Biotest

From Nature
for Life

Biotest AG

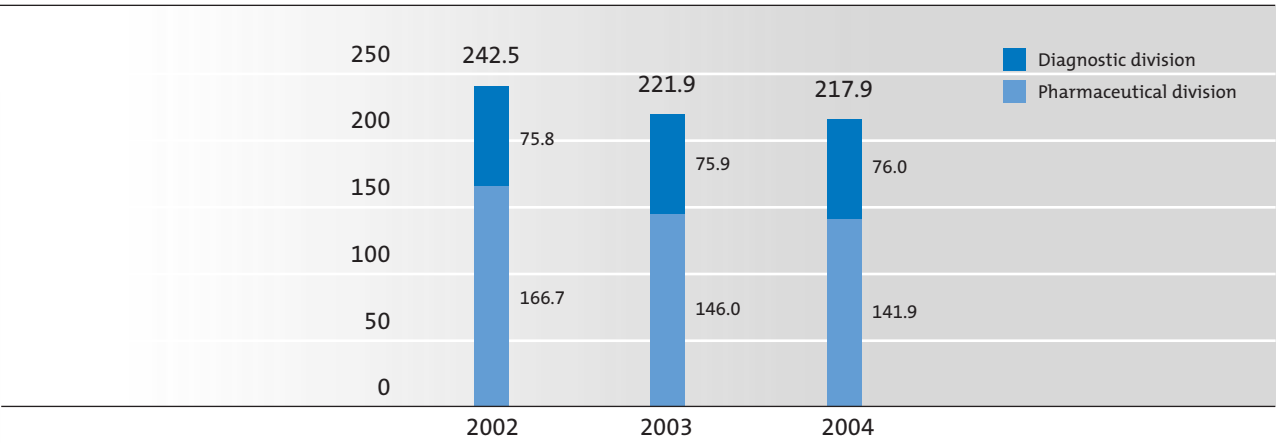
2004 | Annual Report

2004 At a Glance

GROUP		2004	2003	Change %
Sales	€ million	217.9	221.9	– 1.8
of which: Germany	€ million	76.4	73.1	4.5
Rest of world	€ million	141.5	148.8	– 4.9
of which: Pharmaceutical division	€ million	141.9	146.0	– 2.8
Diagnostic division	€ million	76.0	75.9	0.1
Profit before tax	€ million	6.2	– 1.4	–
Profit before tax as % of sales		2.8	– 0.6	
Net profit (2003: net loss)	€ million	5.0	– 5.7	–
EBIT	€ million	18.6	7.7	141.6
EBITDA	€ million	31.5	18.7	68.4
Structure of expense, by nature:				
– Cost of materials	€ million	88.9	95.4	– 6.8
– Personnel cost	€ million	66.0	67.0	– 1.5
– Research and development	€ million	18.5	18.4	0.5
– Research and development as % of sales		8.5	8.3	
Capital expenditure:				
– Property, plant and equipment and intangible assets	€ million	18.5	20.7	– 10.6
Financing:				
– Cash flow from operating activities	€ million	32.3	21.4	50.9
– Depreciation and amortisation	€ million	12.9	11.0	17.3
Shareholders' equity	€ million	106.0	101.9	4.0
Shareholders' equity as % of balance sheet total		29.6	29.1	
Balance sheet total	€ million	358.3	350.0	2.4
Number of employees (full-time) as at year-end		1,009	1,037	– 2.7
Net earnings per share	€	0.57	– 0.77	–
Result per preference share	€	0.68	– 0.66	–

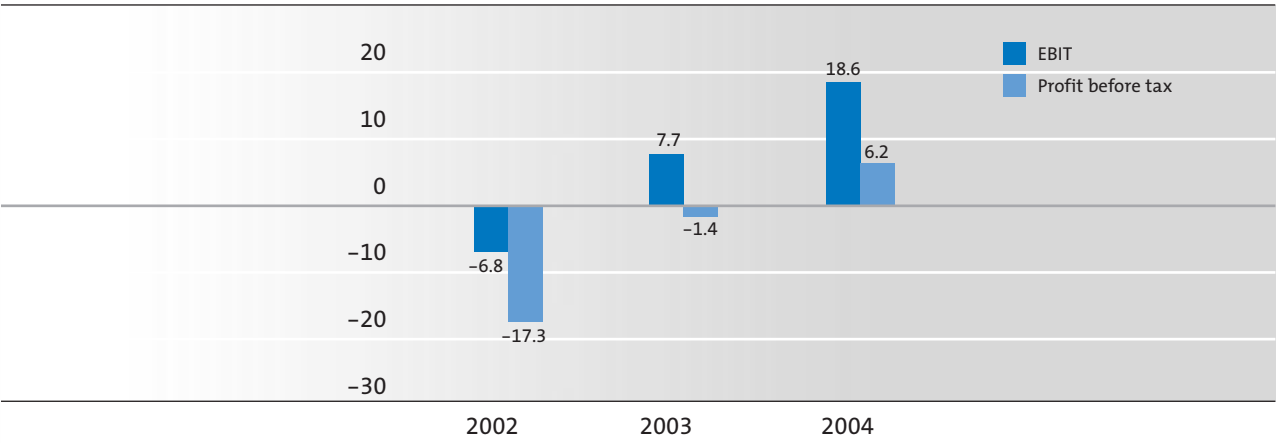
Sales by Business Division

€ million



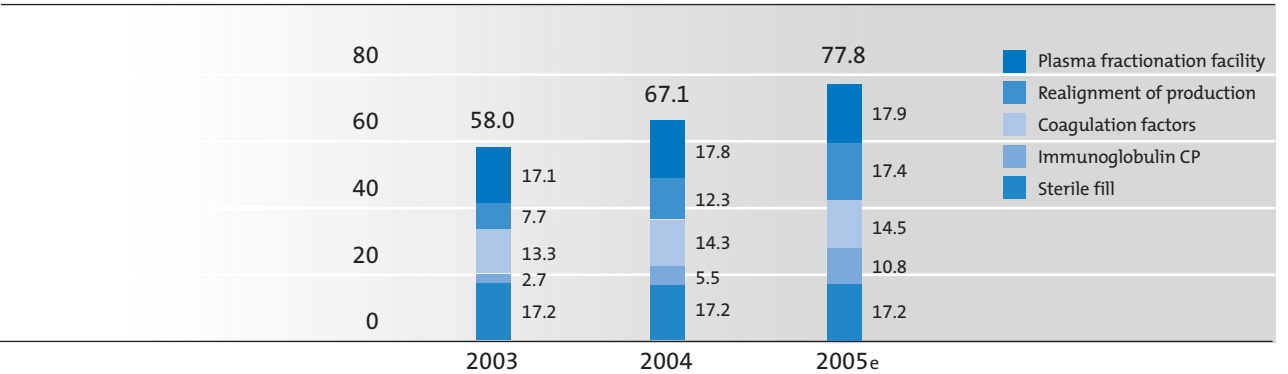
EBIT and Profit before Tax

Biotest group | € million



Capital Expenditure for the Production of Pharmaceuticals

Cumulated | € million



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2004 AT A GLANCE

Back on the Road to Success

DOUBLING OF EARNINGS: With EBIT of € 18.6 million, Biotest surpassed the previous year by 141.6 % – and is showing a profit before taxes for the first time in three years.

RESTRUCTURING ACTIVITIES COMPLETED: Biotest has significantly reduced costs, improved the management of inventories and accounts receivable and assured the future viability of the Group structure. The restructuring activities have led to a visible strengthening of Biotest.

INVESTMENTS ACCOMPLISHED: Renewal in the production of pharmaceuticals is more than 70% complete. Capacity in the plasma fractionation facility has multiplied and yield was significantly increased – this opens up additional strategic options.

EUROPEAN-WIDE EXPANSION WITH NEW PRODUCTS: Intratect®, the high-purity polyvalent immunoglobulin, has received approval in Germany and has been met with gratifying demand. Following its European-wide registration in early 2006, the European Union opens up as a sales market.

MODEL PARTNERSHIP WITH EMERGING MARKETS: By means of a joint venture, Biotest can secure the supply of the Iranian population with coagulation factors and immunoglobulin preparations. Plasma that is donated there in line with European standards will be fractionated in Dreieich. A strategic partnership that serves as a model for future markets.

ATTRACTIVE R&D PIPELINE: New indications and dosage forms enhance the market opportunities of established plasma products. Our monoclonal antibodies that are already in clinical trials have sales potential in the billions.

BREAKTHROUGH FOR DIAGNOSTICS IN THE UNITED STATES: Following a successful inspection by the FDA, approval of the innovative blood group testing device TANGO® for North America, the world's largest market for diagnostic devices, is close at hand.

INTERNATIONAL ORGANISATION STRENGTHENED: With Biotest Hellas MEPE, the eleventh foreign subsidiary was established. Following Group-wide realignment activities, the distribution units act with more clout and use cross-selling opportunities.

FINANCIAL SITUATION EASED: The collateral trustee agreement remains in force in its present form and without a specified maturity. Biotest is in negotiations for a syndicated bank financing with matching maturities.

POSITIVE OUTLOOK: Biotest expects more sales and a better result in 2005. Due to the preliminary work in future growth, Biotest will profit from the foreseeable market recovery from the very beginning.

Dear Shareholders,

Financial year 2004 was a very successful year for Biotest. We more than doubled the operating result and for the first time in three years we were able to achieve a positive profit before tax. The upward trend already visible in 2003 continued with increasing momentum.

It was not only the financial figures alone that made 2004 a success. We completed the restructuring of the company, thus laying both the organisational and financial foundations for long-term growth. Today Biotest presents itself as a healthy and well-positioned company. From this base, we can take the next steps towards our goal: to develop Biotest into a globally active specialist for innovative immunology and haematology.

To do so, we consistently focus on our core competencies: the therapy and diagnosis of diseases of the immune system and of the haemopoietic system. The new company structure reflects this strategic focus by combining all operational activities into Biotest AG with its two divisions Pharmaceutical and Diagnostic. This way we are generating substantial synergies – for example by combining central units such as marketing and sales. Of at least equal importance, however, is the fact that Biotest will appear with a single, cross-divisional identity in the market. This image is reinforced by our new corporate design incorporating the carefully modernised logo.

With the help of our stronger international presence and an optimised distribution network that includes an expanded key account business, we are strengthening our position as a powerful partner for clinics, medical practices and patients. Including Biotest Hellas in Greece, which was incorporated in financial year 2004, Biotest now has a direct presence in 11 countries.

In parallel to the organisational renewal, we reached important milestones at the operational level: capital expenditures in new production facilities of the Pharmaceutical division are more than 70 % complete. Following receipt of the manufacturing license for the new plasma fractionation facility at the end of 2003, technical approval for the production facility for coagulation preparations was granted by the responsible authorities in summer of 2004. A few months later, our new polyvalent immunoglobulin preparation Intratect®, which sets standards concerning purity and compatibility, was approved in Germany. Intratect® is a fluid antibody preparation that is stable at room temperature. It therefore offers significant application advantages compared to freeze-dried preparations, which need to be dissoluted prior to application. European-wide approval in line with the mutual recognition procedure is expected in the coming year. It will open up marketing opportunities for Biotest in markets where our drugs have never been sold before.

Intratect® stands as a representative for numerous improvements and new developments by Biotest that will be offered in the coming years. With three monoclonal antibodies to fight rheumatoid arthritis and other auto-immune diseases, our R&D pipeline contains new products with very high sales potential. The manner in which these antibodies function differs from those preparations that are on the market so far and is highly innovative. First clinical trials have resulted in convincing data concerning efficacy and tolerability.

The expanded production capacities provide us with new strategic options as well. For example, we can press on with the lucrative and stable business of toll manufacturing for fractionation. Emerging markets such as Iran, where the BioDarou joint venture was founded in the previous financial year, are an important target market for this activity.

With the approval of TANGO® for North America, which is expected in the second quarter of 2005, the Diagnostic division has opened up the most attractive market for transfusion diagnostics globally. An inspection by the FDA was very successful and is the prerequisite for approval in the United States. With the CE-certification, which was given already in 2003, and the linked approval for the sale in the entire EU, Biotest is one of the few suppliers whose diagnostic devices have received approval in each of the highly regulated markets in the world – North America, Europe and

Japan. High product and service quality is also leading to higher sales in the business with hygiene monitoring systems.

Efficient structures, trend-setting products, modern technical equipment and stabilising prices in the global markets: the prospects for the long-term success of Biotest are very good. This was rewarded by the capital markets: in 2004, the price of the ordinary shares increased by more than 60 %, and preference shares gained more than 90 % in value. The sustainable increase of the business value will continue to be at the centre of our future efforts. Our strict corporate governance standards are the expression of a corporate policy that is aligned with the shareholder interest: we implement all recommendations of the German Corporate Governance Code without exception.

Financial year 2004 has shown that new opportunities arise from difficult situations when the foundations are in place and all parties are united. For this we want to thank you, our shareholders, the providers of debt capital and, of course, first and foremost our employees. All of us at Biotest can be proud of our joint achievements over the past two years. We must continue and we want to continue in this direction with unwavering dedication.

For Biotest, 2005 marks the definitive transition from a period of restructuring to a stage of growth. In the current year, we want to achieve a more than proportionate increase in earnings despite an only moderate advance in sales. An industry-wide recovery driven by a reduction of excess capacities in the area of plasma sourcing and processing is becoming apparent on the market for plasma derivatives. It will further enhance the positive effects of our strategic orientation. We therefore expect an increase in sales of more than 50 % and a further increase in profitability by the year 2009.

“Efficient structures, trend-setting products, modern technical equipment, stabilising prices in the global markets: the prospects for the long-term success of Biotest are very good.”

I kindly invite you to continue with us on this journey in a bright future.

Sincerely yours,

Prof. Dr. Gregor Schulz

From Nature for Life

From nature – for humans, for life. Biotest produces high-purity drugs from blood plasma, diagnostic devices for transplantation and transfusion medicine and systems for the purity control of air or surfaces. Reliable and of high quality.

In the human body, blood takes on vital functions. It supplies the tissues with nutrients, is responsible for fighting viruses and bacteria, repairs injuries and contains substances that prevent bleeding. Biotest products serve the diagnosis and therapy of diseases of haemopoietic systems and of deficiencies of the body's defence system.

The development and manufacturing of drugs (plasma derivatives) is combined in the Pharmaceutical division. Biotest produces immunoglobulin preparations, coagulation factors and albumin from human plasma. Polyvalent immunoglobulin can be used to treat bacterial infections and to effectively protect patients with a weakened immune system from a broad range of severe infections. They are also used in the treatment of auto-immune diseases, where the body's defences turn against its own healthy cells. Hyperimmunoglobulins specifically target individual pathogens (antigens).

For example, they prevent an infection with hepatitis B during a liver transplantation.

NATURAL BASIS AND HIGH PURITY

Coagulation factors made by Biotest enable humans with blood coagulation disorders (haemophilia) to lead an almost normal life and are vital in the acute therapy of bleeding. Albumin is a central agent in emergency medicine, which can be used for example, to stabilise circulation following a massive loss of blood.

The basis for all drugs by Biotest is human plasma, which is derived from donated blood. In one of the most modern facilities of its kind worldwide, the blood is first split up into its individual components that are then processed into various drugs. The natural basis and high purity achieved through a special production process make preparations by Biotest highly tolerable.

PLASMA FRACTIONATION

Safety first

Blood plasma contains several hundred proteins; overall the amount is 60 to 85 grams per litre. They fall into three main categories: immunoglobulins, coagulation factors and albumin.

At Biotest's plasma fractionation facility, the proteins are separated and purified with the help of special filters (filter aid procedure) and chromatography columns, among others. The drugs produced are of high-purity and of very good tolerability.

Safety comes first at Biotest. All processes are documented without exception. It is therefore possible at all times to trace which plasma was used for a particular batch. Also the donation of plasma is subject to severe restrictions. Each donation is screened for infectious materials and is stored for sixty days prior to further processing. Should a donor develop symptoms of an illness, the respective plasma can immediately be set aside. Prior to processing, the plasma is again screened for virus contamination with the help of a highly sensitive genetic engineering procedure (PCR).

In addition, several virus-inactivating procedures are employed during production. It is self evident that Biotest only obtains plasma from countries and donor centers that satisfy the high demands of the authorities which certify them by regular inspections. Thus the transmission of diseases via drugs by Biotest can practically be ruled out based on today's knowledge.

FROM SUPPLIER OF REAGENTS TO SYSTEMS PROVIDER

In the Diagnostic division, Biotest develops and produces reagents and devices for blood grouping and the typing of body cells prior to transfusions and transplantations as well as systems for the hygiene monitoring of air and surfaces. Over the past years, we have taken the step from being strictly a supplier of reagents to becoming a systems provider. As an example, laboratories and hospitals can automate blood group typing with the TANGO® laboratory system. That way they minimise the risk of application errors and significantly increase working efficiency. The testing systems ELPHA® and QuickStep® can be used to determine whether donated organs or bone marrow match the body of the recipient for organ or bone marrow transplantations.

For close to 60 years, Biotest has stood for path-breaking developments in diagnostics and therapies involving human plasma. In the coming years, we will expand our position as a globally active specialist for innovative immunology and haematology.

Pharmaceutical companies in particular, that are held to the highest standards of purity use Biotest's outstanding expertise in the area of bacteriological diagnostics. With the product group Hycon and Heipha Dr. Müller GmbH, in which we hold a 51 % stake, Biotest develops and manufactures systems for process monitoring (hygiene monitoring) of air and surfaces. Our products for detecting airborne particles are the global leader.

A recovery is becoming apparent on the market for plasma derivatives. Substantial investments have put Biotest in a position to directly profit from this development.

In the Starting Blocks

Following a severe price war caused by excess capacities worldwide, first signs of a recovery are becoming apparent on the market for immunoglobulin and coagulation factors. A reliable indicator for this trend is the number of centers for donating blood plasma. In the previous year, the number of these plasmapheresis centres declined by about one-fourth globally and further processing possibilities were reduced as well. Large producers, who had substantially increased capacities in the past, down-sized again by also closing sites. As of year-end 2005 or early 2006 at the latest, the current excess supply is expected to turn into surplus demand. This is likely to lead to increasing prices for plasma derivatives. This is true for the business in industrial countries as well as for large volume shipments to governmental organisations in emerging markets (tender transactions) where the competition is particularly fierce at the moment.

FURTHER EXPANSIONARY DEMAND EXPECTED

The demand for plasma-based drugs will continue to grow in the coming years. Drivers of growth are the steady enlargement of the indication spectrum for immunoglobulins and a dynamic increase in demand for coagulation factors, especially in the emerging markets.The market for immunoglobulins is growing at about 6–8 % annually. And there is substantial potential for coagulation factors as well. Globally only about 25 % of all haemophiliac patients receive treatment as of now. And even many industrialised nations are far away from an area-wide preventive health care. Even though genetically engineered (recombinant) factor preparations are gaining in importance, patients that show a incompatibility against such products are increasingly being switched to preparations from human plasma, for example Haemoctin® by Biotest. Emerging markets – Biotest has very close relations with some of them – will continue to primarily use plasma-based factors to meet their demand.

NEW FACILITY OPENS UP NEW STRATEGIC OPTIONS

Through investments with a volume so far of € 67 million, Biotest is well prepared for this development. With the new fractionation facility that was completed at the end of 2003, we now have the most modern equipment worldwide for the separation of blood plasma. This puts us in a position to process more than 500,000 litres of plasma annually at the site in Dreieich. At the same time, we have established a new fractionation procedure that allows a 50 % increase in yield. This opens up numerous strategic options. As an example, we are able to expand the business of toll manufacturing. In this process, companies or government institutions deliver plasma to Biotest. Biotest turns the plasma into drugs of high quality, which are then delivered back to the plasma providers. This is especially beneficial for countries that do not possess their own fractionation facilities as it enables them to meet the demand for immunoglobulins, coagulation factors and albumin using their own donated plasma.

PLASMA DERIVATIVES

Broad spectrum

IMMUNOGLOBULINS

Used for the treatment of infections, to prevent infections or for diseases of the immune system.

- Intratect®
- Intraglobin®
- Pentaglobin®
- Varitect®
- Cytotect® Biotest/Megalotect
- Hepatect®

COAGULATION FACTORS

Used for the treatment of blood coagulation defects (haemophilia).

- Haemoctin®
- Faktor IX SDN Biotest®

VOLUME AND PROTEIN SUBSTITUTION

Used for the treatment of human albumin deficiency and multiple protein deficiencies (caused, for example, by bleeding, infections or liver failure).

- Human Albumin Biotest
- Biseko®

In this way, Biotest assures stable and long-term sales and oftentimes exclusive access to markets that are characterised by increasing wealth and a correspondingly strong increase in the demand for plasma derivatives. Through a joint venture with the state-owned company Darou Pakhsh, Biotest will supply Iran, a country of 80 million citizens, with plasma derivatives. At the present time, we are constructing the plasmapheresis centers and the test laboratory jointly with our partner, and their employees are being trained in Germany. This model is not only restricted to emerging markets: CAF-DCF, a company of the Belgian Red Cross, has been partnering with Biotest for several years now to manufacture immunoglobulins from Belgian plasma.

EXPANSION OF OWN PRIMARY PRODUCTION

We are expanding our capabilities for plasma sourcing centers. The share of plasma obtained in our own centers will increase from the current 25 % to 40 %. This will help us to gain more independence from price fluctuations and assures an optimal control of the quality of the raw material at all times. Biotest has focussed on highly developed specialised products that are in global demand and has significantly enhanced the spectrum of available strategic options. By the year 2009, we want to increase sales of pharmaceutical products by more than 50 %.

Research – Driver for Growth

With new indications and dosage forms for plasma derivatives, Biotest is growing across Europe. But that is not all: the development of innovative new drugs by Biotest has advanced at a good pace. It comes with sales potential in the billions.

In September 2004, the Paul Ehrlich Institute granted the approval for Intratect®. The polyvalent immunoglobulin preparation can be used among others for antibody deficiencies or to treat auto-immune diseases. Intratect® is of high-purity, sugar-free and highly tolerable. The additional advantage for patients and doctors: Intratect® is liquid and can be stored at room temperature, which makes it easier to handle and simplifies treatment. Biotest thus has one of the most innovative polyvalent immunoglobulins on the market. Already in the first months following approval, Intratect® is very well positioned in Germany as a high-quality drug. On the basis of the Mutual Recognition Procedure, the drug is expected to receive approval in the most important EU countries by the beginning of 2006. This will open up substantial sales and earnings potential.

The development of Intratect® serves as an example for the strategic approach of plasma derivative research at Biotest: focus on new indications and dosage forms for existing drugs, thereby expanding their market potential. We are currently evaluating the development of a version of our hyperimmunoglobulin Hepatect®, which targets avoiding infection with hepatitis B following transplantation. The goal is to offer subcutaneous use as an alternative to the intravenous injection of the drug, thus allowing patients to apply the drug themselves. This will substantially increase the number of potential users, which is currently restricted to specialised clinics and medical offices.

LICENSING – CORNERSTONE FOR HIGH R&D EFFICIENCY

Additional drug developments, which we expect to reach market within the coming years, will expand the existing product portfolio. This includes a proprietary Factor IX, which following the planned approval in 2006 will replace a drug that has previously been produced under a licensing agreement as well as a new coagulation preparation for the treatment of von Willebrand disease (see table).

In order to enhance R&D efficiency, Biotest acquires licences to complement the development portfolio. An example is Cofact®, a drug to treat acquired coagulation factor deficiency, which is expected to obtain registration across Europe in 2006. Furthermore, in cases of complex proprietary research projects, we cooperate with partners in order to speed up the time to market despite increasing regulatory demands, while at the same time limiting the amount of capital that is tied up. Particularly promising components in the R&D pipeline are the three "monoclonal antibodies" BT-061, BT-062 and BT-063. These biotechnologically engineered agents are to be used in the treatment of rheumatic diseases and multiple myeloma, a form of bone marrow cancer.

The potential for use of these agents by patients surpasses the dimensions of previous drugs in the Biotest product portfolio by a multiple. BT-061 will be developed to treat rheumatoid arthritis; according to estimates, at least 800,000 patients in Germany alone are suffering from this disease. Indications for all three monoclonal antibodies represent a global market volume of USD 14 billion in 2011. Since their method of action differs markedly from that of other drugs currently in development, chances are high that a significant portion of this demand will accrue to preparations developed by Biotest. A cumulative sales potential of approximately USD 1 billion appears possible. The antibodies BT-061 and BT-063 have obtained very good results in first clinical studies concerning effectiveness and tolerability. Experiments with mice have shown that BT-062, targeted at the treatment of multiple myeloma, clearly reduces the size of the tumour.

COLLABORATION WITH CLINICS AND DOCTORS AROUND THE WORLD

For BT-061 and BT-063, planning is underway for clinical trials (Phase II). Among others, the procedure for large-scale production is to be established this year. In this venture, we are collaborating with Lonza Biologics, one of the global leaders in the manufacturing of monoclonal antibodies. We plan to complete clinical phase III, which includes comprehensive clinical studies on several hundred patients, jointly with a partner who has the relevant resources.

In addition to developing new products, Biotest works jointly with doctors and clinics around the world. For many years, we have been supporting conventions on haemophilia and other diseases that are being treated with our drugs. In this way, we always keep abreast of the latest developments in medical science.

RESEARCH AND DEVELOPMENT

Well-filled pipeline

	2006	2007	FROM 2008
Germany	Hepatect® FH Faktor IX Biotest® (Haemophilia B)	Cetor®* (angioneurotic syndrome) Hepatect® FH, subcutaneous	BT-061 BT-062 BT-063 von-Willebrand-factor
EU	Hepatect® FH Intratect® FH (Immune diseases) Faktor VIII (Haemophilia A) Cofact®* (acquired coagulation defects)	Faktor IX Biotest® (Haemophilia B)	BT-061 BT-062 BT-063 Hepatect® FH, subcutaneous

* = Licensing product, initial registration by Sanguin in the Netherlands

Present in High Price Markets

Certified: diagnostic devices by Biotest meet high quality standards and are approved for sale in countries with the strictest licensing criteria worldwide. Concentration on these high price markets is a prerequisite for profitable growth.

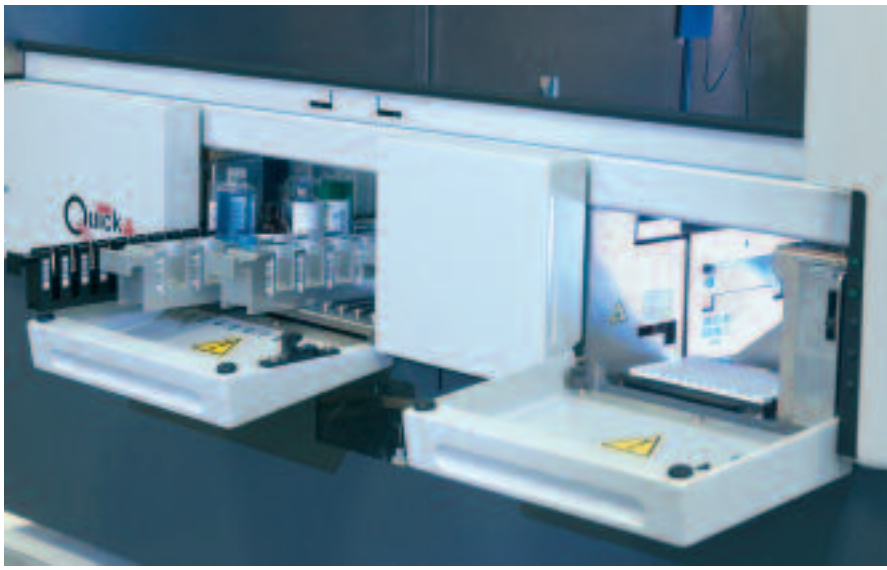
In-vitro diagnostic devices by Biotest are used for transfusions and transplantations in sensitive clinical areas. We not only provide all necessary reagents, but also complete systems that allow for the automated processing of complex and comprehensive laboratory tests.

TANGO® PREPARES FOR MARKET ENTRY IN THE USA

The quality and safety standards demanded from providers of such systems have gone up noticeably in recent times. Particularly in Europe, North America and Japan, very strict rules are in place for the approval of in-vitro diagnostic devices. In the future, competition in these markets – which together make up more than 85 % of the global sales volume – will largely be decided by demonstrating competency and service orientation and less so by pricing.

Biotest is present in all of these highly regulated markets. Our products carry the CE-mark and fulfil the European directive for In-vitro diagnostic devices (IVD-directive). As of year-end 2005, exclusively CE-certified diagnostic devices are to be sold in Europe. Suppliers from the lower price segment, whose products and procedures in most cases are not in line with the complex requirements of the IVD-directive, will have to exit the market. This leads to a corresponding increase in the potential for the remaining quality suppliers.

We expect the approval by the US Food and Drug Administration (FDA) for the fully automated blood group device TANGO® in the second quarter of 2005. Backed by the sales approval, we will market TANGO® and the related reagents in the USA with our partner Olympus. Due to the strict approval criteria, only few suppliers of systems for transfusion diagnostics are active in the USA. We therefore expect to be able to achieve significant sales and attractive margins even in the short run.



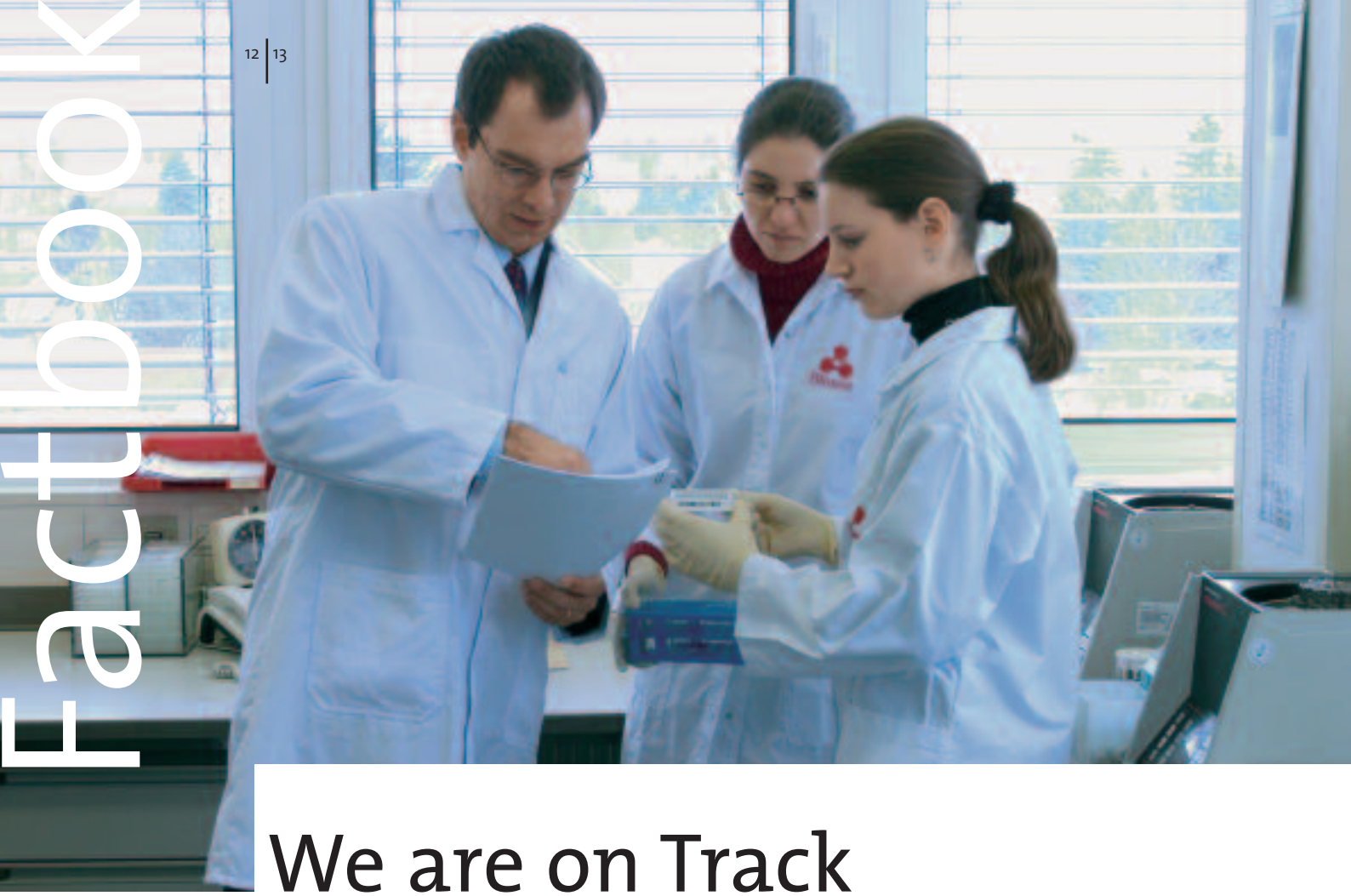
In the future, Biotest will increasingly focus its diagnostic devices on marketing in the high price markets in line with an earnings-oriented business policy. We are primarily targeting clinics or specialised laboratories since TANGO® and the systems for transplantation diagnosis QuickStep® and ELPHA® are specifically tailored to meet their demands. This sales approach also includes a flexible business model: users can either buy or lease the equipment. The closed system in combination with comprehensive service secures the exclusive use of Biotest reagents and thus long-term customer loyalty.

HYGIENE MONITORING: PREMIUM OFFER

High demands on quality also define the hygiene monitoring business segment. Biotest is among the leading suppliers in this field. As a result of increasingly stringent regulatory demands, more and more companies – pharmaceutical producers or the food and cosmetics industry – need to closely monitor and document surface and air contamination with microbes. Especially the demand for products to monitor isolated clean rooms (ICR) in the pharmaceutical industry will increase in the years to come. An instrument for monitoring special clean rooms, so-called isolators, which was introduced in financial year 2003 and the ICR culture media, which were developed for this market sector, are correspondingly in high demand.

GLOBAL SALES GROWTH TARGETED

Diagnostic devices by Biotest are premium products that satisfy highest quality requirements. The enhanced international presence, especially the entry into the US-market for transfusion diagnostics, opens up significant growth potential for us. By 2009, we plan to increase sales in the Diagnostic segment by close to 60 %.



We are on Track

"A globally active specialist for innovative immunology and haematology." In pursuit of this ambition, Biotest has successfully completed a comprehensive restructuring programme. As a result, a solid foundation has been laid for an ambitious programme of growth.

Strengthening earnings power, strategic reorientation and an efficient and stable financing structure. Those were the most important goals of the comprehensive restructuring programme issued by the Board of Management and the Supervisory Board in financial year 2003. The tasks have been completed for the most part. Today, Biotest is a profitable and well-positioned company with a strong market position and high growth potential.

TIGHTER ORGANISATION

The most important innovation at the organisational level was the introduction of a new company structure. With the transfer of the pharmaceutical business from Biotest Pharma GmbH to Biotest AG, all operational activities of the Group are now combined under one roof. This leads to the realisation of substantial synergies. As an example, the marketing and distribution departments, which previously acted separately for each business segment, were combined into one unit. Advantages in addition to the cost savings: Biotest has a unified and cohesive market appearance and is even better able to demonstrate its high competency in therapy and diagnostics.

Biotest is directly represented through its own distribution companies in the key international markets. In the past financial year, the tenth foreign subsidiary, Biotest Hellas MEPE in Greece, was founded. Area managers with responsibility for the various distribution regions coordinate cooperation with the distribution partners in additional markets. We directly cooperate with important customers via key account management. As an example, Biotest teams up with the world's leading research and therapeutic institutions that deal with haemophilia.

COSTS SIGNIFICANTLY REDUCED

The measures introduced as part of the restructuring have mostly been implemented. They relate to an improved management of accounts receivable, a reduction of inventories and lower costs for personnel

and materials. The effects obtained in some areas have clearly exceeded the original planning and have led to a sustainable improvement in the cost and liquidity situation at Biotest. In addition, we are working intensively on stabilising the financing of the Company long-term and thereby laying the foundation for our planned growth. The collateral trustee agreement (CTA) – without specified maturity – entered into with a group of banks will be continued as scheduled. Negotiations are currently underway with regard to a comprehensive debt rescheduling in which short-term credits are to be replaced in part by long-term loans.

The shareholders support the restructuring: the framework provided for capital increases by the Annual General Meeting enables a flexible reaction to future challenges – arising, for example, from the targeted growth strategy.

CORPORATE IDENTITY

New Approach, New Design

Purity, reliability, quality, service. Those are high demands that Biotest is placing on itself and thus on all staff. At the same time, the four criteria shape our corporate mission statement and our profile vis-à-vis customers and the capital market. For an innovative company extracting health products from material of natural origin and refining them using the most modern methods consistent with high quality standards, purity, reliability, quality and service are decisive for the trust of doctors and patients – and thus for sustainable economic success. On the one hand, the mission statement resulted in Biotest's new claim "From Nature to Life" and on the other hand in a new corporate

Biotest
From Nature for Life

design. It conveys the attributes via a contemporary, high-quality and harmonic appearance. In this context, the Biotest logo was carefully modified and modernised.
The new corporate design makes an important contribution to the advancement of a common identity of the Biotest Group in Germany and abroad.

Biotest's management team (from left to right): Dr. Joachim Herborg, Prof. Dr. Gregor Schulz (Chairman of the Board of Management), Dr. Rainer Pabst, Dr. Michael Ramroth (Member of the Board of Management) and Dr. Rolf Vornhagen.

Due to the increased importance of strategic alliances in research and development, distribution and production we have strengthened our workforce. In the past months, we have entered into co-operations with well-known partners: as an example, with Olympus America Inc. for entry into the US market and with Stratec Medical Systems for the further development of TANGO®.

BIOTEST – "RESPONSIBLE FOR SUCCESS"

Our new corporate design underlines the strategic reorientation. It ties in with our successful history and at the same time presents Biotest as a modern and forward-looking company. It is the goal of our initiative "Biotest – Responsible for Success," which commenced in the spring of 2004, to further strengthen this image and a joint corporate identity among the workforce. Success and responsibility at all levels and in all departments is an indication of our employees' strong commitment to the company and its growth targets. Employees from all hierarchy levels developed the actions, which included for example new leadership principles and corporate identity. Their implementation marks the passage from restructuring to the stage of growth.

Based on the results of two years of demanding and successful work, Biotest is now in a position to utilise the opportunities offered by our markets and to achieve a sustainable increase in the value of the company.

We are on track.

Perspect

ives of Life

Freedom to develop. Plenty of opportunities. A life full of perspectives. Assuring this for people with life-threatening haemophilia or auto-immune deficiencies is a challenge that Biotest is taking on. In Europe and around the world. With highly pure, highly tolerable and highly effective preparations, manufactured from human plasma under stringent quality controls. **From Nature – for Life.**

Excellent performance, increased liquidity

On the capital market, Biotest developed well in 2004: share price and trading volume are up substantially – as well as the interest of institutional and private investors

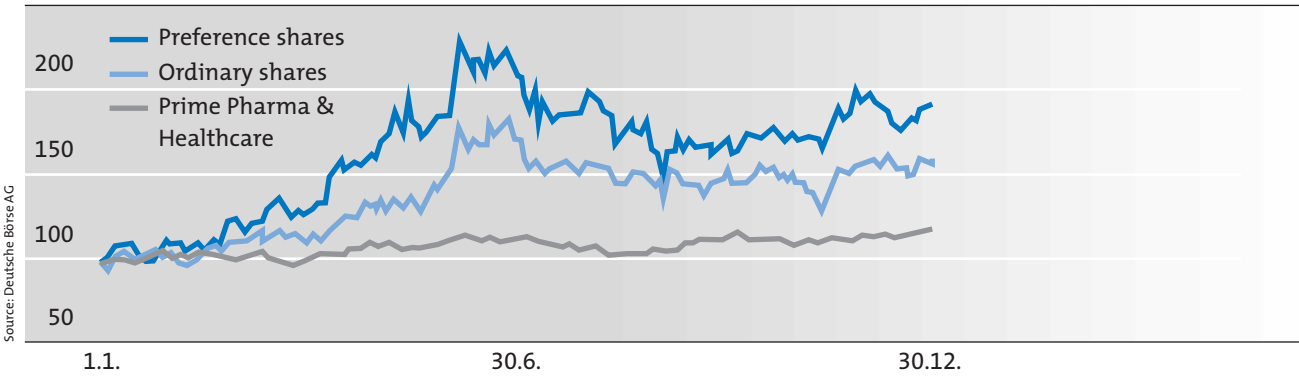
PHARMACEUTICAL TITLES WITH PRICE INCREASES

Following the sizable price recovery in the previous year, German equity markets showed a mixed performance in the year 2004. The DAX index hovered around the 4000 level and displayed surprisingly little volatility. It closed with a plus of 7.3 % at 4256.08 points. In comparison, the medium-sized stocks from the MDAX and SDAX both gained more than 20 % while technology shares continued to lose ground.

A substantial upturn was observable in the competitive environment of Biotest. The Prime Pharma & Healthcare Performance Index gained 19.5 %, and the industry sub group pharmaceuticals included in this index even advanced by 27.1 %. At the European level as well, pharmaceutical shares developed favourably; Euro Stoxx Healthcare shares increased by 26.4 %.

Development of share price in 2004

Closing price 2003 = 100



Source: Deutsche Börse AG

VALUE INCREASE FOR BIOTEST SHAREHOLDERS

With an annual performance of 61.3 % for ordinary shares and 91.3 % for preference shares, Biotest recorded the largest increases among German pharmaceutical companies and clearly surpassed all benchmark indices. This shows the return in confidence by investors in the Biotest shares, which was supported both by the improvement in earnings and the strategic reorientation of the Group.

Both share classes recorded their lows early in the year with XETRA prices of € 7.16 (ordinary shares) and € 5.03 (preference shares). Following that, they were on a continuous upward trend until the middle of the year. The highs were recorded in June with € 13.85 (ordinary shares) and € 11.45 (preference shares). Profit taking lowered the price in the third quarter before the trend turned positive again in autumn – following the approval

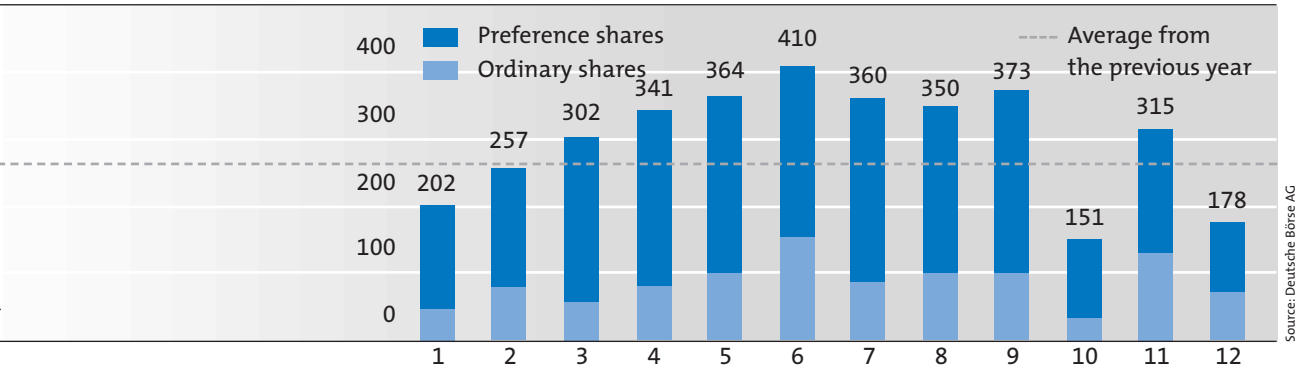
of the innovative immunoglobulin Intratect®. Biotest ordinary shares closed the year at € 12.10, and preference shares at € 9.58. With the free-float market capitalization of € 54.9 million, Biotest once again has come close to obtaining a spot in the SDAX.

INCREASED SALES, GROWING INSTITUTIONAL INTEREST

Biotest's liquidity, as well, was increased noticeably. In a year-on-year comparison, the volume of securities traded increased by 3.8 % for ordinary shares and by 16.7 % for preference shares. With a plus of 21 %, XETRA trading of preference shares showed an above average increase. The development of trading at the regional exchanges is also worth stressing since the volume of securities traded approximately tripled both for ordinary and preference shares. The reason was significant growth at the Stuttgart exchange, which accounts for more than 8 % of trading volume.

Volume of securities traded

Monthly values from the order book statistic (in thousand securities)



Source: Deutsche Börse AG

With Kreissparkasse Biberach, which holds 5.70 % of ordinary shares, Biotest gained an important shareholder in June 2004. Otherwise, the shareholder structure changed only marginally in financial year 2004. The family of Dr. Schleussner continues to hold 60.0 % of ordinary shares, and SüdKA 5.36 %. The remaining ordinary shares as well as all preference shares are widely dispersed via the stock exchange and the portion of preference shares held by institutional investors is up markedly.

ACTIVE INVESTOR AND CREDITOR RELATIONS

The Board of Management has continuously presented the strategy of Biotest and the progress made in the implementation of the restructuring plan to portfolio managers, analysts and representatives of the banks providing loans. The annual report 2003 as well as the report for the first nine months of 2004 were presented in the context of an analyst and press conference. Already 26 days after the balance sheet date, detailed information about the course of business and sales developments in both segments were available. Our press releases are also sent via E-mail to approximately 700 addresses domestically and abroad; reports, investor presentations and speeches are available as downloads.

In financial year 2005, Biotest will intensify investor relations and provide financial communications that are even more current and transparent. In addition to discussions with investors and analysts, we are planning the participation in industry specific capital market conferences focused on smaller listed companies. A further focus is on improving coverage of our Company by research houses. We published the Consolidated Financial Statements 2004 within 90 days, and the time period for the publication of quarterly figures will shorten on average by seven days. We therefore completely satisfy the transparency requirements of the German Corporate Governance Code.

DATA AND KEY FIGURES FOR THE BIOTEST SHARE

Security codes WKN, ISIN (ordinary shares)	522720, DE0005227201
Security codes WKN, ISIN (preference shares)	522723, DE0005227235

Stock exchange symbol	BIO (ordinary shares) BIO3 (preference shares)
Stock markets	Frankfurt, Berlin, Dusseldorf, Hamburg, Stuttgart as well as XETRA
Market segment	Prime Standard / official market
Primary Industry	Pharma & Healthcare
Industry Group	Pharmaceuticals
Designated Sponsor	Deutsche Bank
Number of Shares	4,000,000 ordinary shares, 4,000,000 preference shares
Share capital	€ 20.48 million
Approved capital	€ 10.24 million

€	2004	2003	2002
Dividend per ordinary share	0.11 [1)]	0.00	0.00
Dividend per preference share	0.11 [1)]	0.22 [2)]	0.00
Earnings per share	0.57	– 0.77	– 2.56
Additional dividend rights preference shares	0.11	0.11	0.11
Earnings per preference share	0.68	– 0.66	– 2.45
Cash flow [3)] per share	4.04	2.67	1.77
Ordinary shares			
Opening price XETRA	7.16	5.08	13.44
High XETRA	13.85	8.50	14.86
Low XETRA	7.16	3.15	4.83
Closing price XETRA	12.10	7.50	4.83
Market capitalization at year-end (€ million)	48.40	30.00	19.32
Preference shares			
Opening price XETRA	4.82	3.28	12.20
High XETRA	11.45	6.85	13.71
Low XETRA	5.03	2.85	3.05
Closing price XETRA	9.58	4.96	3.17
Market capitalization at year-end (€ million)	38.32	19.84	12.68

1) proposal
2) including € 0.11 late payment from 2002
3) operative cash flow before changes in working capital

Corporate Governance at Biotest

Joint report by the Supervisory Board and the Board of Management of Biotest AG pursuant to Section 3.10 of the German Corporate Governance Code

CORPORATE GOVERNANCE PRINCIPLES

The staff and management at Biotest work together towards the goal of achieving a sustained increase in the value of the Company to the benefit of shareholders, of utilising strategic opportunities and of minimising risk. A responsible management with a focus on the long term and its efficient control are as a matter of course an integral part of our corporate culture. The key cornerstones are a consistent orientation towards the interest of the shareholders, the trustworthy cooperation of the Board of Management and the Supervisory Board, an efficient risk management, a transparent and appropriate compensation system as well as comprehensive and up-to-date financial communications.

We base the concrete formation and further development of our basic principles of responsible management on the German Corporate Governance Code as most recently amended on 21 May 2003. After adjustments in financial year 2004, we have implemented all the recommendations of the Code without exception.

COMPLIANCE IN FINANCIAL YEAR 2004

During financial year 2004, there was one deviation from the Declaration of Compliance applicable for the period: we did not publish the third quarterly report within a period of 45 days, but after 53 days. The reason for this was that Biotest would not have attained sufficient attention with investors and analysts on the planned date of publication because of a large event by Deutsche Börse that was taking place at the same time. We complied with all other commitments. There were no conflicts of interest during the reporting period.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Emoluments for the Supervisory Board were adapted to meet the requirements of the Code by resolution of two amendments to the Articles of Association at the Annual General Meeting on 8 July 2004. Accordingly, Supervisory Board members now also receive performance-related compensation; in addition, compensation will take into account chairmanship and membership in the committees of the Supervisory Board (see page 21). Via an additional amendment to the Articles of Association, it was stipulated that in the event of an equal division of votes within the Audit Committee, the committee chairman has the decisive vote. This is in compliance with a suggestion of the Government Code that the Chairman of the Supervisory Board should not be Chairman of the Audit Committee.

At the Annual General Meeting, 70.91 % of ordinary shares and 29.85 % of preference shares were represented. All items on the agenda, including the creation of authorised capital and the authorisation to issue profit-sharing rights, were passed by an overwhelming majority. All necessary reports and supporting documents were also made available beforehand via the Internet page. The Chairman of the Supervisory Board

informed the Annual General Meeting about the fundamentals of the compensation system.

EFFICIENCY REVIEW BY THE SUPERVISORY BOARD

In financial year 2004, the Supervisory Board of Biotest AG conducted a review of the efficiency of its activities for the first time. To ascertain opportunities for improvement, an external auditor conducted interviews with all members of the Supervisory Board and with all members of the Board of Management. The results were presented at the Supervisory Board meeting on 1 July 2004. Because very efficient corporate controls are already in place, only selective measures are necessary with regard to future cooperation between the boards. An efficiency review should be conducted at least every two years.

COMPLIANCE WITH ALL CODE RECOMMENDATIONS FROM NOW ON

Biotest AG will comply with all recommendations of the German Corporate Governance Code from now on. In the notes of this annual report (see page 85), we disclose for the first time the different compensation components for the members of the Board of Managing Directors and the Supervisory Board on an individualised basis. Compensation paid to members of the Supervisory Board by the Company for advisory services will all be shown there on an individualised basis. In addition, we have expedited the process of preparing the Consolidated Financial Statements so that we now comply with the required deadline of 90 days after the end of the financial year. Following the amendments of the Articles of Association, the rest of the deviations listed in our previous Declaration of Compliance also no longer apply. In addition, Biotest is implementing the suggestions of the Code for the most part. However, we do not broad-cast the Annual General Meeting via the internet for reasons of cost.

The complete Declaration of Compliance issued on 18 March 2005 can be viewed on our website along with this Corporate Governance report, the Compensation report as well as the full text of the German Corporate Governance Code.

Compensation of the Board of Management and Supervisory Board

Joint report by the Supervisory Board and the Board of Management of Biotest AG pursuant to Section 4.2.3 of the German Corporate Governance Code

COMPENSATION OF THE BOARD OF MANAGEMENT

The compensation of the Board of Management is specified by the Supervisory Board. It is composed of a fixed compensation, a bonus and a component with long-term incentive effect and risk elements. Added to this is non-cash compensation for a company car and for retirement benefits, among others. All compensation components are appropriate both individually and as a whole.

The annual fixed salary is based on the economic position and future prospects of Biotest as well as on the level of compensation paid in a comparable environment. The variable compensation component is based to 70 % on operating profit (EBIT) and the attainment of individual targets in the previous financial year. The individual targets are agreed annually between the members of the Board of Management and the Presiding Committee. After the end of the financial year, the Presiding Committee sets the level for the performance-related component.

The virtual stock option plan of Biotest AG has expired as of year-end 2004 and is supposed to be replaced in financial year 2005 by a stock option plan which is currently still in the planning stage. The Supervisory Board will agree to a cap for extraordinary, unforeseen developments. The value of the virtual stock option plan amounted to zero as of the balance sheet date.

COMPENSATION OF THE SUPERVISORY BOARD

The compensation of the Supervisory Board is stipulated in the Articles of Association. The members each receive an annual fixed compensation of € 15,000 as well as a variable compensation payment in the amount of € 500 for every € million that exceeds EBIT with a minimum amount of € 13 million. This minimum amount increases by 10 % beginning in financial year 2005 up to and including financial year 2007.

The Chairman of the Supervisory Board receives double that amount and his Deputy one and a half times that amount. For work in a Supervisory Board Committee, members will receive an additional € 3,000 and the chairman € 5,000.

In addition, Biotest reimburses the members for VAT payable on Supervisory Board emoluments.

The compensation paid to the members of the Board of Management and the Supervisory Board is shown on an individualised basis and divided into the respective compensation components in the notes on page 85.

Pleasures

# of Life

Create. Achieve goals. Overcome obstacles. Daily life, for short. The fact that it continues to pulsate even after severe operations is an accomplishment of modern medicine. And Biotest makes its contribution. Our diagnostic systems for transfusion and transplantation lend a high degree of safety to these life-saving procedures. **From Nature – for Life.**

Management Report

The Financial Year in Review

A return to profits, the conclusion of restructuring activities and advance expenditures towards global growth – 2004 wa s a successful year for Biotest on many counts. At € 6.2 million, Group profit before tax was positive again for the first time in three years. Earnings before interest and tax (EBIT) reached € 18.6 million. This figure more than doubled compared to the previous year. Marked improvement in the earnings position resulted unilaterally from the Pharmaceutical division; in the financial year, the Diagnostic division was more strongly burdened by extraordinary expenses than in the previous year.

Decisive for the increase in the Group result were cost savings and increases in sales on the German and European market that we achieved through immunoglobulins and factor VIII. In the Diagnostic division, hygiene monitoring surpassed our expectations. The areas of transfusion diagnosis and transplantation diagnosis were successfully stabilised, but the extraordinary expenses caused the EBIT for this division to be considerably below previous year's figure.

At € 217.9 million, Group sales were 1.8 % below previous year's value. The main reason is the deliberate restraint on the highly competitive tender markets for plasma derivatives. The more than proportional decline in cost of sales as well as marketing and distribution expenses are an indication of the success of the restructuring activities which were completed in the financial year and which also entailed the optimisation of the Group structure.

At the same time, Biotest has made substantial effort for future international growth. Following the approval of the innovative immunoglobulin Intratect® in Germany, the door to the European market is wide open. Our promising research projects, among others the development of monoclonal antibodies, have been advanced according to plan. The expansion and modernisation of the plasma production facility has been nearly accomplished, and increased utilisation – also via the newly signed contracts for toll manufacturing – is by and large assured. TANGO®, one of the most modern fully automated devices for blood group serology, is close to market introduction in the United States and in Canada after passing the pre-approval by the US regulator FDA and after successfully developing the second generation of devices. The collateral trustee agreement with a first-time termination date of 31 December 2004 continues to be in force. The next termination date is now 31 December 2005. Biotest expects that a debt rescheduling agreement with the banks can be reached in the second quarter of 2005.

For financial year 2005, Biotest expects a modest increase in sales as well as a further improvement in the earnings situation for both divisions.

Economic Environment

As a specialist for innovative immunology and haematology, Biotest was active in a difficult global environment in 2004. In both divisions – Pharmaceutical and Diagnostics – the market was for the most part characterised by price competition that was at times fierce. There were varied reasons for this: the market for plasma derivatives – in other words, pharmaceuticals manufactured from human blood plasma – continued to suffer from excess capacities and high stocks of plasma held by the competition. In the global market for in-vitro diagnostics, many competitors are still active in the lower price segment. While they do not meet new regulatory quality standards, they are allowed to stay in the market during a transition period until the end of 2005.

MARKET ENVIRONMENT IN THE PHARMACEUTICAL DIVISION

The market for plasma derivatives was under pressure especially in countries outside of Europe. In some markets, in particular in South America and in the Near East, an outright collapse of prices for plasma preparations could be witnessed. Explanation for this is an attempt of competitors to reduce high inventory levels, which they built up in prior years, by offering discount prices. The exchange value of the Euro vs. Dollar negatively impacted our business in these markets as they are all factoring in USD. At the end of the year, the Euro was quoted at USD 1.36; this is an increase of 7.8 % compared with the end of 2003.

The various products manufactured from plasma show very different rates of growth on a global scale. The world market for human albumin continued to decline, while immunoglobulins continue to grow. The sales prospects for plasma-based coagulation factors have improved on balance: the substitution by biotechnological preparations – so-called recombinant factors – in the highly developed markets has slowed, while increasing demand for more affordable plasma products became apparent in developing and emerging markets.

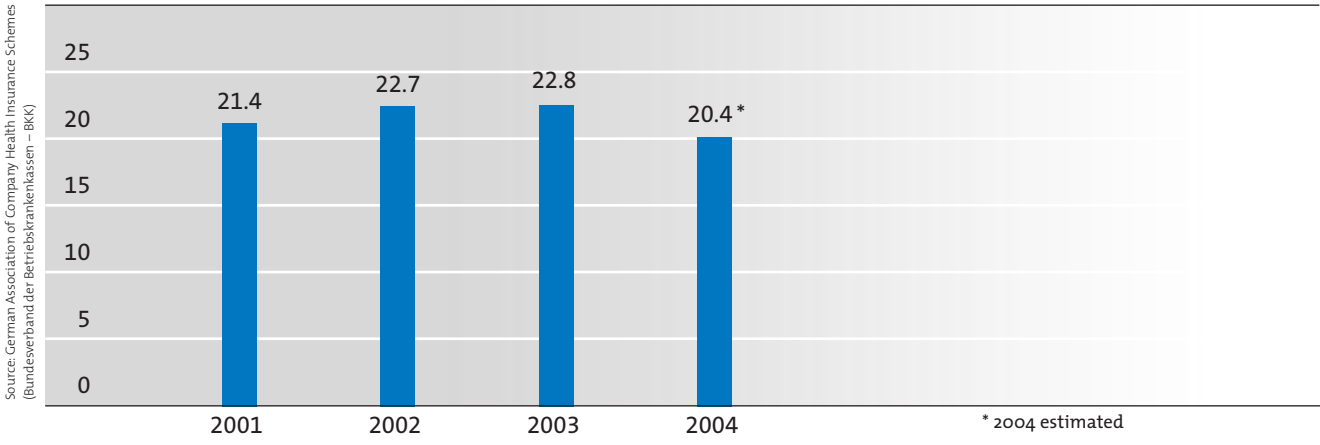
The consolidation of the industry, which is accompanied by a reduction of the excess supply, continued in 2004. Both the number of plasmapheresis centers as well as the amount of plasma produced decreased significantly in the course of the year. As an example, the world's largest plasmaprotein manufacturer has reduced its production capacities by 30 %. This consolidation of the competitive environment will only have a noticeable positive effect on sales and the earnings situation at Biotest in the coming financial years, as excess demand cannot be expected before 2006 at the earliest.

In 2004, the European market – and Germany in particular – again witnessed interventions into the market pricing mechanism by the legislators with the aim of curtailing cost increases in the health care sector. In Germany, which is the most important single market for Biotest, the Statutory Health Insurance Modernisation Act (Gesetz zur Modernisierung der Gesetzlichen Krankenversicherung – GMG) was enacted at the beginning of 2004. It specifies, among others, that drug makers have to grant a price dis-

count of 16 % for all prescription drugs, that are not subject to a regulation on fixed charges (Festbetragsregelung) and distributed via public pharmacies. In the previous year, this mandatory discount was only at 6 %. According to calculations by the Institute of Medical Statistics (IMS), this led to reductions in profits for the entire pharmaceuticals industry totalling € 1.8 billion. Within Biotest's product range, immunoglobulins are affected by the mandatory discount while haemophilia preparations are excempt from this regulation. According to a forecast by the German Association of Company Health Insurance Schemes (Bundesverband der Betrieskrankenkassen), the expenses of health insurance companies for drugs declined by 10.5 % compared with 2003. In addition, more response groups became subject to the regulation on fixed charges for drugs.

Spending on drugs by statutory health insurance schemes in Germany

€ billion



Source: German Association of Company Health Insurance Schemes (Bundesverband der Betriebskrankenkassen – BKK)

At the same time, the new regulation on drug prices and the easing of the legislation prohibiting pharmacists from running more than one pharmacy led to significant reductions for pharmacies. As a reaction, pharmacies and hospital associations increasingly joined forces in order to improve purchasing conditions. This further increased the pressure on the pharmaceutical industry.

MARKET ENVIRONMENT IN THE DIAGNOSTIC DIVISION

Close to 85% of the global market volume of transfusion and transplantation diagnosis in financial year 2004 are apportionable to the highly regulated markets of North America, Europe and Japan. In the European Union, the basic conditions have been fundamentally changed for all manufacturers with the introduction of the European Directive on in vitro diagnostic medical devices (IVD Directive) in December 2003. The Europe-wide registration, which is homogenised for the first time, opens up new market opportunities. The required CE certification of the products, however, leads to higher expenses for quality assurance. In the year under review, it was not possible to fully pass along these costs to the user. This was due to the cost saving measures in health care and the resulting restrictive billing options. Matters are complicated further by the fact that diagnostic devices and appliances without CE certification can still be sold during a two-year transition period that ends in December 2005.

In the area of hygiene monitoring, the legislative demands, especially in the pharmaceutical industry, increased further. The requirement for an even more comprehensive documentation of all process steps in the manufacturing of drugs, including the perspective of hygiene, has again facilitated stable market growth in financial year 2004.

Major Strategic and Organisational Measures

According to our vision, it is the overriding strategic aim to establish Biotest as a specialist for immunology and haematology with innovative pharmaceutical and diagnostical products in growth markets worldwide. The measures adopted in financial year 2004 have taken us a long way towards that goal: Biotest has taken targeted investments in future growth opportunities, has expanded its international activities and streamlined the organisation of the Group. With this set of activities, Biotest has by the end of 2004 successfully completed the restructuring and reorganisation of the Group that was introduced in 2002.

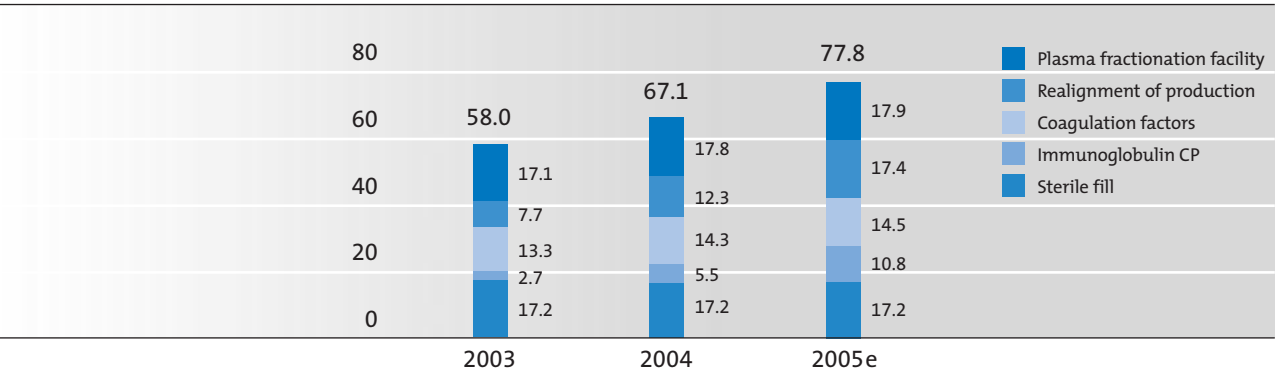
INVESTMENT IN GROWTH

Expansion and modernisation of the production of pharmaceuticals have advanced according to plan. Of the expected total volume in the amount of € 92.2 million, € 67.1 million – a share of 72.8 % – had been completed by the end of the year under review. Of this, € 9.2 million were spent in 2004. The new production process allows for the manufacturing of high-purity preparations, largely in a natural state. The annual capacity of the fractionation facility will increase fourfold upon completion of all activities.

Investment focus continued to be the adaptation of the production area for pharmaceuticals and in particular the separation of the clean room categories C and D. It was initiated during the middle of the year and is necessary to fulfil the Current Good Manufacturing Practices (cGMP). Additionally we have begun to expand the capacities for the manufacturing of chromatographically purified immunoglobulin (Immunoglobulin CP).

Capital expenditure for the production of pharmaceuticals (cumulated)

€ million



Two more important partial projects have been successfully completed. In the new fractionation facility for human plasma, which is among the most modern facilities of its kind globally, production started in April 2004 after the "Regierungspräsidium" in Darmstadt granted the manufacturing licence.

Technical certification of the modernised facility with enlarged capacity for the manufacturing of coagulation preparations took place as scheduled in June 2004. Validation has been completed for the most part.

Besides the expansion of manufacturing, Biotest also accelerated the approval process and moved forward the development of new preparations in financial year 2004. Intratect®, an immunoglobulin G purified using chromatography columns, was approved for the German market by the Paul Ehrlich Institute (PEI) at the end of September. Marketing for this premium preparation started in October 2004, and approval for the European market via the mutual recognition procedure is expected for the beginning of 2006. The Diagnostic division has made further progress in its transformation from classical supplier of reagents to systems provider. This was dominated by the further development of the fully automated blood group device TANGO®, as well as its approval on the American and Canadian markets. The necessary inspection (pre-approval audit) by the FDA was successfully conducted in the middle of 2004; this means that all regulatory hurdles for approval in the second quarter of 2005 at the latest as well as the sales launch around mid-year have been cleared. Distribution will be done in cooperation with Olympus America Inc., one of the market leaders in North America for transfusion diagnostics. The cooperation with STRATEC Biomedical Systems AG, Birkenfeld, for the technological advancement of TANGO® as well as with regard to the requirements of the North American market for diagnostic devices, was intensified.

INTERNATIONALISATION OF THE BUSINESS

Through a new subsidiary as well as joint ventures, Biotest has improved its presence in foreign growth markets in 2004.

The newly founded subsidiary BIOTEST Hellas Diagnostic and Pharmaceutical Products Monoprosopi EPE (Biotest Hellas MEPE) headquartered in Maroussi/Athens has taken over the business activities of the former exclusive distributor for the Greek market, Ionian Pharma, since August 2004.

Jointly with the Iranian pharmaceutical company Darou Pakhsh, Biotest Pharma GmbH founded BioDarou P.J.S. with registered office in Teheran already in January 2004; Biotest Pharma GmbH holds a 49 % share in the joint venture. BioDarou will initially set up three plasmapheresis centers and a testing laboratory in Iran. Plasma donated there according to EU GMP standards will be further processed at the site in Dreieich into finished products – coagulation factors, immunoglobulins and human albumin – and these will be shipped back to Iran. In this fashion, Iran can cover a significant share of the demand for plasma derivatives from its own raw materials. Already during the financial year, construction of the first plasma centre and the central laboratory commenced. By toll manufacturing, Biotest opens up an interesting growth market and at the same time is able to stabilise capacity utilisation at the new production facility. The joint venture serves as a model for toll manufacturing agreements that are in preparation with other countries.

Furthermore, we have newly restructured our distribution in order to give the international business an additional boost. Area managers are now responsible across business divisions for the distributors and their respective regions. This assures a more efficient use of potential in the Pharmaceutical and Diagnostic divisions.

OPTIMISATION OF THE GROUP STRUCTURE

A milestone in the restructuring and reorganisation of the Biotest Group was the combination of all pharmaceutical activities within Biotest AG as of 1 June 2004. To achieve this goal, Biotest Pharma GmbH transferred the right to use the facilities of Biotest Pharma GmbH as well as the approvals and manufacturing procedures to Biotest AG by means of leasing and licensing. Biotest Pharma GmbH maintains ownership of the facilities and buildings as well as product registrations and continues to act as the responsible body in terms of pharmaceutical law.

In February 2004, Biotest AG sold its 26 % share in SIFIN Institut für Immunpräparate und Nährmedien GmbH, Berlin, at book value to the majority owner. The company, which specialises in microbiological diagnostic systems, was not considered to be part of Biotest's newly defined core business but will continue to act as a supplier to the Diagnostic division. We have transferred our distribution activities in the diagnosis of viral infections to a cooperation with Mikrogen molekularbiologische Entwicklungsgesellschaft mbH based in Martinsried, Germany.

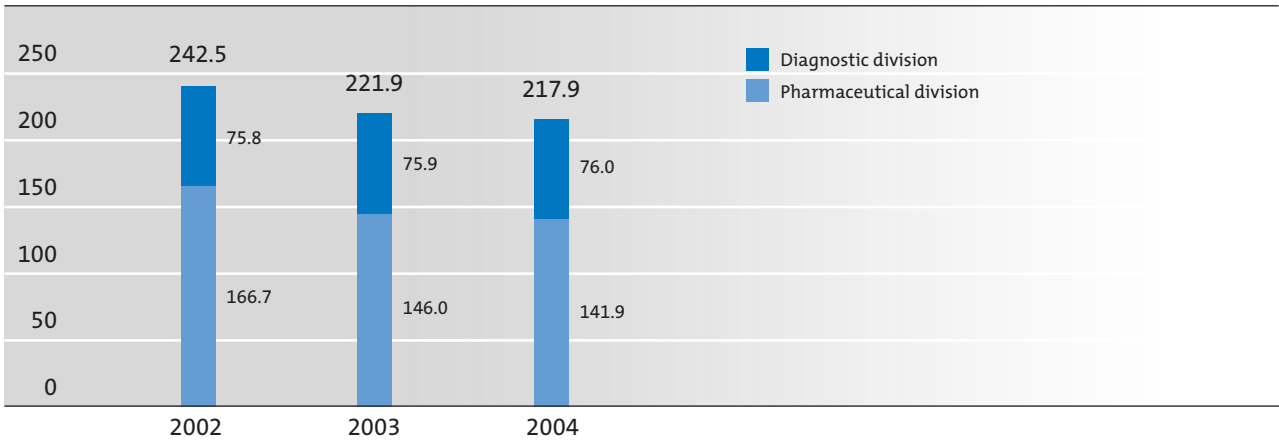
FINANCING THE EXPANSION

The financial situation of the Biotest Group eased in 2004. This gives Biotest more freedom to pursue its ambitious growth targets in the coming financial years. The collateral trustee agreement with the creditor banks of Biotest AG continues to remain in force and can now be terminated at the end of 2005 at the earliest. In the context of the collateral trustee agreement, material parts of the Group's assets are pledged as collateral to the banks. In negotiations with the banks that commenced in the second half of 2004, a debt rescheduling associated with a financing with matching maturities is expected to be achieved in the second quarter of 2005.

Via resolutions made at the General Shareholders' Meeting on 8 July 2004, Biotest considerably increased its flexibility with regard to the Company's financing as well. The shareholders overwhelmingly authorised the Board of Management with approval by the Supervisory Board to increase the Company's capital stock to up to € 10.24 million – corresponding to 50% of the currently subscribed capital – in a five-year time period by the one-time or repeated issue of ordinary and preferred shares. As long as the capital increase in exchange for contributions in cash does not exceed one-tenth of the capital stock and the issuing price does not significantly falls short of the stock market price, the subscription right of shareholders can be excluded. This also holds true for capital increases against non-cash contributions and for levelling off fractional amounts. In addition, the Company may issue profit-sharing rights with an aggregate nominal value of up to € 50 million within five years.

Sales by business division

€ million



Business Situation

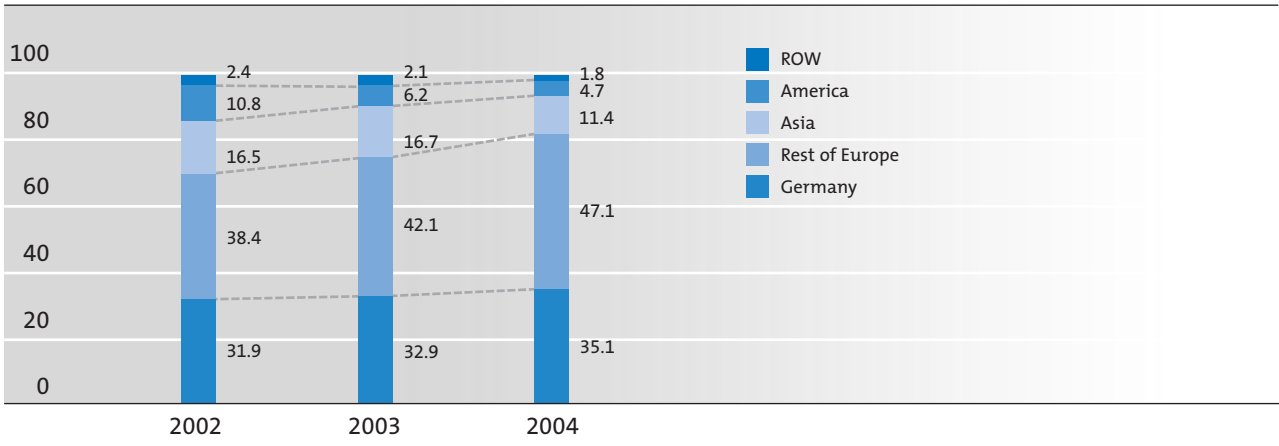
With Group sales of € 217.9 million, Biotest almost matched last year's sales (€ 221.9 million). The 1.8 % decline is due to a more subdued international business; here, the sales volume declined by 4.9 % to € 141.5 million (previous year: € 148.8 million). In the markets outside Europe, the declines in sales reached double digits without exception, while the European markets outside of Germany developed favourably with a plus of 9.8 %. At home, sales proceeds advanced by 4.5% to € 76.4 million (previous year: € 73.1 million). The share of domestic sales thus increased to 35.1 % (previous year: 32.9 %).

BUSINESS TREND PHARMACEUTICAL DIVISION

With sales of € 141.9 million, the Pharmaceutical division missed last year's figure of € 146.0 million by 2.8 %. The main reason is the sharp competition that Biotest was facing in tender markets in South America, Asia and North Africa. Also considering the unfavourable dollar exchange rate, only insufficient margins would have been achievable. Biotest was successful, among others, at a public tender in the Middle East; it relates to the delivery of immunoglobulin for a period of three years. Iran will receive

Sales by region

in %



shipments of the factor VIII preparation Haemoctin® based on a partial tender. First sales from the toll manufacturing for the Iranian joint venture BioDarou are expected for 2005.

In contrast to the markets in Asia and South America, our business with plasma proteins within the European markets developed favourably with an increase in sales of 11.2 %. Reduced sales of the basic products such as human albumin and Haemoctin® were partially offset by higher sales revenues for our immunoglobulin specialities, in particular Hepatect® for the prophylaxis of hepatitis B, Pentaglobin® for the treatment of severe bacterial infections and Cytotect® for the therapy and prophylaxis of cytomegalovirus infections. Strong increases were achieved in Austria and Italy. Since August 2004, the new subsidiary Biotest Hellas MEPE has already been very successful in the Greek market. In Germany, the Pharmaceutical division achieved a boost in sales of 5.2 % despite the negative impact from the increase in the mandatory discount as part of the German Health Care Structure Act (Gesundheitsstrukturgesetz) in the amount of € 1.1 million.

Immunoglobulins for the treatment of auto-immune diseases showed an advance as well. Marketing of the new premium preparation Intratect® got off to a good start in October. Biotest continues to be very well positioned with the major purchasers of these coagulation preparations.

BUSINESS TREND DIAGNOSTIC DIVISION

The Diagnostic division kept its position in a market environment characterised by tough price competition. With sales of € 76.0 million, previous year's value was maintained. Exchange rate related declines in the United States were offset by increases at home.

Transfusion diagnostics again achieved the most sales. Due to the investment restraint in the laboratories and clinics, previous year's sales were not matched. The sales achieved with the fully automated blood group device TANGO® – both from sales as well as from rental including reagents' contracts – were strongly declining in Germany and France which had previously been the major markets. One of the reasons was our restraint in the distribution activities that was caused by an overhaul of the complex software solution that was undertaken during the year. As a consequence, sales by the reagents for TANGO® did not match our expectations.

In **transplantation diagnosis,** Biotest is one of the few suppliers who is in possession of both serological as well as DNA methods for the determination of HLA (Human Leucocyte Antigene). With this dual product strategy covering both automated solutions and reagents, this area developed well especially in the European market and overall showed a slight increase in sales in financial year 2004. A planned decline in classical serological methods was compensated for through the sales increase in molecular biological testing systems.

In both sub-areas of in-vitro diagnostics – transfusion and transplantation – Biotest had already completed the entire CE certification by the end of financial year 2003. Thus Biotest satisfied all requirements of the IVD directive that became relevant across Europe in financial year 2004.

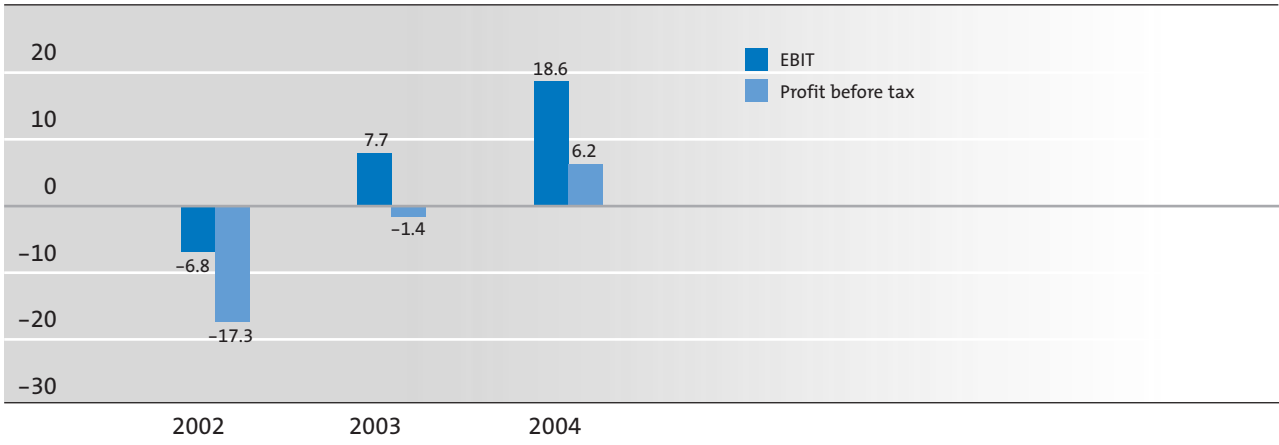
Biotest was once again extraordinarily successful in the areas of **microbiology and hygiene monitoring (Hycon).** Growing demand by the pharmaceutical industry for devices and reagents for hygiene monitoring, in particular, has positively influenced sales and allowed for a good product result. For the growth market China, we have concluded a distribution agreement with a local technology company, which is preparing the market introduction of the hygiene monitoring systems.

Earnings Position

Overall, the earnings position of the Biotest Group has improved considerably despite slightly lower sales in 2004. We increased earnings before interest and tax (EBIT) by 141.6 % to € 18.6 million (previous year: € 7.7 million). The Pharmaceutical division achieved an operating profit of € 18.4 million (previous year: € 5.5 million). In contrast, the Diagnostic division with an operating loss of € –0.1 million was significantly below previous year's value of € 3.1 million due to special charges in this financial year.

EBIT and profit before tax

€ million



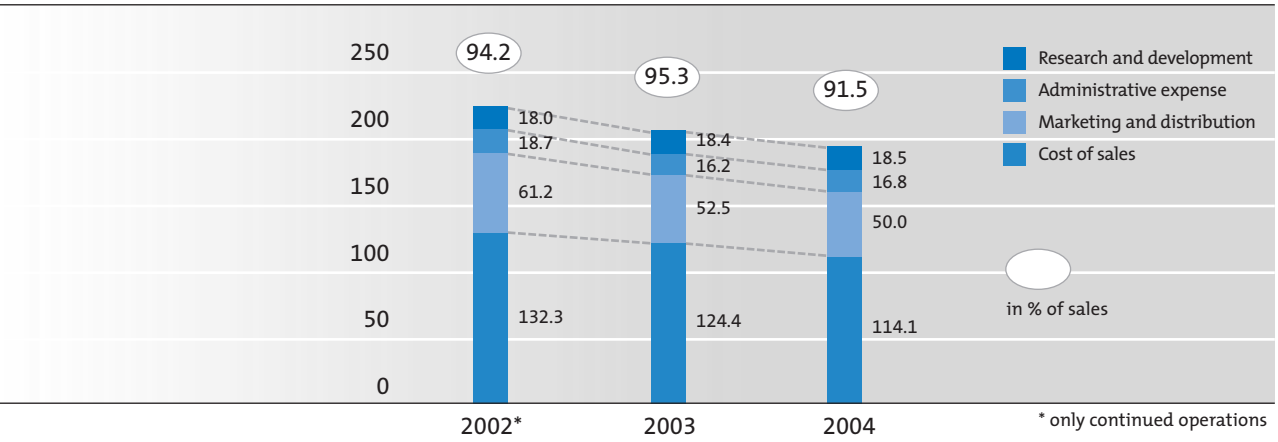
The Group result before taxes amounted to € 6.2 million (previous year: € –1.4 million) and was positive for the first time since financial year 2001. After taxes and taking into consideration minority interests relating to the companies Heipha Dr. Müller GmbH and Viro-Immun Labor-Diagnostika GmbH, a consolidated net profit for the year of € 5.0 million (previous year: € –5.7 million) remains. Earnings per ordinary share increased markedly from € –0.77 to € 0.57, and earnings per preference share, taking into consideration additional dividend rights, moved up from € –0.66 to € 0.68.

DEVELOPMENT OF COSTS

The improved earnings situation at Biotest is to a substantial part due to the reduction of costs in the Pharmaceutical division. This already shows the success of the restructuring activities that were completed during the financial year, even though the positive effects are partly offset by non-recurring expenses, among others for personnel measures. Cost savings more than compensated for the missed operating result due to the decline in sales.

Costs

€ million



The Diagostic division was burdened by significant extraordinary expenses: cost of sales include additional write-downs for TANGO® and spare parts still on hand that we made with respect to the launching of the new TANGO®. In addition, special products for the French market that were produced before introduction of the European-wide uniform approval (CE certification) could no longer be used. Sales and marketing costs reflect expansion of the business in Hungary and at Heipha Dr. Müller GmbH as well as changes in the allocation of the combined distribution activities. Increased export efforts have not yet led to the expected increase in sales. The increase in administrative costs mainly resulted from changed allocation of the holding costs and the business expansion at Heipha Dr. Müller GmbH. The increase in research and development costs is mainly characterised by additional structures in the R&D area; as such, a special working group R&D Automation was formed, among others. This reflects, besides additional expenses, efforts being made in preparation for entry into the US market, which represents the largest market for diagnostics in the world. In addition, lower US dollar exchange rates weighed down on the result of the Diagnostic division in the US business.

For the Group, the cost of sales declined more than proportionately relative to sales by 8.3 %. Major component of the cost of sales is the cost of materials purchased. It fell by 6.9 % below the value of the previous year. The materials usage ratio, which had climbed to 43.0 % in 2003, improved again to 40.8 %. One reason, among others, is the decline during the year of plasma raw materials. This decline is also due to exchange rate effects, since purchases partly take place in markets dominated by the US-dollar. Furthermore, fewer licensing costs than planned accrued in the Pharmaceutical division.

In **sales and marketing**, Biotest also achieved a significant lowering of costs. Expenses declined by 4.8 % to € 50.0 million (previous year: € 52.5 million). The positive development is due among other reasons to declining payments of commissions to distributors and agents abroad.

In contrast, **administrative expense** increased by 3.7 % to € 16.8 million (previous year: € 16.2 million). The cost-cutting measures were dominated by special effects. Non-recurring expenses arose due to the strategic development of the Group, the founding of a legal entity in Greece and the leasing transaction for the pharmaceuticals business between Biotest Pharma GmbH and Biotest AG.

8.5 % of sales receipts were spent on **Research and Development** at Biotest (previous year: 8.3 %). In absolute figures, R&D expenses were up marginally from € 18.4 million in the previous year to € 18.5 million; of this, 68.2 % related to direct research and development projects and 31.8 % to costs associated with product development. In the Pharmaceutical division, a large part of the costs was associated with the approval of Intratect®, the development of the new product generation of Hepatect® based on the filter aid procedure including new dosage forms of this preparation and the pre-clinical development of the monoclonal antibodies BT-061, BT-062 and BT-063.

The balance of **Other operating income and expenses** amounts to € 2.5 million (previous year: € 0.9 million). The sale of SIFIN was transacted at book value and thus did not affect earnings.

We spent a final € 2.1 million for **restructuring activities** and thus significantly less than in the previous year (€ 3.4 million). The expenses are due primarily to severance payments at the site in Dreieich.

FINANCIAL RESULT

After € –9.1 million in the year 2003, Biotest closes the year under review with a financial result of € –12.2 million. The reason for the declining financial result were currency gains realised in the previous year in the amount of € 2.5 million. Altogether, interest expenses amounted to € 13.2 million and were thus slightly below the level of the previous year (€ 13.4 million).

INCOME TAX

At the Group level, it is worth stressing that income taxes were reduced from € 3.8 million in the previous year to a current € 0.4 million, while the earnings situation improved at the same time. The main reason for the improvement in the tax situation is the activation of deferred taxes on losses carried forward by Biotest AG. The tax utilisation of the losses carried forward was made possible by the expected sustainable and positive earnings situation.

PROPOSAL FOR THE DISTRIBUTION OF THE EARNINGS

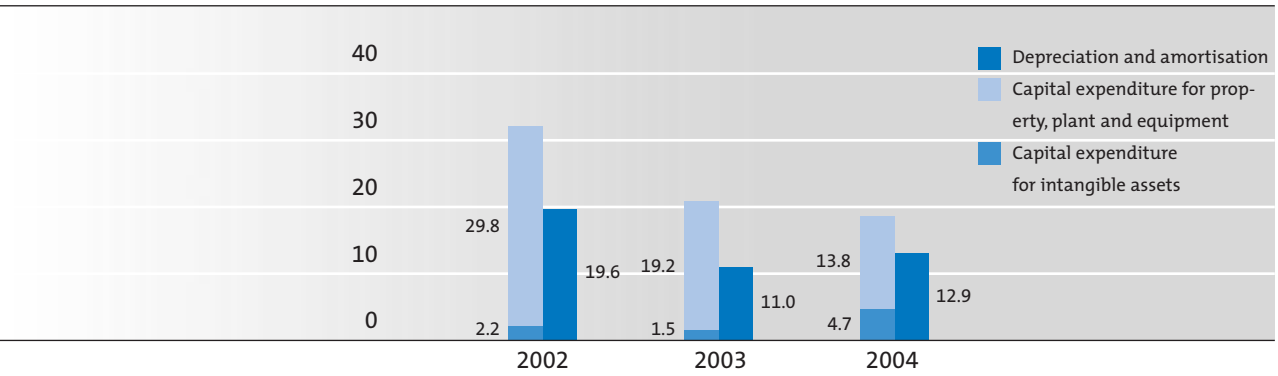
A proposal is made to the Annual General Meeting that takes place on 20 May 2005 to distribute a dividend of € 0.11 per preference and ordinary share, corresponding to € 0.88 million, from the balance sheet profit of Biotest AG in the amount of € 2.725 million and to carry forward € 1.845 million to a new account.

Capital Expenditure and Depreciation and Amortisation

Following extraordinarily high investments in the last three financial years, the volume has again declined. After € 20.7 million in the previous year, Biotest invested a total of € 18.5 million in property, plant and equipment and intangible assets in financial year 2004. Of this amount, € 4.7 million related to intangible assets – among others for purchasing the distribution rights in the market in Greece from the previous distributor Ionion Pharma – and € 13.8 million for property, plant and equipment.

Capital expenditure and depreciation and amortisation

€ million



At € 14.5 million (previous year: € 16.1 million), Biotest again invested the lion's share in the Pharmaceutical division and here mainly in the renewal and expansion of the production facilities. By year-end, 72.8 % (previous year: 62.9 %) of the volume planned until 2008 had been accomplished. Focal points in the year under review were the cGMP adjustment of the pharmaceutical production with € 4.3 million and the expansion of the immunoglobulin capacity with a volume of € 2.8 million.

In the Diagnostic division, capital expenditures amounted to € 4.0 million (previous year: € 4.6 million).

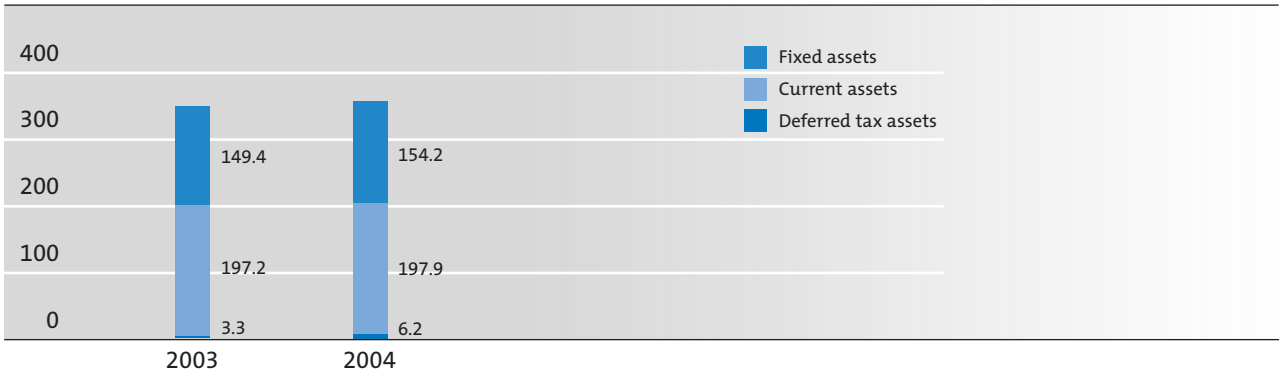
The capital expenditures were counterbalanced by depreciation and amortisation charges in the amount of € 12.9 million (previous year: € 11.0 million).

Balance Sheet and Cash Flow Statement

The successful restructuring of Biotest is also reflected in the Group balance sheet. Due to an improved management of receivables and inventories, the corresponding balance sheet positions have decreased. As a consequence of increased liquid funds and net new investments in intangible assets and property, plant and equipment in the amount of € 5.0 million, the balance sheet total went up from € 350.0 million to € 358.3 million.

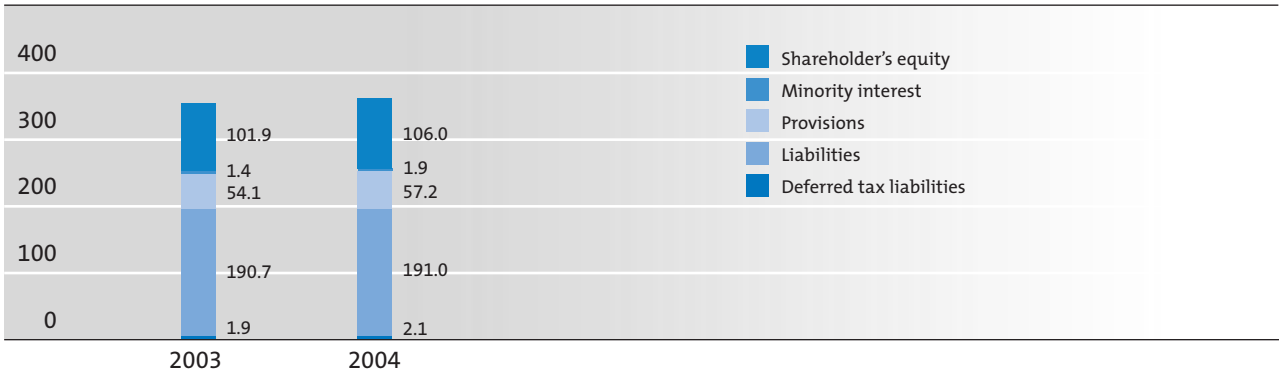
Structure of the group balance sheet ASSETS

€ million



Structure of the group balance sheet EQUITY AND LIABILITIES

€ million



ASSETS

Since the volume of capital expenditures and depreciation and amortisation charges is by and large equal, property, plant and equipment stayed virtually unchanged. Additions to intangible assets are largely due to the acquisition of the distribution rights in Greece. Financial assets decreased due to the disposal of the stake in SIFIN.

Inventories were reduced slightly compared to previous year's value (€ 117.2 million) and reached € 116.7 million, even though the reorientation of production and the respective approval procedures required a temporary enlargement of inventories by € 8.7 million. Excluding this special effect, a reduction of inventories by 7.9% follows. This is due to more efficient processes in production, warehousing and logistics as a result of the restructuring.

The decisive reduction of accounts receivable by 4.9 % compared to the previous year is the result of a consistent management of receivables.

Liquid funds increased from € 12.1 million to € 19.6 million. Immediately upon completion of the financial year, these funds were used to reduce loan commitments in the amount of € 4.7 million and to pay back liabilities.

FINANCING

On the liability side of the balance sheet, financial liabilities of € 163.7 million reached a level similar to that of the previous year (€ 163.0 million). Bank loans increased by € 4.6 million, also because of the pending payments in the new financial year, while leasing obligations were settled in the amount of € 3.9 million.

The debtor banks were continuously informed during the year under review about the progress of the restructuring activities and the economic situation. The undated collateral trustee agreement with them was continued as planned.

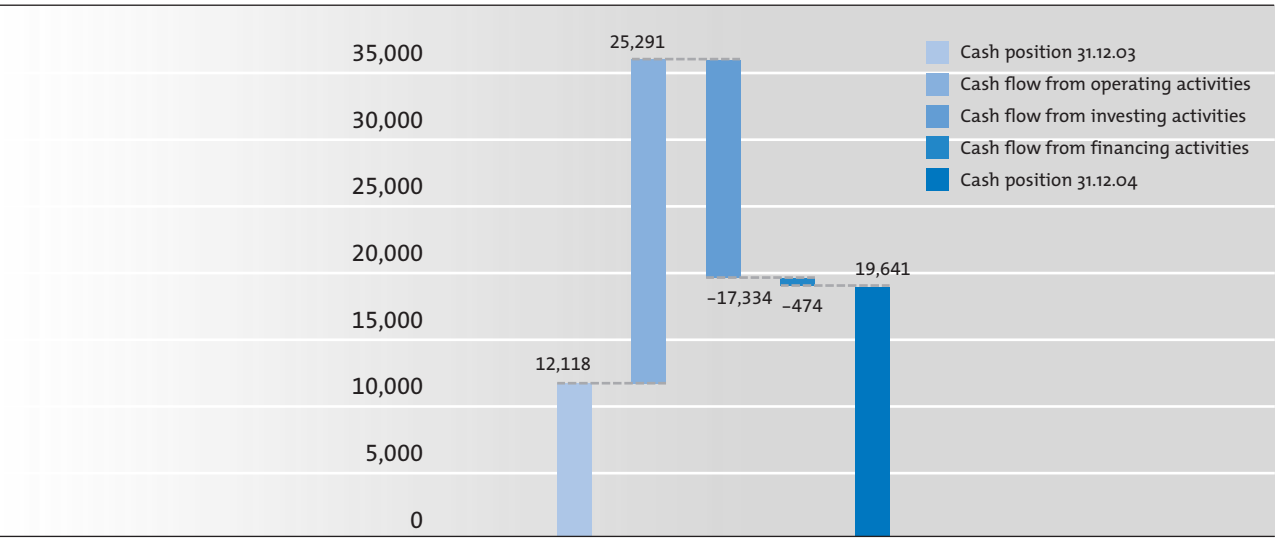
Equity increased by € 4.1 million to € 106.0 million. Thus the equity ratio reached 29.6 % following 29.1 % in the previous year.

CASH FLOW

Cash flow from operating activities reached € 25.3 million and thus surpassed the previous year's figure (€ 16.5 million) by 53.3 %. The investments made in the current year were financed completely out of the operative cash flow. The remaining cash flow in the amount of € 7.5 million was used to increase liquid assets which were then used, as already described, to reduce loan commitments and to settle liabilities at the beginning of financial year 2005.

Cash flow statement

€ million



Research and Development

With just a marginal increase in expenditures for research and development, Biotest has made significant progress towards the market introduction of products with large sales and earnings potential in financial year 2004. By focusing pharmaceutical research on two major pillars – new manufacturing procedures, indications and dosage forms for plasma derivatives that have already been introduced, on the one hand, and, on the other hand, the pre-clinical enhancements of promising biotechnological agents – we substantially increased efficiency.

Biotest further expanded the partnerships with scientific institutes and other companies engaged in research. As an example, licenses were purchased for preparations based on human plasma with the aim of rounding out the R&D portfolio. For certain proprietary developments, Biotest is cooperating with partners in order to speed up time to market despite increased regulatory demands. As of the balance sheet date 31 December 2004, Biotest was in the possession of a total of 180 patents on products and procedures in the two business segments.

PLASMA DERIVATIVES

The most important event in the past financial year was the approval of the new polyvalent immunoglobulin Intratect® in Germany by PEI on 27 September 2004. Intratect® can be used for the treatment of congenital or illness-related disorders of the immune system, during which afflicted persons are exposed to an increased risk of infection and often times suffer severe infections. The drug is approved for substitution therapy in cases of primary immune deficiency syndromes as well as for secondary deficiency syndromes due to chronic lymphatic leucemia, multiple myeloma as well as for the treatment of children born with AIDS. A further application is the aftercare following bone marrow transplants.

Thanks to the novel manufacturing procedure, Intratect® contains the antibodies required for therapy in a highly pure and natural form. In plasma fractionation, centrifugation steps were replaced by filtration (filter aid procedure). This allows for a better pre-purification of the immunoglobulin fractions. The final purification is carried out chromatographically via a cation exchange column that ensures the high purity of Intratect®. What adds to the outstanding compatibility is the fact that no sugar is added to the drug for stabilisation. Intratect® can be stored for two years at room temperature. Since cooling is no longer required for the storage, handling is simplified for doctors, nurses and patients.

Further development projects of the past financial year related to the change of the immunoglobulin preparations to the filter aid procedure, such as Hepatect® FH, a preparation for the treatment of hepatitis. The development of intramuscular and subcutaneous application forms of the immunoglobulins, which previously had been only available for intravenous therapies, is also proceeding according to plan. The market introduction of Hepatect® sc is planned for 2007.

Biotest has advanced the development of a proprietary factor IX according to plan. Clinical studies were successfully completed; the approval for Germany is expected for the first half of 2006 and approval for the entire European Union by the end of 2006. Another medication under development is for the treatment of the von-Willebrand disease. Approval is foreseen in 2009.

MONOCLONAL ANTIBODIES

The first promising data on effectiveness is available for the monoclonal antibodies BT-061 for the treatment of rheumatoid arthritis and psoriasis, BT-062 for the treatment of multiple myeloma and BT-063 for the treatment of systemic lupus erythematosus, as well as other auto-immune diseases. A first clinical trial of BT-061 revealed a significant improvement in major clinical symptoms of rheumatoid arthritis. BT-062 showed significant effectiveness in the treatment of human tumour implants in preclinical trials. BT-063 led to a long-term improvement of the symptoms in a three-week clinical trial with a small number of patients.

Biotest has signed a cooperation agreement with a biotech company of the Swiss Lonza Group for the joint further development of the manufacturing procedure for BT-061. It foresees the large-scale manufacturing of the agent required for further clinical trials. The next clinical phase, which includes testing of the agent in larger patient groups (phase-II study), is in preparation.

DIAGNOSTIC DIVISION

In order to meet the future requirements of the market, Biotest has made an agreement for further advancement of the TANGO® system with the long-standing cooperation partner Stratec Biomedical Systems. A device of the second generation that, among others, is equipped with a newly developed digital image processing system and completely reworked software with additional safety features should be available for sale by June.

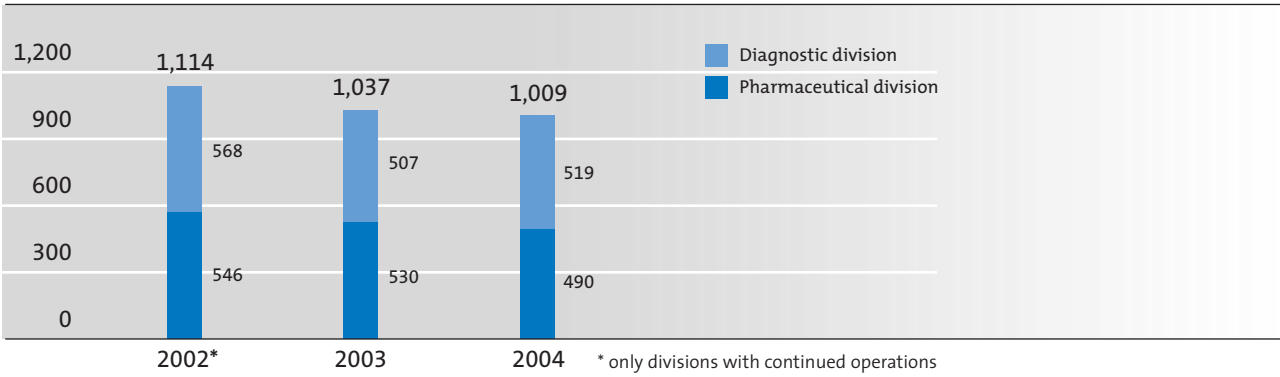
In the area of transplantations, we have continued the development of even more efficient testing systems for molecular HLA typing according to plan. Successfully completed was the development of particularly user-friendly analysing software. By the end of the year, a complete product range was thus available to the client. The Hycon area has provided advanced culture media of high quality for the pharmaceutical market.

Staff

Following the substantial reduction in the number of employees in financial year 2003, Biotest only had to undertake slight adjustments in the reporting year. To safeguard our growth opportunities in the Pharmaceutical and Diagnostic divisions, we have in parallel expanded the teams that are of outstanding strategic importance for our realignment activities and have hired employees – for example, in the areas of quality assurance and distribution. We have refilled key positions in the financial year, among them in marketing and sales, drug approval, biotechnical research and in materials management.

Staff by division (as of year-end)

Full-time positions



NUMBER OF EMPLOYEES AND PERSONNEL COSTS

The total number of full-time positions decreased during the year from 1,037 to 1,009. A larger reduction in personnel took place only in connection with the closing of our subsidiary Plasma Service Europe GmbH, which was operating in Berlin; 25 employees were affected.

Because of the leasing of the production facilities by Biotest Pharma GmbH to Biotest AG, the employees were taken over by Biotest AG as of 1 June 2004 without prejudice to the rights inherent in their employee contacts.

Staff cost declined by 1.5 % to € 66.0 million compared to the previous year (€ 67.0 million). Included in this amount are expenditures for severance payments in the amount of € 1.0 million (previous year: € 1.2 million).

PERSONAL MANAGEMENT

The focus of personal management was – following the grouping of all activities into Biotest AG – to improve the management culture and to promote the common corporate identity. An employee survey regarding management culture led to the initiative "Biotest – Responsibility for Success." Its individual measures already got underway in financial year 2004. These include:

- Realignment and improvement of the management culture, including the development and establishment of a new mission statement for Biotest
- Systematic and practical development of management competencies
- Promotion of the personal development of all employees, among others through regular employee discussions, job rotation and implementation of a new achievement and performance-oriented compensation system
- Improvement of the communications structure
- Promotion of the employees' sense of responsibility, among others through a publicity campaign for the company suggestion scheme in the form of a platform for the exchange of ideas.

Biotest's new mission statement for its management was already introduced at the beginning of the new financial year. It will serve as a guideline for the further promotion of own initiatives and the sustained improvement of a performance oriented corporate culture to the benefit of our shareholders.

Risk Report

At Biotest, the compilation, assessment and efficient management of operative and strategic risks are an integral part of the overall management of the Company. All risks with wide implications and sufficient probability if are closely monitored. All managerial decisions of significant importance – such as the approval of capital expenditures – are made after detailed evaluation of the risks associated with this decision.

RISK MANAGEMENT AND CONTROLLING

An EDP-aided risk management system that fulfils the requirements of the German Corporate Sector Supervision and Transparency Act (Gesetz zur Kontrolle und Transparenz im Unternehmensbereich) also makes it easier to monitor measures undertaken to limit risks in addition to the identification and evaluation of risks. Major potential risk areas are part of internal reporting systems on a monthly basis. Furthermore, a risk management committee analyses the risk situation in all business areas every six months and provides the Board of Management with a detailed risk report. The valuation of financial derivatives to minimise interest rate and foreign exchange risks is carried out with regard to the defined risk limits.

Risks in the Biotest Group can be separated into eight categories:

ECONOMIC AND POLITICAL RISKS

Cyclical ups and downs in the major sales markets only have a small immediate bearing on Biotest's business situation since the medical demand for plasma derivatives and in-vitro diagnostics are independent of economic growth rates. The indirect effects are of greater importance because the fiscal situation of those who play a role in the health care sector – doctors, pharmacies, hospitals, health insurance companies – and the financial situation of public health funds depend on the economic environment. Cost-cutting measures in the health care arena could have a negative effect on the achievable margins in both business divisions.

Following the institution of the Statutory Health Insurance Modernisation Act (GKV-Modernisierungsgesetz) in Germany, a largely stable legal framework can be expected for 2005. By implementing cost-cutting measures in the reporting year, Biotest was for the most part able to offset setbacks in the result caused by the increase in the mandatory discount for numerous drugs, including certain immunoglobulin preparations.

SUPPLY MARKET RISKS

We consider supply market risks to be the dangers of shortages or price increases of the raw materials, auxiliary materials and operating supplies necessary for production or of the pharmaceutical products obtained via toll manufacturing. Of particular importance in this regard is the supply of our pharma production with human plasma. Biotest has concluded long-term delivery agreements and furthermore covers a large part of the growing demand via proprietary plasmapheresis stations. In 2004, demand was satisfied at stable, at times slightly declining raw materials' prices due to the still existing excess supply of human plasma. Biotest is countering the foreseeable shortage of the raw

material through the purchase of additional plasmapheresis centers. In that way, the effects of possible price increases are kept in check. The purchase of preparations, as well, is assured via medium to long-term contracts with external toll manufacturers. Owing to the expansion of the proprietary production capacities, Biotest will in the future be in a position to by and large cover these from own production.

SALES MARKET RISKS

Sales market risks comprise risks associated with price, quantity, substitution and loss of receivables. Due to the increased level of competition in Biotest's sales markets and the existing excess supply of plasma products still in existence, price risks have considerable implications for the business and earnings situation at Biotest. Particularly in 2004, price competition in tender markets has led to losses in sales because Biotest refrained from submitting a bid when margins were insufficient. The weak US dollar has further worsened the sales potential in dollar denominated markets. Through the cost-cutting measures, Biotest has significantly increased competitiveness, even under more difficult market conditions.

The presence on tender markets also comes with quantity risks, since the volumes generated via public tenders can be planned only to a certain degree. This incurs the risk of fluctuations regarding capacity utilisation. Biotest reduces dependency on public tenders essentially through two measures: the European wide approval of coagulation preparations and immunoglobulins with the goal of substantially improved market coverage and the conclusion of toll manufacturing agreements.

Substitution risks are predominantly associated with plasmatic coagulation preparations, which have been losing market share for the past several years in the industrialised countries compared to recombinant factors. Biotest is attempting to counter this risk by opening up new sales markets, especially in emerging and developing economies. In transplantation diagnosis, there are substitution risks in particular for serological assay techniques, which can increasingly be replaced by DNA methods. Biotest is limiting this risk through the parallel offer of classical and modern HLA technologies.

Loss of receivables risks was reduced again in financial year 2004 by means of strict receivables management.

PROCESS AND PRODUCTION RISKS

Process and production risks are considered to be the impairment of an efficient and environmentally friendly provision of services through inefficient structures and production processes as well as from emergency losses. Biotest counters environmental and quality risks with high standards in quality management. This includes the continuous improvement of processes and plants as well as their certification by international standards and laws. Quality assurance also covers purchased raw materials and final products. Moreover, the production process at Biotest is in general not associated with major environmental risks.

Biotest has taken out insurance policies to reduce the financial effects of liability risks and emergency losses. The volume of the insurance coverage is audited regularly and adjusted as required.

RESEARCH AND DEVELOPMENT RISKS

New drugs must pass several clinical trials prior to approval and market introduction. This entails the risk that an expected therapeutical effect is not confirmed. In the development of new indications and forms of application for already introduced plasma proteins, this risk is comparably low. This is different for the monoclonal antibodies that are in an early research stage and that are still several years away from a possible market introduction. Biotest reduces the economic risk among others through cooperation agreements with other pharmaceutical companies that are doing research.

EMPLOYEE RISKS

Biotest has sufficient personnel resources in production and administration and in the past has always been able to recruit qualified specialists and managers and to retain them in the Company for the long run. Several key positions were newly filled in 2004. With the reorientation of the distribution, the risk of understaffing and the resulting insufficient handling of the market has been reduced further.

LEGAL RISKS

Legal Risks can arise for example from patent disputes or from infringements of licensing or cooperation risks. In 2004, Biotest was again not exposed to material legal risks.

FINANCIAL RISKS

The undated collateral trustee agreement with the creditor banks continues to be in force without change, and the next possible date to terminate the agreement is at the end of 2005. Against the background of the successful restructuring activities in financial year 2004 and the substantial improvement in the result, we assume that the banks will continue the sustained support of Biotest AG.

In the second half of the year, negotiations were initiated to restructure the debt with the aim of achieving a matching of maturities in the financing. In this context, the creditor banks and Biotest AG have agreed on the cornerstones of a syndicate credit agreement.

As long as the short-term credit lines are rolled over as expected and the banks continue their sustained support as expected in connection with a syndicated loan, the continued existence of Biotest is not jeopardized.

Outlook

Despite the still tight market situation for plasma products, we are targeting a slight growth in sales and a more than proportionate increase in earnings before taxes in 2005. According to our planning, both business divisions will contribute to profitable growth. The efficient structures and cost advantages achieved from the restructuring activities will for the first time have their full effect since they no longer overlap with non-recurring expenses. We will be able to reduce to a significant degree the extraordinary expenses in the Diagnostic division.

EXPECTED BUSINESS TREND FOR THE PHARMACEUTICAL DIVISION

Due to the still high global stocks of plasma products, prices in our sales markets will likely not improve before the second half of 2005. We therefore initially expect immunoglobulin prices to be mostly stable in the first half of the year and rise moderately thereafter. For coagulation products, this stabilising effect could possibly be offset due to competition from recombinant products. The lower dollar will likely continue to have a negative effect on our sales prospects in 2005.

For the German and European market, we expect a – predominantly quantity-based – increase in revenues, which we want to achieve above all with the new premium product Intratect® as well as with Pentaglobin®, Hepatect® and Haemoctin®. The mandatory discount was reduced from 16 % to 6 % at the beginning of 2005; this should also have a positive effect. We expect to generate the first sales from the toll manufacturing for the Iranian joint venture BioDarou; overall, the share of toll manufacturing as a percentage of total sales is supposed to increase noticeably in 2005. In keeping with the slogan "Earnings before Sales", we will continue to show restraint with regard to public bid invitations.

Capital expenditures in the new production of pharmaceuticals will continue as planned. Similar as in 2004, emphasis will be placed on the conformance of production with GMP and the facility for the manufacture of Immunoglobulin CP.

We want to successfully conclude several research and development projects in 2005. At the beginning of 2006, we expect to receive European approval for the preparation Intratect® in accordance with the mutual recognition procedures (MR). We have defined concrete milestones for 2005 for the further development of the monoclonal antibodies BT-061, BT-062 and BT-063. We assume that we can continue with clinical phase II for BT-061 for the therapy of rheumatic arthritis following the provision of the test material by our cooperation partner Lonza.

EXPECTED BUSINESS TREND FOR THE DIAGNOSTIC DIVISION

Due to the expiration of the transitional period granted by the IVD guidelines for the sale of non CE-certified diagnostic devices, we expect a competitive shakeout to set in and increasing price stabilisation in the highly regulated markets. The certification of our products, which is valid throughout Europe, will lead to significant improvement in the market penetration of European countries.

The marketing of TANGO® in the USA and Canada will constitute further significant drivers of growth. We expect FDA approval in the second quarter of 2005, at the latest, so that the first sales could be generated in the first half of the year already.

The hygiene monitoring area will continue to internationalise its business. In close cooperation with the successful Heipha Dr. Müller GmbH in which Biotest AG holds a 51 % share, the business is supposed to be expanded to include attractive markets outside of Europe. Currently, the business is still strongly focused on Western Europe and in particular on Germany.

EXPECTED FINANCIAL POSITION

Based on the debt rescheduling agreement that should come to pass in the second quarter of 2005, we expect a further easing of our financial situation. To ensure the solid financing of our promising research and development projects, especially in the area of monoclonal antibodies, we are considering the partial exhaustion of the scope extended by the shareholders for raising equity capital depending on the respective market situation.

Major Events in the New Financial Year

On 18 February 2005, our subsidiary Plasma Service Europe acquired a plasmapheresis station in Halle, Germany, that had previously been run by a competing company, Baxter. As a result, we now have four stations and can cover a significantly larger part of our raw material requirements from own sources. Correspondingly, the additional purchase of human plasma on the world market will decrease, and this in turn will reduce the effects of the expected price increases.

The engineering of the monoclonal antibody BT-062 for the treatment of multiple myeloma was successfully completed via a research cooperation with AERES Biomedical Ltd in January 2005. This is a key prerequisite for the clinical development of the agent.

No additional events and developments of special importance took place after the balance sheet date.

Quality o

f Life

Vitality. Mobility. Enjoying the riches of life. To maintain quality of life even in old age, Biotest researches promising biotechnological agents – for example, for the treatment of rheumatoid arthritis or multiple myeloma. First clinical trials encourage us to double our efforts. **From Nature – for Life.**

Group Income Statement

of Biotest AG for the period from 1 January through 31 December 2004

€ thousands	Note	2004	2003
Revenue		217,851	221,889
Cost of sales		– 114,123	– 124,395
Gross profit		**103,728**	**97,494**
Distribution expense		– 50,035	– 52,547
Administrative expense		– 16,799	– 16,225
Research and development expense		– 18,530	– 18,364
Other operating income	E1	7,410	10,600
Other operating income from Discontinued Operation		–	303
Other operating expenses	E2	– 4,903	– 10,026
Profit from operations before special effects		**20,871**	**11,235**
Write-offs	E3	– 106	– 160
Restructuring cost	E4	– 2,139	– 3,423
Operating profit		**18,626**	**7,652**
Financial result	E7	– 12,226	– 9,079
Income from associated companies		– 177	– 20
Profit before tax		**6,223**	**– 1,447**
Income tax	E8	– 369	– 3,797
Profit after tax		**5,854**	**– 5,244**
Minority interest		– 814	– 483
Consolidated net profit (2003: Consolidated net loss)		**5,040**	**– 5,727**
Earnings per share in €		**0.57**	**– 0.77**
Additional dividend rights per preference share in €		**0.11**	**0.11**
Earnings per preference share in €		**0.68**	**– 0.66**

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

Group Balance Sheet

of Biotest AG as at 31 December 2004

€ thousands	Note	31.12.2004	31.12.2003
ASSETS			
Intangible assets	F1	6,154	3,477
Property, plant and equipment	F2	117,290	112,701
Finance lease assets	F2	30,151	32,285
Investments in associates	F3	148	400
Other investments	F4	478	580
Fixed assets		**154,221**	**149,443**
Inventories	F5	116,664	117,223
Trade receivables	F6	56,082	58,965
Other assets	F7	5,471	8,907
Cash and cash equivalents	F8	19,641	12,118
Current assets		**197,858**	**197,213**
Deferred tax assets	F9	**6,196**	**3,322**
TOTAL ASSETS		**358,275**	**349,978**
EQUITY AND LIABILITIES			
Issued capital		20,480	20,480
Share premium		78,964	78,964
Reserves		1,541	8,137
Consolidated net profit (2003: Consolidated net loss)		5,040	– 5,727
Shareholders' equity	F10	**106,025**	**101,854**
Minority interest		**1,941**	**1,433**
Provisions for pensions and similar obligations	F11	35,518	34,557
Provisions for taxes		1,160	837
Other provisions	F12	20,521	18,666
Provisions		**57,199**	**54,060**
Non-current liabilities	F13	48,489	56,761
Current financial liabilities	F13	115,213	106,204
Trade payables		16,588	14,819
Other liabilities	F14	10,707	12,915
Liabilities		**190,997**	**190,699**
Deferred tax liabilities	F9	**2,113**	**1,932**
TOTAL EQUITY AND LIABILITIES		**358,275**	**349,978**

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

Statement of Changes in Equity

of Biotest AG for the period from 1 January through 31 December 2004

€ thousands	Issued capital	Capital reserves	Accumulated differences from currency translations	Consolidated earnings and retained earnings	Total
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**
Balance at 1 January 2004	**20,480**	**78,964**	**– 937**	**3,347**	**101,854**
Difference from currency translation	–	–	11	–	11
Consolidated net profit	–	–	–	5,040	5,040
Dividend distributions for 2003	–	–	–	– 880	– 880
Balance at 31 December 2004	**20,480**	**78,964**	**– 926**	**7,507**	**106,025**

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

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

Cash Flow Statement

of Biotest AG for the period from 1 January through 31 December 2004

€ thousands	Note	2004	2003
Net profit before tax		6,223	– 1,447
Depreciation and amortisation of intangible assets and property, plant and equipment	F1; F2	12,868	11,015
Loss from associates		177	20
Write-ups (2003: write-downs) on investment securities		– 3	2
Gains from the disposal of fixed assets		– 160	– 602
Gains from the disposal of affiliated companies		–	– 888
Increase in provisions for pensions	F11	961	1,802
Net interest income		12,226	11,490
Cash flow from operating activities before changes in working capital		**32,292**	**21,392**
Increase (2003: decrease) in other provisions	F12	2,186	– 5,485
Decrease in inventories, accounts receivable and other assets		2,711	19,147
Decrease in liabilities and other items on the liabilities side of the balance sheet		– 386	– 4,203
Cash flow from changes in working capital		**4,511**	**9,459**
Interest paid		– 10,044	– 10,900
Taxes paid		– 1,468	– 3,434
Net cash from operating activities		**25,291**	**16,517**
Cash from the disposal of fixed assets		775	988
Cash used for investments in fixed assets	F1; F2	– 18,616	– 20,511
Cash used for the acquisition of additional shares		– 2,036	–
Cash from the disposal of affiliated companies less cash equivalents from deconsolidation		1,752	6,318
Changes in other financial assets		– 105	– 31
Interest received		896	1,252
Net cash used in investing activities		**– 17,334**	**– 11,984**
Dividend payments for 2003		– 880	–
Cash changes to minority interests		– 305	– 97
Cash changes from the sales of accounts receivable	F6	28	– 22
Proceeds from borrowings	F13	67,046	16,822
Payments for redemption of debt	F13	– 66,363	– 16,820
Net cash used in financing activities		**– 474**	**– 117**
Cash changes in cash and cash equivalents		7,483	4,416
Exchange rate-related changes		40	– 371
Cash and cash equivalents at beginning of period	F8	12,118	8,073
Cash and cash equivalent at end of period	F8	**19,641**	**12,118**

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

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 produces and distributes 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 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 2004 or 2003 and all Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC" – previously known as "SIC") were applied in the preparation of the financial statements.

For acquisitions that occur after 31 March 2004, the Biotest Group will apply IFRS 3, IAS 36 and IAS 38 (revised 2004) from now on. In the future, goodwill and other intangible assets of indefinite life will thereby no longer be amortised on a schedule. At 31 December 2004, the Group goodwill amounts € 217,000 (2003: € 314,000), which was depreciated as scheduled at € 93,000 in the financial year. Intangible assets of indefinite life were amortised in the financial year at € 125,000 with a book value of € 1,375,000 as at 31 December 2004.

Moreover, IAS 28 (accounting for investments in associates) and IAS 39 (financial instruments) in the version dated 1.1.2005 were applied ahead of schedule in financial year 2004. As a result, provisions for negative market values of so-called "embedded derivatives" in the amount of € 118,000 could be resolved in 2004.

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 the 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 that 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.

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.

MINORITY INTERESTS

In contrast to the German Commercial Code, minority interests in subsidiaries' equity are not recognised as part of the 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

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 (2003: 5) German and 11 (2003: 10) foreign companies.

One company, SIFIN Institut für Immunpräparate und Nahrmedien GmbH Berlin with registered office in Berlin, has been included in the consolidated financial statements as an associated company at equity in 2003. The shares in SIFIN were divested as of 1 January 2004.

In financial year 2004, two companies, BioDarou P.J.S. Co. with registered office in Teheran/Iran as an associated company at equity and Biotest Hellas MEPE with registered office in Maroussi/Greece, have been included in the consolidated financial statements in full for the first time.

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 2004.

CONSOLIDATION PRINCIPLES

Capital consolidation has been accomplished pursuant to the book value method, and cost of purchase have been offset against the fair 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 first-time consolidation in the consolidated financial statements is effected as at the time of purchase.

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. For additions from associates in the financial year, the standard IAS 28 (accounting for investments in associates) was already applied ahead of schedule in the version in force beginning on 1 January 2005. Under IAS 28, other financial commitments (i.e. loans) are to be included in investments in addition to the cost of purchase of the investment. 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.

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.

Equivalent for € 1	Average rates		Rates at the balance sheet date	
	2004	2003	2004	2003
US dollar	1.2433	1.1309	1.3621	1.2630
Pound sterling	0.6786	0.6919	0.7051	0.7048
Japanese yen	134.40	130.96	139.65	135.05
Swiss franc	1.5441	1.5207	1.5429	1.5579
Hungarian forint	251.78	253.52	245.97	262.50

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 that is 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. 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 that 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.

INTANGIBLE FIXED ASSETS

(a) 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.

(b) 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. A distribution right purchased in 2004 will be amortised over the remaining life of 17 months.

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.

LEASING

Contracts for rented or leased fixed assets which transfer substantially all the risks and rewards incident to ownership or 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.

IMPAIRMENT

Should certain facts or circumstances imply the impairment of long-lived assets, the recoverable amount of such assets, representing the higher value from 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.

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.

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.

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.

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.

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 with an expected completion time of more than 12 months after the balance sheet date are recorded at present value.

(a) Liabilities for part-time work for elder workers
Material companies within the 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.

(b) 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.

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.

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.

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.

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.

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.

TAXES

Current income tax expense is determined and recognised on the basis of the corresponding national tax provisions of those countries in which the 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 benefit.

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

SEGMENT REPORTING

Information disclosed in the segment report has 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 as well as cash and cash equivalents. Liabilities not allocated regarding bank loans for the financing of assets not assigned to the operative segments. Included in operating profit are revenues from the release of provisions for liabilities in the context of the insolvency of a former subsidiary in the amount of € 281 thousand. Expenses in the context of the holding function were attributed to the segments.

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

€ thousands		Pharma-ceutical division	Diagnostic division	Holding/ not allocated	Dis-continued operation	Total
Revenue with third parties	2004	141,912	75,939	–	–	**217,851**
	2003	146,031	75,858	–	–	**221,889**
Operating profit	2004	18,446	– 101	281	–	**18,626**
	2003	5,459	3,137	– 1,247	303	**7,652**
Income from associates	2004	– 177	–	–	–	**– 177**
	2003	–	– 20	–	–	**– 20**
Assets	2004	278,311	59,693	20,271	–	**358,275**
	2003	268,193	67,842	13,943	–	**349,978**
Investments in associates	2004	148	–	–	–	**148**
	2003	–	400	–	–	**400**
Capital expenditure	2004	14,495	4,030	–	–	**18,525**
	2003	16,074	4,614	–		**20,688**
Liabilities	2004	199,512	41,215	9,582	–	**250,309**
	2003	172,581	34,402	39,708	–	**246,691**
Scheduled depreciation and amortisation	2004	9,543	3,219	–	–	**12,762**
	2003	7,872	2,983	–	–	**10,855**
Non-scheduled write-downs	2004	106	–	–	–	**106**
	2003	–	160	–	–	**160**
Cash flow (outflow) from operating activities	2004	30,245	871	– 5,825	–	**25,291**
	2003	15,694	1,264	– 441	–	**16,517**

In the 2004 financial year, the Pharmaceutical division recorded non-scheduled write-downs of € 106,000. In the 2003 financial year, the Diagnostic division recorded non-scheduled write-downs of € 160,000.

Segment information by region

€ thousands	Revenue with third parties		Assets		Capital expenditure	
	2004	2003	2004	2003	2004	2003
Germany	76,387	73,144	306,096	297,831	15,832	18,491
Rest of Europe	102,652	93,501	49,025	48,672	2,541	1,953
America	10,175	13,661	3,008	2,924	149	244
Asia	24,824	36,981	146	551	3	–
R O W	3,813	4,602	–	–	–	–
Total	**217,851**	**221,889**	**358,275**	**349,978**	**18,525**	**20,688**

Since Asia and the Middle East are combined into one region in the internal reporting and since the Board of Management reaches its decisions based on this information, only one combined reporting region Asia will be published beginning in financial year 2004. The previous year was adjusted accordingly.

CHANGES IN THE SCOPE OF CONSOLIDATED COMPANIES

SIFIN Institut für Immunpräparate und Nährmedien GmbH Berlin with registered office in Berlin was sold with effect from 1 January 2004 at the book value of the investment in the amount of € 400,000 and was thus eliminated from the scope of consolidated companies.

BioDarou P.J.S. Co. with registered office in Teheran/Iran was newly founded in financial year 2004 and will be included in the consolidated financial statements at equity. The company made a contribution to consolidated earnings of minus € 177,000 (2003: € 0).

The distribution company Biotest Hellas MEPE with registered office in Maroussi/Greece was also founded in financial year 2004 and will be consolidated in full. The company made a contribution to consolidated earnings of € 45,000 (2003: € 0).

E Explanatory Notes to the Income Statement

E1 Other operating income

€ thousands	2004	2003
Foreign exchange gains	2,766	2,358
Release of provisions	2,293	2,972
Reversal of write-downs	406	1,213
Gains from the disposal of fixed assets	234	758
Insurance refund	70	790
Proceeds from the sale of investments	–	888
Government grants	12	16
Other	1,629	1,908
	7,410	**10,903**

E2 Other operating expenses

€ thousands	2004	2003
Foreign exchange losses	2,871	4,296
Write-downs of receivables	252	647
Transfers to provisions	170	67
Amortisation of goodwill	93	190
Losses from the disposal of fixed assets	74	156
Consulting expenses in the context of the Collateral Trustee Agreement	–	1,461
Insolvency expenses incurred by Biotest Medizintechnik	–	27
Other	1,443	3,182
	4,903	**10,026**

E3 Write-downs

€ thousands	2004	2003
Fixed assets Plasma Service Europe GmbH Station Berlin Pharmaceutical division	106	–
Property, plant and equipment Diagnostic division	–	160
	106	**160**

As part of the closing of Plasma Service Europe GmbH's center in Berlin, non-scheduled write-downs of property, plant and equipment were effected in the amount of € 106,000 and scrapped.

The write-downs of the previous year was due to a piece of property not required for operations and which was on sale. The property was written down to the expected market value.

E4 Restructuring

€ thousands	2004	2003
Severance payments and obligations vis-à-vis the local labour office (Arbeitsamt)	1,232	1,232
Consultancy fees	907	2,191
	2,139	**3,423**

In addition to severance payments, the restructuring cost item moreover contains expenses for consultants who supervised and developed 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 the following items:

€ thousands	2004	2003
Wages and salaries	53,112	53,013
Social security cost	10,116	10,572
Pension cost	2,820	3,375
	66,048	**66,960**

Staff cost includes severance pay in the amount of € 1,048,000 (2003: € 1,232,000).

Staff was employed in jobs equalling an average number of 1,025 (2003: 1,088) full-time jobs in the Group in the 2004 financial year. On 31 December 2004, staff was employed in jobs equalling an average number of 1,009 (2003: 1,037) full-time jobs in the Group.

On 31 December 2004, the actual number of people employed by the Group amounted to 1,082 (2003: 1,117).

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 2004, the number of participants was reduced to 21 employees owning 130,000 value appreciation rights in the virtual stock option programme. An extension of the virtual stock option programme is not planned. 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 out-performed 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. As benchmark for performance valuation, the Prime Pharma & Healthcare Index was chosen. 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

€ thousands	2004	2003
Raw materials and supplies	77,087	80,559
Services purchased	11,763	14,877
	88,850	**95,436**

E7 Financial result

€ thousands	2004	2003
Interest income	896	1,257
Other income	44	591
Currency gains from financing activities	–	2,496
Interest expenditure	– 10,788	– 11,626
Interest expense Collateral Trustee Agreement	– 2,370	– 1,778
Other expenditure	– 8	– 19
Financial result	**– 12,226**	**– 9,079**

E8 Income tax

Income tax expense is broken down as shown below:

€ thousands	2004	2003
Taxes in the financial year	3,052	3,304
Current tax expense for prior years (2003: tax income)	32	– 526
Current taxes	**3,084**	**2,778**
Deferred taxes	**– 2,715**	**1,019**
Income tax expense	**369**	**3,797**

Applying the nominal tax rates of 37.9 % in 2004 and 2003, respectively, the expected tax expense for the 2004 and 2003 financial years will vary from the actual amounts as follows:

€ thousands	2004	2003
Group profit before tax	**6,223**	**– 1,447**
Expected tax expense (2003: tax income) (37.9%)	**2,358**	**– 549**
Unvalued losses in the financial year	1,669	4,647
Current and deferred taxes for prior periods	– 2,501	– 526
Tax effect from non-deductible expenses	694	478
Tax effect from application of foreign tax rates and use of foreign deferred tax assets	– 473	– 102
Tax effect from tax-free income	– 1,150	– 477
Other effects	– 228	326
Income tax in accordance with income statement	**369**	**3,797**

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 head office Dreieich).

F Notes to the Balance Sheet

F1 Intangible assets

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

€ thousands	Goodwill	Patents, licenses and similar rights	Payments in advance	Total
Cost of purchase				
Balance at 31 December 2003	1,738	8,802	938	11,478
Additions	–	4,677	28	4,705
Book transfers	–	966	– 966	–
Disposals	–	– 74	–	– 74
Currency translation differences	– 8	– 22	–	– 30
Balance at 31 December 2004	**1,730**	**14,349**	**–**	**16,079**
Accumulated depreciation				
Balance at 31 December 2003	1,424	6,577	–	8,001
Depreciation financial year	93	1,924	–	2,017
Book transfers	–	6	–	6
Disposals	–	– 74	–	– 74
Currency translation differences	– 4	– 21	–	– 25
Balance at 31 December 2004	**1,513**	**8,412**	**–**	**9,925**
Book value at				
31 December 2003	314	2,225	938	3,477
31 December 2004	**217**	**5,937**	**–**	**6,154**

The additions of the financial year relate to the purchase of the customer base from the previous distributor in Greece in the amount of € 1,500,000 and for the purchase of a distribution license in the amount of € 1,500,000. On 31 December 2004, intangible assets of a book value of € 4,412,000 (2003: € 1,926,000) served as collateral for liabilities to banks.

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

€ thousands	2004	2003
Costs of goods sold	344	174
Distribution expense	993	444
Administrative expense	470	298
Research and development expense	117	109
Other operating expenses	93	190
	2,017	**1,215**

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.

	Land and buildings	Machinery	Other plants, furniture and fixture and office equipment	Leased assets	Payments in advance and facilities under construction	Total
Cost of purchase						
Balance at 31 December 2003	97,909	34,284	55,999	35,309	14,350	237,851
Additions	1,216	1,080	4,890	100	6,534	13,820
Book transfers	3,162	618	2,758	35	– 6,573	–
Disposals	– 301	– 409	– 1,001	– 53	–	– 1,764
Currency translation differences	76	– 27	14	–	–	63
Balance at 31 December 2004	**102,062**	**35,546**	**62,660**	**35,391**	**14,311**	**249,970**
Accumulated depreciation						
Balance at 31 December 2003	30,175	25,891	33,775	3,024	–	92,865
Depreciation financial year	2,220	1,775	4,638	2,218	–	10,851
Book transfers	–	–	– 6	–	–	– 6
Disposals	– 77	– 272	– 800	–	–	– 1,149
Currency translation differences	– 2	– 18	– 10	– 2	–	– 32
Balance at 31 December 2004	**32,316**	**27,376**	**37,597**	**5,240**	**–**	**102,529**
Book value at						
31 December 2003	67,734	8,393	22,224	32,285	14,350	144,986
31 December 2004	**69,746**	**8,170**	**25,063**	**30,151**	**14,311**	**147,441**

State grants for the purchase or manufacture of assets reduce the cost of purchased or self-constructed assets. In the 2004 financial year, such grants amounted to € 579,000 (2003: € 394,000).

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 started operation in 2004. 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 2004, property, plant and equipment with a book value of € 140,507,000 (2003: € 137,453,000) served as collateral for liabilities to banks.

Facilities under construction primarily include payments in advance of € 14,291,000 (2003: € 13,101,000) for constructing a coagulation facility and realigning the accompanying production functions.

F3 Investments in associates

Investments in associates include a 49 % share of Biotest in BioDarou P.J.S. Co. with registered office in Teheran/Iran. This investment is recorded at equity. At 31 December 2004, the value of assets amounted to € 928,000 and the value of debt amounted to € 1,122,000. In the year of foundation, no revenue was generated. The loss for the financial year amounted to € 361,000.

In the previous year, investments in associates included a 26 % share of Biotest in SIFIN Institut für Immunpräparate und Nährmedien GmbH Berlin with registered office in Berlin. This investment was recorded at equity. Since the company had already been sold at the time when the financial statements were prepared in 2004, a write-down of € 29,000 was already recorded in the previous year. The recognised book value of € 400,000 was equal to the selling price.

F4 Other investments

Other investments comprise the following items:

€ thousands	2004	2003
Fixed-income securities (“held-to-maturity”)	192	199
Bond funds (“available-for-sale”)	183	175
Loans to employees	103	206
	478	**580**

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

€ thousands	2004	2003
Raw materials and supplies	12,300	18,367
Work in progress	84,827	78,956
Finished goods and merchandise	19,537	19,900
	116,664	**117,223**

At the balance sheet date, the book value of inventories was recorded at the net realisable value of € 93,275,000 (2003: € 70,722,000).

In financial year 2004, an existing allowance in the amount of € 3,727,000 on intermediary products was released due to the approval of a new production process.

Inventories of a book value of € 107,702,000 (2003: € 106,985,000) 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 € 11,643,000 (2003: € 4,860,000). 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:

€ thousands	2004	2003
Accounts receivable, trade (gross)	66,737	69,799
Less:		
Sale of receivables	6,435	4,962
Accrual for bad debt	4,220	5,872
	56,082	**58,965**

Within the scope of a factoring programme, Biotest AG and Biotest Hellas MEPE disposed of receivables in the amount of € 6,435,000 (2003: € 4,962,000) as at the balance sheet date. The factoring programme provides for the sale of domestic accounts receivable from customers of Biotest AG of impeccable creditworthiness and for Biotest Hellas MEPE the sale of accounts receivable from private hospitals in Greece up to a volume of € 5 million each. 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 € 24,581,000 (2003: € 29,320,000) 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

€ thousands	2004	2003
Accounts receivable from the factoring company	1,444	–
Value added tax claims	974	2,290
Corporate income tax claims	696	1,563
Prepayments and deferred income	661	905
Payments in advance	457	159
Accounts receivable from cooperation partners	258	–
Residual purchase price claim from the sale of Diaclone SAS	–	1,352
Accounts receivable from the sale of plasma	–	900
Accounts receivable from leasing company	–	40
Accounts receivable from associates	–	134
Other accounts receivable	981	1,564
	5,471	**8,907**

Other assets of € 363,000 (2003: € 402,000) 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 was used as collateral for liabilities to banks in the previous year.

At the balance sheet date, the Group capitalised financial leasing claims of € 182,000 (2003: € 211,000) as lessor of laboratory devices. The underlying leasing agreements usually have a term of 5 years. Before applying discounting procedures, the repayment amounts equal € 215,000. € 73,000 thereof being due in less than one year, and the rest of € 142,000 over the following 4 years. In the future, interest income in the amount of € 33,000 will be received in the context of compounding interest for accounts receivable.

Within the context of operating leasing agreements with customers, € 128,000 of leasing payments will be collected in the next year, and € 251,000 over the following 4 years – equalling a total of € 379,000 (2003: € 326,000).

F8 Cash and cash equivalents

€ thousands	2004	2003
Bank balances	19,567	12,011
Cash on hand	74	107
	19,641	**12,118**

F9 Deferred tax assets and deferred tax liabilities

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

€ thousands	Assets		Shareholders' equity and liability		Net	
	2004	2003	2004	2003	2004	2003
Intangible assets	73	122	–	–	73	122
Property, plant and equipment	49	86	12,502	16,805	– 12,453	– 16,719
Other investments	129	158	108	147	21	11
Inventories	1,910	1,146	40	404	1,870	742
Accounts receivable	208	1,241	696	570	– 488	671
Provisions	1,516	1,880	120	33	1,396	1,847
Financial liabilities	7,257	12,163	–	1,187	7,257	10,976
Other balance sheet items	2,117	2,145	612	1,415	1,505	730
Tax value of the loss carried forward	4,902	3,010	–	–	4,902	3,010
Total	**18,161**	**21,951**	**14,078**	**20,561**	**4,083**	**1,390**
Less netted deferred tax assets and liabilities	– 11,965	– 18,629	– 11,965	– 18,629	–	–
Deferred tax assets/liabilities	**6,196**	**3,322**	**2,113**	**1,932**	**4,083**	**1,390**

Deferred taxes for tax loss carryforwards of € 9,132,000 (2003: € 8,472,000) have not been recognised as we currently do not expect with sufficient certainty to be able to use such loss carryforwards. Deferred taxes not recognised for loss carryforwards of € 8,919,000 (2003: € 8,139,000) are attributable to German companies, and € 213,000 (2003: € 333,000) 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 2004. 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 %. 5.70 % of ordinary shares are held by Kreissparkasse Biberach, and 5.36 % of ordinary shares are held by Süd KA Südkapitalgesellschaft mbH. The remaining 28.94 % 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 2004. 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 € 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).

By resolution of the Annual General Meeting held on 8 July 2004, Biotest AG was authorised to purchase own ordinary and/or preferred shares of up to 10 % of the capital stock at the time of purchase pursuant Art. 71 sec. 1 No. 8 of the German Stock Corporation Act (AktG). Moreover, the Board of Management was authorised, subject to consent of the Supervisory Board, to increase the capital stock of Biotest AG on or before 7 July 2009 by up to € 10,240,000 through the issuance of new ordinary and preferred shares in return for contributions in cash and/or property, plant and equipment (Authorised Capital). Issuance may occur once or on several occasions; the shareholders' statutory subscription rights may be excluded from this capital increase. The Board of Management was also authorised, subject to consent of the Supervisory Board, to issue profit-sharing rights on or before 7 July 2009 by up to a par value of € 50,000,000.

Earnings per share are determined by dividing the consolidated profit attributable to all shareholders by the weighted average number of shares outstanding. In 2003 and 2004, no changes in the number of shares outstanding were recorded at Biotest AG:

	2004	2003
Consolidated earnings in € thousands	5,040	– 5,727
Additional dividend on preference shares in € thousands	– 440	– 440
Consolidated earnings adjusted for additional dividend rights in € thousands	**4,600**	**– 6,167**
Number of shares outstanding (corresponds to weighted average)	8,000,000	8,000,000
Earnings per share in €	0.57	– 0.77
Additional dividend rights per preference share in €	0.11	0.11
Earnings per preference share in €	**0.68**	**– 0.66**

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 employee's time of employment and salary. All benefits are based on defined benefit plans. Retirement benefit obligations are recognised only for employees in German and Greek 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:

€ thousands	2004	2003
Pensions	34,336	33,393
Similar obligations	1,182	1,164
	35,518	**34,557**

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

€ thousands	2004	2003
Present value of retirement benefit obligations funded by provisions	36,184	32,910
Present value of retirement benefit obligations funded by pension liability insurance	1,063	1,531
Present value of plan assets (employer's pension liability insurance)	– 770	– 770
Present value of retirement benefit obligations	**36,477**	**33,671**
Balance of actuarial losses not yet recognised in the balance sheet (2003: gains)	– 959	886
Net value of amounts recognised at the balance sheet date	**35,518**	**34,557**

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

€ thousands	2004	2003
Pension provisions on 1 January	34,557	32,755
Pensions payments in the reporting period	– 1,742	– 1,415
Pension cost	2,703	3,217
Pension provisions at 31 December	**35,518**	**34,557**

Defined benefit plans caused overall expenses of € 2,703,000 (2003: € 3,217,000), comprising the following components:

€ thousands	2004	2003
Current service cost	904	1,211
Past service cost	–	209
Changes in the fair value of plan assets (employer's pension liability insurance)	– 28	– 99
Interest expense	1,827	1,896
	2,703	**3,217**

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:

€ thousands	2004	2003
Costs of goods sold	401	522
Distribution expense	244	458
Administrative expense	155	265
Research and development expense	104	175
Net interest income	1,799	1,797
	2,703	**3,217**

The calculations are based on the following assumed developments:

in %	2004	2003
Discount rate at 31 December	4.4–4.8	5.5
Salary progression	1.5	2.5
Pension progression	1.5	1.5

F12 Other provisions

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

€ thousands	Pre-retirement part time work	Other staff-related cost	Outstanding invoices	Restructuring	Other	Total
Balance at 31 December 2003	**4,985**	**2,162**	**6,282**	**1,419**	**3,818**	**18,666**
Additions	932	4,018	5,713	616	2,231	13,510
Drawdowns	836	2,418	3,849	1,000	1,253	9,356
Releases	–	171	1,516	–	606	2,293
Currency translation differences	–	– 5	– 2	–	1	– 6
Balance at 31 December 2004	**5,081**	**3,586**	**6,628**	**1,035**	**4,191**	**20,521**

Of which short-term

As at 31 December 2003	13,850
As at 31 December 2004	15,816

In accordance with the collective agreement supporting part-time work for elder workers of the federal employers association of the chemical industry (Bundesarbeitgeberverbands 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 for which no purchase invoices have yet been 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 the insolvency of Biotest Medizintechnik GmbH (€ 285,000).

F13 Financial liabilities

€ thousands	2004	2003
Non-current liabilities		
Collateralised liabilities to banks	15,906	20,271
Unsecured other loans	11,090	10,540
Liabilities from finance leases	21,493	25,950
	48,489	**56,761**
Current liabilities		
Liabilities to banks collateralised by CTA*	96,122	88,233
Other collateralised liabilities to banks	9,175	8,889
Short-term portion of collateralised liabilities to banks	**105,297**	**97,122**
Other loans collateralised by CTA*	480	513
Unsecured other loans	987	979
Other loans	**1,467**	**1,492**
Short-term portion of liabilities from finance leases	4,301	3,731
Unsecured liabilities to banks	4,148	3,859
	115,213	**106,204**

Please refer to G1 "financial instruments" for information on hedging currency and interest rate risks. Unsecured other loans include € 10,091,000 in loans from the shareholders of Biotest AG, for which subordination was agreed. Such loans pay interest at the best rate plus 2.5 percentage points at the balance sheet date with 3.63 % p.a.

* Collateral Trustee Agreement – for details cf. note G2

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

€ thousands	Total	< 1 year	1 – 5 years	> 5 years
Collateralised liabilities to banks:				
EUR – fix between 3.5 and 7.0 %	78,453	63,404	13,571	1,478
EUR – floating between 4.4 and 8.8 %	38,473	38,473	–	–
USD – fix at 4.3 %	3,304	3,304	–	–
HUF – floating at 10.8 %	935	78	624	233
USD – floating between 4.4 and 7.8 %	36	36	–	–
Other	2	2	–	–
Other loans:				
EUR – floating between 2.1 and 3.6 %	10,096	5	–	10,091
EUR – fix between 2.8 and 6.0 %	2,461	1,462	633	366
Liabilities from finance leases:				
EUR – fix between 3.0 and 7.4 %	25,742	4,278	19,061	2,403
USD – fix at 15.1 %	52	23	29	–
Unsecured liabilities to banks:				
EUR – floating at 8.0 %	671	671	–	–
EUR – fix between 5.1 and 8.8 %	3,477	3,477	–	–
	163,702	**115,213**	**33,918**	**14,571**

An increase in interest rates by one percentage point would result in an increase in interest expenses by approximately € 0.5 million (2003: € 0.5 million).

Repayment schedule of liabilities from finance leases:

€ thousands	Payment	Interest	Redemption
2004			
Due in less than one year	5,976	1,675	4,301
Due in 1 to 5 years	22,780	3,690	19,090
Due in more than 5 years	2,752	349	2,403
	31,508	**5,714**	**25,794**
2003			
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**

F14 Other liabilities

Other liabilities include the following items:

€ thousands	2004	2003
Commissions payable	4,455	5,683
Value added tax liabilities	3,108	2,741
Social security liabilities	1,378	1,444
Wage tax liabilities	825	1,062
Liabilities from other taxes	34	85
Other liabilities	812	1,726
Accrued interest and accruals and deferred income	95	174
	10,707	**12,915**

Other liabilities in the amount of € 0 (2003: € 36,000) 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 2004) (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.

Derivate financial instruments are shown in the balance sheet under other assets and other provisions, respectively. As at 31 December 2004, € 40,000 are shown under other assets and € 1,176,000 are shown under other provisions.

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' credit worthiness. Moreover, part of the German accounts receivable were sold to a factoring company.

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

INTEREST RATE RISK

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 2004:

€ thousands	Nominal amount		Market value	
	2004	2003	2004	2003
Interest rate caps	55,339	15,339	– 327	–
Interest rate swaps	20,635	20,734	– 622	– 630
Interest rate/currency swaps	6,227	6,227	– 187	– 114
	82,201	**42,300**	**– 1,136**	**– 744**

The nominal volume is the sum of all purchase and sales prices of derivative financial transactions. The market value of the interest rate hedging instruments was determined by the banks appointed for this purpose. They result from the valuation of outstanding positions at market prices without taking into account contrary performance by underlying transactions. They correspond to expenses or income, respectively, for liquidation of the derivate contracts on the balance sheet date.

The following times to maturity were in place for hedging transactions (nominal volumes) on the balance sheet date:

€ thousands	2004	Time to maturity		
	Total	< 1 year	1–5 years	> 5 years
Interest caps	55,339	10,226	35,113	10,000
Interest rate swaps	20,635	7,500	9,072	4,063
Interest rate/currency swaps	6,227	6,227	–	–
	82,201	**23,953**	**44,185**	**14,063**

€ thousands	2003	Time to maturity		
	Total	< 1 year	1–5 years	> 5 years
Interest caps	15,339	–	15,339	–
Interest rate swaps	20,734	–	15,734	5,000
Interest rate/currency swaps	6,227	–	6,227	–
	42,300	**–**	**37,300**	**5,000**

To hedge against short-term interest rate risks, floating-rate loan capital with a volume of € 20.6 million was swapped for fixed-rate positions. Interest with a fluctuation margin of 2.9 % to 5.1 % will be paid for the fixed-rate debt.

In line with the interest rate caps, financial liabilities with a volume of € 30.2 million are also secured against an increase in variable interest rates via an agreed-upon threshold value of between 3.5 % and 6.0 %.

FOREIGN CURRENCY RISKS FROM OPERATING ACTIVITIES

The Group is exposed to foreign currency risks that mainly arise from an imbalance in the global cash flow. This imbalance results from higher sales in US dollars in the face of lower purchases in US dollars. The Group protects itself as a matter or principle against identifiable future foreign currency risk when it anticipates such exposure. Moreover, the Group selectively hedges itself against balance sheet risks. The Group utilises possibilities for a natural adjustment of foreign currency risks as well as foreign exchange contracts for the management of foreign currency risks.

The following foreign exchange contracts were in place as at the balance sheet date:

€ thousands	Nominal volume		Market value	
	2004	2003	2004	2003
Foreign exchange extracts	–	884	–	93

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

The following times to maturity were in place for foreign exchange contracts (nominal volumes) on the balance sheet date.

€ thousands	Time to maturity	
	Total	< 1 year
31.12.2004	–	–
31.12.2003	884	884

EMBEDDED FINANCIAL INSTRUMENTS

As on the balance sheet date, for the first time no foreign exchange contracts were separated from existing underlying transactions due to changes in IAS 39. The market value of embedded derivatives amounted to € –118,000 at 31 December 2003.

PRIMARY FINANCIAL INSTRUMENTS

For primary financial instruments, the market values – unless otherwise stated in the notes to the individual balance sheet positions – correspond to the balance sheet values. Possible default risks for primary financial instruments are taken into account by value adjustments. In addition, due to the broadly based business structure, no special concentration of credit risks exists for the Biotest Group, neither with regard to individual clients nor for individual countries, with the exception of one customer in Greece.

G2 Contingencies

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

€ thousands	2004	2003
Guarantees	10	–

To secure short-term financing needs, Biotest AG entered into a collateral trustee agreement with the involved banks on 6 March 2003 / June 2003. This agreement, which was terminable for the first time on 31 December 2004, was maintained. The next possible termination date is therewith 31 December 2005. In the second half of 2004, negotiations were taken up with regard to debt rescheduling in order to achieve a financing according to maturities.

All material assets of the companies of 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 six 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 party) and Biotest Pharma GmbH (including the 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 party) 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 were attested by a notary on 18 March 2003.

G3 Other financial commitments

2004 € thousands	in 2005	2006–2009	in and after 2010	Total
Order liabilities	1,939	–	–	1,939
Future payments from rent and lease contracts and operating leasing	3,652	2,783	914	7,349
Other financial liabilities	479	483	71	1,033
	6,070	**3,266**	**985**	**10,321**

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 five years. Expenditure from rental and operating lease contracts amounted to € 4,164,000 (2003: € 5,149,000).

G4 Related party relationships

Disclosure is required for Biotest Group's relationships to the associate Bio Darou P.J.S. Co. Teheran/Iran (until 31 December 2003: to 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.

A) ASSOCIATES

In the 2004 financial year, the Group recorded purchases of € 0 (2003: SIFIN € 924,000) from the associate Bio Darou P.J.S. Co. Teheran/Iran. The latter company purchased goods and services from Group companies in the amount of € 341,000 (2003: SIFIN € 100,000).

On 31 December 2004, the associate recorded a liability of € 0 (2003: SIFIN € 134,000) and accounts receivable of € 341,000 (2003: SIFIN € 58,000) from the Group companies.

B) 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 60 % of Biotest AG's ordinary shares. Loan and rent exist in addition to above emoluments of the Supervisory Board. At the balance sheet date, the Group recorded liabilities of € 10,217,000 (2003: € 10,244,000). Biotest's aggregate expenses amounted to € 583,000 (2003: € 624,000); € 367,000 (2003: € 381,000) thereof are attributable to interest expenses for shareholder loans.

The following Supervisory Board members or affiliated persons, respectively, received compensation for advisory services rendered:

2004 € thousands	Compensation
Reinhard Eyring (law firm Ashurst)	134
Werner Spinner	20
Dr. Cathrin Schleussner	10
	164

C) SUPERVISORY BOARD, ADVISORY BOARD AND BOARD OF MANAGEMENT

BOARD MEMBERS

The members of the Supervisory Board and the Board of Managements (information as at 31 December 2004) additionally serve on statutory Supervisory Boards and comparable control boards of commercial enterprises:

BOARD OF MANAGEMENT

Prof. Dr. Gregor Schulz, physician, Umkirch
Chairman

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)
Atkon AG, Wiesbaden

SUPERVISORY BOARD

Werner Spinner, businessman, Cologne
Chairman
CSM N.V., Amsterdam
GfK AG, Nürnberg

Dr. Cathrin Schleussner, biologist, Neu-Isenburg
Deputy chairman

Kerstin Birkhahn, graduated engineer (Diplom), Langen

Reinhard Eyring, lawyer, Kronberg/Ts.
Destag Deutsche Steinindustrie AG, Lautertal, chairman
BGI zu Höne Klußmann Altpeter AG, Kassel
Scholz & Friends AG, Berlin, chairman

Johannes Hartmann, clerk, Weiterstadt

Dr. Jochen Hückmann, businessman, Frankfurt am Main
Chairman of the Board of Management Merz GmbH & Co. KGaA, Frankfurt am Main

The Advisory Board was dissolved as of 31 December 2003.

EMOLUMENTS

The emoluments of the Supervisory Board members (2003: € 75,000) for their Supervisory Board services are broken down as follows:

2004 € thousands	Fixed emoluments	Variable emoluments	Total emoluments
Werner Spinner (chairman)	38.0	2.5	40.5
Dr. Cathrin Schleussner (deputy chairman)	25.5	2.5	28.0
Kerstin Birkhahn	15.0	2.5	17.5
Reinhard Eyring	18.0	2.5	20.5
Johannes Hartmann	18.0	2.5	20.5
Dr. Jochen Hückmann	23.0	2.5	25.5
	137.5	**15.0**	**152.5**

Total emoluments for the members of the Board of Management who actively served in 2004 (2003: € 1,036,00) are broken down as follows:

2004 € thousands	Fixed emoluments	Performance-related emoluments	Total emoluments
Prof. Dr. Gregor Schulz	282	93	375
Dr. Michael Ramroth	212	74	286
Dr. Manfred Hübener	334	–	334
	828	**167**	**995**

In financial year 2004, variable emoluments were paid again for the time. In 2003, only fixed emoluments were paid.

Included in total emoluments is severance pay in the amount of € 300,000. Pension provisions in the amount of € 713,000 have been set up for active members of the Board of Management.

Provisions of € 3,028,000 (2003: € 2,725,000) 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.

Pension payments made to former members of the Board of Management amounted to € 318,000 (2003: € 216,000).

Payments made to the Advisory Board dissolved in 2004 amounted to € 0 (2003: € 7,000).

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	62.3	– 1.5
Biotest Grundstücksverwaltungs GmbH	Dreieich / Germany	98.0	2.5	0.4
Biotest Seralc° N.V.	Kortenberg / Belgium	100.0	1.5	0.3
Biotest S.a.r.l.	Buc / France	100.0	1.1	0.1
Biotest (UK) Ltd.	Solihull / Great Britain	100.0	1.0	0.2
Biotest Italia S.r.l.	Trezzano / Italy	100.0	9.4	1.0
Biotest K.K.	Tokyo / Japan	100.0	– 0.2	0.0
Biotest Pharmazeutika Ges.m.b.H.	Vienna / Austria	100.0	2.7	0.9
Biotest (Schweiz) AG	Rupperswil / Switzerland	100.0	1.0	0.4
Biotest Hungaria Kft.	Budapest / Hungary	100.0	3.0	0.6
Biotest Diagnostics Corporation	Denville / USA	100.0	2.0	0.2
Heipha Dr. Müller GmbH	Eppelheim / Germany	51.0	3.6	1.6
Viro-Immun Labor-Diagnostika GmbH	Oberursel / Germany	51.2	0.3	0.1
Plasmadienst Tirol GmbH	Innsbruck / Austria	100.0	0.8	0.0
Plasma Service Europe GmbH *	Dreieich / Germany	100.0	0.3	0.0
Biotest Hellas MEPE	Maroussi / Greece	100.0	2.0	0.0

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

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

Our subsidiary Plasma Service Europe GmbH took over a plasmapheresis station in Halle, Germany, on 18 February 2005. It is planned to cover a considerably larger share of raw materials requirements from own sources in the future.

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.

Frankfurt am Main, 17 March 2005

Prof. Dr. Gregor Schulz

Dr. Michael Ramroth

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 2004. 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 2004, 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 2004 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 out the remarks in the Group Management Report in the section "Risk Report / Financial Risks," which reports that the continued existence of the Group is only jeopardised if short-term credit lines are not extended as expected by the Board of Management or, respectively, the banks do not continue to sustainedly support the Group.

Frankfurt/Main, 17 March 2005

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Böttcher
Wirtschaftsprüfer
(German Chartered Accountant)

Walter
Wirtschaftsprüfer
(German Chartered Accountant)

Report of the Supervisory Board

The Supervisory Board of Biotest AG has again regularly monitored the work of and has provided regular advice to the Board of Management during the past year. The Board of Management regularly, in due time and comprehensively, informed the Supervisory Board both in writing and orally on all questions of planning, business development, risk situation and risk management relevant for the company. Deviations of the business development from the planning and targets were commented on in detail. The strategic orientation of the company was coordinated between the Board of Management and the Supervisory Board, and the state of the strategy implementation was debated at regular intervals.

In financial year 2004, the Supervisory Board met at five regularly convened meetings and one closed-door meeting. In addition to the meetings, the chairman of the Supervisory Board was in regular contact with the Board of Management and stayed informed about the current development of the business and the relevant business transactions.

MAIN FOCUS OF THE DELIBERATIONS OF THE SUPERVISORY BOARD

Topics of regular deliberation of the Supervisory Board were the planning and the current business development of the Company as well as the strategic orientation, the financial situation and the future financing structure.

At the meeting on 5 March 2004, the Board of Management reported on the compilation of the Consolidated Financial Statements and the Annual Accounts as well as on the five-point programme to save on administrative and personnel expenses, which was already agreed upon at the end of 2003. The Supervisory Board approved the budget for financial year 2004. In addition, the Supervisory Board approved the founding of the Greek participation Biotest Hellas MEPE and the purchase of the pharmaceuticals business of IONIAN Pharma, Athens. At the meeting on 22 April 2004, the Supervisory Board intensively debated the Consolidated Financial Statements and the Annual Accounts with the Board of Management and the Auditors. Regarding the upcoming Annual General Meeting, possible capital measures were discussed and the agenda for the Annual General Meeting was approved.

At the closed-door meeting of the Supervisory Board on 1 July 2004, the strategy of the Biotest Group, the corresponding planning for distribution and sales as well as financial planning were discussed extensively with the Board of Management. The company wants to maintain the structure of the company with a Pharmaceutical and a Diagnostic division, enhance the profitability of Biotest to assure continuation on a stand-alone basis in the future, focus on products and markets with attractive margins and solidify the market position via co-operations and further internationalisation.

The meeting on 8 July 2004 served mainly to prepare for the Annual General Meeting. At the meeting on 15 October 2004, the future financing of the Biotest Group, the possible capital structure and opportunities to attract investors dominated the debate. The earnings situation and corresponding measures were discussed. At the meeting on 17 December 2004, as well, the Board of Management reported on the current situation with regard to the discussions on refinancing and on the status of the implementations of the strategy. Further restructuring activities in the Pharmaceutical and Diagnostic divisions were discussed. The Chairman of the Supervisory Board regularly read up on reports about side-effects and safety.

COMMITTEES

The Supervisory Board has formed two committees, the Presiding Committee and the Audit Committee. In addition to the regular meetings of the Supervisory Board, the Presiding Committee met with the Board of Management for three meetings, which served to thoroughly prepare for the upcoming Supervisory Board meetings. The Audit Committee held one meeting which dealt with awarding the contract to the auditors for financial year 2004.

CORPORATE GOVERNANCE

The Supervisory Board has regularly dealt with the Corporate Governance in the company. In this context, the rules of procedure for the Supervisory Board were changed and by-laws for the Audit Committee were formulated. Furthermore, the Supervisory Board screened the efficiency of its activities and had an external auditor conduct interviews with all members of the Board of Management and the Supervisory Board (see page 22).

CHANGES IN THE BOARD OF MANAGEMENT AND THE SUPERVISORY BOARD

Dr. Manfred Hübener, member of the Board of Management with responsibility for finances and central services since June 2000, resigned from the Board of Management in mutual agreement on 6 February 2004. His responsibilities as Chief Financial Officer were assumed by Dr. Michael Ramroth. The necessary resolutions by the Supervisory Board were made via written procedure on 20 January 2004. On 8 July 2004, the Chairman of the Supervisory Board, Mr. Werner Spinner, who was court-appointed to the Supervisory Board on 1 October 2003, was elected by the Annual General Meeting as shareholder representative to the Supervisory Board. In the following meeting of the Supervisory Board that served this purpose, Mr. Spinner was confirmed as Chairman of the Supervisory Board and Dr. Cathrin Schleussner was elected Deputy Chairman of the Supervisory Board.

FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

The Financial Statements of Biotest AG and the Consolidated Financial Statements as of year-end 2004, as well as the Management Report and the Group Management Report have been examined by KPMG Deutsche Treuhand-Gesellschaft, Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, and issued with an unqualified certification. The Supervisory Board has acknowledged the results of the audit and concurs with them. The auditor's report was presented to all members of the Supervisory Board. The auditors who signed the Financial Statements took part in the meeting of the Supervisory Board on 18 March 2005 dealing with the approval of the Financial Statements and Consolidated Financial Statements. They reported on the key findings of the audit and were available to provide additional information.

After completing the examination, the Supervisory Board finds no cause for objection. The Supervisory Board approved the Financial Statements and the Consolidated Financial Statements presented by the Board of Managing Directors. Accordingly, the Financial Statements are adopted. The Supervisory Board endorses the proposal of the Board of Management for appropriation of the distributable profit.

The Supervisory Board would like to thank the Board of Management and all employees for their commitment and the successful work accomplished in financial year 2004.

Frankfurt am Main, 18 March 2005
The Supervisory Board

Werner Spinner, Chairman

Glossary TECHNICAL TERMS

ANTIBODY
Antibodies are substances that are produced by the body to defend against an attack by a foreign invading substance, the antigen.

ANTIGEN
The molecule that is recognised by the immune system. The immune system can differentiate between "foreign" and "self" and trigger defense mechanisms, if appropriate.

AUTOIMMUNE DISEASE
Activity of the immune system directed against the patient's own body.

CE MARK
The CE Mark is the manufacturer's confirmation of the product's compliance with the applicable directives of the European Union.

CHROMATOGRAPHY
A highly-specific process for separating mixtures into their components.

COAGULATION FACTORS
Plasma proteins that trigger the activation of blood clotting. 15 different types of coagulation factors are known (factor I through factor XV). The bleeding disorder haemophilia (type A or B) is caused by defective or missing factors VIII or factors IX.

DNA
Deoxyribonucleic acid
Carrier of hereditary information.

FDA
Food and Drug Administration: American regulatory authority for pharmaceutical products.

FILTER AID PROCEDURE
New fractionation procedure for blood plasma with the help of filters and aggregates.

FIXED AMOUNT REGULATION (FESTBETRAGSREGELUNG)
Regulation in Germany for the reimbursement of costs in the health insurance system. As a matter of principle, the health insurance scheme reimburse the costs for prescription drugs and combinations of agents only up to a fixed maximum amount, regardless of how expensive the drug actually is.

FRACTIONATION
Physical separation of substance mixes (e.g. blood plasma) by precipitation, centrifugation or chromatography.

GMP
Good Manufacturing Practice =
Regulations on the safety and quality in manufacturing pharmaceutical preparations.

HAEMATOLOGY
Branch of medicine concerned with blood and blood disorders.

HAEMOPHILIA
A blood clotting disorder

HLA
Human leucocyte antigen; immunoglobulin that represents the individual "signatures" of the cells. The HLA pattern is important, for example, for organ transplantations where recipient and donor have to "match."

HUMAN ALBUMIN
A protein produced in the liver regulating and maintaining the protein balance in the vascular system as well as binding and transporting various plasma components.

ICR
Isolated clean rooms

IMMUNOGLOBULINS
Protein molecules that make up part of the body's immune system. Polyvalent immunoglobulins are effective against a broad range of infections and hyperimmunoglobulins against special antigens.

IMMUNE SYSTEM
The sum of all factors responsible for the body's defense against infections and invading foreign substances.

IMMUNOLOGY
Science of the defense mechanisms of the body against alien substances and pathogens as well as of the deficiencies of these defense mechanisms.

INDICATION
Reason for performing a medical examination or treatment.

INTRAMUSCULAR (I.M.)
Inside the muscle; type of injection

IN-VITRO
Literally, "in a glass." Procedure that takes place in a laboratory setting, e.g. in a test tube.

MONOCLONAL ANTIBODIES
Antibodies that can be traced back to one single originator cell. They bind specifically to one particular alien substance (antigen). They are produced with the help of hybridoma cells.

MULTIPLE MYELOMA
Malignant plasma cells growth in the bone marrow.

MUTUAL RECOGNITION
Mutual recognition of plasama-critical product registrations within EU countries.

PAUL EHRLICH INSTITUTE (PEI)
German federal authority for sera and vaccines. PEI is responsible for the approval of drugs made from human blood or animal blood and for the protection against infection.

PCR PROCEDURE
Polymerase chain reaction. Method of generating copies of any DNA fragment in a test tube in order to perform medical tests.

PLASMA
The clear yellow liquid that remains after separating all cell material from blood. It contains soluble protein substances and salt.

PLASMA DERIVATIVES
Medical preparations produced from blood plasma.

PLASMAPHERESIS
Generation of plasma from blood donations. The red and white blood cells are immediately reinfused to the donor.

PLASMA PROTEINS
Proteins found in blood plasma.

RECOMBINANT
Recombinant proteins are produced with genetically altered microorganisms.

RHEUMATOID ARTHRITIS
Inflammable disease of the joints.

SEROLOGY
Science of antigen-antibody reactions. Classical detection of antibodies with the help of a known antigen, but also vice versa.

SUBCUTANEOUS (S.C.)
Underneath the skin; type of injection.

TENDER
Delivery of products to governmental organizations.

TYPING
Determination of individual characteristics on blood or body cells.

VIRUS INACTIVATION
Production steps that contribute in a major way to the inactivation or elimination of viruses, without damaging proteins.

VON-WILLEBRAND DISEASE
Blood coagulation defect of differing severity, resulting from a defective or missing von-Willebrand factor (vWF).

Glossary FINANCIAL TERMS

ACCRUED AND DEFERRED ITEMS
So-called transitory assets and liabilities listed in the balance sheet. These are for example expenses that were paid in the past financial year but that relate to the coming year. (transitory assets).

APPROVED CAPITAL
Scope for capital increases that is provided by the Annual General Meeting of a listed company to the management (Board of Management) of a company.

AVAILABLE-FOR-SALE
IAS 39 classification that describes financial instruments available for immediate sale.

BOOK-VALUE-METHOD
Method of capital consolidation in which the acquisition costs of a holding in a subsidiary is offset against the equity ratio at the time of the acquisition.

CASH FLOW
Reflects the actual flows of cash in a period (revenues and expenditures) and is an indicator of the internal financing ability of a company.

COLLATERAL TRUSTEE AGREEMENT
Agreement of Biotest with the creditor banks which secures the financing.

CORPORATE GOVERNANCE
All legal and institutional basic conditions that directly or indirectly affect the management decisions of a company and thus its success.

DEFERRED TAXES
Income taxes to be paid or received in the future. They do not constitute actual tax office claims or liabilities at the time the balance sheet is prepared.

EARNINGS PER SHARE
Figure that puts earnings after taxes in relation to the average number of ordinary shares.

EBIT
Earnings before interest and taxes

EMBEDDED DERIVATIVES
Viewed separately, Embedded derivatives have the same effects as derivatives and are contained in various financial instruments, for example in call or put options or in conversion rights.

EQUITY METHOD/AT EQUITY
Accounting method for the consolidation of associated companies.

FAIR VALUE
Value at which assets and liabilities would normally be traded between business partners. In most cases, the fair value is identical to the market price.

FIRST IN FIRST OUT METHOD
Method for the valuation of costs of materials. It always uses the purchasing price of the tranche that were purchased the earliest.

FREE FLOAT
Freely tradable shares of a company. Holdings of more than 5% of all issued shares are no longer considered to be part of the free float.

HGB
German Commercial Code (Handelsgesetzbuch)

HIDDEN RESERVES
Difference between the total net book value and the higher total net market value of all assets which is not apparent in the balance sheet.

IAS/IFRS
The International Accounting Standards (IAS) or International Financial Reporting Standards (IFRS) are international accounting principles.

IMPARITY PRINCIPLE
Requirement in German accounting law which mandates the reporting of unrealised losses.

INTANGIBLE ASSETS
Balance sheet item that does not relate to tangible assets (building, land, machinery...) For example concessions, licences and goodwill.

KEY ACCOUNT
Large/important client.

LOSSES CARRIED FORWARD
Losses that cannot be attributed to past financial years can be carried forward to coming financial years in order to become relevant for tax reasons.

OFFSETTING
Closing out of a previous stock market transaction by sale of the position.

PREFERENCE DIVIDEND
Special dividend paid to the holders of preference shares.

PRESENT VALUE
Equals today's value of a payment that arises in the future.

PURCHASE COMMITMENTS
Amount of open and binding orders from external suppliers.

Financial Calendar

19.4.2005	Annual Press Conference Spring conference for analysts and journalists
10.5.2005	Publication of Q1 Report Quarterly Report for Q1 2005
20.5.2005	Annual General Meeting Congress Center Frankfurt, 10:30 a.m. Frankfurt/Main, Germany
05.8.2005	Publication of Q2 Report Quarterly Report for Q2 2005
14.11.2005	Publication of Q3 Report Quarterly Report for Q3 2005
11/2005	Analysts' conference Autumn conference for analysts and journalists

Imprint

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This annual report contains forward-looking statements on overall economic development as well as on the business, earnings, financial and asset situation of Biotest AG and its subsidiaries. These statements are based on current plans, estimates, forecasts and expectations of the Company and thus are subject to risks and elements of uncertainty that could result in deviation of actual developments from expected developments. The forward-looking statements are only valid at the time of publication of this annual report. Biotest does not intend to update the forward-looking statements and assumes no obligation to do so.

Biotest

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