workers. Material companies within Biotest Group are subject to collective wage agreements of the chemical industry and are consequently subject to the chemical industry's master agreement on part-time work for elder workers. Provisions for part-time work for elder workers are recognised for all employees which are likely to start working on a part-time basis when approaching retirement during the term of the master agreement. The maximum thresholds for the employer's obligation are taken into account in this context. Amounts are valued at the present value of the probable benefit obligation. Past experience has shown that the thresholds stated in the collective wage agreements have been exhausted.

C13.2 Restructuring. Restructuring provisions have been recognised at a time at which the Group published a detailed and formal restructuring plan and started implementing the restructuring measures or, at which the affected employees were formally informed of material details of the plan. Detailed information of employee representatives (works council) is in this context tantamount to a notice to the individual employees affected.

C14 Financial liabilities. In the beginning, financial liabilities are recorded at the amount of the loan reduced by transaction cost and then stated at amortised cost using the effective interest rate method. Any difference between the net amount of the loan and the redemption value is recorded in the income statement over the term of the financial liability.

C15 Revenue. Revenue from the sale of products is recognised – less discounts and value added tax – at the time of transfer of economic ownership, i.e. at the time when risks and rewards were transferred to the buyer, based on the corresponding contractual agreements.

C16 Research and development expense. Research cost is recorded as expense at the time incurred. Development cost, too, is recorded as expense when incurred as it is not sufficiently certain that products may be marketed or production processes employed until they have been approved by the authorities and such approval is typically granted only at the end of the development process. The requirements for capitalisation pursuant to IAS 38 thus are not fully complied with. Development cost incurred after approval by the authorities is not material.

C17 Government grants for research and development. Government grants for research and development are recorded in the income statement at the time of the grant or in accordance with the research and development expenses incurred. They are recorded under other income and not offset against research and development expenses.

C18 Interest. Interest is recognised as income or expense when incurred. The share of interest contained in leasing payments for finance leases is recorded using the effective interest rate method and recognised as interest expense.

C19 Taxes. Current income tax expense is determined and recognised on the basis of the corresponding national tax provisions of those countries in which Biotest Group operates.

The Group determines deferred taxes for all temporary differences between the tax base of assets and liabilities and the values to be stated in accordance with IFRS. Moreover, deferred taxes are as a general rule recognised for existing tax loss carryforwards.

The respective applicable tax rates or those rates which were already passed by parliament are used for the determination of current tax expenses and deferred taxes.

Deferred tax assets are recognised in an amount of which it can be expected at the balance sheet date with sufficient certainty that the respective entity will generate sufficient taxable income to be able to realise the tax benefits.

C20 Virtual stock option plan. In 2002, Biotest Group issued a virtual stock option plan for several senior employees. This plan may result in payments to senior employees on part of the Group, depending on the future development of the stock prices and taking into account the other provisions of the plan (qualifying periods). Potential liabilities of the Group during the term of the plan are accounted for by provisions with an effect on income. Against the backdrop of the share price level, no potential liability was present at the balance sheet date. Please refer to note E5 for further details of the plan.

D Segment Reporting and Discontinued Operation

D1 Segment reporting. Information disclosed in the segment report have been prepared in accordance with IAS 14 "Segment Reporting".

Segmentation in the Biotest Group is primarily aligned along products; in this context, the company is divided into Pharmaceutical and Diagnostic divisions.

– **Pharmaceutical division:** The Pharmaceutical division focuses on therapeutic treatment of patients with products derived from human blood plasma.

– **Diagnostic division:** The Diagnostic division primarily produces and distributes diagnostic preparations for both the medical laboratory and for hygiene monitoring in the industry.

– **Not allocated:** Assets not allocated include other financial assets, and cash and cash equivalents as well as the assets of Diaclone SAS for 2002. Liabilities, revenues and expenses not allocated include expenses in the context of the holding function within Biotest AG and, in 2002, liabilities, revenues and expenses of Diaclone SAS.

– **Discontinued operations:** In 2002, this division comprised Biotest Medizintechnik GmbH which was excluded from the scope of consolidated companies in that year as well as Envitec-Wismar GmbH Umweltschutz und Medizintechnik which was earmarked for sale in 2002 and sold with effect from 1 January 2003. It also comprised Envitec-Denmark APS, which is a fully-owned subsidiary of Envitec-Wismar GmbH Umweltschutz und Medizintechnik together with which it was sold.

The allocation of revenues to segments (primary segmentation) was effected in accordance with the division in which they originated. Revenues among divisions were not recorded.

Segmentation of revenues by region (secondary segmentation) was effected in accordance with the customer's geographical location. Assets were allocated on the basis of the geographical location of the owner.

Segment information by division

		in € thousands				
		Pharmaceutical division	Diagnostic division	Holding/not allocated	Discontinued operation	Total
Revenue with third parties	2003	146,031	75,858	–	–	221,889
	2002	166,659	75,746	1,936	13,515	257,856
Operating profit	2003	5,459	3,137	–1,247	303	7,652
	2002	5,807	–3,076	–3,930	–5,586	–6,785
Income from associates	2003	–	–20	–	–	–20
	2002	–	41	–	–	41
Assets	2003	268,193	67,842	13,943	–	349,978
	2002	276,637	68,757	16,435	10,165	371,994
Investments in associates	2003	–	400	–	–	400
	2002	–	420	–	–	420
Capital expenditure	2003	16,074	4,614	–	–	20,688
	2002	27,097	3,217	52	1,599	31,965
Liabilities	2003	172,581	34,402	39,708	–	246,691
	2002	184,110	52,143	19,021	5,926	261,200
Scheduled depreciation and amortisation	2003	7,872	2,983	–	–	10,855
	2002	4,926	4,830	–	1,079	10,835
Write-downs	2003	–	160	–	–	160
	2002	742	2,329	3,687	1,977	8,735
Cash inflow (outflow) from operating activities	2003	15,694	1,264	–441	0	16,517
	2002	–7,160	1,279	1,424	1,996	–2,461

In the 2003 financial year, the Diagnostic division recorded write-downs of € 160,000. In the 2002 financial year, the segments Pharmaceutical, Diagnostic and Holding/not allocated recorded write-downs of € 972,000, € 2,329,000 and € 3,457,000, respectively, whereas discontinued operations showed write-downs of € 1,977,000.

Segment data: breakdown by regions (€ thousands)

		Germany	Rest of Europe	United States	Middle East	Rest of Asia	ROW	Total
Revenue with third parties								
Continued operations	2003	73,144	93,501	13,661	20,169	16,812	4,602	221,889
Discontinued operation	2003	–	–	–	–	–	–	–
	Total 2003	**73,144**	**93,501**	**13,661**	**20,169**	**16,812**	**4,602**	**221,889**
Continued operations	2002	77,199	94,179	26,094	24,998	16,556	5,315	244,341
Discontinued operation	2002	4,973	4,856	1,618	137	845	1,086	13,515
	Total 2002	**82,172**	**99,035**	**27,712**	**25,135**	**17,401**	**6,401**	**257,856**
Assets								
Continued operations	2003	297,831	48,672	2,924	–	551	–	349,978
Discontinued operation	2003	–	–	–	–	–	–	–
	Total 2003	**297,831**	**48,672**	**2,924**	**–**	**551**	**–**	**349,978**
Continued operations	2002	308,604	49,153	3,422	–	650	–	361,829
Discontinued operation	2002	9,605	560	–	–	–	–	10,165
	Total 2002	**318,209**	**49,713**	**3,422**	**–**	**650**	**–**	**371,994**
Capital expenditure								
Continued operations	2003	18,491	1,953	244	–	–	–	20,688
Discontinued operation	2003	–	–	–	–	–	–	–
	Total 2003	**18,491**	**1,953**	**244**	**–**	**–**	**–**	**20,688**
Continued operations	2002	28,909	1,279	176	–	2	–	30,366
Discontinued operation	2002	1,599	–	–	–	–	–	1,599
	Total 2002	**30,508**	**1,279**	**176**	**–**	**2**	**–**	**31,965**

D2 Discontinued operation. Restructuring of the Medical Devices division, followed by the close-down of the division, was resolved at the end of 2002 and implemented in the year 2003 as announced. With effect from 1 January 2003, Envitec-Wismar GmbH Umweltschutz und Medizintechnik was eliminated from the scope of consolidated companies together with its subsidiary Envitec-Denmark APS due to a sale of shares.

The total purchase price of € 4.240 million was transferred to Biotest AG in the year under review. At the time of deconsolidation, the Envitec companies recorded fixed assets of € 4.036 million and current assets of € 5.318 million, € 389,000 of which were attributable to cash and cash equivalents. Liabilities were recorded at € 5.953 million. On 1 January 2003, the Group recorded goodwill of Envitec-Wismar GmbH of € 1.781 million and minority interests of € 1.245 million. In the previous year, Envitec Group contributed revenue of € 13.515 million and a net profit of € 436,000 to Group revenue and result, respectively. In 2003, no effects on revenue and result were recorded due to deconsolidation. Capital gains on disposal amounted to € 303,000.

D3 Changes in the scope of consolidated companies. In addition to the companies mentioned above, Diaclone SAS, Besançon/France was sold with effect from 1 January 2003 for a consideration of an aggregate of € 4.460 million and was thus also eliminated from the scope of consolidated companies.

Of the overall purchase price, € 3.108 million were already paid to Biotest AG in the 2003 financial year, whereas the residual amount of € 1.352 million will be due only in 2004. At the time of deconsolidation, fixed assets of € 1.238 million and current assets of € 3.276 million (of which € 381,000 are attributable to cash and cash equivalents) of Diaclone SAS were offset by liabilities to the tune of € 517,000. Goodwill within the Group was recorded at a negative amount of minus € 382,000 as at 1 January 2003. In the previous year, Diaclone SAS contributed revenue of € 1.938 million and a net loss of € 520,000 to Group revenue and result, respectively. No effects on revenue and result were recorded in 2003 due to deconsolidation. Cost of disposal amounted to € 260,000 and capital gains on disposal to € 585,000.

E Explanatory Notes to the Income Statement

E1 Other operating income.

	2003 € thousands	2002 € thousands
Release of provisions	2,972	1,639
Foreign exchange gains	2,358	2,836
Reversal of write-downs	1,213	2
Insurance refund for fire damage	790	–
Gains from the disposal of fixed assets	758	274
Proceeds from the sale of investments	888	–
Government grants	16	633
Other	1,908	1,858
	10,903	**7,242**

E2 Other operating expenses.

	2003 € thousands	2002 € thousands
Foreign exchange losses	4,296	4,741
Consulting expenses in the context of the Collateral Trustee Agreement	1,461	–
Write-downs of receivables	647	3,978
Amortisation of goodwill	190	341
Losses from the disposal of fixed assets	156	143
Transfers to provisions	67	523
Insolvency expenses incurred by Biotest Medizintechnik	27	1,798
Other	3,182	3,240
	10,026	**14,764**

E3 Write-downs.

	2003 € thousands	2002 € thousands
Continued operations		
Fixed assets Diaclone SAS	–	3,687
Property, plant and equipment Diagnostic division	160	2,329
Other assets	–	742
	160	**6,758**
Discontinued operation		
Fixed assets Biotest Medizintechnik	–	1,977
	–	**1,977**

In the financial year, the Group effected write-downs of individual assets in accordance with the requirements of IAS 36. These were due to a piece of property not required for operations (Industriestr. 1) and which is on sale. In view of the current market situation, sale at book value seems unlikely. The piece of property was written down to the expected market value.

Write-downs in 2002 were attributable to a technical plant in the Diagnostic division, an undeveloped piece of property as well as to property, plant and equipment of Diaclone SAS which was sold in 2003.

In the 2002 financial statements, a piece of real property earmarked for sale was written down to the reminder value as it was not possible to sell this piece of property at that time. We were again not able to sell this piece of property in 2003 but we are still attempting to do so.

E4 Restructuring.

	2003 € thousands	2002 € thousands
Continued operations		
Redundancy plans	–	2,479
Severance pay	1,232	624
Consultancy fees	2,191	180
	3,423	**3,283**

The redundancy plan disclosed to the works council in December 2002 was implemented within the first quarter of 2003. Reduction of personnel was implemented in accordance with labour law regulations to the greatest possible extent until 30 September 2003. Provisions for corresponding expenses were recognised in the 2002 financial statements.

Payments or provisions of € 1.232 million for severance payments to employees and members of the management that hold an exempt status and do not fall within the scope of the redundancy plans were made or recognised in 2003 (2002: € 624,000).

The restructuring cost line item moreover contains expenses for consultants who supervise and develop the implementation of the realignment and restructuring concept called for within the scope of the agreements with the banks.

E5 Staff cost. Staff cost comprises of the following items:

	2003 € thousands	2002 € thousands
Wages and salaries	53,013	61,322
Social security cost	10,572	10,355
Pension cost	3,375	3,381
	66,960	**75,057**

Staff cost includes severance pay to the tune of € 1.232 million (2002: 624,000).

Staff was employed in jobs equalling an average number of 1,088 (2002: 1,277) full-time jobs in the Group in the 2003 financial year. On 31 December 2003, staff was employed in jobs equalling an average number of 1,037 (2002: 1,263) full-time-jobs in the Group.

On 31 December 2003, the actual number of people employed by the Group amounted to 1,117 (2002: 1,357).

In February 2002, a virtual stock option programme was introduced with a term of three years (1 January 2002 until 31 December 2004). At inception, 24 employees (Board of Management and senior employees) participated in this programme and were awarded different numbers of value appreciation rights (overall 150,000 units). At 31 December 2003, the number of participants was reduced to 19 employees owning 125,000 value appreciation rights in the virtual stock option programme. After the end of the three-year term, the company will decide at its own discretion on an extension of the virtual stock option programme. The value of virtual shares is linked to the development of the Biotest ordinary share. The initial reference price is € 14.50. A right to compensation originally only arose if, during the three-year term of the rights, the market price of the Biotest ordinary share outperformed the performance of the former CDAX Pharma & Healthcare index and if the market price of the Biotest ordinary share increased by at least 30 %. Deutsche Börse replaced the CDAX in March 2003 by a two-step model comprising 18 sector indices and 62 other, so-called Industry Groups. The prime sectors are based on the CDAX industry index history. A new index will be determined as benchmark for performance valuation. Compensation is limited to € 15.00 per value appreciation right.

At the balance sheet date, the Group had no obligations under this programme.

E6 Cost of materials purchased.

	2003 € thousands	2002 € thousands
Raw materials and supplies	80,559	89,330
Services purchased	14,877	6,684
	95,436	**96,014**

The materials usage ratio deteriorated primarily due to the temporarily low revenue levels in the area of therapeutic products.

E7 Financial result.

	2003 € thousands	2002 € thousands
Currency gains from financing activities	2,496	202
Interest income	1,257	1,114
Other income	591	308
Interest expenditure	–11,626	–11,447
Interest expense Collateral Trustee Agreement	–1,778	–
Interest for a tax liability arising from a government tax audit	–	–700
Loss from the sale of securities	–	–10
Other expenditure	–19	–
Financial result	**–9,079**	**–10,533**

E8 Income tax. Income tax expense is broken down as shown below:

	2003 € thousands	2002 € thousands
Taxes in the financial year	3,304	3,545
Current tax income for prior years (2002: tax expense)	–526	1,854
Current taxes	**2,778**	**5,399**
Origination or reversion effects from timing differences	1,660	–880
Valuation of tax loss carryforwards	–641	–1,999
Deferred taxes	**1,019**	**–2,879**
Income tax expense	**3,797**	**2,520**

Applying the nominal tax rates of 37.9 % in 2003 and 2002, respectively, the expected tax expense for the 2003 and 2002 financial years will vary from the actual amounts as follows:

	2003 € thousands	2002 € thousands
Group profit before tax	**–1,447**	**–17,277**
Expected tax income (37.9%)	**–549**	–6,548
Unvalued losses in the financial year	4,647	4,746
Current and deferred taxes for prior periods	–526	3,454
Tax effect from non-deductible expenses	478	1,268
Tax effect from the application of foreign tax rates	–102	–7
Tax effect from tax-free income	–477	–179
Other effects	326	–214
Income tax in accordance with income statement	**3,797**	**2,520**

The tax rate of 37.9 % is based on a corporate tax rate of 25 %, a solidarity surcharge of 5.5 % and the rate at which trade tax is levied by the municipality in which the individual companies are located (Group headoffice Dreieich). By passing the flood victim solidarity law on 19 September 2002 the corporate tax rate was increased by 1.5 percentage point for a period of one year. This increase was not taken into account as the effects are not material.

F Notes to the Balance Sheet

F1 Intangible assets. All assets listed below are allocable to non-current assets.

	in € thousands				
	Goodwill	Negative goodwill	Patents, licenses and similar rights	Down payments	Total
Cost of purchase					
Balance at 31 December 2002	4,111	–440	10,196	346	14,213
Additions	–	–	531	938	1,469
Book transfers	–	–	346	–346	0
Disposals	–	–	–200	–	–200
Disposals from changes in the scope of consolidated companies	–2,348	440	–1,995	–	–3,903
Currency translation differences	–25	–	–76	–	–101
Balance at 31 December 2003	**1,738**	**–**	**8,802**	**938**	**11,478**
Accumulated depreciation					
Balance at 31 December 2002	1,808	–58	7,634	–	9,384
Depreciation financial year	190	–	1,025	–	1,215
Book transfers	–	–	12	–	12
Disposals	–	–	–110	–	–110
Disposals from changes in the scope of consolidated companies	–567	58	–1,919	–	–2,438
Currency translation differences	–7	–	–65	–	–72
Balance at 31 December 2003	**1,424**	**–**	**6,577**	**–**	**8,001**
Book value at					
31 December 2002	2,303	–382	2,562	346	4,829
31 December 2003	**314**	**–**	**2,225**	**938**	**3,477**

On 31 December 2003, intangible assets of a book value of € 1.926 million (2002: € 0) served as collateral for liabilities to banks.

Depreciation of the financial year is included in the following items of the income statement.

	2003 € thousands	2002 € thousands
Cost of goods sold	174	231
Distribution expense	444	448
Administrative expense	298	313
Research and development expense	109	84
Other operating expenses	190	341
	1,215	**1,417**
Write-down (impairment)	–	163
	1,215	**1,580**

Scheduled amortisation of goodwill is included in other operating cost.

F2 Property, plant and equipment. All assets listed below are attributable to non-current assets.

	in € thousands					
	Land and buildings	Machinery	Othere plants, furniture and fixture & office equipment	Leased assets	Payments in advance and facilities under construction	Total
Cost of purchase						
Balance at 31 December 2002	102,769	33,454	56,854	31,962	9,469	234,508
Additions	3,449	992	3,382	3,427	7,969	19,219
Book transfers	670	614	1,531	–	–2,815	–
Disposals	–23	–706	–2,040	–	–201	–2,970
Disposals from changes in the scope of consolidated companies	–8,890	–1	–3,561	–80	–47	–12,579
Currency translation differences	–66	–69	–167	–	–25	–327
Balance at 31 December 2003	**97,909**	**34,284**	**55,999**	**35,309**	**14,350**	**237,851**
Accumulated depreciation						
Balance at 31 December 2002	32,683	25,001	34,477	1,206	2	93,369
Depreciation financial year	2,035	1,637	4,126	1,842	–	9,640
Write-down (impairment)	160	–	–	–	–	160
Book transfers	–	–	–12	–	–	–12
Disposals	–21	–686	–1,967	–	–	–2,674
Disposals from changes in the scope of consolidated companies	–4,665	–1	–2,748	–24	–2	–7,440
Currency translation differences	–17	–60	–101	–	–	–178
Balance at 31 December 2003	**30,175**	**25,891**	**33,775**	**3,024**	**–**	**92,865**
Book value at						
31 December 2002	70,086	8,453	22,377	30,756	9,467	141,139
31 December 2003	**67,734**	**8,393**	**22,224**	**32,285**	**14,350**	**144,986**

State grants for the purchase or manufacture of assets reduce the cost of purchase or conversion. In the 2003 financial year such grants amounted to € 394,000 (2002: € 549,000).

Assets capitalised as finance leases primarily include plasma fractionation and sterile final fill production facilities of Biotest Pharma GmbH. The sterile final fill facility was completed in 2002 and depreciation was recorded in the reporting period. The plasma fractionation facility is scheduled to start operation in 2004. No depreciation has been recorded in 2003. The term of the leasing contracts for these two facilities extends over 8 years in each case. Biotest may terminate the contracts with 3 months notice. The earliest possible date, however, is a date on which at least 40 % of the contractual term has passed. Biotest has the

right of termination at a date on which not more than 90 % of the contractual term has passed only in the event that Biotest provides evidence of exceptional circumstances with regard to the possibility or ability to utilise the facilities. Upon expiration of the leasing contracts, Biotest may purchase the facilities at market value.

At 31 December 2003, property, plant and equipment of a book value of € 137.453 million (2002: € 58.641 million) served as collateral for liabilities to banks.

Facilities under construction primarily include payments in advance of € 13.101 million (2002: € 8,846 million) for constructing a coagulation facility and realigning the accompanying production functions.

Write-downs were recorded in the context of a property no longer used in the Diagnostic division in Dreieich being written down to the expected selling price.

F3 Investments in associates. Investments in associates include a 26 % share of Biotest in SIFIN Institut für Immunpräparate und Nährmedien GmbH Berlin with registered office in Berlin. This investment is recorded at equity. At 31 December 2003, the aggregate amount of profits and losses taken into consideration in the book value of the associate since acquisition amounts to € 86,000 (2002: € 77,000). As the company had already been sold at the time when the financial statements were prepared in 2004, a write-down of € 29,000 was recorded. The recognised book value of € 400,000 is equal to the selling price.

The full amount of investments in associates is used as collateral for liabilities to banks.

F4 Other investments. Other investments comprise the following items:

	2003 € thousands	2002 € thousands
Loans to employees	206	266
Fixed-income securities	199	210
Bond funds	175	167
	580	**643**

Available-for-sale financial instruments were valued at their fair market value as at the balance sheet date. Changes in the fair market value are immediately recognised in the income statement. Other investments form part of non-current assets.

F5 Inventories.

	2003 € thousands	2002 € thousands
Raw materials and supplies	18,367	35,602
Work in progress	78,956	68,478
Finished goods and merchandise	19,900	25,816
	117,223	**129,896**

At the balance sheet date, the book value of inventories was recorded at the net realisable value of € 70.722 million (2002: € 73.640 million).

Inventories of a book value of € 106.985 million (2002: € 0) served as collateral for liabilities to banks at the balance sheet date. Inventories with a reach of more than one year are recorded at a book value of € 4.860 million (2002: € 6.525 million). Detailed information on the Collateral Trustee Agreement is contained in note G2.

F6 Trade receivables. Trade receivables are without exception due within one year and comprise the following items:

	2003 € thousands	2002 € thousands
Accounts receivable, trade (gross)	69,799	76,042
Less:		
Sale of receivables	4,962	4,983
Accrual for bad debt	5,872	7,488
	58,965	**63,571**

Within the scope of a factoring programme, Biotest Pharma GmbH disposed of receivables to the tune of € 4.962 million (2002: € 4.983 million) at the balance sheet date. The factoring programme provides for the sale of domestic accounts receivable from customers of impeccable creditworthiness up to a volume of € 5 million. Provided that the receivables are legally rightful, the bank undertakes the risk of the customer's inability to pay the receivables purchased (risk of default). Accounts receivable of a book value of € 29.320 million (2002: € 0) served as collateral for liabilities to banks at the balance sheet date. Detailed information on the Collateral Trustee Agreement is contained in note G2.

F7 Other assets.

	2003 € thousands	2002 € thousands
Corporate income tax claims	1,563	3,213
Input tax and other tax assets	2,290	3,583
Residual purchase price claim from the sale of Diaclone SAS	1,352	–
Accounts receivable from the sale of plasma	900	5,846
Accounts receivable from the leasing company	40	2,330
Accrued interest and accruals and deferred income	905	1,196
Down payments	159	222
Accounts receivable from associates	134	83
Other accounts receivable	1,564	2,655
	8,907	**19,128**

Other assets of € 402,000 (2002: € 0) refer to items with a term of more than one year.

The full amount of residual purchase price claims from the sale of Diaclone SAS is used as collateral for liabilities to banks.

At the balance sheet date, the Group capitalised leasing claims of € 211,000 (2002: € 0) as lessor of laboratory devices. The underlying leasing agreements usually have a term of 5 years. Before applying discounting procedures, the repayment amounts equal € 262,000, € 49,000 thereof being due in less than a year and the rest of € 213,000 over the following 4 years. In future, interest income to the tune of € 50,000 will be received in the context of compounding interest for accounts receivable.

Within the context of operating leasing agreements with customers, € 84,000 of leasing payments will be collected in the next year and € 243,000 over the following 4 years – equalling a total of € 326,000.

F8 Cash an cash equivalents.

	2003 € thousands	2002 € thousands
Bank balances	12,011	7,912
Cash on hand	107	161
	12,118	**8,073**

F9 Deferred tax assets and deferred tax liabilities. Any deferred tax asset and any deferred tax liability are allocable to non-current assets and liabilities, respectively.

Deferred tax assets and liabilities recorded in the balance sheet refer to the following items:

	Assets		Shareholders' equity and liabilities		Net	
	2003 € thousands	2002 € thousands	2003 € thousands	2002 € thousands	2003 € thousands	2002 € thousands
Intangible assets	122	124	–	4	122	120
Property, plant and equipment	86	–	16,805	16,499	–16,719	–16,499
Other investments	158	152	147	–	11	152
Inventories	1,146	2,031	404	415	742	1,616
Accounts receivable	1,241	139	570	709	671	–570
Provisions	1,880	2,483	33	–	1,847	2,483
Financial liabilities	12,163	11,393	1,187	–	10,976	11,393
Other balance sheet items	2,145	1,392	1,415	454	730	938
Tax value of the loss carried forward	3,010	2,678	–	–	3,010	2,678
	21,951	**20,392**	**20,561**	**18,081**	**1,390**	**2,311**
Less netted deferred tax assets and liabilities	–18,629	–16,097	–18,629	–16,097	–	–
Deferred tax assets/liabilities	**3,322**	**4,295**	**1,932**	**1,984**	**1,390**	**2,311**

Deferred taxes for tax loss carryforwards of € 8.472 million (2002: € 4.079 million) have not been recognised as we currently do not expect to be able to use such loss carry-forwards. Deferred taxes not recognised for loss carryforwards of € 8.139 million (2002: € 3.534 million) are attributable to German companies and € 333,000 (2002: € 545,000) to foreign companies. At present, loss carryforwards can be carried forward for an unlimited time in Germany.

F10 Shareholders' equity. Subscribed capital is fully paid-in and remains unchanged at an amount of € 20,480,000 (ordinary shares: € 10,240,000, preference shares: € 10,240,000) at 31 December 2003. It has been divided into 4 million ordinary shares of no-par value and 4 million preference shares without voting right of no-par value. Certification of shares is precluded. Consequently, the theoretical par value of these shares amounts to € 2.56.

The distributable profit of Biotest AG determined in accordance with the German Commercial Code shall be the basis for the distribution of earnings in any financial year.

The share of ordinary shares of the Dr. Schleussner family remains unchanged at 60 %. 5.36 % of ordinary shares are held by Süd KA Südkapitalgesellschaft mbH. The remaining 34.64 % of ordinary shares and all preferred shares are widely dispersed across the stock exchange. The proposal on the appropriation of profits provides for a dividend distribution of € 880,000 for the year 2003. Preference shares carry minimum dividend rights of € 0.11 per share. Should holders of ordinary shares receive a dividend of more than € 0.11 per share, holders of preference shares moreover receive an additional dividend of € 0.06 per share. Dividends not paid on preference shares in any one year must be paid in the following year. If dividends are not paid in the second year either, the preference shares shall be furnished with voting rights (cf. Art 140 sec 2 of the German Stock Corporation Act – AktG).

Earnings per share are determined by dividing the consolidated profit attributable to all shareholders by the weighted average number of shares outstanding. In 2002 and 2003, no changes in the number of shares outstanding were recorded at Biotest AG.

	2003	2002
Consolidated earnings (in € '000)	–5,727	–20,037
Additional dividend on preference shares (in € '000)	–440	–440
Consolidated earnings adjusted for additional dividend rights (in € '000)	–6,167	–20,477
Number of shares outstanding (corresponds to weighted average)	8,000,000	8,000,000
Earnings per share (€)	–0.77	–2.56
Additional dividend rights per preference share (€)	0.11	0.11
Earnings per preference share (€)	–0.66	–2.45

There are no effects which may dilute earnings or the number of shares.

F11 Pension provisions and similar obligations. The benefits are based on the employees' time of employment and salary. All benefits are based on defined benefit plans. Retirement benefit obligations are recognised for employees in German companies. Similar obligations include foreign obligations which become due in the form of a one-off payment upon retirement.

The provisions for pensions and similar obligations consist of the following:

	2003 € thousands	2002 € thousands
Pensions	33,393	31,686
Similar obligations	1,164	1,069
	34,557	**32,755**

The net amount of pension provisions and similar obligations is derived as follows:

	2003 € thousands	2002 € thousands
Present value of retirement benefit obligations funded by provisions	32,910	34,425
Present value of retirement benefit obligations funded by pension liability insurance	1,531	861
Present value of plan assets (employer's pension liability insurance)	–770	–671
Present value of retirement benefit obligations	**33,671**	**34,615**
Balance of actuarial gains not yet recognised in the balance sheet (2002: losses)	886	–1,860
Net value of amounts recognised at the balance sheet date	**34,557**	**32,755**

In the reporting period, the value of pension provisions has changed as follows on a Group level:

	2003 € thousands	2002 € thousands
Pension provisions on 1 January	32,755	31,251
Pensions payments in the reporting period	–1,415	–1,369
Decrease due to the deconsolidation of BMT	–	–274
Pension cost	3,217	3,147
Pension provisions at 31 December	**34,557**	**32,755**

Defined benefit plans caused overall expenses of € 3.217 million (2002: € 3.147 million), comprising the following components:

	2003 € thousands	2002 € thousands
Current service cost	1,211	1,206
Past service cost	209	–
Changes in the fair value of plan assets (employer's pension liability insurance)	–99	4
Interest expense	1,896	1,937
	3,217	**3,147**

Gains and losses calculated in the pension expert opinion are not taken into consideration as the net value of unrealised gains and losses did not exceed 10 % of aggregate pension liabilities at the balance sheet date.

Pension liabilities of the financial year are included in the following items of the income statement:

	2003 € thousands	2002 € thousands
Cost of goods sold	522	427
Distribution expense	458	424
Administrative expense	265	204
Research and development expense	175	155
Net interest income	1,797	1,937
	3,217	**3,147**

The calculations are based on the following assumed developments:

	2003	2002
Discount rate at 31 December	5.5%	5.8%
Salary progression	2.5%	3.0%
Pension progression	1.5%	2.0%

F12 Other provisions.

	in € thousands					
	Pre-retirement part-time work	Other staff-related cost	Outstanding invoices	Restruc-turing	Other	Total
Balance at 31 December 2002	**5,303**	**3,468**	**4,988**	**3,130**	**5,935**	**22,824**
Additions	347	1,872	4,868	1,232	1,830	10,149
Drawdowns	665	2,768	2,914	2,478	2,418	11,243
Releases	–	295	687	465	1,525	2,972
Book transfers	–	–49	49	–	–	–
Currency translation differences	–	–66	–22	–	–4	–92
Balance at 31 December 2003	**4,985**	**2,162**	**6,282**	**1,419**	**3,818**	**18,666**

Of which short-term

As at 31 December 2002	17,776
As at 31 December 2003	**13,850**

In accordance with the collective agreement supporting **part-time work for elder workers** of the federal employers association of the chemical industry (Bundesarbeitgeberverband Chemie e.V.) which is effective until 31 December 2009, a corresponding provision was set up. The provision covers liabilities from current part-time work relationships (performance backlog, step-up amounts and severance pay, if any) and from expected future claims (step-up amounts and severance pay, if any).

Other staff-related provisions primarily consist of profit-sharing schemes, overdue holiday entitlements, anniversaries and contributions to employers' liability insurance association.

Provisions for outstanding invoices were mainly set up for services rendered by third-party fractionation companies not yet received.

Restructuring provisions include severance pay.

Other provisions include provisions for the negative market value of financial instruments, as well as provisions for the utilisation of guarantees, risks of litigation and similar items.

Release of other provisions relate in particular to a reduction of risks from futures and forward transactions (€ 541,000) and Biotest Medizintechnik GmbH's insolvency (€ 365,000) as well as risks of litigation in the context of the deconsolidated Envitec companies (€ 383,000).

F13 Financial liabilities.

	2003 € thousands	2002 € thousands
Non-current liabilities		
Collateralised liabilities to banks	20,271	27,372
Unsecured other loans	425	450
Liabilities from finance leases	25,950	24,895
	46,646	**52,717**
Current liabilities		
Liabilities to banks collateralised by CTA*	88,233	–
Other collateralised liabilities to banks	8,889	7,654
Short-term portion of collateralised liabilities to banks	**97,122**	**7,654**
Other loans collateralised by CTA*	513	–
Unsecured other loans	11,094	8,091
Other loans	**11,607**	**8,091**
Short-term portion of liabilities from finance leases	3,731	5,406
Unsecured liabilities to banks	3,859	93,552
	116,319	**114,703**

* Collateral Trustee Agreement – for details cf. note G2

Please refer to G1 "financial instruments" for information on hedging currency and interest rate risks. Unsecured other loans include € 10.115 million in loans from Biotest AG's shareholders, for which subordination was agreed. Such loans carry an interest rate of 3.72 % p.a.

Terms, redemption terms of financial liabilities and the structure of times to maturity are as follows:

In € thousands	Total	< 1 year	1–5 years	> 5 years
Collateralised liabilities to banks				
EUR – fix between 3.5 and 6.4 %	90,145	76,687	11,868	1,590
EUR – floating between 3.2 and 10.5 %	20,487	14,550	4,375	1,562
USD – fix at 3.1%	5,859	5,859	–	–
HUF – floating at 8.0 %	876	–	876	–
CHF – floating between 3.2 and 7.0 %	23	23	–	–
YEN – floating at 6.9 %	3	3	–	–
Other loans:				
EUR – floating between 2.2 and 6.0 %	12,032	11,607	47	378
Liabilities from finance leases:				
EUR – fix between 2.9 and 7.4 %	29,681	3,731	18,149	7,801
Unsecured liabilities to banks:				
EUR – floating between 7.0 and 8.0 %	2,897	2,897	–	–
EUR – fix between 4.6 and 7.0 %	962	962	–	–
	162,965	**116,319**	**35,315**	**11,331**

The increase in interest rates by one percentage point would result in an increase in interest expenses by approximately € 0.5 million.

Repayment schedule of liabilities from finance leases:

	in € thousands		
2003	Payment	Interest	Redemption
Due in less than one year	5,708	1,977	3,731
Due in 1 to 5 years	23,209	5,060	18,149
Due in more than 5 years	8,257	456	7,801
	37,174	**7,493**	**29,681**

	in € thousands		
2002	Payment	Interest	Redemption
Due in less than one year	7,270	1,864	5,406
Due in 1 to 5 years	19,723	5,285	14,438
Due in more than 5 years	11,465	1,008	10,457
	38,458	**8,157**	**30,301**

F14 Other liabilities. Other liabilities include the following items:

	2003 € thousands	2002 € thousands
Commissions payable	5,683	4,832
Value added tax liabilities	2,741	2,510
Social security liabilities	1,444	1,669
Wage tax liabilities	1,062	1,117
Liabilities from other taxes	85	41
Other liabilities	1,726	898
Accrued interest and accruals and deferred income	174	82
	12,915	**11,149**

Other liabilities of € 36,000 (2002: € 52,000) have a remaining time to maturity of one year.

G Other Explanatory Notes

G1 Financial instruments. In the course of its ordinary operations and due to existing international delivery and service relations, Biotest is exposed to substantial currency and interest rate risks.

To hedge currency and interest rate positions Biotest uses derivative financial instruments in order to minimise risks inherent in exchange rate and interest rate fluctuations. Derivative financial instruments are as a general rule subject to changes in market prices.

Contracts on financial derivatives are exclusively entered into with banks with impeccable creditworthiness.

Currently Biotest does not comply with all requirements of IAS 39 (revised 2000), 142–145 (Hedge Accounting). Hence, all profits and losses recorded when derivative financial instruments used to hedge interest rate and currency risks are marked to market have been accounted for with an effect on income.

Financial instruments are recognised when the corresponding contracts are entered into. Financial instruments are accounted for at cost upon first recognition and then valued at the corresponding market value as at the balance sheet date. Financial instruments are derecognised when the obligations under the contract have been fulfilled by both parties or when the positions in such instruments are closed.

Derivative financial instruments are shown in the balance sheet under other assets and other provisions, respectively.

Credit risks. Biotest responds to credit risks with ongoing management of accounts receivable. Credit terms and other terms are based on the rating of the customers' creditworthiness. Moreover, part of the German accounts receivable of the subsidiary Biotest Pharma GmbH were sold to a factoring company.

For capitalised derivative financial instruments the risk of default in the context of financial derivatives does not exceed the positive market values. It amounts to € 0 (2002: € 44,000) for interest rate swaps and € 93,000 (2002: € 520,000) for foreign currency forwards. In order to minimise such risk of default transactions are only entered into with banks of impeccable creditworthiness.

At the balance sheet date, there were no significant customer groups representing a particular credit risk.

Interest rate risks. The company is also exposed to interest rate risks resulting from existing loans (please refer to section F13 for more details). Interest rate hedging instruments were entered into to minimise such risks.

The following interest rate hedging transactions were in place at 31 December 2003:

Subject matter	Nominal amount in € thousands	Currency	Interest rate/ coupon	Reference rate	Start of term	End of term	Value at 31.12.2003 in € thousands
Purchased interest rate cap	5,113	EUR	5.50%	6-month euro Libor	04.03.1998	04.03.2005	–
Sold interest rate cap	5,113	EUR	6.00%	6-month euro Libor	21.07.1998	21.07.2008	–
Purchased interest rate cap	5,113	EUR	5.50%	6-month euro Libor	07.09.1998	07.03.2005	–
							–

Subject matter	Nominal amount in € thousands	Currency	Paid	Received	Start of term	End of term	Value at 31.12.2003 in € thousands
Payerswap	5,113	EUR	5.11%	6-month euro Libor	21.07.1998	21.07.2008	–395
Cross Currency Swap	10,000,000 CHF/ 6,227,000 €	CHF	3.75% (CHF)	5,4% (EUR)	15.02.2000	15.02.2005	–114
Payerswap	257	EUR	2.90%	3-month euro Libor	05.09.2003	31.03.2006	–1
Payerswap	819	EUR	3.00%	3-month euro Libor	05.09.2003	30.09.2006	–3
Payerswap	2,045	EUR	3.10%	3-month euro Libor	05.09.2003	31.03.2007	–9
Payerswap	5,000	EUR	3.67%	3-month euro Libor	05.09.2003	30.06.2011	–27
Payerswap	7,500	EUR	4.52%	6-month euro Libor	04.03.2002	04.03.2005	–195
							–744

The market value of interest rate hedging transactions amounted to minus € 1.263 million at 31 December 2002.

The market value of interest rate hedging transactions was determined by the banks appointed for this purpose. Market values at the rate at the balance sheet date were calculated on the basis of cash flows that were discounted using current market rates.

Foreign currency risks from operating activities. Biotest Group records foreign currency risks from purchases and sales in the course of its operations. With German companies, such risks result primarily from the US dollar, with the US subsidiary from the euro. Biotest responds to these risks with foreign exchange contracts to hedge the expected outstanding positions.

The following foreign exchange contracts were in place at 31 December 2003:

Subject matter	Nominal amount	Currency	Start of term	End of term	Value at 31.12.2003 in € thousands
Foreign exchange contract, sale	1,000,000	USD	31.07.2003	04.02.2004	93

The market value of foreign exchange forward transactions amounted to € 520,000 at 31 December 2002.

The market value of foreign exchange contracts was determined as the difference between the rate at the balance sheet date and the exercise price stated in the contract.

The exchange rate risk of other receivables and liabilities denominated in Swiss franc, Pound sterling, Japanese yen or Hungarian forint is reduced by short credit terms on transactions within the company.

Embedded financial instruments. In the course of ordinary operating activities, Biotest is the contracting party for selling and procurement transactions denominated in USD. However, in certain cases the USD may not be the currency of the country in which the enterprise is domiciled.

Biotest recognised embedded foreign exchange contracts at the forward exchange rate. All existing orders were completed within one year.

At the balance sheet date, forward currency transactions were split from the existing underlying transactions as follows:

Subject matter	Nominal amount	Currency	Start of term	End of term	Value at 31.12.2003 in EUR
Embedded derivatives	1,561,300	USD	2003	2005	–117,792

The market value of embedded derivatives amounted to minus € 250,000 at 31 December 2002.

G2 Contingencies. Contingent liabilities at the balance sheet date have been recorded as follows:

	2003 € thousands	2002 € thousands
Bill exposure	–	–
Guarantees	–	50
Indemnity agreements	–	–
Other contingent liabilities	–	–
	–	**50**

To secure short-term financing needs, Biotest AG entered into a collateral trustee agreement with the involved banks on 6 March 2003/June 2003. In this agreement, the banks declared their basic consent to continue to provide existing credit lines of approximately € 100 million until 31 March 2004 in the beginning provided that, inter alia, Biotest achieves a turnaround in accordance with the plans verified by the consultancy firm, implements the restructuring measures set out in the restructuring plan and reduces the credit lines in 2003 by at least € 4.0 million and in 2004 by at least € 10.0 million. Credit lines are to be further reduced if the liquidity reserve exceeds € 5.0 million.

All material assets of the companies Biotest AG (including the global assignment of trade receivables, assignment of all inventories, assignment of the complete plant facilities and equipment, assignment of purchase price claims regarding shares in other companies and pledge of shares in all directly held holding companies, assignment of various claims from group loans, pledge of all rights to trademarks, concessions, property rights, patent and licence rights as well as a global charge over property) and Biotest Pharma GmbH (including the global assignment of trade receivables, assignment of all inventories, assignment of the complete plant facilities and equipment, pledge of shares in Plasma Service Europe GmbH, pledge of all trademarks, concessions, property rights, patents and licence rights as well as a global charge over property) as debtors and the companies Plasma Service Europe GmbH (global assignment of trade receivables and assignment of all inventories) and Biotest Grundstücksverwaltungs GmbH (assignment of claims arising from loan agreements with Biotest AG and a global charge over property) as third-party guarantor are provided as collateral within the scope of the collateral trustee agreement. The creation of a global charge over property in the amount of € 100 million and the pledge of all shares in Plasma Service Europe GmbH was attested by a notary on 18 March 2003.

G3 Other financial commitments.

2003 (€ thousands)	in 2004	2005–2008	in and after 2009	Total
Order liabilities	836	–	–	836
Future payments from rent and lease contracts and operating leasing	6,249	4,977	983	12,209
	7,085	**4,977**	**983**	**13,045**

Payments for authorised investments in fixed assets will be made within one year.

Biotest rents and leases operating equipment respectively. Operating leases include vehicles and office equipment with a base rental term of two to four years. Expenditure from rental and operating lease contracts amounted to € 5.149 million in 2003 (2002: € 4.79 million).

G4 Related party relationships. Disclosure is required for Biotest Group's relationships to the associate SIFIN Institut für Immunpräparate und Nährmedien GmbH Berlin as well as to the members of the Board of Management and the Supervisory Board and their related persons.

G4.1 Associates. In the 2003 financial year, the Group recorded purchases of € 924,000 (2002: € 979,000) from the associate SIFIN Institut für Immunpräparate und Nährmedien GmbH Berlin. The latter company purchased goods and services from Group companies to the tune of € 100,000 (2002: € 289,000).

On 31 December 2003, the associate recorded a liability of € 134,000 (2002: € 83,000) to and accounts receivable of € 58,000 (2002: € 24,000) from the Group companies.

G4.2 Other related parties. The members of the Dr. Hans Schleussner family are deemed related parties for the purposes of IAS 24 as they hold an aggregate of 60 % of Biotest AG's ordinary shares. Purchase, loan, rent and consultant contracts or relationships exist in addition to above emoluments of the Supervisory and/or Advisory Boards. At the balance sheet date, the Group recorded liabilities of € 10.244 million in the balance sheet (2002: € 6.008 million). Biotest's aggregate expenses amounted to € 624,000 (2002: € 545,000). € 381,000 (2002: € 244,000) thereof are attributable to interest expenses for shareholder loans. Total income was recorded at € 0 (2002: € 0).

G4.3 Supervisory Board, Advisory Board and Board of Management.

Emoluments. The emoluments for the members of the Supervisory Board totalled € 75,000 (2002: € 75,000), total emoluments of the members of the Board of Management amounted to € 1.036 million (2002: € 580,000). Emoluments paid to former members of the Board of Management amounted to € 216,000 (2003: € 179,000).

Provisions of € 2.725 million (2002: € 2.268 million) have been set up for pension obligations to former members of the Board of Management. As at the balance sheet date, there were no loan claims against any members of the company's management bodies.

Emoluments paid to former members of the Board of Management amounted to € 7,000 (2002: € 14,000).

Board members. The members of the Supervisory Board and the Board of Managing Directors are listed below.

Board of Management.

Dr. phil. nat. Dieter Merz, chemist, Frankfurt/Main
Chairman (until 10 July 2003)
Member of the Board of Management (until 30 September 2003)

Prof. Dr. Gregor Schulz, physician, Umkirch
Chairman (from 10 July 2003)
Member of the Board of Management (since 1 January 2003)

Dr. rer. pol. Manfred Hübener, businessman, Bad Homburg v.d.H.
Member of the Board of Management (until 31 January 2004)

Dr. rer. pol. Michael Ramroth, lawyer, Mörfelden-Walldorf
Member of the Board of Management (since 1 February 2004)

Supervisory Board. The Supervisory Board members additionally serve on statutory Supervisory Boards and comparable control boards of commercial enterprises (information as at 31 December 2003):

Dr. phil. nat. Dr. med. h.c. Hans Schleussner, man of independent means, Frankfurt/Main
Chairman and member of the Supervisory Board (until 30 September 2003)
Honorary Chairman of the Supervisory Board (from 17 October 2003)
Celfa AG, Schwyz, Switzerland, Chairman of the Administrative Board

Werner Spinner, Businessman, Cologne
Member (from 1 October 2003)
Chairman (from 17 October 2003)

Dr. Jochen Hückmann, businessman, Frankfurt/Main
Deputy Chairman,
Managing Partner of Merz + Co. GmbH & Co. KG, Frankfurt/Main

Reinhard Eyring, lawyer, Kronberg/Ts.
b.i.s. börsen-informationssysteme AG, Rimpar, Chairman
Destag Deutsche Steinindustrie AG, Lautertal, Chairman
BGI zu Höne, Klußmann, Altpeter AG, Kassel
Scholz & Friends AG, Berlin

Johannes Hartmann, clerk, Weiterstadt

Dr. Klaus Hübner, graduated engineer (Diplom), Rostock
(until 10 June 2003)

Kerstin Birkhahn, graduated engineer (Diplom), Langen
(since 24 September 2003)

Dr. Cathrin Schleussner, biologist, Neu-Isenburg

Advisory Board.
Prof. Dr. Helmut Determann, Weinheim

Consul Helmut Holz, businessman, Frankfurt/Main

Prof. Dr. med. Stefan Meuer, Immunological Institute,
University clinic Heidelberg

Dr. phil. nat. Dr. med. h.c. Hans Schleussner, man of independent means, Frankfurt/Main

Dr. Martin Schleussner, Cologne
Managing Director of Folex Coating GmbH

Michael Thiess, Munich
Michael Thiess Management Consultants

Michael Freiherr Truchseß, Frankfurt/Main
Member of the Management of Deutsche Bank AG

G5 Substantial subsidiaries. All of the following subsidiaries were included in the Group financial statements.

Company Name	Registered office	Interest held (in % of capital)	Shareholders' equity € mn	Profit after tax € mn
Biotest Pharma GmbH	Dreieich/Germany	100,0	68,1	–5,3
Biotest Grundstücksverwaltungs GmbH	Dreieich/Germany	98,0	2,2	0,4
Biotest Seralc° N.V.	Kortenberg/Belgium	100,0	1,9	0,3
Biotest S.a.r.l.	Buc/France	100,0	1,3	0,1
Biotest (UK) Ltd.	Solihull/Great Britain	100,0	0,8	0,1
Biotest Italia S.r.l.	Trezzano/Italy	100,0	11,2	1,7
Biotest K.K.	Tokio/Japan	100,0	–0,3	–0,2
Biotest Pharmazeutika Ges.m.b.H.	Vienna/Austria	100,0	2,6	0,7
Biotest (Schweiz) AG	Rupperswil/Switzerland	100,0	1,0	0,4
Biotest Hungaria Kft.	Budapest/Hungary	100,0	2,3	0,6
Biotest Diagnostics Corporation	Denville/USA	100,0	2,0	0,0
Heipha Dr. Müller GmbH	Eppelheim/Germany	51,0	2,6	1,0
Viro-Immun Labor-Diagnostika GmbH	Oberursel/Germany	51,2	0,2	0,0
Plasmadienst Tirol GmbH	Innsbruck/Austria	100,0	0,8	0,2
Plasma Service Europe GmbH*	Dreieich/Germany	100,0	0,3	0,0

* Plasma Service Europe GmbH and Biotest Pharma GmbH entered into a profit transfer agreement in accordance with the German Commercial Code.

Envitec-Wismar GmbH Umweltschutz und Medizintechnik with registered office in Wismar, Germany (interest held: 60 %), its fully-owned subsidiary Envitec-Denmark APS with registered office in Copenhagen/Denmark and Diaclone SAS with registered office in Besançon/France were eliminated from the scope of consolidated companies with their sale as at 1 January 2003.

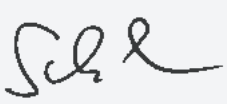
G6 Pending and imminent litigation. No pending or imminent litigation was known at the Group companies as at the balance sheet date.

G7 Events occurring after the balance sheet date. In March 2004, we sold our 26 % interest in SIFIN, Institut für Immunpräparate und Nährmedien GmbH Berlin (Institute for immuno preparations and culture media).

Biotest moreover founded a new subsidiary in Greece in March 2004. It is planned to transfer the existing business of the current distributor to this company.

G8 Corporate Governance. The Board of Management and the Supervisory Board of Biotest AG submitted the declaration of compliance required pursuant to Art 161 of the German Stock Corporation Act (AktG) and made it permanently available to the shareholders.

Dreieich 26 March 2004



Prof. Dr. Gregor Schulz

Dr. Michael Ramroth

Auditor's Report

Auditor's Report

We have audited the consolidated financial statements of Biotest Aktiengesellschaft, Frankfurt/Main, comprising the group balance sheet, group income statement, statement of changes in equity, cash flow statement and Notes to the accounts for the financial year from 1 January to 31 December 2003. The company's Board of Management is responsible for the preparation and contents of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS). It is our responsibility to express an opinion on the consolidated financial statements of the Group based on the audit we conducted.

We conducted the Group audit pursuant to German audit provisions in accordance with the generally accepted German auditing standards issued by the German Institute of Chartered Accountants (IDW). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. Audit planning takes account of knowledge of the Group's business activity as well as its economic and legal environment and the anticipated margin of error. The audit includes the examination, on a test basis, of evidence supporting the amounts and disclosures in the consolidated financial statements. The scope of the audit also includes an assessment of the accounting principles used and significant estimates of the legal representatives, as well as an evaluation of the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

With due regard to the International Financial Reporting Standards, in our opinion, the consolidated financial statements give a true and fair view of Biotest Group's assets, liabilities, financial position and profit or loss and the cash flows in the financial year.

Our audit, which included the Group Management Report prepared by the Board of Management for the financial year ending on 31 December 2003, raised no objections.

In our opinion, the Group Management Report gives a true and fair overall view of the Group's situation and of any risks inherent to future developments. Furthermore, we confirm that the consolidated financial statements and the Group's Management Report for the financial year ending on 31 December 2003 meet the requirements to release the Company from presenting consolidated financial statements and a Group Management Report in accordance with German law.

Without qualifying this opinion, we would like to point to the remarks in the Group Management Report in the section "Risks in Future Development and Risk Management" which reports that the continued existence of the Group is jeopardised if short-term credit lines are not extended as expected and banks do not continue to sustainedly support the Group.

Frankfurt/Main, 26 March 2004

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Laubach	Walter
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Chartered Accountant)	(German Chartered Accountant)

Corporate Governance

Corporate Governance

Corporate Governance. The term corporate governance stands for responsible management and control of companies geared towards the long-term generation of values. Material elements of good corporate governance are: respecting shareholders' interests, an efficient co-operation of the Board of Management and the Supervisory Board as well as transparency in corporate communications.

In February 2002, a government commission appointed by the Ministry of Justice presented the German Corporate Governance Code. Pursuant to Art 161 German Stock Corporation Act (AktG), companies listed on a stock exchange are obliged to declare each year if and to what extent they have complied or do comply with the recommendations of the Code. The Declaration must contain information as to which recommendations were not or will not be applied.

The Company's Board of Management and its Supervisory Board examined the Code and its implementation carefully and decided that Biotest shall comply with the Code with some minor exceptions. Biotest AG published its first Declaration of Compliance in April 2003.

Changes to the Corporate Governance Code were determined on 21 May 2003 and the amended version was published on 4 July 2003. The changes relate to new recommendations regarding the compensation of the Board of Management in particular.

The Company's Board of Management and its Supervisory Board reviewed the changed version of the Code and issued a new Declaration of Compliance. This Declaration takes into account that, since the last Declaration, decisions were made and measures taken in order to comply with further recommendations of the Code. The Declaration of Compliance issued by Biotest AG is reproduced below and has been published on the Internet under www.biotest.com.

Management and control of the company. The Board of Management of Biotest AG manages the company in its own responsibility and thus is bound to the company's interests and obliged to increase the sustained company value. The Supervisory Board of Biotest AG supervises and advises the Board of Management on issues regarding the management of the company and is involved in decisions of fundamental importance for the company. In order to increase efficiency of the Supervisory Board work and to deal with complex issues, the Supervisory Board of Biotest AG has again established a General Committee and an Audit Committee.

In accordance with legal requirements, the Board of Management reports to the Supervisory Board in a regular, timely and comprehensive manner all issues of planning, business development, risk situation and risk management of relevance to the company and, together with the Supervisory Board, co-ordinates the company's strategic alignment. The chairman of the Supervisory Board keeps close contact with the Board of Management, in particular with the chairman of the Board of Management, and together they discuss the company's strategy, business development and risk management. The Board of Management's disclosure and reporting duties have been included in the rules of procedure for the Board. Furthermore, age limits for members of the Board of Management and the Supervisory Board were included in the rules of procedure this year.

In accordance with the recommendation of the Code, a Directors and Officers (D&O) insurance was entered into which provides for a deductible.

The structure and adequacy of the compensation of the Board of Management is regularly discussed and reviewed by the Supervisory Board and the General Committee. The compensation of the Board of Management included a fixed and a variable component in the 2003 financial year. Moreover, a virtual stock option programme in which the Board of Management and executive staff were included was introduced at the beginning of 2002. At the end of the three-year term the company will decide on an extension of the programme.

The Board of Management and the Supervisory Board will propose to this year's Annual General Meeting an amendment of the Articles of Association regarding the compensation of the Supervisory Board in order to adjust the compensation to the requirements of the Code. Thereafter members of the Supervisory Board shall receive fixed as well as performance-related compensation components and the chairmanship and membership in committees shall be considered.

The members of the Board of Management and the Supervisory Board together with their compensation payments are listed in detail in the Annual Report. The Board of Management and the Supervisory Board have decided to follow the new recommendations regarding transparency of compensation of the Board of Management and the Supervisory Board, and to include such information individually and broken down into the respective components of compensation in the Annual Report from the 2004 financial year onwards.

The basic structure of the compensation scheme for the Board of Management shall be published on the Internet and explained in the Annual Report. In addition, the chairman of the Supervisory Board shall inform the Annual General Meeting on the Board of Management's compensation.

Transparency and accounting. Biotest AG informs its shareholders and the interested public on the situation and material changes in the company's business via Annual Reports, quarterly reports, ad-hoc disclosures and press releases on a regular basis. Biotest AG was admitted to the Prime Standard segment of the Frankfurt stock exchange in January 2003 and consequently undertakes to fulfil higher international transparency standards. Accounting has been changed to IFRS in the 2002 financial year.

Biotest also publishes information on the company in German as well as in English on the Internet under www.biotest.com.

Declaration of the Board of Management and the Supervisory Board of Biotest AG concerning the Recommendations of the German Corporate Governance Code pursuant to Art 161 German Stock Corporation Act (AktG)

The Board of Management and the Supervisory Board of Biotest AG hereby declare that the Recommendations of the German Corporate Governance Code, as amended on 21 May 2003 (published in the Electronic Federal Gazette (Elektronischer Bundesanzeiger) on 4 July 2003 are complied with at the date of the declaration, with the following exceptions:

– Hitherto, the compensation of the members of the Board of Management is not divided into fixed amounts, performance-related components and long-term incentive components (section 4.2.4 of the Code) in the Notes to the Consolidated Financial Statements. Such information has until now not been disclosed separately. Such disclosure shall be made from the 2004 financial year onwards.

– Compensation for holding the chair in, or being a member of, committees of the Supervisory Board has until now not been considered in the compensation of the members of the Supervisory Board (section 5.4.5 para 1 sentence 3 of the Code). The Board of Management and the Supervisory Board will propose to this year's Annual General Meeting a corresponding change of the Articles of Association.

– The members of the Supervisory Board have until now not received a performance-related compensation (section 5.4.5 para 2 sentence 1 of the Code). The Board of Management and the Supervisory Board will propose to this year's Annual General Meeting a corresponding change of the Articles of Association.

– Compensation or benefits paid or granted by the company to the members of the Supervisory Board for services rendered personally, in particular consulting and mediation services, have until now not been stated individually in the Notes to the Consolidated Financial Statements (section 5.4.5 para 3 sentence 2 of the Code); instead, compensation of all members of the Supervisory Board is published aggregated and in one sum. Individual disclosure shall be made from the 2004 financial year onwards.

– Currently, the Consolidated Financial Statements are not yet published within 90 days after the end of the financial year (section 7.1.2 of the Code). The quarterly reports, however, are already published within 45 days after the end of the reporting period. It is planned to meet the deadline for publication of the Consolidated Financial Statements in future.

Since the last Declaration of Compliance in April 2003, Biotest AG complied with the Recommendations of the German Corporate Governance Code as in effect at that time, with the following exceptions:

– The D&O insurance policy for the members of the Board of Management and Supervisory Board taken out by Biotest AG did not provide for a deductible (section 3.8 para 2 of the Code).

– Compensation of the members of the Board of Management was not divided into fixed amounts, performance-related components and long-term incentive component (section 4.2.4 of the Code) in the Notes to the Consolidated Financial Statements.

– An age limit for the members of the Supervisory Board was not specified (section 5.4.1 sentence 2 of the Code).

– The compensation of the members of the Supervisory Board did not include compensation for holding the chair in, or being a member of, committees of the Supervisory Board (section 5.4.5 para 1 sentence 3 of the Code).

– The members of the Supervisory Board did not receive a performance-related compensation (section 5.4.5 para 2 sentence 1 of the Code).

– Compensation paid or benefits granted by the company to the members of the Supervisory Board for services rendered personally, were not stated individually or separately in the Notes to the Consolidated Financial Statements (section 5.4.5 para 3 sentence 2 of the Code).

– The Consolidated Financial Statements were not published within 90 days after the end of the financial year (section 7.1.2 of the Code).

Dreieich, 5 March 2004

For the Board of Management

Prof. Dr. Gregor Schulz

For the Supervisory Board

Werner Spinner

Report of the Supervisory Board

Report of the Supervisory Board

The Supervisory Board has regularly monitored the work of and has rendered advisory services to the Board of Management in the 2003 financial year. The Supervisory Board was kept informed in five meetings by reports from the Board of Management, both in writing and verbally, on the company's current situation, scheduled changes in the business portfolio and on measures to improve the company's profitability. The Chairman of the Supervisory Board and the Board of Management, in particular, regularly discussed and agreed on business matters.

The Supervisory Board received detailed information on the current situation and strategy of the two divisions as well as on scheduled projects and entered into attentive discussions with the Board of Management. All decisions were made unanimously by the Supervisory Board. The Supervisory Board furthermore received information on the company's risk situation on a regular basis and discussed and agreed measures with the Board of Management.

Due to extremely high capital expenditure on structures geared towards the future and extraordinarily high restructuring expenses the financial situation remained tight in the period under review. This led to a particularly intense dialogue between the Board of Management and the Supervisory Board. The collateral trust agreement (CTA) with banks of Biotest Group, for example, which had been at the centre of discussions at the beginning of the financial year was concluded later in the year. The Board of Management was encouraged to defend the company's position vigorously on issues where no agreement had yet been reached with the banks. At the same time, the Board of Management was authorised to enter into the CTA. The concept for developing the strategic realignment process was approved at the same meeting. By mid-April 2003, the Supervisory Board approved the sale of the company Diaclone by way of a circular resolution.

At its meeting in April 2003, the Supervisory Board held extensive discussions with the Board of Management, the auditor and the tax consultant on the set of financial statements for Biotest AG and the Group. The auditor also reported on the result of his audit in the course of this debate.

Moreover, Biotest's EDP strategy was discussed in detail. However, the Supervisory Board agreed to the proposal of the Board of Management to introduce a specific software for integrated company reporting used in the industry.

At its meeting on 10 July 2003, the Supervisory Board prepared the upcoming Annual General Meeting and asked for a report on the current business and financial situation of the Group. In addition, it approved the establishment of a joint venture in Iran.

Against the backdrop of the scheduled increase in future profitability, the Group's plans with focus on the year 2004 were discussed in detail with and approved by the Board of Management at the meeting in October. The proposal presented to the Board of Management to optimise the Group structure was also approved.

The Supervisory Board comprises two committees, the General Committee and the Audit Committee. On top of the regular Supervisory Board Meetings, the General Committee met the Board of Management on two meetings. The main issues on these occasions were the

progress on scheduled disinvestments, the programme to increase earnings, measures to safeguard liquidity, negotiations regarding the social compensation plan and the collateral trust agreement. The Audit Committee came together on one additional meeting in order to mandate the chartered accountants for the 2003 financial year.

At its meeting on 17 October 2003, the Supervisory Board elected Mr Werner Spinner as new Chairman of the Supervisory Board. Mr Spinner was appointed new member of the Supervisory Board on 1 October 2003 when Dr. Dr. med. h.c. Hans Schleussner resigned from office. The Supervisory Board would like to extend its thanks to Dr. Schleussner, who was elected Honorary Chairman of the Supervisory Board at the meeting on 17 October 2003, in recognition of exceptional merit in setting up and developing the company. Kerstin Birkhahn was elected employees' representative to the Supervisory Board on 24 September. Such new election was required due to the deconsolidation of Envitec-Wismar GmbH from the Group of companies. Prior to deconsolidation, Dr. Klaus Hübner held the position of employees' representative as employee of that company. Prof. Schulz took chairmanship of the Board of Management after the Annual General Meeting on 10 July 2003. At the same time, Dr. Merz resigned from the office as chairman of the Board of Management and went into retirement on 30 September 2003. The Supervisory Board expresses its appreciation for the many years of successful and reliable participation in the Board.

The company's Advisory Board met twice in the reporting period. At these meetings, the current situation, the strategic realignment, the measures to increase revenues as well as large-scale investments in the Pharmaceutical division were discussed. The Advisory Board was dissolved at the end of financial year 2003.

Accounts, financial statements and consolidated financial statements, as well as the management report and Group management report for the 2003 financial year were examined by KPMG Deutsche Treuhand-Gesellschaft, Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, and have been approved with an unqualified opinion. The Supervisory Board took note of the results of the audit and concurs with them. The auditor's report was presented to all members of the Supervisory Board. Upon conclusion of the auditor's audit of the set of financial statements, the consolidated financial statements and the management report no objections arise from the Supervisory Board. The Supervisory Board has approved the financial statements as well as the consolidated financial statements prepared by the Board of Management. The financial statements are thus approved.

The Supervisory Board would like to thank the Board of Management and all employees for their input and the work accomplished in the 2003 financial year.

Frankfurt/Main, 22. April 2004

The Supervisory Board

Werner Spinner
Chairman

Glossary

Agglutination	Clumping of cells
Antibody	Antibodies are substances which are produced by the body to defend against attack by a foreign invading substance, the antigen
Arthritis	Inflammation of the joints
Autoimmune disease	Activity of the immune system directed against the body itself
Consistency batch	Batch used to confirm consistency of production
CP procedure	Biotest's new procedure for a gentle purification of immunoglobulins
Cytomegalovirus (CMV)	Belongs to the herpes group of viruses and is normally not of risk. It can, however, present a much-feared complication for patients with a weakened immune system.
DNA Test	Assay technique using molecular biologic analysis of genetic information (DNA) contained in cells
Electrolyte	A solution that produces ions (which conduct electricity)
FDA	Food and Drug Administration; American controlling organization
FH procedure	New fractioning procedure with higher yields
Fractionation	Physical separation of substance mixes by means of distillation, centrifugation or chromatography
F VIII	Factor VIII for the treatment of hemophilia patients
F IX	Factor IX, similar to factor VIII for the treatment of coagulation disorders.
GMP	Good Manufacturing Practise = Regulations on the safety and quality in manufacturing pharmaceutical preparations
Haematology	Branch of medicine concerned with the blood and blood disorders
Haemophilia	A blood clotting disorder
Hemoglobin	Pigment of red blood cells
HIG	Hyperimmunoglobulins (Cytotect®, Hepatect®, Varitect®).
Human albumin	A protein in the plasma protein group

IgM/Immunoglobulins	Protein molecules which make up part of the body's immune system
Immunoassay	Proof of antigenic substances in test tubes by means of antigen-antibody-reaction
Immune system	The sum of all factors which are responsible for the body's defence against infection and invading foreign substances.
Infectious disease diagnostics	The sum of all methods used to detect and diagnose infectious diseases
Intramuscular (i.m.)	Inside the muscle
IVD directives	European directives on the manufacture and marketing of diagnostic products
Monoclonal antibodies	Antibodies which can be traced back to one single originator cell and which bind specifically to one particular foreign substance (antigen). They are produced with the help of hybridoma cells.
Mutual recognition	EU countries approve the decision made about a medicinal product by another EU country
Paul Ehrlich Institute	Federal Office for serums and vaccines
Peritonitis	Inflammation of the peritoneum
Plasma	The clear yellow liquid which remains after separating all cell material from the blood. It contains soluble protein substances and salt.
Plasmapheresis	Generation of blood plasma while re-transfering red and white blood cells to the blood donor
Protein	One of the essential constituents of the body
Psoriasis	A scaly disease of the skin
Rhesus antibody	Antibody which causes agglutination upon meeting blood containing the rhesus factor.
Subcutaneous (s.c.)	Beneath the skin
Virus diagnosis	The sum of all diagnostic tests used to detect a viral infection
Viral inactivation	Preparations made from human blood always present a risk of transmission of viral infections. For this reason, inactivation methods have been developed to reduce this risk without harming the sensitive proteins.

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