Biotest

From Nature for Life

Building blocks of success

Biotest AG

2006 | Annual Report

Contents

2006 at a Glance

Biotest Group		2006	2005	Change %
Revenue	€ million	281.9	237.6	18.7
thereof: Germany	€ million	92.4	86.1	7.3
Rest of world	€ million	189.5	151.5	25.1
thereof: Pharmaceuticals	€ million	205.1	160.4	27.9
Diagnostics	€ million	76.8	77.2	– 0.4
EBITDA	€ million	46.9	39.6	18.4
EBIT	€ million	31.4	25.3	24.1
Profit before tax	€ million	21.6	15.0	43.9
Profit before tax as % of sales		7.7	6.3	
Net profit	€ million	16.0	10.2	57.3
RoCE	%	9.5	8.0	
Structure of expenses by nature:				
– Cost of materials	€ million	83.4	71.2	17.1
– Staff cost	€ million	73.3	66.4	10.4
– Research and development	€ million	26.1	16.9	54.6
thereof: Biotherapeutics	€ million	9.8	3.6	188.2
– Research and development in % of sales		9.2	7.1	
Capital expenditure:				
– Property, plant and equipment and intangible assets	€ million	16.8	15.4	8.7
Financing:				
– Cash flow from operating activities	€ million	47.0	40.3	16.6
– Depreciation and amortisation	€ million	15.5	14.3	8.4
Equity	€ million	179.3	164.8	8.8
Equity in % of balance sheet total		49.5	47.0	
Balance sheet total	€ million	362.1	351.0	3.1
Number of employees (full-time equivalents) as at year-end		1,149	1,074	7.0
Earnings per share	€	1.48	1.13	31.0
Earnings per preference share	€	1.54	1.19	29.4

Building blocks of success

Biotest is a global specialist in innovative immunology and haematology. We develop, produce and market drugs derived from human blood plasma as well as medical equipment and reagents for immunological diagnostics and hygiene monitoring. The building blocks of our strategy for success are focusing on core competences, international growth and value-oriented research and development. We can rely on the expertise and initiative of more than 1,200 employees based in 11 countries to implement this strategy.

2006

The highlights of the financial year

February

In the light of the continuing high demand for immunoglobulins, Biotest resolves to double its chromatographic purification capacities. Production is scheduled to go on stream at the end of 2008.

March

Biotest successfully establishes an agreement with its partner, AERES Biomedical, for the development of the BT-062 production system.

April

Having obtained approval using the MR procedure, Biotest begins marketing Intratect® in the UK, gaining a market share of around 6% in 2006.

May

Biotest and Sanquin, a Dutch-Belgian foundation, begin discussions on the expansion of their cooperation of many years' standing. One of the results of the deliberations is that fractionation and the Sanquin plasmapheresis stations are adopted in the Biotest approval dossier.

July

A cooperation and licence agreement with the US company, ImmunoGen, Inc. secures exclusive global rights to use the Tumor Activated Prodrug (TAP) technology for the development of BT-062. In the subsequent pre-clinical trials, the immunoconjugate, which consists of antibody and cytotoxic agent, proves to be a highly efficient treatment for multiple myeloma.

September

The European Medicines Agency (EMEA) grants the immunoglobulin, Cytotect®, orphan drug status for the treatment of cytomegaloviral infections in pregnancy. Subsequent to approval, Biotest is given market exclusivity for the drug within the EU for a period of ten years.

October

Humanisation of the BT-063 antibody is successfully concluded.

Biotest launches a strategic refocusing programme for its diagnostic segment. Transfusion, transplantation and infection diagnostics are amalgamated under immunology, whereas hygiene monitoring activities are incorporated into microbiology. In the future, Biotest will increasingly concentrate its resources on transfusion diagnostics and hygiene monitoring.

October

Biotest and its partner, Olympus America Inc., redraft their agreement for the marketing of TANGO® optimo for the USA. Hospitals in the USA will be supplied by Biotest's own subsidiary from the beginning of 2007 onwards. Biotest also applies to the Food and Drug Administration (FDA) for approval of the complete range of reagents for manual blood group typing for the USA.

Biotest opens a new plasmapheresis station in Merseburg near Halle, increasing the number of company-owned donor centres to five.

A new syndicated loan agreement to replace the previous one provides Biotest with finance at improved terms, the effects of which are set to impact positively on the financial results from 2007 onwards.

November

Hepatitis preparation, Hepatect®, which is produced by the new filter aid procedure, is granted approval in six European countries. Biotest immediately proceeds to market the treatment in place of the previous product.

December

The Paul Ehrlich Institute grants approval for the clinical development of BT-061.

Biotest concludes an agreement with Danish toll manufacturer, CMC Biopharmaceuticals, for the production of GMP material for use in the clinical testing of BT-062. Further pre-clinical tests confirm its high levels of efficacy.

December

Cytotect® is also granted orphan drug status by the US FDA. Following approval, this gives Biotest exclusive marketing rights for seven years in the USA.

Foreword by the Chairman of the Board of Management

Dear Shareholders,

2006 has been a very special year in the history of the Biotest Group. In May, we celebrated the 60th anniversary of the company's history together with our business partners and the entire team. However, 2006 was particularly special due to the significant operational and strategic progress made by Biotest. There has been a marked increase in sales compared with the previous year and as in 2005, the operating result rose sharply, in spite of the significant increase in research and development expenses. One of the critical factors for this was the considerable success of our plasma proteins in Europe, where Biotest was able to expand its position in all key markets.

We have further raised the Biotest profile as a global specialist for innovative immunology and haematology in three respects. First, our progress in the international markets has been considerable, second, we have made significant advances in our promising research projects and third, we have intensified our concentration on core competences. Internationalisation, innovation and concentration form the core building blocks of our value-oriented growth strategy.

Biotest plasma proteins have an excellent positioning in the global markets. We have been able to achieve a marked sales increase in almost every product group and region in which we operate. The approval of Hepatect®, which is manufactured using the modern filter aid procedure, in six European countries has consolidated our position in the markets. We are already well-positioned with the preceding preparation and in Italy, for example, we are the market leader. The success of our polyvalent immunoglobulin, Intratect®, also far exceeded our expectations in 2006. In this connection, the

launch of sales operations in the UK is of particular note and we can report that just a few months after approval was granted, we had already acquired around 6% of the market share. In other countries, such as Austria, Hungary and Greece, and above all, in our home market of Germany, we are currently one of the leading suppliers of immunoglobulins.

Beyond this, we have established the conditions for further growth in the Pharmaceutical segment. This situation has been enhanced by the orphan drug status awarded to Cytotect® treatment for cytomegaloviral infections during pregnancy. From the time approval is obtained, this grants us market exclusivity for ten years in the EU and seven in the USA. This year, we shall be commencing an international Phase lll study, which is set to confirm the positive findings of a study carried out in 2005 and published in the New England Journal of Medicine. Other planned activities scheduled for 2007 include submission of our applications to the EMEA for European approval for the mutual recognition procedure of Haemoctin® and Albumin FH® as well as for the factor IX preparation, Haemonine® . In future, we should therefore be able to extend our marketing operations beyond the individual countries, as has been our practice to date, throughout Europe.

Unfortunately, the plans to establish a joint venture with our long-term partner, Sanquin, have not been successful. However, we shall be further intensifying our ongoing close cooperation with the Dutch-Belgian company in the area of plasma proteins and intend to make use of the available synergies for production as well as research and development activities. We shall also be stepping up efforts to investigate other international cooperation opportunities, including for the US market entry we are planning in the medium term.

Important milestones have also been achieved in the development of monoclonal antibodies in the Biotherapeutic segment. Highly significant in this area are the approval obtained from the Paul Ehrlich Institute for the clinical development of the BT-061 monoclonal antibody and a licence agreement established with ImmunoGen. The licence agreement secures us exclusive access to the highly effective TAP technology for our BT-062 antibody, which is primarily aimed at treating multiple myeloma. The combination of antibody and cytotoxic agent has the potential of becoming an effective new treatment for an incurable form of cancer.

As regards BT-061, we have carried out supplementary pre-clinical tests at the request of the authorities, which have produced entirely positive results. However, this has meant that the Phase I clinical trial was delayed several months behind schedule. Much as we would have liked to begin with the study in the third quarter of 2006 as planned, the optimum safety of the patient takes precedence.

In the Diagnostic segment, we have launched a comprehensive programme of strategic refocusing. In future, Biotest will intensify its concentration on its core areas of immunology and industrial microbiology. We have identified both these areas as particularly attractive for Biotest, given their size, their growth potential and the competitive situation.

TANGO® optimo and our manual reagents for transfusion diagnostics as well as the products from Biotest HYCON and our affiliate company, Heipha Dr. Müller GmbH, enable us to offer an outstanding product range. We shall be continuing our consistent development of these products, for which we shall also be considerably strengthening our sales and marketing efforts. At the top of the agenda here is the expansion of our position in the USA. We are convinced that this focused approach will generate dynamic growth for the Diagnostic segment in the coming years.

A new loan agreement concluded in October has enabled us to obtain outside finance for the Biotest Group at significantly improved terms, the effects of which will be clearly reflected in the financial results as early as 2007.

Biotest has recorded many achievements in the past year. An important condition for these was that we have benefited from the constructive support obtained from our shareholders and providers of outside capital. On behalf of my colleagues on the Board of Management, I should like to express my sincere gratitude for this support. Particular thanks are also due to all our Biotest employees, whose dedication and performance are the key to the company's success.

With these thanks comes the hope that you will continue to give us the opportunity of building on your confidence.

Sincerely yours,

Professor Dr. Gregor Schulz

Strategy

“The outlook is excellent”

Interview with Chairman of the Management Board, Professor Dr. Gregor Schulz and CFO, Dr. Michael Ramroth

Professor Schulz, Dr. Ramroth, 2006 has been a very successful year for Biotest. In your opinion, what is likely to be the outstanding event in financial year 2007?

Schulz: It is difficult to speak with authority on the year as a whole after just a few weeks. However, I can say that we have achieved a major milestone with the start of the clinical development phase of our BT-061 monoclonal antibody. For plasma proteins, which are our most important mainstay of sales and earnings, there may not actually be a single outstanding event of the year. Instead, we are anticipating a series of pleasing developments resulting in a renewed marked improvement in our market presence throughout the EU, achieved by additional European approvals and the expansion of our sales structures. Beyond this, in 2007 we shall start working towards the approvals we are planning to obtain for our plasma proteins in the medium term in North America.

Ramroth: Another highlight will be approval for our manual reagents for transfusion diagnostics in the USA, which we are anticipating to receive in late autumn this year. This will enable us to operate in the most attractive market in the world as a full-service provider with a comprehensive range of products.

On the subject of diagnostics, you launched a strategic refocusing of this segment last year. Why?

Ramroth: The programme was introduced as a result of an exhaustive analysis of the market and Biotest’s positioning. It was crystal clear from this that the best long-term potential is offered by our two core areas of transfusion and hygiene monitoring, while conversely, the market conditions for transplantation and infection diagnostics remain difficult. This is why we have restructured our Diagnostic segment, to enable us to concentrate our focus on the two most promising core activities, immunology and microbiology, and to expand these into global operations.

In the past, Biotest’s plasma protein business has grown more strongly than the Diagnostic sector. In light of this, would selling the division be an option?

Schulz: The Diagnostic business is a permanent and integral component of our positioning as a global specialist for immunology and haematology. Naturally, in the longer term every segment must succeed in making a successful contribution to the value of the company. By restructuring, we are creating the right conditions for this and we are also intensifying our investigations into how we can use cooperations to increase the profitability of our Diagnostic business in future.

Ramroth: The success of the plasma proteins business is currently the best evidence that building on our own strengths and investing in growth pays off. I am certain that we shall be able to extend this success into Diagnostics.

What are the effects of the positive market environment on the plasma protein business and what would happen if the trend reversed?

Schulz: Of course, we have enjoyed the benefits of rising demand and scarcity of supply, especially in immunoglobulins. Virtually all the indications point to no change in this situation in the short to medium term. Quite the reverse: we are anticipating a sustained

moderate increase in prices. However, expanding our business through toll manufacturing and the ongoing development of our product range will generate new sales potential which is unrelated to the present favourable market situation. This will give us a better position in the longer term, in case there should be a surfeit of supplies in future years.

The USA plays a key role in the growth strategy for both plasma proteins and the Diagnostic segment. What makes this market so attractive for Biotest?

Schulz: The USA is the largest pharmaceutical and diagnostic market in the world. Only quality suppliers can comply with the stringent FDA approval criteria, which accounts for the fact that the achievable prices are higher than anywhere else. Since we are certain of fulfilling the demanding criteria of the FDA – for example, take TANGO® optimo and the associated reagents – in the medium term, we are aiming for a presence in the USA with the complete range of products. Among other products, we have identified a high level of demand for our hyper-immunoglobulins, which we already produce for international markets with state-of-the-art technology at our new plant.

Turning now to monoclonal antibodies, are you anticipating development to run smoothly, following the delays of the past year?

Schulz: The delays were not welcome news. However, we can understand why the Paul Ehrlich Institute requested additional pre-clinical tests, since in the case of another company, serious complications arose during the trial of another antibody. The additional test results indicated positive efficacy and tolerance and we subsequently received approval for clinical development at the end of 2006. However, we should recall to mind that Biotest antibodies are still at an early stage of development and that there is a long way to go. Drug development is a long process with many associated risks. However, after that, the approvals and patents will give us long-term market protection.

Ramroth: In this connection, it is important to say that our estimates of the market potential have again been confirmed. Our assumptions remain that each of the three antibodies could provide an innovative form of treatment which is likely to capture a significant share of the market concerned. This is a fact which has been confirmed by distinguished medical physicians time and again.

Professor Schulz, how do you see Biotest's position at the end of financial year 2007?

Schulz: I believe that we will have increased sales and earnings still further and that our plasma protein business will have contributed the major share to this rise. In the Diagnostic segment, we are aiming to set global growth in motion, as a result of our focused positioning and the consolidated sales activities. Finally, in the Biotherapeutic segment, we are awaiting the initial findings of the clinical development of BT-061 and are aiming for preparations of BT-062 to be far enough advanced for Phase I clinical trials so that we can begin testing in the first half of 2008.


TANGO optima

Focus – consolidating core competences

Biotest's consistently focuses its efforts on the sectors in which it achieves attractive margins with its high quality products and services. By efficient use of resources, we create opportunities for long-term profitable growth.

Focus

Success generated by our own strengths

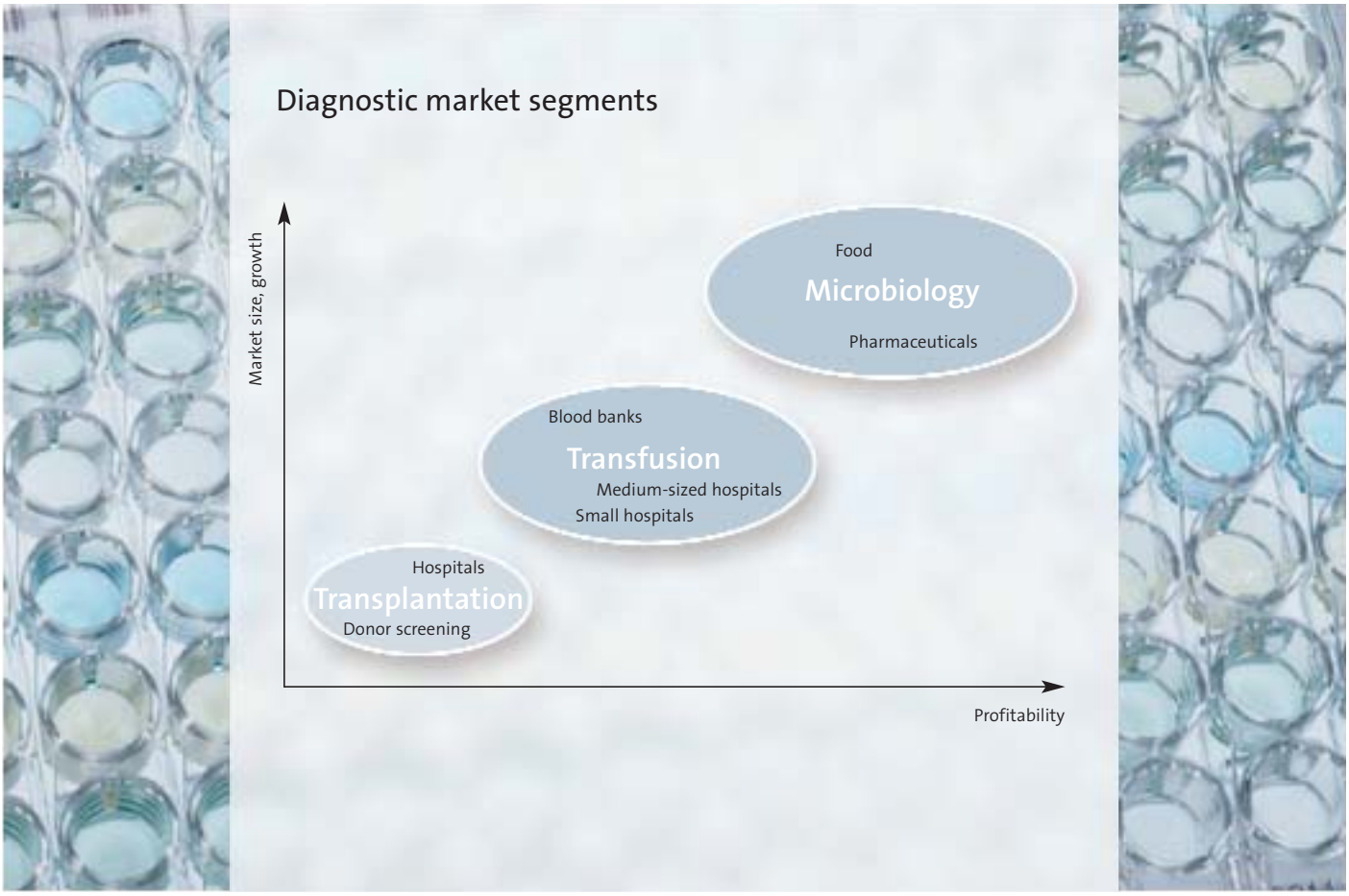
Transfusion diagnostics and hygiene monitoring form the new focus of the Diagnostic segment. With increased emphasis on R&D and sales activities, we aim to further expand our position in these key markets.

The markets for transfusion diagnostics and industrial hygiene monitoring are highly attractive. Annual sales for blood cell typing products total in excess of €500 million and, at around €1.1 billion, the global market sales volume for industrial microbiology is more than double. In both these areas, sales are growing at an estimated 4% to 6% per year.

One of the cornerstones of the refocusing of our Diagnostic business is concentration on major markets and growth markets where there is a demand for top quality products and services. Dr. Rolf Vornhagen, Head of the Diagnostic segment, explains: “Our strategy is to consistently focus on those areas in which our products and services lead the market. This enables us to generate attractive margins, even in an intensely competitive environment."

Transfusion diagnostics are incorporated in the field of immunology. Virtually every public health system in the world is trying to cut costs and so consequently, the demand for automated solutions is continually rising. Added to this is the fact that automisation reduces the risk of human error that arises in the case of purely manual procedures. With TANGO® optimo, Biotest maintains a system and the associated reagents for fully-automated blood group diagnostics, which is particularly well suited to the requirements of smaller and medium-sized hospitals, laboratories and haematology practices.

With TANGO® optimo and the complete spectrum of manual reagents, Biotest can rightfully claim to supply the complete service for blood group typing. “Customers like to buy all their products and services from under one roof, particularly in sensitive clinical areas,"



In the Diagnostic segment, Biotest focuses on the particularly attractive sub-market segments for transfusion diagnostics and industrial microbiology.

Vornhagen confirms. When approval for its manual reagents is granted by the FDA towards the end of 2007 as anticipated, Biotest will also be in this position in the USA, the largest and most attractive market in the world. Vornhagen adds: "We are convinced that this will give our business in the US another strong boost." The positive resonance which TANGO® optimo has met with since its introduction at the end of 2005 will be reflected in a considerable increase in sales, when customers are also able to obtain the manual reagents for which there has been ongoing demand from Biotest.

The second string to the Diagnostic segment bow is the microbiology business, which includes activities with reagents and systems for hygiene monitoring of cleanrooms and surfaces. In this sector, Biotest is ranked No. 3 in the world while affiliate company Heipha Dr. Müller GmbH, is the market leader in corresponding products for the pharmaceutical industry in Germany.

The associated expertise gives Biotest the capability to develop efficient and reliable hygiene monitoring solutions for the food and cosmetics industries. The increasingly stringent regulations governing hygiene monitoring and its recording means that the demand for efficient products which are simple to use is set to rise in these sectors. Biotest aims to respond to the demand with innovative measuring procedures based on PCR technology.

In tandem with the development of new products, Biotest will also expand its earnings potential into new markets. Radiating outwards from its strong position in Germany, sales and marketing activities in Austria, France, Italy, Japan, Spain, Switzerland, the UK and the USA will be significantly intensified and further growth potential will be developed by consistent concentration on our own strengths.

The Share

A further increase in market capitalisation

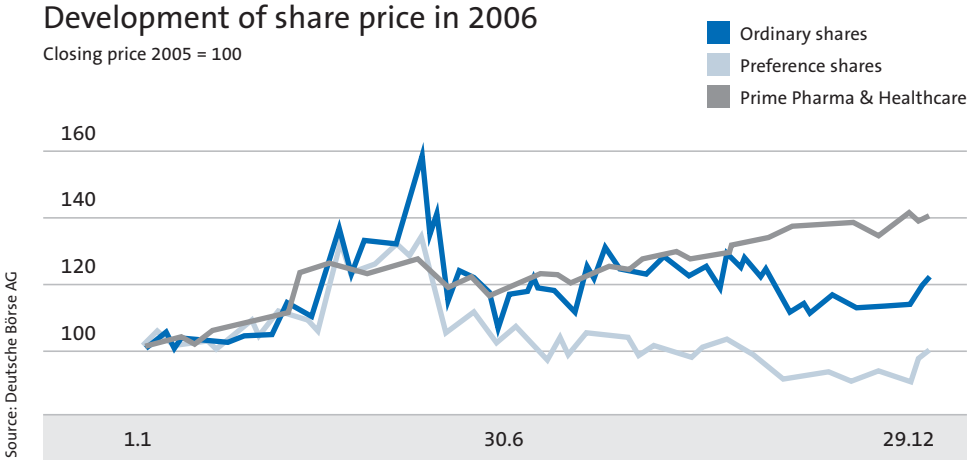
At the end of the financial year, Biotest AG was valued 13% higher by the stock exchange than a year previously. Ordinary shares rose sharply, while the price of preference shares remained virtually unchanged year-on-year.

Continuing upward trend on stock markets

In 2006, the German stock markets built on the positive growth of the previous year. On the final day of trading, 29.12.2006, the Deutsche Aktienindex (DAX) stood at 6,596.92 points, up 22.0% on the 2005 year-end (5,408.26). The SDAX, which is made up of 50 small caps, recorded even more dynamic development. The closing figure of 5,567.36 points represents growth of 31.0%.

Development of share price in 2006

Closing price 2005 = 100



Source: Deutsche Börse AG

Shares in companies in the healthcare sector, whose performance is indicated in the Prime Pharma & Healthcare Performance Index, rose 41.6% compared with the previous year. The price rises occurred predominantly in the first quarter and the second half of the year. Stock markets underwent a significant correction in early summer, at the end of which the DAX recorded its annual low and the SDAX lost virtually all the ground it had previously gained.

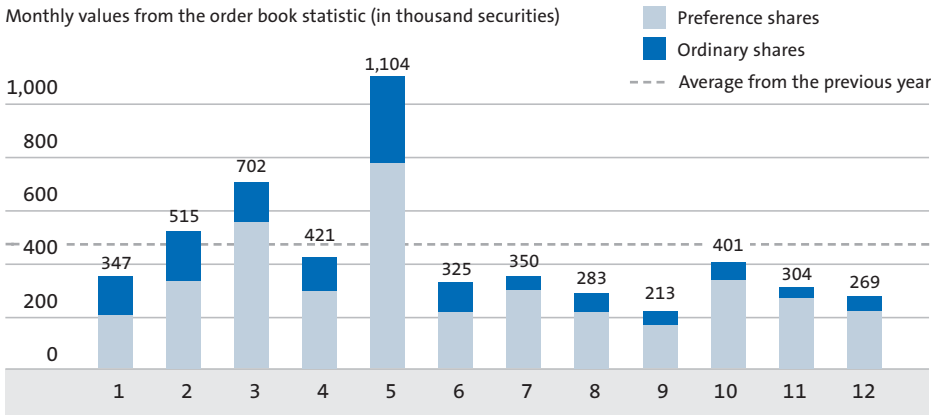
Biotest shares achieve record levels

The performance of the Biotest share mirrored overall market trends until the middle of the year. In May, at €39.40, ordinary shares reached their highest level for almost nine years on the XETRA electronic trading platform on which the majority of trading takes place, while preference shares achieved an eight year high at €30.10.

However, only the ordinary share price tracked the general market recovery that followed the correction in May and June, while preference shares lagged behind the performance of the relevant comparable indices despite a closing spurt at the year-end.

Volume of securities traded

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



Source: Deutsche Börse AG

With a closing price of €29.96 on XETRA, ordinary shares increased in value by 22.5% in 2006. By contrast, preference shares were down 0.6% with a closing price of €22.17.

With 5.2 million shares traded, trading volume on all German stock exchanges was down on the previous year (5.6 million shares), which was in any case influenced by the capital increase. More than 92% of all transactions took place over Deutsche Börse's electronic platform XETRA or on the trading floor of the Frankfurt Stock Exchange.

Biotest AG's capital stock is divided into 5,995,675 ordinary and 4,666,667 preference shares. As of the 31.12.2006 reporting date, the Dr. Schleussner family held 50.03% of the ordinary shares, while the Kreisparkasse Biberach has registered a holding of 10.75%. Deka Investmentgesellschaft GmbH has declared it holds 8.25% of the ordinary shares, while further substantial parcels are attributable to Baden-Württembergische Investmentgesellschaft mbH (7.43%) and BayernInvest Kapitalanlagegesellschaft mbH (6.37%). The rest of the ordinary shares are widely scattered via the stock exchange. The preference shares of Biotest AG are held entirely in free float.

Based on the XETRA closing prices, the market capitalisation of Biotest AG amounted to €283.1 million at the end of the year, which represents an increase of approximately 12.9% on the previous year (€250.7 million). Market capitalisation of the preference shares held amounted to €103.5 million (previous year: €104.1 million).

Active investor and creditor relations

In financial year 2006, Biotest maintained a constant and active dialogue with investors and creditors. The Board of Management provided regular updates on the company's business position and earnings and financial situation to portfolio managers, analysts and representatives of the company's creditor banks. It also presented the company and its financial and strategic development at roadshows in Frankfurt, Düsseldorf, Cologne, Munich, Zürich, Basel and London and in numerous individual discussions with institutional investors.

We explained the 2005 annual financial statements to a large audience at the Press and Analysts' Conference and the figures for the third quarter were presented at the DVFA's Small & MidCap Conference in Frankfurt/Main. On both occasions, detailed information on corporate strategy and its implementation was also provided. Just 38 days after the balance sheet date, Biotest published a press release containing detailed information on the course of business and on progress in its research and development projects in the Biotherapeutic segment.

The interim reports following the first, second and third quarters appeared on average 44 days after the respective balance sheet date and the 2005 Annual Report including the consolidated annual financial statements was published electronically 76 days after the reporting date. As a result, Biotest has, without exception, complied with the deadlines for publishing financial information stipulated by the German Corporate Governance Code (the "Code").

We have reported on current events of major significance for the company's development and valuation in the course of the financial year without delay in the form of ad hoc reports or press releases. All our announcements and publications are available for download from the "Investor Relations" section of our company's website (www.biotest.de). Following comprehensive restructuring, the new site went online at the end of December 2006.

We published the consolidated financial statements for 2006 together with the Group Annual Report on 16 March 2007, which is 75 days after the balance sheet date and consequently, were once again ahead of the date specified by the Code.

Data and key figures for Biotest shares

€	2006	2005	2004
Dividend per ordinary share [1]	0.24	0.12	0.11
Dividend per preference share [1]	0.30	0.18	0.11
Earnings per share	1.48	1.13	0.57
Additional dividend rights preference shares	0.06	0.06	0.11
Earnings per preference share	1.54	1.19	0.68
Cash flow [2] per share	4.40	3.78	4.04
Ordinary shares			
Opening price XETRA	24.65	12.21	7.16
High XETRA	39.40	30.40	13.85
Low XETRA	24.00	11.78	7.16
Closing price XETRA	29.96	24.45	12.10
Preference shares			
Opening price XETRA	22.45	9.46	4.82
High XETRA	30.10	26.00	11.45
Low XETRA	19.61	9.17	5.03
Closing price XETRA	22.17	22.30	9.58
Market capitalisation at year-end (€ million)	283.09	250.66	86.72
of which: Ordinary shares	179.63	146.59	48.40
of which: Preference shares	103.46	104.07	38.32

[1] Value for 2006: proposal

[2] Operative cash flow before changes in working capital

Internationalisation – expanding our base

Europe and the USA are the most attractive global markets for plasma proteins and diagnostic products. By marketing more of our products in these markets, we are diversifying our business and increasing our sales potential.

Internationalisation

A quality supplier with international ambitions

Biotest supplies plasma proteins to more than 52 countries worldwide. Our strategy is aimed at developing the European core markets still further and obtaining FDA approval to enable us to compete in the highly attractive US market.

In addition to outstanding product quality, key to the international success of Biotest plasma proteins is the establishment of appropriate sales structures. These form the interface over which Biotest maintains constant close contact with all its major customer groups.

We have subsidiaries in eight European countries, where they handle the sales side. Our planned entry into the US market is also being organised through our subsidiary there. In all other markets, Biotest cooperates with distribution partners, some of whom have been our close business associates for decades.

Consequently, Biotest is in constant direct or indirect contact with the major customers for plasma proteins and these include haematologists, oncologists and neurologists, as well as hospitals, clinics and pharmacies. The pleasing results of this highly-developed customer service organisation is demonstrated by Austria, where Biotest supplies approximately 25% of the Austrian demand for immunoglobulins (IGG) via Biotest Austria. The most recent example of a successful new market entry are the achievements recorded by Intratect® in the UK, where in a few short months, Biotest has achieved a market share of around 6% as a new supplier.

The pharmaceutical products manufactured by Biotest in Dreieich are supplied to 52 countries across the world. In light of the high global demand, Biotest has begun to further expand capacities.

Plasma protein production at Biotest complies with the strictest safety and hygiene standards. This is the requirement for manufacturing high quality preparations.

The cumulative market share in all core markets currently stands at more than 15%. This is a position which Biotest intends to extend still further in the coming years. The most important step towards this is obtaining approval for its plasma proteins in additional European markets. Within the European Union, we are using the Mutual Recognition Procedure, which represents mutual recognition of national approval by member states. We have already obtained European approval for two immunoglobulins, Intratect® and Hepatect® this way and the approval procedure for coagulation preparations, Haemoctin® (factor VIII) and the newly developed Haemonine® (factor IX), is to be instigated in the near future.

The approval which we aim to achieve in 2011 for selected immunoglobulins in the USA will open up a new dimension in Biotest's plasma protein business. With annual consumption currently totalling around 35 tonnes, the USA is by far the most important market for immunoglobulins in the world today. The stringent approval criteria of the FDA limit the group of potential suppliers to companies responding to the highest qualitative demands. As a result, the price per gram which can be achieved in the US is markedly above its European equivalent.

With the approval granted to diagnostic products, Biotest already has extensive experience with the procedure and the associated complexities and demands in terms of documentation and quality management.

Group management report

The financial year in review

2006 has been a very successful year for the Biotest Group. At €281.9 million, sales were 18.7% above the level for the previous year. Despite a considerable increase in R&D expenses, operating profit (EBIT) rose faster than sales by 24.1% to €31.4 million.

In its plasma protein business, in particular, Biotest expanded its position in all core markets and also opened up new sales markets for immunoglobulins.

In the Diagnostic segment, hygiene monitoring business continued to develop well. However, sales were down for transfusion, transplantation and infection diagnostics. In the context of the strategic refocusing introduced in financial year 2006, we intend to concentrate our diagnostic activities on attractive growth markets.

Biotest's core research and development projects in the Biopharmaceutical segment progressed well. After it was granted approval by the authorities at the end of 2006, we commenced clinical development of monoclonal antibody BT-061 at the beginning of 2007.

Biotest concluded a new syndicated loan agreement, which provides finance at significantly more favourable terms.

About Biotest

Biotest is a pharmaceutical, biotherapeutical and diagnostic group active in research and production, specialising in haematological, immunological and microbiological applications. The company develops, produces and markets immunoglobulins, coagulation factors and albumins. Another area of activity is the development, production and marketing of diagnostic products, such as reagents and systems which find their application in blood transfusions, as well as microbiological tests relating to hygiene monitoring in the pharmaceutical and food industries.

A third area of Biotest operations is the clinical development of monoclonal antibodies, used in the treatment of rheumatoid arthritis conditions and leukaemia.

Corporate structure

Biotest AG is a joint stock company constituted under German law. Its shares are listed on the Prime Standard of the Frankfurt stock exchange, as well as other regional stock exchanges. With a 50.03% stake, the Dr. Schleussner family is the majority shareholder in Biotest AG. The company's registered office has been located in Dreieich since 1 August 2006.

Business segments

Biotest's activities are divided into three operating segments. These comprise the Pharmaceutical (plasma protein business), Diagnostic and Biotherapeutic segments, the latter currently being active only in research and development. The overall Group management costs as well as non-attributable costs are included in the fourth segment, Corporate.

Pharmaceutical segment

This segment is engaged in research, development and production of drugs derived from single human blood plasma proteins (plasma proteins). Plasma proteins are used to treat hereditary diseases such as haemophilia (coagulation deficiency) and immune system disorders. Another area of application is accident and emergency medicine.

The product licences and manufacturing facilities are owned by Biotest Pharma GmbH, a wholly-owned subsidiary of Biotest AG. Biotest Pharma GmbH grants Biotest AG licences to all products under the terms of licence agreements and Biotest AG uses all the production facilities under the terms of a lease agreement model. Biotest AG produces and markets the plasma proteins, while research and development is carried out by Biotest AG as a service provided to Biotest Pharma GmbH.

Plasma is obtained by subsidiaries Plasma Service Europe GmbH and Plasmadienst Tirol GmbH. As of the reporting date of 31 December 2006, the companies were operating four donor centres in Germany and one in Austria.

Biotherapeutic segment

The Biotherapeutic segment encompasses the development of all biotechnologically-produced active ingredients based on monoclonal antibodies (mAb). These are used primarily for the development of products to treat rheumatoid arthritis and psoriasis (BT-061), multiple myeloma (BT-062) and Systemic Lupus Erythematosus [SLE] (BT-063).

Diagnostic segment

The Diagnostic segment comprises immunological diagnostics (referred to as "immunology" from here onwards) and microbiology.

Immunology incorporates reagents and systems for transfusion, infection and transplantation diagnostics. The primary focus is on transfusion diagnostics, for which Biotest develops, produces and markets reagents and devices for the typing of red blood cells.

The focus of the microbiological area is the development and production of tests and systems used in hygiene monitoring, in testing for sterile conditions and for specific bacteria.

In the main, diagnostic business is handled directly by Biotest AG, with the exception of development, production and marketing of systems for cleanroom and surface hygiene monitoring. Most of these are incorporated within Heipha Dr. Müller GmbH, a company in which Biotest AG has a 51% stake and which is fully consolidated within the Diagnostic segment.

Principal locations

Most of the Biotest Group international staff complement of approximately 1,247 employees (31.12.2006) are based at the Dreieich headquarters near Frankfurt/Main. Biotest also operates facilities and subsidiaries in Germany and in ten further countries in Europe, the USA and Asia, the majority of which are sales units and plasmapheresis centres.

Heipha Dr. Müller GmbH is registered and headquartered at Eppelheim near Heidelberg, Germany.

Corporate management and supervision

The management and supervision of the company are carried out in accordance with the dual principle of Board of Management and Supervisory Board, which is mandatory under German law.

According to the company's Articles of Association, the Board of Management may consist of one or more persons. It cooperates closely with the Supervisory Board, which regularly advises and monitors the Board of Management in terms of its management of the company.

The Board of Management currently comprises two members. Board member contracts run for a period of five years. The contract of Professor Dr. Gregor Schulz (Chairman) runs until 2008 and that of Dr. Michael Ramroth (CFO) until 2011. There is no provision for premature termination, except in the usual circumstances, such as dereliction of duties or infringement of the terms and conditions stipulated in the event of a change of control (see page 67). Beyond the contingencies indicated in the terms and conditions, the Board of Management contracts do not provide for any settlements.

The Supervisory Board comprises six members, four of whom are appointed by the Annual Shareholders' Meeting and two are employee representatives. To increase its efficiency, the Supervisory Board has formed two committees: the Presiding Committee, which deals with such issues as appointments to the Board of Management and their remuneration and the Audit Committee, which carries out a preliminary review of the financial statements and appoints the external auditors of the annual financial statements and Group accounts and monitors their independence.

The remuneration of the Board of Management consists of three elements: fixed remuneration, variable components based on company and personal performance, and a component with a long-term incentive effect and risk elements. Fixed salaries are determined for the term of the employment contract and are payable in 13 monthly instalments. The operating profit, ROCE and individual targets are appropriately weighted and used to calculate the target achievement for the performance-related remuneration. Individual targets are agreed between the members of the Board of Management and the Chairman of the Supervisory Board. Other benefits in kind include a company car and individual plans under the Biotest AG pension scheme.

The component with a long-term incentive effect is defined in the Long Term Incentive Programme (LTIP), in which numerous other senior managers participate along with the members of the Board of Management. The terms of the LTIP are described in detail in the notes (page 87). Members of the Board of Management are insured under the collective accident insurance of Biotest and are also granted a sum towards social security contributions and direct insurance. In addition, members are covered by the existing material damage liability group insurance (D&O insurance with personal excess), which Biotest has concluded for senior management members.

In principle, former members of the Board of Management shall receive such pensions as have been contractually agreed.

Key products and processes

Pharmaceutical segment

Products

Biotest obtains proteins from human blood plasma, which can be broken down into three groups: immunoglobulins, coagulation factors and albumins.

Immunoglobulins

Immunoglobulins are produced by the immune system as specific antibodies used to combat antigens. Intravenously administered immunoglobulins (IVIG) can be used to treat a variety of conditions.

Biotest produces and markets the following immunoglobulins:

- Intraglobin/Intratect®: a polyvalent immunoglobulin used in substitution therapy to treat antibody deficiency, primary immunodeficiency syndromes or secondary immunodeficiency caused by chronic lymphatic leukaemia. Further indications are the treatment of children born with inherited AIDS and other autoimmune diseases.
- Pentaglobin®: an IgM-enriched immunoglobulin used to treat severe bacterial infections.
- Varitect®: a specific immunoglobulin used in the prophylactic treatment of herpes zoster virus infections (shingles), to treat immune system deficiencies and neonatal and premature babies.
- Cytotect®/Biotest/Megalotect®: used in the prevention of cytomegaloviral infections (herpes virus).
- Hepatect®: used to prevent hepatitis B, for example, following liver transplants.

Coagulation factors

Coagulation factors used to treat haemophilia are used both prophylactically and to stop acute bleeding. A distinction is made between type A haemophilia (coagulation VIII deficiency) and the less frequent type B haemophilia (coagulation factor IX deficiency). Some patients develop immune reactions against coagulation factors (inhibitors), necessitating the temporary administration of higher doses of the factor.

Biotest produces and markets Haemoctin® (coagulation factor VIII) for the treatment of type A haemophilia. A preparation for the treatment of type B haemophilia is sold under licence under the name Faktor IX SDN Biotest®.

Albumins

Albumin is produced by the liver and is used to restore the volume balance in the event of a loss of plasma protein, for example, as a result of surgery or burns. Albumin preparations are administered in accident and emergency medicine. Biotest produces and markets Human Albumin Biotest® and Biseko®, a plasma protein solution.

Processes

Biotest covers the entire value added chain in plasma protein business. The raw plasma required is taken from voluntary donors, who are subject to stringent health checks. It is either obtained from conventional blood donations or by means of plasmapheresis, where only the plasma is taken from the blood and the remaining cellular elements are reinfused directly to the donor. The donor centres operated by Biotest supply around 30% of the entire volume of plasma processed.

In plasma fractionation, specific proteins are extracted from the raw material after a mandatory storage period of 60 days and exhaustive prior testing. Separation is carried out after ethanol precipitation by means of centrifuge or special filters (filter aid procedure). The filtration method delivers both a higher level of purity and an improved raw material usage rate, which is why Biotest is gradually converting production to the process.

After fractionation, the substance is subjected to precision cleaning processes, including chromatography. The individual production stages incorporate several viral reduction and/or deactivation processes. The complete production process, which is subject to the most stringent standards of safety and purity, is constantly monitored by Biotest in accordance with the valid regulations and documented for the competent authorities.

Plasma proteins are sold directly by Biotest AG or one of its subsidiaries or associates responsible for sales in the other countries. All sales activities are initiated and coordinated by Biotest.

In addition to marketing medical products under its own brand names, Biotest also manufactures plasma proteins for other companies and national institutions through toll manufacturing agreements. Here, partners supply plasma to Dreieich and receive the medical preparations obtained from processing in return.

Research and development

The research and development for pharmaceutical products is carried out during the pre-clinical research, clinical research and drug approval stages. Pre-clinical testing includes technical laboratory analysis of the composition, formulation and stability of a product, as well as toxicity and efficacy in animal models. There are three phases of clinical trials for which Biotest works in conjunction with several Contract Research Organisations (CROs).

Projects are primarily aimed at developing treatments for new indications and forms of application. Future clinical trials are set to focus on launching plasma proteins in the US market. The sections on “Strategy” and “Research and Development” give more information on this.

Biotherapeutic segment

The primary focus of the Biotherapeutic segment is the development of BT-061, BT-062 and BT-063 monoclonal antibodies. Biotest AG continues research and pre-clinical and clinical development activities for core indications up to and throughout Phase II. From Phase III onwards, Biotest seeks partnerships with other research companies.

To accelerate project completion, at various stages, Biotest works with partners in a variety of sectors, whose activities are controlled and monitored by Biotest AG.

Cooperative agreements exist, in particular for:

- Research into new therapeutic principles and indications. In this area, Biotest works with universities and university hospitals, as well as with other pharmaceutical companies. An example of this is the joint research programme carried out with Boehringer Ingelheim, where the effectiveness of BT-061 is tested in pre-clinical asthma models.
- The establishment of biotechnological production systems and manufacturing processes.
- Production of the required test material, for which Biotest operates toll manufacturing agreements.
- Pre-clinical development, which is carried out in conjunction with working groups with accredited specialisation from the academic world and with Contract Research Organisations. As in the Pharmaceutical segment, clinical development is also carried out together with CROs.

Diagnostic segment

Products

In the Diagnostic segment, which concentrates on immunology and microbiology, Biotest produces and markets reagents and devices used for blood group typing and in hygiene monitoring systems for air, surface and manufacturing processes. Beyond this, the product spectrum includes reagents and systems which find their application in transplantation and infection diagnostics.

In the immunology sector, Biotest supplies a broad range of reagents and test sets for blood group analysis. The core product is the TANGO® optimo system, which offers hospital haematology laboratories, medical practitioners and blood banks fully-automated blood group typing. Biotest markets the equipment complete with the associated reagents and software. Reagents for manual blood group diagnostics complete the range. Biotest also offers an extensive programme of test systems and reagents for tissue typing and microbiological laboratory diagnosis for the transplantation and infection diagnostics market.

The microbiology product programme includes air samplers, particle counters and a wide range of solid (contact media and sedimentation plates) and liquid culture media (in bags, bottles and containers) as well as special media for microbe identification. These products are used, in particular, by the pharmaceutical industry to check for possible microbial contamination (bacterial and fungal), although the cosmetic and food industries are of increasing interest as potential areas of application.

Every Biotest diagnostic product is CE certified for conformity with European standards. Our culture media are manufactured under controlled cleanroom conditions according to the principles of Good Manufacturing Practice (GMP).

Processes

The production of reagents and culture media is primarily carried out at the Dreieich sites (Biotest HYCON) and in Heidelberg (Heipha Dr. Müller GmbH). The associated devices are manufactured by the US subsidiary or by associate partners to our specification.

As with the Pharmaceutical segment, products are sold either by Biotest AG, its subsidiaries or partner associates.

In Germany, Biotest markets reagents for the immunohaematology sector and serological blood typing systems to hospitals, clinics, laboratory installations and blood banks. The company operates its own service unit to ensure that a contact is available at all times in the event of any problems experienced with the systems.

The variety of specific applications of microbiology products makes expert advice essential. Consequently, the company has specialist teams to advise customers in most of Europe, the USA and Japan.

Overview of the regulatory environment

As a research and production company in the pharmaceutical and diagnostic sector, Biotest operates in markets which are particularly highly regulated. Every step of production and marketing is subject to a very high level of legal regulations and generally accepted standards. No product can be marketed without approval from national approval authorities. Drugs require extensive pre-clinical and clinical trials as well as other tests and trials before they can be marketed, and all of these processes must be extensively documented.

Pharmaceuticals and biotherapeutics

In Germany, the central authority for the approval of plasma protein-based drugs is the Paul Ehrlich Institute (PEI), and the production facilities of Biotest are subject to mandatory approval from the regional board based in Darmstadt. In Europe, monoclonal antibodies are approved by a centralised procedure carried out by the EMEA in conjunction with the relevant competent national authorities.

In the EU member states, drug approval is carried out either according to the centralised approval procedure governed by the EMEA and the European Commission, or in line with the decentralised mutual recognition (MR) procedure. According to the MR procedure, the applicant can initially seek approval from the competent national authority, and then apply to other member states for approval on the basis of the national approval obtained.

In the USA, drugs are subject to the provisions of the Food and Drug Administration (FDA). Along with other prescriptive laws and regulations, the US Food, Drug and Cosmetics Act (FDCA) regulates the entire manufacturing process for pharmaceutical products from the research process right through to marketing.

In Europe as well as in the USA, clinical trials to support approval applications for new drugs are generally carried out in three consecutive stages, Phases, I to III. Phase IV trials are generally intended for completion after approval has been granted to market the drug. For pre-clinical and clinical research, as well as for the approval process, Biotest procedure follows the guidelines of the International Conference on Harmonisation of Technical

Requirements for Registration of Pharmaceuticals for Human Use (ICH), a joint project of the European, Japanese and US approval authorities, in which representatives of the pharmaceuticals industry also participate. The aim of the ICH is to simplify drug development and approval by harmonising the procedures involved.

Diagnostics

In Germany, in-vitro diagnostics must comply with the provisions of the Medical Products Act (Medizinproduktegesetz), which realises the requirements of the pan-European IVD directive in German law. CE certification is mandatory for all products and the prerequisite for this is a quality management system which complies with the provisions of the relevant international standards.

The FDA is the approval authority in the USA.

Key markets

The relevant markets for Biotest's Pharmaceutical business comprise the sales markets for immunoglobulins, coagulation factors and albumin. Relevant to toll manufacturing business is the supply and demand of fractionation capacities. In the case of the market for plasma collection, the number of collection stations, in particular, has a significant impact on the raw material costs incurred by Biotest in the Pharmaceutical segment.

In the Diagnostic segment, the transfusion and transplantation diagnostic markets are decisive, as well as hygiene monitoring microbiological disclosure products.

Biotest product sales are divided by region: Germany, the Rest of Europe, North and South America (America), Asia and the Rest of the World. Sales are subsequently reported by region.

Plasma proteins

As a rule, plasma protein treatment is life-critical to patients. In this respect, the demand is not contingent on the overall development of the economy. However, there is an indirect correlation in the fact that the budget of state-financed health systems is significantly affected by the national economy or by macro-economic developments.

In principle, a public health system tends to improve in tandem with the increasing affluence of a society, although there may be a degree of time delay before the effects become evident. In particular, in the treatment of haemophiliac patients, this can generate growth potential. According to a survey carried out by the World Federation of Haemophilia (WFH), only around 25% of all haemophiliacs are receiving appropriate treatment.

In the UK and the USA in particular, biotechnologically produced (recombinant) factors are in increasing use. The reason for this is the fear of viral infections caused by contaminated plasma.

With a global share of the plasma proteins market totaling 3.7%, Biotest is among the smaller suppliers. The market is dominated by three major companies, which account for around 70% of the global sales volume.

In the regions relevant to Biotest (Europe, the Middle East and Africa), our cumulative market share is approximately 9%, although it is markedly above this in some individual markets.

Diagnostic products

The Diagnostic segment is also dominated by the influence of sector-specific factors. In transfusion and transplantation diagnostics, the market environment is determined in the first instance by whether or not a public health system is in a position to reimburse the costs.

The microbiology sector and its main customer, the pharmaceutical industry, are contingent on the economic development of the sector. The increasing cost pressure on the pharmaceutical industry coupled with the escalating stringency of legal prescriptions and regulations governing the pharmaceutical and food industries are determining future market development.

We estimate the global market volume for transfusion diagnostics products to be in excess of €500 million. Almost 50% of this is attributable to hospitals, around 30% to blood banks and approximately 20% to medical laboratories. The US market is the largest of the regional markets, followed by Europe.

The global market for industrial microbiology products includes a number of different industries and is estimated to be worth €1,100 million, with annual growth of between 4% and 6%. The largest sub-segment is the food industry with around 50%, followed by the pharmaceutical industry.

In Germany, Heipha Dr. Müller GmbH is the leading supplier of specialised solutions for the pharmaceutical sector. Due to the previous concentration on domestic business, market shares in the rest of Europe are still currently insignificant.

Biotherapeutics

The decisive factors in any assessment of Biotest's mAb markets include not only the rate of patient prevalence and medical demand for the particular indication concerned, but also the availability of alternative treatments.

Between 0.5% and 1% of the global population suffer from rheumatoid arthritis (RA). According to recent estimates published by Nature Reviews/Drug Discovery magazine, by 2008, the RA market is likely to be worth a total volume of USD 10.5 billion, of which in excess of 86% will be attributable to biotechnologically produced agents.

Anti-TNF treatments are currently finding the most widespread use. In simple terms, these suppress a part of the immune system and consequently inhibit the damage it causes to the body's own cells.

However, the treatment has no effect on 25% of patients and between 60% and 80% present no fundamental clinical improvement in their condition (ACR 70). In nine out of ten patients, no lasting remission occurs.

With its specific therapeutic mechanism, which modifies instead of suppressing the immune system, BT-061 – which is intended for RA treatment – is clearly different from products currently on the market or in development. Pending further successful clinical development, at this phase, it is realistic to assume that Biotest will be able to achieve a significant share of the market.

A comparable picture emerges for the treatment of psoriasis. The global market volume for 2013 is estimated to be worth in the region of USD 3.3 billion and here also, BT-061 is clearly distinguishable from all agents currently available or in development.

Up to now, multiple myeloma, a bone marrow cancer, remains incurable, with 95% of patients dying within ten years of diagnosis. According to the American Society of Haematology, in 2005 five to six in every 100,000 people were affected by the disease, representing around 144,000 potential patients in the core markets of USA, Europe and Japan alone. According to the specialist magazine, Nature, the global market volume for multiple myeloma treatment is likely to be worth in the region of USD 1.2 billion by 2011, of which USD 0.5 billion is likely to be accounted for by biotechnologically produced agents.

In pre-clinical trials, BT-062, in combination with the TAP technology of our partner, ImmunoGen, has proved itself highly effective against myeloma cancer cells. In our opinion, the combined action of precision targeting malignant cells with antibodies and the extremely effective destruction by the attached cytotoxic agent is a very promising approach to treatment. Distinguished oncologists have confirmed on a number of occasions that this approach is potentially far superior to all known multiple myeloma treatments in development.

We estimate the global market for SLE treatments, the core indication for BT-063, to be in the region of more than USD 2.0 billion in 2012.

Strategy: value-oriented growth

The Biotest strategy is directed at expanding the Group's position as a global specialist for innovative immunology and haematology. We provide resources for research and development in order to develop new markets at home and abroad for our innovative, superior quality products. The regional expansion of business is accompanied by investment in the development and further expansion of a corresponding sales organisation.

All the Biotest fields of activity are characterised by a strong ethical element. Our products are used in critical clinical areas and in many cases, they are directly responsible for saving lives. Consequently, the quality of the products and the production, research and development processes, as well as the sales organisation, and indeed every aspect of the company must respond to the most exacting demands. This impacts on the way in which production is structured as much as on the selection, basic qualifications and further training of our employees.

Plasma proteins: expansion in core growth markets

Biotest gives priority to achieving long-term sustainable and profitable growth in its core business areas. In the first instance, this means markets with the most demanding product quality and safety requirements, as well as the service associated with these requirements. We will be expanding our market position further according to our guiding principle "profitability before revenue". In the case of immunoglobulins, our expansion efforts are directed in the first instance at the European and US markets, while for coagulation factors, we are concentrating on Europe and selected emerging markets. In future, sales of albumin will continue to focus on tender business to a not inconsiderable extent.

As a result of comprehensive investment in plasma protein production, Biotest has one of the most modern production plants in the world. The fractionation unit has been structured to cover future growth and the capacities for further purification stages can be expanded according to the demand. By investing in state-of-the-art manufacturing processes, we aim to increase the efficiency and safety of production still further.

For plasma proteins, we are also seeking approval for our products in all the major European markets. Beyond this, Biotest also intends to market plasma proteins in the USA. Intratect® and Humanalbumin will constitute the first products for which Biotest will seek approval from the FDA in the USA.

Development of new areas of indication and application for plasma proteins

The principle focus of innovation in the pharmaceutical segment is research into new indications for immunglobulins such as Intratect® and Cytotect® (e.g. fibromyalgia or prophylactic treatments for connatal infections). Administration of immunoglobulins is generally intravenous (IV) or intramuscular (IM). Biotest is advancing the clinical development of subcutaneous (SC) forms of administration, starting with Hepatect®.

Product portfolio additions

To complete the product portfolio, Biotest will be developing its own preparations to replace some of those previously marketed under licence. These include coagulation factor IX (Haemonine®), for which we are anticipating approval in financial year 2008.

Ensuring a constant supply of human plasma

We intend to obtain a large proportion of the plasma needed through our own plasma centres on a permanent basis. This will ensure both the ongoing high quality of the raw material and will make us independent of global market price volatility.

Further development of business through toll manufacturing

Toll manufacturing is an integral element of our core business, enabling us to make optimum use of our production capacities. Biotest will consequently expand its use of this arrangement and in this respect, we have set our sights on other markets, including Asia.

Supplementary tender business

In recent years, because of its stronger presence with premium products in the higher priced markets, Biotest has reduced the level of its tender business sales. The background to this is that the volume of sales by tender is more difficult to forecast and that on average, the achievable price is lower than in other distribution channels. Currently, tenders are only supplied at acceptable prices and where adequate production capacity is available.

New focus for Diagnostics

The Diagnostic segment has been restructured as a result of the strategic refocusing launched in the financial year under review and will be concentrating on the immunology and microbiology product sectors in future.

In regional terms, we are also concentrating our activities on markets which are subject to stringent approval criteria (Europe, the USA, Canada, Japan) and on products with the most demanding quality requirements. The particular focus here is on the North American market: in Canada, our reagents and systems have been approved since 2006. Approval was granted for our TANGO® fully-automated blood typing system and the associated reagents in 2005. Once approval has been granted for all its manual reagents, which is anticipated at the end of 2007, Biotest intends to operate as a full service provider in the USA. We shall be restructuring our sales organisations there and embarking on a major expansion programme (for more information on this, see “Business situation”), which will enable us to offer system solutions for transfusion diagnostics, in particular, to the smaller and medium-sized hospitals.

In the microbiology product segment, we are aiming to expand our market position in the USA, Germany, France, the UK, Italy, Japan, Austria, Switzerland, Benelux and Spain. These are markets in which we shall be markedly gearing up our sales efforts.

Beyond this, alongside the pharmaceutical industry, our intention is to win over more customers from the food and cosmetics industries, where we anticipate a significant rise in the demand for corresponding products in the coming years. Our core target group comprises the major multinational groups.

We shall also be intensifying our efforts to advance research and development into new and innovative technologies in the industrial microbiology segment.

Development of monoclonal antibodies

In the Biotherapeutic segment the focus remains on value-oriented continued development of monoclonal antibodies. In the context of major sales and profit potential, we shall initially be concentrating on indications with a high patient prevalence and/or particularly high demand for treatment. Biotest intends to progress the mAb development up to and including clinical Phase II for its own account. However, from the cost-intensive clinical Phase III onwards, our intention is to advance development in cooperation with partners in the pharmaceutical or biotech sectors. Our aim is not to fully out-license products, but to grant licences for certain markets outside Europe only. The anticipated upfront and milestone payments from development partners are intended to cover our share of the costs incurred from Phase lll onwards.

Cooperations

We shall also be implementing our growth strategy through cooperations with partner companies. These cooperations extend all the way down the entire value-added chain. The principle areas of cooperation will be research and development, particularly for mAb projects, the production of plasma proteins using toll manufacturing agreements, the addition of licensed products to the range and sales.

Value-oriented corporate management

The management of Biotest is determined by financial, as well as non-financial factors, each of which impacts differently on the value of the company. These factors also influence each other mutually and are inter-related through the cause and effect mechanism.

The financial and non-financial performance indicators are the subject of regular reports. In the financial year under review, we increased the scope of available data on the non-financial performance indicators relating to production, in particular, to enable us to identify any potential off-target developments at an even earlier stage and as a consequence initiate counteractive measures.

The development of numerous financial and non-financial performance indicators is described in the corresponding sections of the present management report. In cases where we have omitted to do so, this is primarily for competitive reasons.

Financial indicators

The financial statistics of the company referring to the Group as a whole, are return on capital employed, (RoCE) and at segment level, earnings before interest and tax (EBIT) and earnings before tax (EBT). Cash flow is also one of the main indicators of the company's finances.

In addition, we also carry out ongoing analysis of the costs of goods sold, the cost of sales and marketing and the cost of research and development, as well as the profit/sales ratio.

Non-financial indicators

The major non-financial performance indicators for the Group as a whole for production are the capacity utilisation of individual production areas, the production run and down-times as well as the level of stocks held along the entire production chain. In plasma protein production, we also monitor the yield per unit of plasma, as well as the level of supplies obtained from our own sources.

Where sales are concerned, the important indicators are the Biotest share of the market as a whole or the market segment concerned, the number of customers for each product (sales depth), the sales achieved per capita of sales personnel and the comparative figures (previous year, forecast).

Research and development projects are steered by means of milestone plans. Segment managers and the Board of Management are kept informed in regular project progress reports.

Market environment in financial year 2006

The global market situation for plasma proteins showed extremely positive growth in 2006. This applies to sales of immunoglobulins (IVIGs) in particular. In the USA, demand again increased sharply compared with the previous year, with the market price rising an average of 23% to USD 59 per unit, according to a survey carried out by Citigroup. The trend was supported by the increased use of immunoglobulins in the treatment of autoimmune diseases. The developmental trend in the USA, the largest immunoglobulin market in the world, can also be considered a good indicator for Europe.

Plasma-based coagulation factors have been able to assert themselves over recombinant products. In Germany, they continue to account for approximately 50% of the entire market. Plasma-based factors dominate the treatment of inhibitor patients.

The global market development of albumin was particularly positive. For the first time in years, demand was well in excess of the supply and this was reflected in rising prices on the global markets. Even in tender contract supplies, which have long been subject to virtually ruinous competition, the first price rises were evident.

Suppliers have already responded to these market developments and started to increase their production capacities. In the USA, the number of plasmapheresis stations had again risen to their 2003 level, with around 370 stations in operation at year-end. However, due to a further increase in demand, this did not give rise to any surplus supplies.

In Germany, Biotest's most important single market for plasma proteins, the market volume grew moderately and in line with our expectations. The German Pharmaceutical Drug Cost Regulation Act (Arzneimittelverordnungs-Wirtschaftlichkeitsgesetz, AVWG), which came into force in 2006 had no negative impact on our business. To the extent that our products are mainly sold through hospitals and as they are not subject to generic production, they are not in the product groups which the AVWG regulates with compulsory discounting or price decrees.

The difficulties in the European transfusion and transplantation diagnostic markets persisted in financial year 2006. The ongoing cost pressure in the public health sector and fierce competition between suppliers at a time of stagnating demand ensured that the achievable prices also stagnated. This applies in particular to the transplantation diagnostic market. The demand from major bone marrow donor databases dropped back further; however, it remained at the level of previous years in the organ transplantation segment.

To date, our expectation that the end of the transitional grace period relating to the IVD directive ban on marketing non CE-certified products within the EU would result in market consolidation, has not been fulfilled.

In the USA, the market environment for transfusion diagnostics remained very attractive in 2006. Only two other suppliers are active in the market along with Biotest and, as Biotest is not yet represented in the market with the full range of reagents for manual diagnostics, these competitors continue to virtually carve up the market between themselves. We are assuming that when FDA approval has been granted for our manual reagents, which is anticipated for 2007, we will be able to capture a significant share of the US market.

Biotest is marketing its hygiene monitoring products in a market environment which remains favourable. There are demanding regulatory requirements for hygiene monitoring and a need for members of the pharmaceutical industry to document this.

The EU regulation on microbiological criteria for foodstuffs (Regulation (EC) No. 2073/2005) which came into force in January 2006 introduced more stringent and harmonised standards of hygiene for the food and cosmetic industries within the European Union. We are of the opinion that the need to verify and record monitoring measures will further increase the demand for our products in this sector.

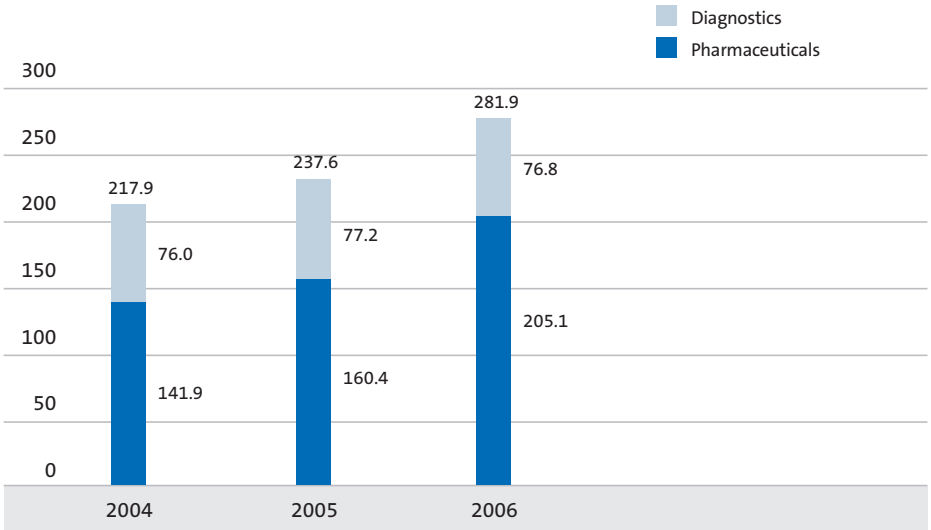
Business development

In financial year 2006, Biotest recorded sales totaling €281.9 million, representing an increase of 18.7% on the previous year (€237.6 million). In particular, growth is attributable to the sustained dynamic development in sales of plasma proteins and to the successful business in the area of microbiology (products manufactured by Heipha Dr. Müller GmbH). However, by contrast, sales in the transfusion and transplantation diagnostic segment were down on the previous year to a level below our expectations.

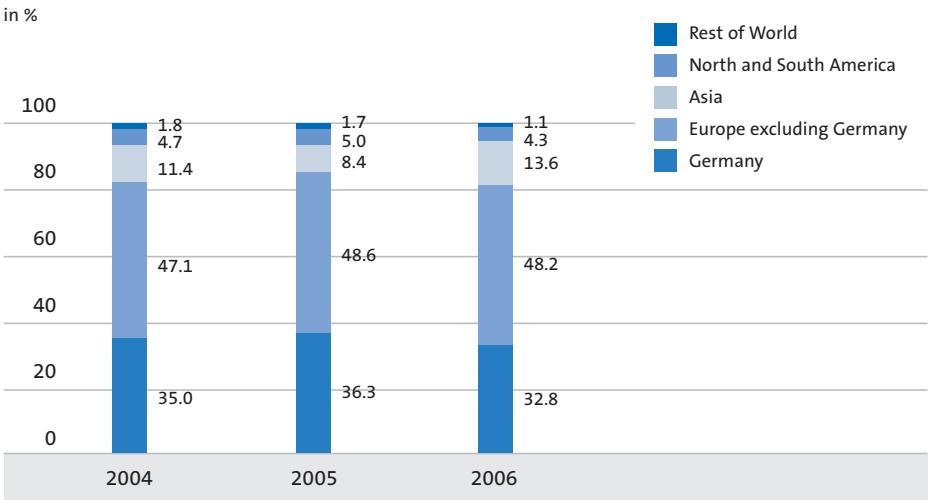
In the Pharmaceutical segment, Biotest sales amounted to €205.1 million, which constitutes a rise of 27.9% compared to the figure for 2005 (€160.4 million). The Diagnostic segment recorded cumulative sales totaling €76.8 million, down 0.4% year-on-year (€77.2 million).

Revenue by segment

€ million



Revenue by region



In the core markets of the Biotest Group, business development was pleasing overall. European sales excluding Germany recorded a level of €136.0 million, which is 17.7% above the previous year's level (€115.6 million). Growth was more moderate in Germany, with sales up 7.3% to €92.4 million (previous year: €86.1 million). However, this was in line with our expectations. In the Asian markets, sales rose by 90.8% to €38.2 million (previous year: €20.0 million). In the remaining markets (sales regions: North and South America and the Rest of the World), the cumulative total of Biotest sales amounted to €15.3 million, which is 3.8% lower than in the previous year (€15.9 million).

Pharmaceutical segment

In the Pharmaceutical segment, sales for almost all product groups and sales regions rose significantly. Growth can be attributed to increased sales and higher prices. Immunoglobulin business developed particularly well and in this connection, as in the previous year, the contribution made by the polyvalent immunoglobulin, Intratect®, is noteworthy.

In the major hospitals sales market, we have been able to achieve price increases in the year under review and have consequently been able to pass on any rises in the price of raw materials. In Germany, the market share of Intratect® was around 21.2% at the end of the year, which is 2.6 percentage points higher than 12 months previously. In the UK, Intratect® - which was only introduced in April 2006 - had already captured a market share of around 6% by the end of the year. Biotest was able to demonstrate its supply capability in the wake of the departure of a competitor from the field and the resultant sudden rise in demand; it has subsequently gained additional confidence in the market.

Sales of Intraglobin®, the predecessor product of Intratect®, also enjoyed a marked rise in the reporting year, and this applies in particular to Austria and several countries in southern Europe.

Also clearly above the level of the previous year were sales of hyperimmunoglobulins. Sales of Pentaglobin® were significantly up on the previous year, especially in Eastern and South East Europe.

The cumulative total for sales of immunoglobulins in the European core markets gave Biotest a total market share of around 15% by the end of 2006, which is approximately four percentage points up on the previous year.

With a 27.0% share of total sales, sales of coagulation factors were also up, representing the second largest product group in the Pharmaceutical segment. Growth was mainly attributable to the considerable expansion in business in Eastern Europe. Since the cost of prophylactic treatment for adult haemophiliacs has been paid for by the public health sector, Biotest has achieved significant sales growth in Russia. In the financial year under review, we sold less in this market than would have been possible in order to limit risks related to unsecured claims.

In Germany, the main sales market for coagulation factors, sales were below our expectations. This is principally because fewer inhibitor patients than anticipated received treatment.

With growth amounting to 89.8%, sales of albumin recorded particularly dynamic development. A major factor here is that in the past year, Biotest successfully competed for business in a number of tenders and has been awarded contracts to supply Iraq and Saudi Arabia. The higher global market prices for albumin currently make this business attractive again. Having deliberately held back in previous years, Biotest has now reduced stocks of albumin to a significant extent.

At €10.2 million, sales achieved through toll manufacturing fell below expectation. The reason for this were delays in establishing our BioDarou joint venture in Iran.

In May 2006, we began negotiations with the management of our long-term cooperation partner, Amsterdam-headquartered Sanquin, on the intensification of our cooperation. This relates particularly to research and development and beyond this, the Sanquin production plants have been incorporated in the approval dossiers for Biotest products, so that they can be used if the demand requires. The closer alliance which we had originally contemplated, whereby Biotest would have taken over Sanquin assets, was not realised.

Diagnostic segment

In transfusion and transplantation diagnostics, sales in all product groups and all sales regions were down on the previous year's figures. In transplantation diagnostics, this can be primarily explained by the sustained difficult market conditions.

In transfusion diagnostics, the considerable decline in USA sales, which remained below expectation, is having an effect. Our sales associate, Olympus America Inc., placed less TANGO® systems than had been scheduled. It became evident that hospitals and laboratories place a high value on procuring both automatic and manual diagnostic products from under one roof. We have consequently progressed preparations for approval, with the result that our approval applications were submitted in September 2006.

Beyond this, we have reorganised our sales structure in the USA and redefined our cooperation with Olympus. Since the beginning of 2007, Biotest has been servicing the hospital market in the USA through its own subsidiary, Biotest Diagnostics Corporation. Olympus is concentrating on sales to bloodbanks, an area where the company has long held a strong position.

European sales in the transfusion and transplantation sector were also lower than in the previous year.

Heipha Dr. Müller GmbH is still on course for further growth with its air and surface hygiene monitoring products. In Germany, Heipha is the market leader in the most important consumer group, the pharmaceutical industry. Of particular note is the positive development in other European countries outside Germany, albeit a slight absolute sales increase. Sales of reagents and hygiene monitoring equipment produced by Biotest AG (HYCON) remained at a similar level in the reporting year as in the previous twelve months. The unveiling of a new particle counter (APC), which is the fastest of its type in the world today, was very well received by the market.

Microbiology, i.e. Heipha and HYCON products, recorded sales totaling €30.2 million and accounted for approximately 39.4% of total Diagnostic business.

Biotherapeutic segment

The activities of the Biotherapeutic segment are described in detail under "Research and Development". Biotest does not currently generate sales in this segment.

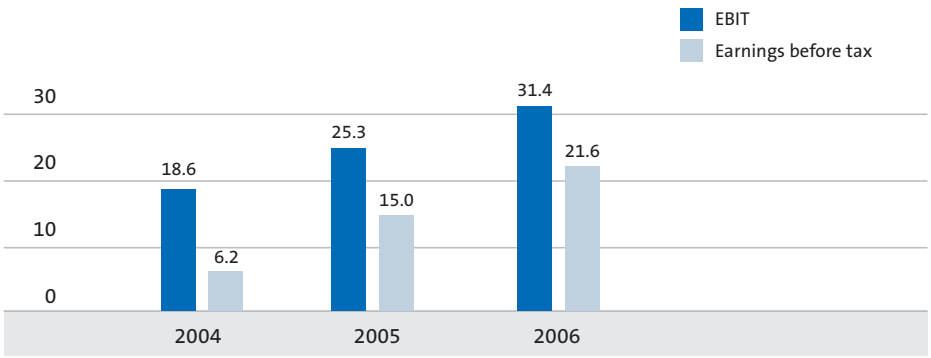
Earnings position

Growth in core business divisions with the highest margins was reflected by the further increase in earnings strength of the Biotest Group. Earnings before interest and tax (EBIT) rose to €31.4 million, which is 24.1% higher than in the previous year (€25.3 million). This extremely pleasing development means that we have clearly achieved our target of increasing EBIT by at least 10% in 2006.

The increased sales achieved by the Pharmaceutical segment also made by far the largest contribution to the improvement in EBIT, which rose 64.5% to €47.6 million (previous year: €28.9 million). In the Diagnostic segment, at €–0.6 million, EBIT was lower than in the previous year (€3.4 million). The considerable expansion of research and development activities in the Biotherapeutic segment resulted in expenditure of €9.8 million, and this impacted on EBIT for the segment, which amounted to €–9.9 million (previous year: €–3.7 million). Earnings before tax (EBT) amounted to €21.6 million, representing a rise of 43.9% on the previous year (€15.0 million). This figure includes non-recurring expenditure of €0.8 million, which is reflected in the financial results. The expenditure resulted from premature termination of the syndicated loan, which was replaced by a new loan agreement. The considerably more favourable terms of the new loan were only reflected in the financial result for a period of around two months in the year under review which, at €–9.5 million, nevertheless constituted an improvement on the 2005 result (€–10.0 million).

EBIT and earnings before tax

€ million

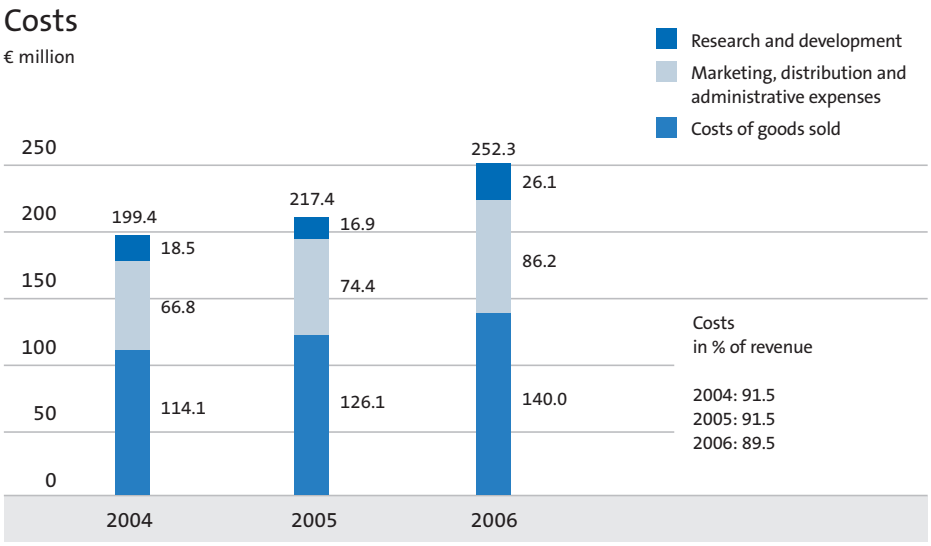


Income tax expense for the reporting year amounted to €4.3 million, which corresponds to a tax ratio of 19.7% (previous year: 25.3%). Trade tax losses carried forward at Biotest AG level have now been exhausted. The increase in the earnings of Biotest Pharma GmbH contributed towards the improved tax ratio, which was achieved by using the available losses carried forward.

At 11.1%, the return on sales in terms of EBIT was markedly above the previous year's figure of 10.6%. Return on capital employed (RoCE) amounted to 9.5%, following 8.0% in the previous year.

Expenses

The cost of goods sold is by far the most significant cost element in both business segments. At €140.0 million, these were considerably higher in financial year 2006 than in the previous year (€126.1 million). However, the rise of 11.0% was lower than the growth in sales, so that consequently, the ratio for the cost of goods sold improved from 53.1% to 49.6%. This development was most evident in the Pharmaceutical segment, where the ratio constituted 49.9% (previous year: 55.4%). Besides increased production efficiency, a decisive factor here was the improvement in the price situation.



Sales and marketing expenses rose by 15.3% to €63.3 million. This development reflects a number of factors, including the higher level of sales commission expenses.

In financial year 2006, administrative costs amounted to €22.9 million, a figure which is around 17.2% higher than in the previous year. This includes costs for consultancy services which we used, for instance, as part of the strategic refocusing project for the Diagnostic segment.

We have again significantly increased our investment in research and development, where expenses rose by 54.6% to €26.1 million. With an increase from €3.5 million to €9.8 million, the lion's share of the additional costs was invested in the Biotherapeutic segment, as planned.

Other operating income fell by 28.1% to €7.8 million (previous year: €10.9 million) The main reason for this was that in financial year 2006, other earnings with associated companies and exchange rate gains from operating activity were not as high in the previous year.

At €6.1 million, other operating income remained at virtually the previous year's level.

At €1.7 million, the balance of other operating income and expenses is therefore markedly lower than in the previous year (€5.1 million).

Capital expenditure, depreciation and amortisation

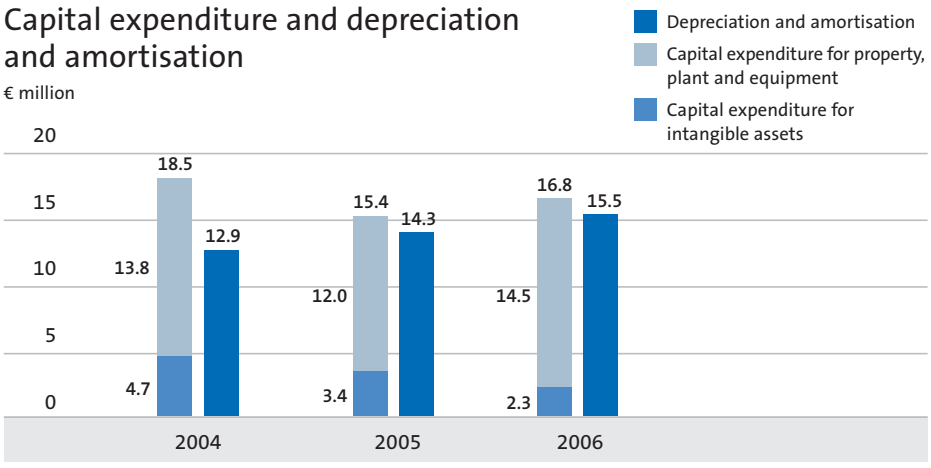
In the year under review, Biotest capital expenditure amounted to €16.8 million (previous year: €15.4 million). At €14.5 million, capital expenditure in property, plant and equipment accounted for 86.3% of the total, while Biotest invested €2.3 million in intangible assets.

Most of the capital expenditure went to expanding immunoglobulin production capacities, the GMP upgrade of the pharmaceutical production facilities and the building of a new freeze-drying facility for the production of coagulation preparations for the Pharmaceutical segment. Other investments related to establishing a plasmapheresis station in Merseburg near Halle/Germany, the new production facilities for the Diagnostic segment on which building work began and software licences acquired for the conversion of the company software to the SAP standard.

Capital expenditure was offset by depreciation and amortisation amounting to €15.5 million, for which the previous year's figure was €14.3 million. A number of factors are reflected in this, including the software conversion, since to a large extent, we have written off the licences to the previously used software, which will now only be of limited use.

Major projects underway or scheduled to commence in the immediate future will incur additional capital expenditure by the end of 2008. The GMP upgrade of the pharmaceutical production facilities will see additional funding of around €4.0 million in the period up until 2008. We anticipate investing another €7.2 million in expanding immunoglobulin capacities before production goes on stream in 2008. Between now and 2008, around €3.1 million will be invested in the new Diagnostic production facilities, on which building began in 2006. Further investments of €6.3 million have been earmarked for the process of conversion to SAP software, most of it in 2007 and 2008.

Capital expenditure and depreciation and amortisation



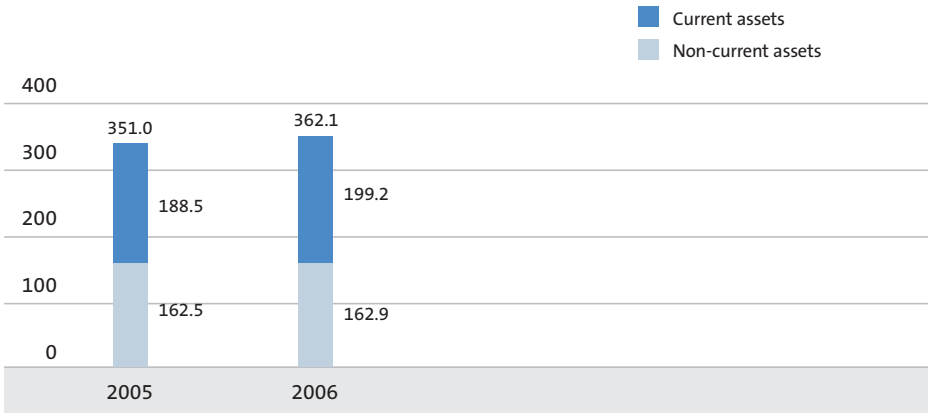
Financial position and statement of assets

The financial position and balance sheet assets of the Biotest Group have improved considerably in comparison to the previous year. This is mainly due to the improvement in operating cash flow and the repeated optimised loan conditions.

At €362.1 million as of 31.12.2006, balance sheet assets were around 3.1% higher than at the end of the previous year (€351.0 million). On the assets side, the extended balance sheet assets were attributable in the first instance to the 5.7% rise in current assets. A major contributing factor here is the higher volume of trade receivables, which rose 11.8%

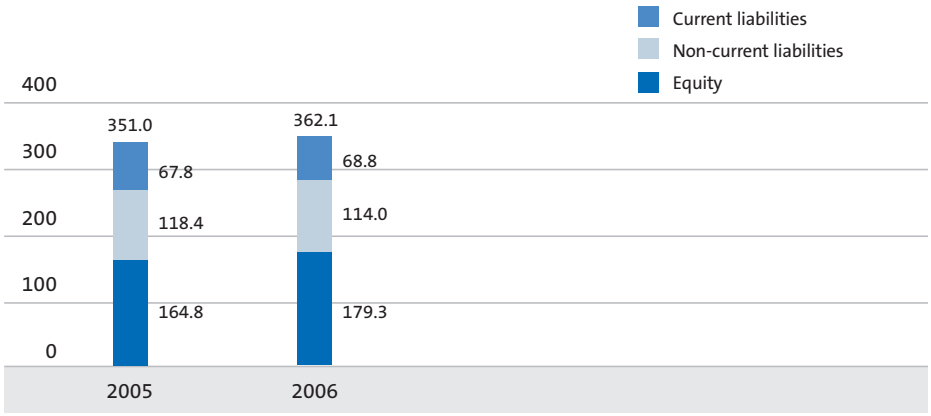
Structure of the balance sheet – Assets

€ million



Structure of the balance sheet – Equity and liabilities

€ million



to total €73.9 million (previous year: €66.1 million). The increased volume of business accounts for this growth. Conversely, inventories fell from €108.4 to €104.8 (–3.3%).

Cash and cash equivalents increased by €1.3 million to €8.9 million during the course of the financial year.

On the liabilities side, most of the extended balance sheet liabilities itemised are attributable to equity and provisions. At €179.3 million, equity was 8.8% up on the previous year (€164.8 million).

Provisions for pensions and similar obligations totaled €43.1 million, which is marginally above the figure for the 2005 year-end (€42.4 million). Biotest has changed the way in which pension provisions are reported in the 2006 financial statements. Instead of applying the previous corridor method the actuarial profit and loss calculation is now shown under equity with an income-neutral effect. For comparative purposes, the corresponding items have been adapted in the balance sheet for 2005. Consequently, the 2005 pension provisions were increased with retroactive effect by €6.5 million and reduced by €0.2 million in the accounts for financial year 2006.

As a result of the new syndicated loan agreement concluded in October 2006, the original short-term financial liabilities were replaced by long-term lending, which provided an additional €5.0 million. The new agreement offers Biotest considerably more favourable terms as regards interest and collateral.

The original loan fees spread over the entire term fell due in one instalment with premature redemption. The financial result for 2006 was therefore affected by a one-off payment of €0.8 million, a sum which could not be offset by the saving in interest payments in the last two months of 2006. However, as of next year, the new agreement will impact positively on the financial result.

At 49.5%, the equity ratio of the Biotest Group was up on the end of the previous year (47.0%).

Cash flow statement

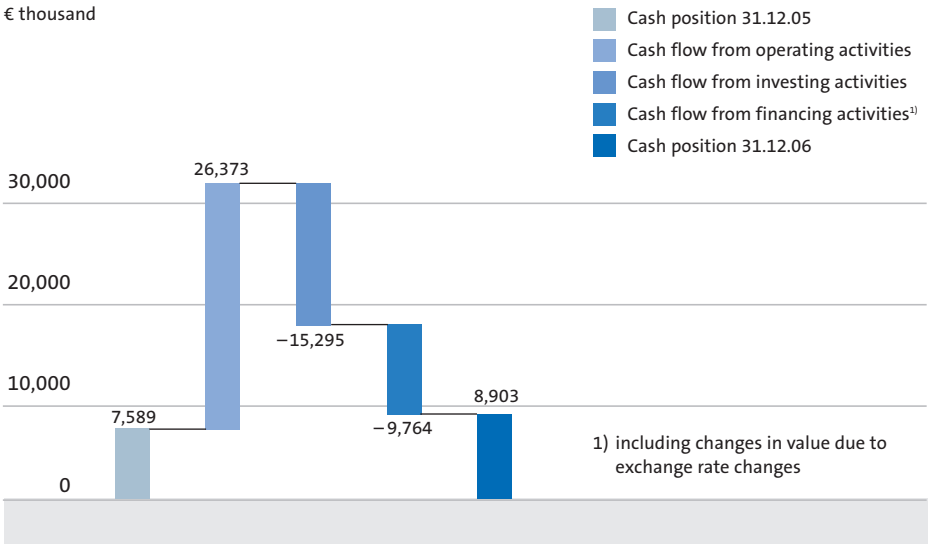
At €26.4 million, operating cash flow was down 1.5% on the previous year (€26.8 million). In spite of the increase in sales, the further reduction of inventories was markedly lower in the reporting year than in the previous year. The release of capital funds was therefore below the previous year's level.

Cash outflow from investment activity totalled €15.3 million compared with the previous year's figure of €12.6 million. Investment was fully financed by cash flow from operating activities.

Cash outflow from financing activities amounted to €9.8 million (previous year: €26.4 million). The previous year's figure was influenced by cash inflow from the capital increase as well as the redemption of existing bank loans and taking out of new bank loans in connection with the collateral trustee agreement (CTA).

At all times during financial year 2006, Biotest was in a position to fulfil all payment obligations without jeopardising the liquidity of the company at any time.

Cash flow statement



Summary by the Board of Management regarding the earnings, financial and assets position of the company

It is the opinion of the members of the Board of Management, that the development of the earnings position has confirmed the effectiveness of the adopted corporate strategy. Concentration on profitable business in the core markets has already led to growth in EBIT above that of sales for the fourth successive year. The even greater marked rise in the earnings before tax highlights the positive impact of the improved financial structure of the Group on earnings. From our point of view, it is particularly noteworthy that we have achieved this improvement in the result, despite the significant increase in research and development costs.

The financial and assets position of the Biotest Group also improved further in 2006. The company has a healthy financing structure with a sound equity ratio. There has not been, and is currently no situation, which we have identified as prejudicial to the continuing existence of the company.

Research and development

Biotest further expanded its research and development activities in financial year 2006. The primary focus of R&D was on the further development of plasma proteins and research and development of monoclonal antibodies, which was in line with our R&D strategy described on pages 32 to 35.

Plasma proteins

An important result in the plasma proteins segment is the further development of the Cytotect® immunoglobulin for the treatment of cytomegalovirus infection during pregnancy. These infections present in between 1% and 2% of all pregnancies and can potentially lead to severe foetal deformations. Up to now, treatment has not been available, and diagnosis has frequently resulted in abortion.

The administration of Cytotect® can significantly reduce the risk of deformation, according to a study published in the New England Journal of Medicine in 2005. In 2006, these findings were discussed in a detailed article featured in the German specialist magazine, “Frauenarzt”, and treatment with Cytotect® was recommended in such cases.

The preparation is currently administered to treat cytomegalovirus infection in pregnant women on a case for case basis, on comprehensive medical advice. Biotest will launch a large-scale trial to gain approval for this indication, involving up to 25,000 pregnant women and scheduled to extend over a period of at least two years.

In October 2006, the EMEA granted Cytotect® orphan drug status for the indication in question and in December 2006, the FDA followed suit. This status gives Biotest ten years of market exclusivity in the EU and seven years in the USA and facilitates acceleration of the approval process. Under certain circumstances, it also entitles companies to claim financial assistance or tax benefits during the approval process. Biotest is anticipating increased sales potential for Cytotect® of up to €70 million to be generated by the additional indication.

We have obtained approval in six European countries for Hepatect®, which is manufactured using the filter aid procedure.

We have advanced the approval process for factor IX preparation, Haemonine®, to the extent that we shall be filing the application in 2007 and anticipate EMEA approval to be granted at the beginning of 2008. Also in 2008, we are expecting to receive approval for Albumin FH and the factor VIII preparation, Haemoctin® FH. Due to increased official requirements, which have meanwhile all been fulfilled, there has been a slight unscheduled delay in the Haemoctin® approval process.

The trial relating to the further development of Intratect® as a treatment for fibromyalgia made progress in the year under review.

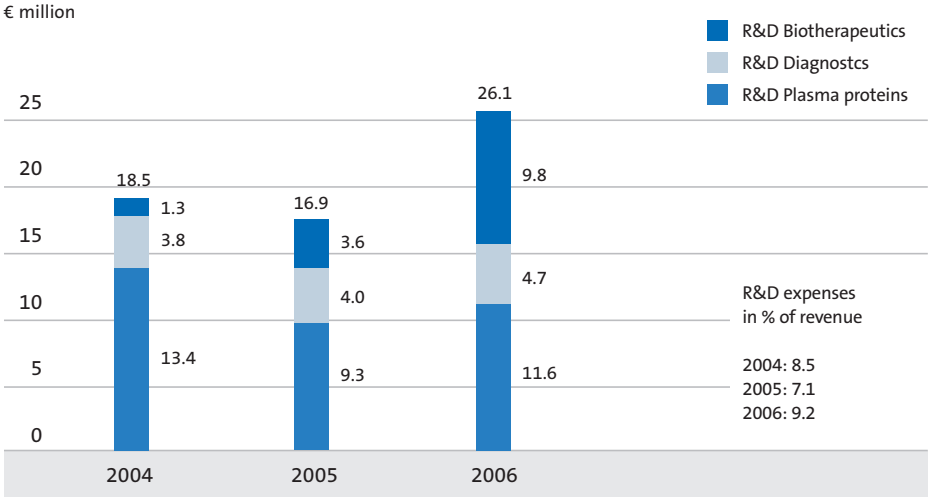
Biotherapeutics

In financial year 2006, Biotest achieved new milestones in the development of all three monoclonal antibodies. The work on BT-061 is the furthest advanced and in December 2006, Biotest was granted approval from the competent authority (the Paul Ehrlich Institute, PEI) for commencement of clinical development. Prior to the decision being made by the PEI, Biotest carried out supplementary pre-clinical trials, which reconfirmed the high quality and safety standards of BT-061.

In the wake of the serious side effects arising in trials of a new agent produced by TeGenero in the UK, the authorities increased the stringency of the requirements for the clinical testing of the respective development projects. Biotest quickly and successfully carried out the supplementary pre-clinical trials. However, there has been a delay of a few months in the schedule beyond the foreseeable control of Biotest.

For BT-062, we have taken an important step forward with the cooperation agreement concluded with US company, ImmunoGen Inc in July 2006. Under the terms of the agreement, Biotest obtained exclusive global rights to use the highly efficient Tumor Activated Prodrug (TAP) technology of ImmunoGen in connection with its monoclonal antibody,

Expenses for research and development



BT-062. TAP technology uses a cytotoxic agent, which effectively destroys malignant cells. Used in combination with BT-062, which has the capacity to target and locate malignant cells and attach itself to them, this produces a medical product which could be distinctly more effective for the indications concerned than existing treatments which have been approved, and more than any other currently known R&D projects. This assessment has been repeatedly confirmed by leading oncologists.

In December, we concluded an agreement with the Danish company, CMC Biopharmaceuticals A/S, for large-scale production of BT-062, which complies with the requirements of Good Manufacturing Practice (GMP).

BT-063 was humanised in financial year 2006, which signifies that the antibody now virtually corresponds to human proteins in terms of its amino acid sequence. Humanisation is a method used to improve the tolerability of biological drugs. With this, we have created the essential conditions for pre-clinical testing to start.

Diagnostics

In the Diagnostic segment, the major R&D work in 2006 related to the hygiene monitoring product range. The Biotest Diagnostic Corporation in the USA concluded the development of a new type of particle counter. We carried out significant improvements to the RCS air sampler and new technical processes were developed for petri dish culture media.

In microbiology, we have identified the development of new platform technology for bacterial and fungal recognition as the project with the greatest potential. This involves a procedure which considerably reduces the time required to identify pathogens. The project combines the core competencies of Heipha developers with those working in molecular biology diagnostics, so that Biotest can consequently use and build on the available expertise.

Production

We increased the efficiency of plasma protein production in the year under review. The primary factor here was the conversion of Hepatect® production to the filter aid procedure, which facilitates a significant improvement in the use of raw materials.

The opening of the new donor station in Merseburg near Halle/Germany also provided us with additional capacity for plasma recovery, enabling us to maintain a stable level of our own stocks, despite a marked expansion of the production volume.

In the past financial year, our existing fractionation unit was operating at an average capacity of 65% (previous year: 40%). The rise resulted from the expanded production volume. When we rebuilt the unit several years ago, we deliberately provided for higher capacity to give us the required degree of flexibility.

During various stages of purification, we operated at higher capacity, particularly in the area of immunoglobulins. We have therefore started the process of doubling our capacity. The unit is scheduled to go on stream towards the end of 2008.

In the manufacture of Intratect®, we shall be adding an additional viral depletion stage, nanometer filtration, in 2007, for which the necessary preparations took place in the reporting year. We shall be using biological equivalence data to substantiate that the biological composition of the product corresponds to Intratect® without nanometer filtration and that consequently, the approval granted can remain valid.

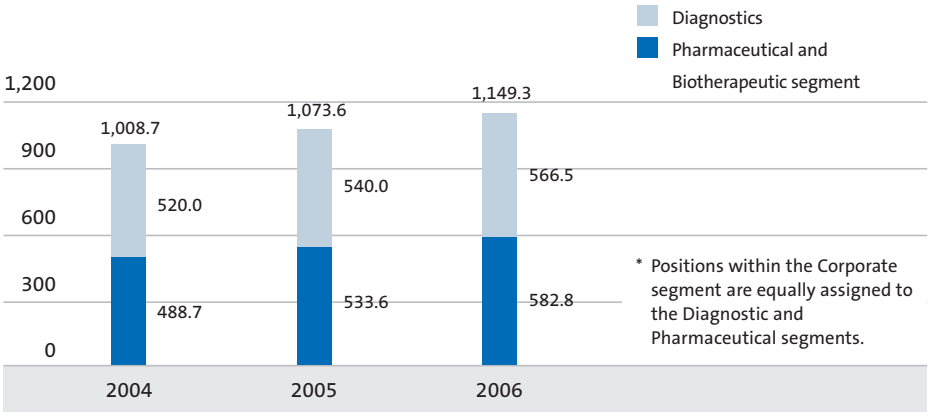
We have enhanced the efficiency of Diagnostic segment production by improving individual stages in the process. In September 2006, the regular FDA audit of the Biotest production plants and processes was due and this led to a successful outcome.

Personnel

The growth of Biotest at international level and the intensified endeavours in research and development are also clearly reflected in the marked rise in staff numbers. At year-end, the Biotest Group employed 1,247 staff, which corresponds to 1,149 full-time equivalents. Compared with the end of 2005, this equates to an increase of 7.4% (staff complement) and 7.1% (full-time equivalents).

Staff by segment* as of year-end

Full-time equivalents



We have again expanded the teams of primary importance to the implementation of our strategy: research, regulatory affairs and sales. The rise in the staff complement is also the result of additional appointments in production created to cope with the increased production volume as well as of the first-time inclusion of the plasmapheresis station in Merseburg.

In the Pharmaceutical segment, the number of full-time equivalents rose from 518.1 to 563.9, while in the Biotherapeutic segment, the number increased to 15.0 (previous year: 12.0). At year-end, the Diagnostic segment had 562.7 full-time equivalents (previous year: 536.5). There were 7.7 full-time equivalents in the Corporate segment (previous year: 7.0).

In financial year 2006, Biotest's commitment to vocational training was much stronger than the previous year. At year-end, we had a total of 16 (previous year: 12) trainees for industrial business and office administrators, chemical lab technicians and biology lab technicians. At year-end, the proportion of trainees out of the total staff complement of the parent company accounted for 2.2%. Beyond this, we have also engaged graduates and PhD students in the area of pre-clinical and clinical development in the Biotherapeutic segment.

The expansion in production, plasmapheresis centres and research and development activities has produced a rise in the proportion of full-time equivalents in Germany to 83.5% (previous year: 83.1%).

In areas of our pharmaceutical production, the high demand for our plasma proteins and correspondingly good order situation led us to introduce triple shift operation. An agreement has been signed accordingly with the employee council. Better downtime management has enabled us to successfully reduce the downtime ratio and this has also produced an increase in the efficiency of the production process.

Personnel management

As a result of the assessment of the functions in the non-pay-scale, carried out in 2005 according to the Hay job value method, four non-pay-scale salary groups were introduced in 2006, which were allocated to salary bandwidths. All the approximately 200 non-pay-scale jobs were assigned to these groups. In addition, by the end of 2006, we had carried out a review of tariff-bound jobs. A number of non-pay-scale employees are now participating in the Long Term Incentive Programme (see below).

The "Leadership-Communications-Cooperation" workshop series which commenced in December 2005, continued in the reporting year to great success. A total of 55 workshops took place, in which every employee was involved. Workshops were led by 15 moderators from the ranks of the employees, who had attended special training seminars on the subject. Management and employees worked together to examine how dialogue and cooperation within teams and throughout the company can lead to improvements and eliminate any shortcomings.

Biotest carried out its third systematic employee survey on the management culture of the company. The rate of participation constituted 68%, which is above average. Primary findings confirm that the measures introduced in the wake of the first two surveys have already produced tangible improvements in the corporate management culture, the benefits of which are also experienced by employees in their daily working lives. Additional measures have been introduced on the basis of the third barometer of opinion.

Long Term Incentive Programme

Biotest aims to motivate staff and management by offering them a salary incentive based on the long-term success of the company. This system should serve to instil a sense of special responsibility for the success of the company in the staff and, at the same time, provide a further incentive directed at upholding the principle of shareholder value, which is firmly anchored in the corporate ethos.

To this end, the Board of Management has obtained the consent of the Supervisory Board to introduce a Long Term Incentive Programme (LTIP). The new LTIP supersedes the originally planned programme (former LTIP), which provided for share options. The necessary amendment of the Articles of Association in order to distribute shares (contingent capital), did not obtain the required majority vote at the extraordinary meeting of preference shareholders held in May 2006. The terms of the existing LTIP were correspondingly amended. Remuneration in the form of share options was replaced by a cash component.

In addition to the Board of Management, the LTIP is also available to more than 50 selected members of the management who play a decisive role in the success of the company through their position within the Biotest Group, their decisions, their leadership and their actions. The structure of the programme is contingent on the current criteria which the capital market requires of such systems. The programme was introduced on 1 October 2006 and will continue until 31 December 2008.

Participation is conditional on the participant making a personal investment through the purchase of preference shares of Biotest AG. The level of personal investment is one of the factors governing subsequent incentive payments.

The level of the incentive payment is determined partly by the share price performance of Biotest preference shares in an SDAX (benchmark) comparison and partly by the average EBIT margin achieved in the years 2006 to 2008.

The incentive component calculated according to the performance targets achieved is scheduled for payment to participants in May 2009. For details on how the incentive payment is calculated, see page 87 onwards in the notes.

Supplementary report

Preliminary proceedings have been brought against Biotest AG and Biotest Pharma GmbH relating to suspicion of violation of the Foreign Trade Law in connection with the United Nations “Oil for Food” programme introduced for Iraq. The company considers the claims to be unfounded.

No further developments or events of any significance occurred after the balance sheet date.

Risk report

Business operations and the development of sales and results of Biotest depend on a number of different factors, the occurrence of which cannot always be predicted in advance and which may be completely or partially beyond our control. A situation such as this produces risks, which may have an adverse effect on Biotest's asset, financial and earnings position. The opportunities which may similarly arise are described in the report on opportunities (part of the outlook report).

Risk strategy

The Board of Management and the Supervisory Board of Biotest have specified in their joint risk strategy report that the company may take controlled risks in cases where prospects exist for long-lasting profitable growth. This primarily refers to the establishment of the new Biotherapeutic segment. The development of monoclonal antibodies opens up substantial additional sales and earnings potential for Biotest. However, for this purpose, considerable expenses will initially be incurred, for which there is no guarantee of whether or not they will result in the commensurate success.

On the basis of milestone planning, we are therefore continuously monitoring project progress and beyond this, we regularly cross-check our estimates of the available potential against current market data. As a matter of principle, all major Biotest managerial decisions, such as the approval of capital expenditure, are taken only after detailed assessment of the associated risks and opportunities.

Risk management and controlling

Biotest systematically compiles and assesses operational and strategic risks, and their management forms an integral component of the overall management of the Group. All risks with wide-ranging implications and a reasonable probability factor are closely monitored.

An IT-based risk management system fulfilling the requirements of the German Corporate Sector Supervision and Transparency Act (Gesetz zur Kontrolle und Transparenz im Unternehmensbereich, KonTraG) facilitates identification and evaluation of risks, as well as monitoring the measures introduced to limit such risks. Major potential risks are a component of the monthly internal reporting system and beyond this, a risk management committee analyses the current status of risk in all business areas every six months and provides the Board of Management with a detailed risk report.

Biotest has taken out insurance policies to limit the financial consequences of liability risks and material damage to plant and machinery. The scope of the protection afforded by insurance is regularly reviewed and adjusted where necessary. Purchasing of financial derivatives to minimise interest rate and foreign exchange risks is carried out in line with the defined risk limits.

Presentation of significant individual risks

The risks described below are not the only ones to which Biotest is exposed. Other risks and uncertainties, of which we may currently be unaware or which we presently regard as insignificant, could also impact on Biotest business operations and have an adverse effect on the asset, financial and results position of the company.

The order in which the risks below are listed is not in any way indicative of the probability of their occurrence.

Market environment and sector risks

Fluctuations in the economies of major sales markets only have a minor immediate bearing on the business situation of Biotest, since the medical demand for plasma proteins and in-vitro diagnostics is largely not contingent on macro-economic growth rates. The indirect effects are of greater significance, as the financial position of those playing a role in the health care sector and the situation of the public health sector depends on the economic environment. Cost-cutting measures in the health care sector can have a negative effect on the achievable margins in both operating segments.

The financial pressure on institutions financing the health care systems in all Biotest's major sales markets continues in spite of various reforms and we are, therefore, anticipating further governmental cost-cutting measures in the short to medium-term.

A proportion of Biotest sales recorded by the Pharmaceutical segment is attributable to tender business. Business of this type can only be planned to a certain degree and in certain countries it is subject to a high level of political influence, a situation which might lead to a contract granted to Biotest being revoked. In such cases, even if Biotest has already invested in the tender, there is a very limited chance of compensation and this is only awarded if the company invests considerable efforts to make a claim. As Biotest is extremely restrained in this market sector, the associated risk can be regarded as minor.

Biotest maintains relations with companies worldwide. In unfavourable circumstances, any destabilisation of the political situation in individual countries could adversely affect Biotest's business relationships and outlook. A possible consequence is that sales achieved outside Europe may decline significantly.

The imposition of international sanctions against Iran may jeopardise the goals and investments of the BioDarou joint venture.

Supply market risks

We consider supply market risks to be the danger of shortages or price increases in the raw materials, auxiliary materials and operating supplies needed for production or in the pharmaceutical products obtained through toll manufacturing.

Of particular importance is the supply of human plasma. Biotest has concluded long-term supplier agreements and also covers a large part of the demand via proprietary plasmapheresis stations. Should donor willingness decline or new and more stringent regulations for plasma procurement come into effect, it could become more difficult to obtain the supplies of raw material needed.

Blood plasma is obtained from the blood or plasma of many donors. Blood and plasma donations obtained are subjected to extensive testing and quarantine phases at Biotest. The testing procedures we use comply with the latest scientific standards and reliably detect currently known bacteria and viruses. Biotest manufacturing processes incorporate a number of viral deactivation or viral depletion stages, which further minimise the risk of contamination of the end products.

Nevertheless, there remains the risk that plasma contaminated by bacteria, viruses or prions that are currently known, but have remained undiscovered or that were unknown at the time, could enter the production cycle. In such cases, the authorities might mandate the recall of individual batches from the market, or restrict or cancel the approval. In addition, contamination caused by previously unknown bacteria, viruses or prions could result in tighter legislative controls on plasma-based drugs.

In the Pharmaceutical and Diagnostic segments, our production requires special raw materials, such as supplies of antigens, serums and biological products for the manufacture of the reagents used in diagnostics, or a special chromatography gel used in plasma purification. Should a shortage or significant increase in the price of auxiliary and operating supplies occur, Biotest might possibly be restricted in its production and supply capacity. We are of the opinion that this risk is very limited due to our long-term agreements with suppliers.

Supply relationship risks

Biotest works with external suppliers in the manufacture and processing of products, material for clinical research and intermediate products. In contracting with third parties, there is a risk that individual business or cooperation partners may not comply with, or may not comply adequately with, their obligations or may terminate the contract with the company. There is also a risk of claims against us for infringements committed by our partners.

Sales market risks

Sales market risks comprise risks associated with price, quantity, substitution and payment default risks.

In view of the current global shortage of plasma proteins at a time of rising demand, the risk of a sudden price collapse in this product sector is currently regarded as unlikely. In the Diagnostic segment, the consequences of fierce competition have already been taken into account, particularly in our pricing structure. Biotest monitors market developments on an ongoing basis in order to identify any potential changes at the earliest possible time.

The development of further international markets and the conclusion of long-term toll manufacturing agreements have enabled Biotest to reduce the risk generated by short-term fluctuations in the volume of plasma proteins sold. However, there the risk remains, and this applies in particular to some individual tenders, that the volume sold is lower than planned. As Biotest plasma proteins are complementary products, there is a risk that different sales opportunities for the individual finished products could lead to increased stocks of other preliminary and finished products.

Substitution risks exist primarily for plasmatic coagulation preparations in industrialised countries. Other countries switching to recombinant factors could adversely affect Biotest's sales opportunities there.

There is a risk of default on trade receivables. Biotest is systematically observing the possibility of potential defaulting and limits the risk by corresponding default risk management, factoring, and to some degree, the conclusion of insurance policies.

Side effect or drug interaction risks

In drugs which have already received approval, unexpectedly severe or previously unknown side effects or drug interactions may arise. Inappropriate handling, storage or application can also give rise to considerably negative effects on recipients and patients. Measures needed to be taken by the authorities in such cases range from ordering a recall of single batches to the restriction or suspension of approval. Side effects, drug interactions or inadequate quality may also have an adverse effect on the reputation of Biotest.

Process and production risks

Process and production risks are considered to be the impairment of an efficient and environmentally friendly provision of output through inefficient structures or production processes, or material damage to plant and machinery.

We are constantly monitoring and analysing our production processes. In the year under review, we have again significantly extended the scope of process efficiency in order to take swift action to deal with any risks arising at an early stage.

Research and development risks

In the research and development process of a new drug, many clinical tests are necessary before it receives approval prior to marketing and there is a risk that the therapeutic effects of the treatment, which had previously been assumed to exist, are not confirmed. In addition, it is impossible to put a precise figure on the level of investment required in advance, since unforeseen additional costs may arise.

This is a risk which is particularly relevant to the early research phases of monoclonal antibodies. Since this involves entering a new pharmaceutical- technical terrain, there is increased risk that developments fail either in part or completely, that approvals are not granted as anticipated, or that third parties initiate patent infringement procedures. On the basis of milestone planning, we constantly monitor the developmental progress of individual projects and, under the terms of our patent strategy, we continually verify and extend the patents protecting our products.

Personnel risks

Personnel risks arise from the potentially deliberate or accidental misconduct of employees, which might negatively affect production efficiency or safety.

Of essential importance to Biotest is the maintenance of a qualified workforce of dedicated and loyal employees and the hire of promising new staff. This is the cornerstone relating to every area of the company, which especially applies to staff working in Research and Development and Regulatory Affairs.

Biotest is taking action to avoid personnel risks through ongoing and targeted employee training and a performance-related remuneration scheme for management under the LTIP.

Economic and currency risks

Biotest earns part of its sales in foreign currencies. Exchange-rate fluctuations in the rate between the euro and these currencies could impact on the Biotest Group result, as well as on the sales potential in individual markets. Biotest uses derivative financial instruments to hedge this risk.

Economic risks may arise from the unexpected calling in of credit lines or a sudden increase in the lending rate. In the past, Biotest has changed its financing structure in favour of lending with a considerably extended long-term component and significantly reduced its overall level of indebtedness. From the current standpoint, long-term agreements and an ongoing dialogue with the lending banks indicate that the risk relating to economic factors is virtually negligible.

Other risks

The tax statements of the major companies in the Biotest Group, of Biotest AG and of Biotest Pharma GmbH, for the years 1999-2006 have not yet been finalised, or remain subject to verification by the tax authorities. Such verification may result in further demands from the tax authorities.

There is a tax-related risk associated, in particular, with the denatured alcohol used in plasma processing. Biotest Pharma GmbH had been exempted from the tax on spirits. However, when production was transferred to Biotest AG, the claim for exemption was not renewed due to an oversight. As a result, Biotest submitted an application on the grounds of fairness for further exemption from tax on spirits at the beginning of the second quarter of 2006. The decision from the competent customs and excise authorities remains outstanding. Based on the special purpose for which the alcohol is used, we assume that the application will be successful and that the results and cash flow will not be affected.

General statement on the risk situation of the Group

It is the opinion of the Board of Management that Biotest is not currently subject to any risks extending beyond those which are an inevitable part of its business operations. All material risks are constantly monitored and where possible and reasonable, precautions are taken accordingly to avoid any potential financial consequences arising. No risks are currently evident which might jeopardise the financial stability of the Biotest Group.

Outlook

Statements relating to future expectations

Biotest is planning its future business development on the basis of assumptions made on the most probable scenario from the current perspective. However, it should be said that like all predictions on future development, these are associated with a degree of uncertainty. The actual development of the market environment or Biotest segments may differ considerably from the assumed development, both in a positive, as well as a negative direction.

Strategic direction the Group will take in the next two financial years

The next two financial years will be marked by the continuing implementation of the Biotest growth strategy. In particular, the focus is on further targeted development of monoclonal antibodies as well as the continued internationalisation of plasma proteins business and diagnostic products. The strategic refocusing of the Diagnostic segment to concentrate on immunology and microbiology, which was resolved and launched in 2006, is scheduled to be fully completed in 2007. In tandem with this, both areas will be the subject of expanded research and development activities.

Future sales markets

In terms of regional sales markets, we shall be concentrating on expanding our market position in Canada and the USA (diagnostics), or making preparations for market entry where this applies (plasma proteins). With the granting of approval anticipated in the second half of 2007 for all our reagents, we shall become a full-service comprehensive supplier for both manual and automated blood group typing diagnostics. We believe that this will have a particularly positive effect on the sales opportunities for TANGO® optimo in the USA.

With regard to plasma proteins, we are planning to apply for FDA approval for clinical trials of Intratect® in the USA in 2008. Current indications are that approval to bring to market can be anticipated for 2011.

In parallel, we shall be further advancing the approval process for Biotest products in other European countries. We aim to develop new markets for our hygiene monitoring products, and to this end, 2007 will see a substantial intensification of our sales activities in European countries outside Germany.

Future use of new processes

In the manufacture of plasma proteins, we shall be continuing the gradual process of switching to a state-of-the-art filter aid procedure which began in 2004. In 2007, sales of albumin in those countries in which we have already been granted approval will be changed to products manufactured using the filter aid procedure and we are also aiming to obtain approval for Albumin FH® in other European countries in 2008.

Future new products and services

In the coming years, we intend to market numerous new or further-developed products in both the Pharmaceutical and the Diagnostic segments.

In this respect, we are anticipating pan-European approvals for Haemoctin®, Haemonine® and Albumin in 2008, with approval for the subcutaneously administered variant of Hepatect® following in 2009.

For Intratect® (fibromyalgia) and Cytotect® (treatment for cytomegalovirus infections in pregnancy) we shall have concluded the clinical trials required for approval of these new indications at the end of 2008, if all goes according to schedule. A medical product for application in cardiac surgery is anticipated to receive CE certification by the end of 2008.

The Biotest Diagnostic Corporation in the USA has completed the development of a new particle counter, which is planned for market launch at the beginning of 2007. Major improvements have been made to the RCS air sampler, which is also scheduled to be introduced into the market at the beginning of 2007. In the same year, the further-developed petri dish culture media are due to be marketed.

Biotherapeutics

We shall continue to give priority to advancing the monoclonal antibody projects in the coming years. Since receiving approval in December 2006 to commence clinical development of BT-061, we expect to obtain the initial clinical data in 2007. Where BT-062 is concerned, most of the preparations for clinical testing should have been completed by the end of 2007, so that Phase I clinical development can start in 2008. For BT-063, the development of the production process and the start of pre-clinical development is scheduled for 2007.

Development of the economic framework conditions

Market and sector forecasts indicate that the developmental trends observed in the past years will continue into the year ahead and beyond into 2008. The demand for plasma proteins is set to remain high, in particular for immunoglobulins. The growing trend towards increased global production capacities is therefore unlikely to result in any surplus to demand in the short term. We believe that prices for immunoglobulins, coagulation factors and albumin are initially following an upward trend, despite the fact that in light of apparent increased competition in individual export markets, the dynamic development of the past year is unlikely to be repeated.

To a large extent, the sales opportunities for coagulation factors are dependent on whether the number of haemophiliacs receiving treatment rises. It is our opinion that, particularly in the developing markets, the rising standard of affluence will bring with it an increased demand for factor preparations, while in the more developed countries, there is a growing tendency to use recombinant products.

In Europe, the Diagnostic segment is likely to continue operating in a market environment which remains difficult throughout 2007 and 2008. This applies especially to the infection and transplantation diagnostic field. In hygiene monitoring, we are assuming that demand will grow due to the increasingly stringent regulatory requirements, in particular in the food industry.

In the USA, our observations indicate that there will be no change in the very attractive market environment. The fact that to date, on account of the demanding FDA requirements, only two other suppliers along with Biotest have approval for transfusion diagnostics, leads us to confirm our belief that following approval for our manual reagents, we will capture a significant market share, and that this will be reflected in rising sales from 2008 onwards.

Expected business situation and earnings position

In financial year 2007, Biotest again aims to achieve sales and earnings growth, while also increasing research and development expenses. As a result of the high sales volume already achieved and the high capacity utilisation of our production facilities in financial year 2006, we are anticipating a sales increase of 5% to 7% for financial year 2007. Here, growth is also dependent on the development of the individual export markets. This trend is set to extend into 2008. Pharmaceutical business will be the cornerstone of the scheduled increase in profit. The financial result should further improve as a result of the optimised financing structure achieved at the end of the year under review, and the trend for 2007 and 2008 is likely to remain upward.

Opportunities

In addition to risks, the business activities of Biotest also provide opportunities for further sales and earnings. Their achievement may promote a development constituting a distinct improvement on that described in the present outlook report.

Biotest practises a comprehensive corporate management approach to opportunities and risks. Continuous observation of the development of sales markets and regulatory framework conditions enables us to identify associated opportunities at an early stage.

Close and constant dialogue with leading physicians also keeps us informed of the current status of medical developments in the markets relevant to us, so that we can identify further potential areas of indication for our plasma proteins.

From the current perspective, the most interesting opportunities can be summarised as follows:

In the Pharmaceutical segment, there are opportunities for further profitable growth in the short term by the acquisition of a company with a European presence. The acquisition of a company in the USA could also decidedly accelerate our planned market entry there and furnish us with a broader basis from the outset.

If there should be a marked improvement in the economic and political circumstances in Russia in the medium term, this would provide Biotest with the opportunity of strengthening its presence in this market.

In the Diagnostic segment, the critical size achieved by entering into partnership with another company could generate synergetic potential here.

Board of Management summary of future company prospects

In both the Pharmaceutical and Diagnostic segments, the Biotest Group has good to very good opportunities for growth, although as in previous years, the Pharmaceutical segment could develop more dynamically than Diagnostics in 2007 and 2008. We shall further progress our evolution as an integrated pharmaceutical, diagnostic and biotech group in the current and coming years and anticipate that we will generate increased sales and profit in both years.

Details in accordance with Section 315 (4) of the German Commercial Code (HGB)

The subscribed capital of Biotest AG in accordance with the Articles of Association comprises €27,295,596. It is divided into 5,995,675 ordinary no-par-value shares and 4,666,667 preference no-par-value shares. The shares are bearer shares; preference shares do not carry voting rights.

The Dr. Schleussner family (Dr. Hans Schleussner, Dr. Martin Schleussner, Ms Renate Schleussner and Dr. Cathrin Schleussner), holds 50.03% of the ordinary share capital of Biotest AG. The Kreissparkasse Biberach has declared that it holds a further 10.75% of the ordinary shares. Beyond this, the Board of Management is not aware of any direct or indirect shareholdings in the company exceeding 10% of the voting rights. There are no shareholders with special rights conferring controlling rights.

Biotest is aware that members of the Dr. Schleussner family have concluded an agreement pertaining to joint exercising of their voting rights.

The members of the Board of Management are appointed and removed by the Supervisory Board, in accordance with the provisions of Sections 84 and 85 of the German Stock Corporation Act (AktG) and Article 7 (2) of the Articles of Association. Pursuant to Section 179 (1) of the German Stock Corporation Act (AktG), all amendments to the Articles of Association require a resolution to be passed by the Shareholders' Meeting (Section 133 AktG). The authority to amend the version of the Articles of Association has been assigned to the Supervisory Board according to Article 27 of the Articles of Association in compliance with Section 179 (1) clause 2 of the German Stock Corporation Act (AktG).

In accordance with the resolution adopted by the Shareholders' Meeting on 11 May 2006, the company is authorised to acquire its own shares pursuant to Section 71 (1) clauses 7 and 8 of the German Stock Corporation Act (AktG) up to a value of 10% of the current share capital of €27,295,596. The company has not exercised its right under this authorisation.

Furthermore, the resolution adopted by the Shareholders' Meeting on 20 May 2005 authorised the Board of Management to increase the company's share capital by up to €10,240 thousand by 19 May 2010 with the approval of the Supervisory Board, by issuing new ordinary and/or new preference shares against cash contributions and/or contributions in kind. Following the two capital increases of 3 August 2005 and 18 October 2005, authorised capital amounts to €3,424 thousand.

The resolution adopted by the Shareholders' Meeting on 8 July 2004 authorised the Board of Management to issue profit participation rights with a nominal amount of up to €50,000 thousand until 7 July 2009 with the approval of the Supervisory Board. In financial year 2005, usage was made of this authorisation in the amount of €10,000 thousand. On 25 November 2005, the company entered into a participation rights agreement with a term of seven years and a total volume of €10,000 thousand. This amount was paid on 5 December 2005 with a discount of 3.4%. The loan is a subordinated bullet loan and the interest is comprised of a variable and a fixed component. The variable component is dependent on financial indicators of the company.

Biotest AG has concluded significant agreements with third parties in respect of the long-term financing arrangements of the Group which take effect in the event of a change of control.

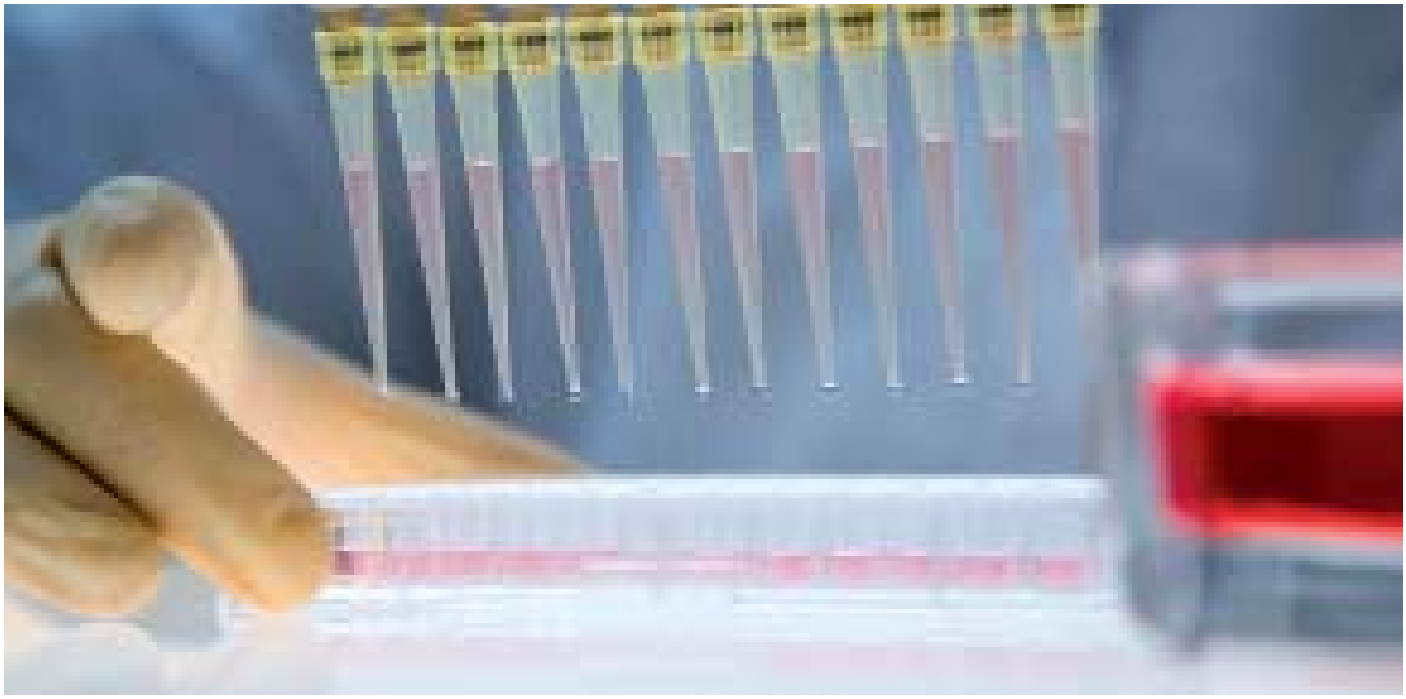
The syndicated loan agreement grants the lending banks the right to verify the continued existence of the agreement in the event of a change of control, and it also confers the right to terminate such agreement. In the event of termination, the entire loan sum falls due.

The participation rights agreement relating to a loan agreement falling due at maturity for a nominal sum of €10.0 million provides for the possibility of extraordinary termination rights for creditors. In the event of termination, the entire sum would fall immediately due, and compensation for premature termination would additionally be payable.

The service agreements of both members of the Board of Management include a provision governing settlement in the event that the Board of Management agreement is prematurely terminated as a result of circumstances defined in detail as a change of control. Settlement comprises the fixed remuneration to the end of the contractual term plus any bonuses which may be due pro rata for the period concerned, calculated on the average amount of the past two financial years, plus a consideration taking into account the use of a company car. If the remaining period is less than three years, the settlement shall constitute three times the annual fixed remuneration, plus bonuses and consideration for the company car. There shall be no entitlement if the Board of Management contract is terminated for serious reasons, illness or incapacity to work, or if members of the Board of Management have reached the age of 60 or have received considerations or benefits from a third party in connection with the change of control.

Research and development – the growth driver of biotherapeutics

There is a long tradition of research and development at Biotest, which remains at the heart of our value-oriented strategy for growth. By investing in innovative products and procedures, we generate added value for patients and users.



Research and development

Developing potential efficiently

Biotest is developing three monoclonal antibodies, which find their application in the treatment of a variety of autoimmune diseases and multiple myeloma, a type of cancer which remains incurable. In the event that approval is granted for these preparations, that could deliver significant added growth potential.

In December 2006, the clinical development of BT-061 was approved by the Paul Ehrlich Institute. This represents an important milestone for the Biotherapeutic segment, which brings with it the opportunity of new sales and profits prospects in future. BT-061 can be used to treat a range of autoimmune diseases. Initially, Biotest will concentrate on applications for psoriasis and rheumatoid arthritis, both of which are areas with a particularly high medical requirement. Of 800,000 rheumatoid arthritis patients in Germany alone, more than half either have no reaction or an inadequate reaction to existing treatments, many of which also have serious side effects.

There is also an urgent medical need for a multiple myeloma treatment, for which BT-062 is being developed. This is an incurable haematological disease which originates in the bone marrow and 95% of those affected die within ten years of diagnosis. One method by which the progress of the illness might be impeded is to target the tumour with a cytotoxic agent. However, the critical aspect is to eliminate all the malignant cells without destroying any healthy tissue. This is where the advantage of the innovative mechanism of BT-062 lies (see box).

Interview with Dr. Frank Osterroth, Head of the Biotherapeutic segment

"Every antibody can gain a significant market share."

Dr. Osterroth, the clinical testing of BT-061 was approved by the PEI at the end of 2006. What is the next step?

The Phase I trial started in January 2007 and we are anticipating the initial results before the end of the current year. Preparations are also underway for a double-blind placebo control trial in rheumatoid arthritis, which will be launched immediately afterwards.

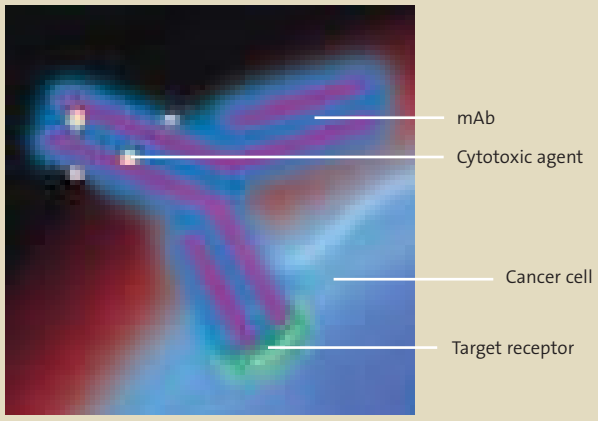
A number of different companies have various mAb projects in the pipeline. What distinguishes the Biotest candidates from the others?

In the case of BT-061 and BT-063, the latter of which is being developed as a treatment for Systemic Lupus Erythematosus, the principle difference is that it is immunomodulating. The mAb inhibits the aberrant reaction of the immune system as it attacks its own body, but without totally suppressing it. Due to its mechanism of action, we expect fewer side effects. In BT-062, the distinguishing features are the combination of precision targeting and effectiveness. None of our mAb developments are simply "me too" products, but with their successful development, we can expect to gain a significant share of the market for the treatments concerned.

Are you concerned that working with partners on development might possibly lead to increased competition for Biotest?

The advantages of this approach can be best explained using BT-062 as an example. By establishing a licence agreement with ImmunoGen, Biotest secured the global rights to use the highly effective TAP technology to develop BT-062. Ultimately, the most effective product will be the most successful and here, we are very well positioned.

In financial year 2006, Biotest invested approximately EUR 10 million in the development of monoclonal antibodies (mAb) and in the current year, investment will again significantly increase. Stringent project controlling to precisely defined milestone plans will ensure that expenditure is appropriate to the potential earnings. In order to ensure that development is carried out as quickly and efficiently as possible, Biotest is contracting out the production of antibody batches to specialist toll manufacturers. To keep the associated risk as low as possible, monoclonal antibodies are regularly tested for their efficacy by Biotest, in the laboratories of their licensed associates or cooperation partners and by leading physicians in the fields concerned. So far, the results have been very convincing.



BT-062: Precision targeted destruction of cancer cells

In the treatment of multiple myeloma, BT-062 is processed into an immunoconjugate using ImmunoGen Inc. TAP technology. BT-062 finds the cancer cells in the body of the patient and attaches itself to them. Only then is the cytotoxic agent that is attached to the antibody released, destroying only the malignant cells.

Income statement

of the Biotest group for the period from 1 January to 31 December 2006

€ thousand	Note	2006	2005
Revenue	D1	281,941	237,615
Cost of sales		– 139,980	– 126,106
Gross profit		**141,961**	**111,509**
Other operating income	D5	7,815	10,875
Distribution expense		– 63,314	– 54,891
Administrative expense		– 22,869	– 19,514
Research and development expense	D4	– 26,078	– 16,872
Other operating expenses	D6	– 6,129	– 5,825
Operating profit		**31,386**	**25,282**
Financial income	D7	363	1,419
Financial expenses	D8	– 9,830	– 11,391
Financial result		**– 9,467**	**– 9,972**
Income from associated companies	D9	– 323	– 304
Profit before tax		**21,596**	**15,006**
Income tax	D10	– 4,255	– 3,802
Profit after tax		**17,341**	**11,204**
thereof:			
Retained earnings attributable to equity holders of the parent company		**16,041**	**10,196**
Minority interest		1,300	1,008
Earnings per share in €	E11	**1.48**	**1.13**
Additional dividend rights per preference share in €	E11	**0.06**	**0.06**
Earnings per preference share in €	E11	**1.54**	**1.19**

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

Balance sheet

of the Biotest Group as of 31 December 2006

€ thousand	Note	31 December 2006	31 December 2005
ASSETS			
Intangible assets	E1	5,468	5,931
Property, plant and equipment	E2	122,071	119,447
Finance lease assets	E2	24,598	27,591
Investments in affiliates	E3	100	–
Investments in associates	E4	1,015	729
Other financial assets	E5	341	380
Other assets	E10	37	263
Deferred tax assets	E6	9,238	8,170
Non-current assets		**162,868**	**162,511**
Inventories	E7	104,755	108,362
Trade receivables	E8	73,902	66,079
Current income tax assets		1,181	990
Cash and cash equivalents	E9	8,903	7,589
Other assets	E10	10,450	5,482
Current assets		**199,191**	**188,502**
TOTAL ASSETS		**362,059**	**351,013**
EQUITY AND LIABILITIES			
Subscribed capital		27,296	27,296
Share premium		122,922	123,056
Reserves		10,378	1,854
Retained earnings attributable to equity holders of the parent company		16,041	10,196
Shareholders' equity	E11	**176,637**	**162,402**
Minority interest		2,676	2,436
Total equity	E11	**179,313**	**164,838**
Provisions for pensions and similar obligations	E12	43,123	42,363
Other provisions	E13	3,498	4,322
Financial liabilities	E14	64,653	69,162
Other liabilities	E15	6	294
Deferred tax liabilities	E6	2,670	2,282
Non-current liabilities		**113,950**	**118,423**
Other provisions	E13	10,903	8,122
Current income tax liabilities		4,735	2,812
Financial liabilities	E14	16,669	19,298
Trade payables		23,490	25,149
Other liabilities	E15	12,999	12,371
Current liabilities		**68,796**	**67,752**
Liabilities		**182,746**	**186,175**
TOTAL EQUITY AND LIABILITIES		**362,059**	**351,013**

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

Statement of recognised income and expenses

of the Biotest Group for the period from 1 January to 31 December 2006

€ thousand	2006	2005
Differences from currency translations	– 224	287
Costs of capital increase	–	– 1,362
Long Term Incentive Programme	– 135	135
Actuarial gains (2005: losses) from defined benefit pension plans	194	– 6,544
Deferred tax on gains/losses recognised in equity	– 100	2,925
Other income recognised in equity	5	–
Gains/losses recognised in equity	**– 260**	**– 4,559**
Profit for the period	17,341	11,204
Total profit	**17,081**	**6,645**
thereof:		
Retained earnings attributable to equity holders of the parent company	15,794	5,637
MInority interest	1,287	1,008
Total profit	**17,081**	**6,645**

Impact of changes to accounting and valuation policies

As of 31 December 2006, the changes in accounting policy led to gains/losses recognised in reserves under equity of €94 thousand (2005: €–4,135 thousand).

Impact of changes in the balance sheet:

€ thousand	31 December 2006	31 December 2005
Reduction (2005: rise) in pension obligations	194	– 6,544
Reduction (2005: rise) in deferred taxes	– 100	2,409
	94	**– 4,135**

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

Cash flow statement

of the Biotest Group for the period from 1 January to 31 December 2006

€ thousand	Note	2006	2005
Profit before tax		21,596	15,006
Depreciation and amortisation of intangible assets and property, plant and equipment	E1; E2	15,493	14,298
Loss from associates		323	304
Amortisation of securities held as financial assets		7	–
Losses from the disposal of fixed assets		735	404
Decrease (2005: increase) of pension provisions	E12	– 660	301
Financial result		9,467	9,972
Cash flow from operating activities before changes in working capital		**46,961**	**40,285**
Increase (2005: decrease) in other provisions	E13	1,983	– 532
Increase in inventories, accounts receivable and other assets		– 10,025	– 3,170
Decrease (2005: increase) in liabilities and other items on the liabilities side		– 3,145	1,706
Cash flow from changes in working capital		**– 11,187**	**– 1,996**
Interest paid		– 6,072	– 10,242
Taxes paid		– 3,329	– 1,273
Cash inflow from operating activities		**26,373**	**26,774**
Cash from the disposal of fixed assets		1,396	1,367
Payments for the investment in fixed assets	E1; E2	– 16,792	– 15,444
Payments for the acquisition of additional shares		– 100	–
Changes in other financial assets		31	98
Interest received		170	1,412
Cash outflow from investing activities		**– 15,295**	**– 12,567**
Dividend payment for the previous year		– 1,559	– 880
Cash changes to minority interest		– 1,047	– 513
Proceeds from capital increase		–	41,620
Payments for the costs of capital increase		–	– 1,362
Proceeds from financial liabilities	E14	38,418	108,631
Payments for redemption of debt	E14	– 45,523	– 173,858
Cash outflow from financing activities		**– 9,711**	**– 26,362**
Cash changes in cash and cash equivalents		1,367	– 12,155
Exchange rate-related changes		– 53	103
Cash and cash equivalents at beginning of the period	E9	7,589	19,641
Cash and cash equivalents at end of the period	**E9**	**8,903**	**7,589**

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

A General

The Biotest Group comprises Biotest Aktiengesellschaft (Biotest AG), the parent company with registered office in Dreieich (until 31 July in Frankfurt/Main), as well as its subsidiaries in Germany and abroad. The Group's headquarters are located at Landsteinerstrasse 5, D-63303 Dreieich, Germany. Biotest is a pharmaceutical, biotherapeutical and diagnostic company active in research and production and specialises in immunological and haematological applications.

In its Pharmaceutical segment, Biotest develops immunoglobulins, coagulation factors and albumins on the basis of human blood plasma, which are used for diseases of the immune system and the haemopoietic systems. The products are manufactured on the basis of blood plasma and human blood. Plasma Service Europe GmbH, Dreieich, and Plasmadienst Tirol GmbH, Innsbruck/Austria, support the supply of blood plasma within the Group.

In addition, in its Biotherapeutic segment, Biotest promotes clinical development of monoclonal antibodies, including for rheumatism and leukaemia indications.

The Diagnostic segment comprises both the manufacture of serology and microbiology reagents and systems which are used in blood transfusions, for example, as well as research and development in these fields. The products include test serums, culture media and hygiene monitoring devices; the segment also sells merchandise which complements the product portfolio.

The Biotest Group has 1,247 employees worldwide.

The consolidated financial statements of Biotest AG and its subsidiaries have been prepared in accordance with the International Financial Reporting Standards (IFRS), which are mandatory in the European Union. The IFRS comprise the International Financial Reporting Standards (IFRS) and the International Accounting Standards (IAS) as well as the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and the interpretations of the Standing Interpretation Committee (SIC). Accounting at the Biotest Group is based on the IFRS whose application is mandatory for financial years commencing 1 January 2006.

The company does not prepare consolidated financial statements under German accounting standards as the consolidated financial statements under IFRS exempt it from this obligation pursuant to Section 315a of the German Commercial Code (HGB).

Unless otherwise indicated, all amounts are stated in thousands of euros (€ thousand).

On 23 February 2007, the Board of Management of Biotest AG authorised the consolidated financial statements for issue to the Supervisory Board, whose duty it is to review and declare whether it approves them.

Changes in accounting and valuation methods due to new standards

Apart from the first-time application of IAS 19 relating to the offsetting in equity of actuarial gains and losses from defined benefit pension plans, the accounting and valuation methods applied in the previous year have been retained. In addition, the Biotest Group has applied the following new or revised standards, which are mandatory for financial years commencing on or after 1 January 2006.

IAS 19 "Employee Benefits"

For the first time in financial year 2006, the Biotest Group applied the option under IAS 19.93 whereby actuarial gains and losses are recognised in equity. In the previous year, the corridor method under IAS 19.92 was applied whereby unrealised gains and losses were only recognised outside a corridor of 10% of the present value of the defined benefit obligation. To ensure comparability of the data with the previous year, the offsetting in equity was applied retrospectively to the data for financial year 2005.

This resulted in an increase in the amounts carried in the balance sheet for the previous year relating to pension provisions and similar obligations of €6,544 thousand to €42,363 thousand and in deferred tax assets of €2,409 thousand to €8,170 thousand while reserves fell by €4,135 thousand to €1,854 thousand.

IFRIC 4 "Determining Whether an Arrangement Contains a Lease"

The IASB issued Interpretation IFRIC 4 "Determining Whether an Arrangement Contains a Lease" in December 2004. The subject of this interpretation is the question of how to determine whether an agreement constitutes or contains a leasing relationship and when a reassessment is required. Moreover, it explains how lease payments can be separated from payments for other services that are regulated within the same agreement.

The Biotest Group has examined the impact of the interpretation on the financial statements. There are no embedded leasing relationships in the Biotest Group.

Standards/interpretations not applied ahead of schedule

The IASB has issued the following standards, interpretations and amendments to existing standards whose application is not yet mandatory and that will not be applied by the Biotest Group ahead of schedule in this financial year. The Biotest Group endeavours to comply with the recommendations of the IASB at the earliest possible stage via prompt application of the standards and interpretations. From today's perspective, the non-mandatory standards that were not applied have no material impact on these consolidated financial statements.

IFRS 7 "Financial Instruments: Disclosures"

The IASB issued IFRS 7 "Financial Instruments: Disclosures" in August 2005. This standard collates disclosures to the financial instruments that had previously been regulated by IAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions" and IAS 32 "Financial Instruments: Disclosure and Presentation". Several disclosure requirements were thereby changed or supplemented. IFRS 7 is mandatory for financial years commencing on or after 1 January 2007 with earlier application recommended.

The standard, which is to be applied by all companies, will result in more extensive details regarding financial instruments when it is fully applied by the Biotest Group for the first time in financial year 2007. For this financial year, the Biotest Group has prepared the comparative figures of the previous year for financial year 2007.

IAS 1 "Presentation of Financial Statements – Capital Disclosures"

In August 2005, the IASB announced an amendment to IAS 1 "Presentation of Financial Statements – Capital Disclosures" in conjunction with the publication of IFRS 7 " Financial Instruments: Disclosures". Accordingly, information is to be published in the financial statements that allow the addressees of the financial statements to appraise the objectives, policies and processes for managing capital.

The amendment to IAS 1 is to be applied to financial years commencing on or after 1 January 2007 with earlier application recommended.

The first-time application of this amendment to IAS 1 by the Biotest Group will lead to more extensive disclosures in the notes in financial year 2007.

IFRS 8 "Operating Segments"

In November 2006, the IASB adopted IFRS 8 "Operating Segments" which replaces IAS 14 "Segment Reporting". IFRS 8 requires companies to report existing segment information in the annual financial statements and interim reports. Operating segments are defined under IFRS 8 on the basis of the financial information provided to and evaluated by the chief operating decision maker, which is used as a the decision basis for resource allocation and performance management. A reported segment can comprise one or more operating segments. To include more than one operating segment, the reported segment must fulfil specific criteria indicated in the standard.

IFRS 8 is to be applied to financial years commencing on or after 1 January 2009.

The first-time application of the standard by the Biotest Group will lead to more extensive disclosures in the notes. The Biotest Group is currently examining the cost involved in applying the new standard ahead of schedule.

IFRIC 10 “Interim Financial Reporting and Impairment"

In July 2006, the International Financial Reporting Interpretations Committee (IFRIC) published Interpretation IFRIC 10 “Interim Financial Reporting and Impairment”. IFRIC 10 addresses inconsistencies between the regulations under IAS 34 “Interim Reporting” compared to the rules on recording impairment losses on goodwill (IAS 36) and on certain financial assets (IAS 39).

IFRIC 10 stipulates that impairment losses recognised in the interim report and subject to the reinstatement prohibition in line with IAS 36 or IAS 39, may not be reversed in subsequent interim reports or annual/consolidated financial statements.

IFRIC 10 is to be applied to financial years commencing on or after 1 November 2006.

The Biotest Group will apply IFRIC 10 as of 1 January 2007.

B Material accounting policies

1 Scope of consolidation

With 5 (2005: 5) domestic and with 11 (2005: 11) foreign companies in which Biotest AG directly or indirectly holds the majority of voting rights, all material subsidiaries are included in Biotest AG's consolidated financial statements.

As in the previous year, BioDarou P.J.S. Co. with registered office in Teheran/Iran is included in the consolidated financial statements as an associated company at equity. The material companies included in the consolidated financial statements are listed in note F5 of the notes to the consolidated financial statements. Three subsidiaries without operating activities are not included in the scope of consolidation due to their negligibility. A complete listing of all companies in which an equity interest is held by the Biotest Group is filed with the commercial register of the local court (Amtsgericht) in Offenbach/Main under number HRB 42396.

There were no changes in the scope of consolidation of the Biotest Group in financial year 2006.

2 Consolidation principles

The reporting date for Biotest AG and all companies included in the financial statements is 31 December 2006. The financial statements of the companies included are prepared in accordance with uniform accounting and valuation policies prescribed by Biotest AG.

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

Capital consolidation is carried out pursuant to IFRS 3 according to the purchase method and the cost of purchase has been offset against the fair value of the equity attributable to the parent company at the time of purchase on a pro-rata basis. Any remaining difference is recognised as goodwill in intangible assets, which is subject to regular impairment tests. Any lower fair values resulting from this measurement lead to unscheduled depreciation. If the fair value of the pro rata equity capital attributable to the parent company is greater than the cost of purchase at the time of first consolidation, this results in a reassessment of the fair value. Any remaining amount in excess of the cost of acquisition of the parent company is recognised immediately in the income statement.

The first-time consolidation in the financial statements is effected at the time of acquisition.

The book value of investments in associated companies includes pro rata start-up losses from the moment when a material influence is exercised. According to IAS 28 "Investments in Associates", the amount carried for the investment should include other financial exposure (such as loans) as well as the cost of acquisition. Pro-rata losses are offset against the book value of the investment.

Minority interests are the part of the profit for the period and the net assets of Heipha Dr. Müller GmbH, Viro-Immun Labor-Diagnostika GmbH and Grundstücksverwaltungs GmbH, which relate to shares not held 100% by the Biotest Group. Minority interests are shown separately in the income statement and the balance sheet.

3 Currency translation

The functional currency concept applies to the currency translation. The subsidiaries included in the Biotest Group conduct their operations independently and the functional currency of these companies is the respective local currency. When translating the annual financial statements of the subsidiaries whose functional currency is not the euro, assets and liabilities have been translated using the mean rate of exchange as of the balance sheet date and income and expenses have been translated using annual average rates. The resulting accumulated differences are recognised in a separate item in equity, which is reported 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 in foreign currency at the closing rate. Resulting currency differences are reported under other operating income or expenses. Non-monetary items denominated in foreign currencies are carried at historical cost.

Under IAS 21 "The Effects of Changes in Foreign Exchange Rates", goodwill is translated as assets of the economically independent foreign subsidiaries at the closing rate.

The following exchange rates were used for translating currencies of the most important countries for the Biotest Group:

Equivalent for €1	Average rates		Rates at the balance sheet date	
	2006	2005	31.12.2006	31.12.2005
US dollar	1.2557	1.2448	1.3170	1.1797
Pound sterling	0.6818	0.6839	0.6715	0.6853
Japanese yen	146.06	136.87	156.93	138.90
Swiss franc	1.5731	1.5483	1.6069	1.5551
Hungarian forint	264.13	248.04	251.77	252.87

4 Derivative financial instruments

To hedge interest rate and currency risks, the Biotest Group uses derivative financial instruments such as currency options and currency futures, interest rate caps and payer swaps. No derivative financial instruments were purchased for trading purposes.

Derivative financial instruments are valued at market value. The market value of currency options, interest rate caps and payer swaps is determined by banks on the basis of the market conditions as of the balance sheet date. For derivative financial instruments held for hedging purposes, changes in market value are accounted for in accordance with the type of the corresponding hedge transaction.

Derivative financial instruments that do not meet the Biotest Group's strict formal requirements for hedge accounting, even though a hedge is in place from a financial viewpoint, are accounted for according to the rules 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 recognised in the income statement correspondingly.

5 Intangible fixed assets

(I) Goodwill

Goodwill arises on the acquisition of companies or shares in companies from the difference between the cost of purchase (purchase price) and the fair values of the acquired assets and liabilities. Goodwill is reported at the cost of purchase. Goodwill shown is tested at least annually for impairment and if appropriate amortised in accordance with IAS 36 "Impairment of Assets".

As part of the impairment test, goodwill is allocated to the respective cash generating units. The cash generating units are based on the segments, whereby the Diagnostic segment is divided into two parts – Biotest AG (Diagnostic segment) and the production companies Heipha Dr. Müller GmbH and Viro-Immun Labor-Diagnostika GmbH. This takes account of the specific production locations and associated product range.

The allocable future cash flows and their recoverable amount as the value in use are determined based on these cash generating units using the discounted cash flow method. This method discounts cash flows based on a one to five-year business plan and a long-term growth rate forecast. The growth rate depends on the particular business and is between 0% and 2%. The after-tax discount rates of between 7% and 9% are based on the relevant weighted average cost of capital (WACC). The assumptions here are based on previous experience. Necessary write-downs are determined by comparing the book value of the cash generating unit with the recoverable amount.

(II) Other intangible fixed assets

Other intangible fixed assets purchased are recorded at the cost of purchase and divided into assets with a definite or indefinite useful life. Assets with a definite useful life are amortised on a straight line basis over their estimated useful life. If necessary, unscheduled depreciation is recognised in accordance with IAS 36. The stated useful lives are between 3 and 5 years. A customer database acquired in Greece in 2004 is being depreciated on a straight line basis over the expected useful life of 10 years.

The amortisation period and the amortisation method for an intangible asset with a definite useful life are reviewed at least at the end of each financial year. If there is a change in the anticipated useful life of the asset or anticipated amortisation period of the asset, another amortisation period or amortisation method is to be selected. Such changes are treated as estimate changes. Amortisation on intangible assets with a definite useful life is reported in the income statement under the expense category, which corresponds to the function of the intangible asset.

Intangible assets with an indefinite useful life are subject to an impairment test at least once a year at the level of the individual asset or at the level of the cash-generating unit. There is no scheduled amortisation. The useful life of these intangible assets is to be reviewed at least once a year to check that the indefinite useful life is still justified. If this is not the case, amending the assessment from an indefinite useful life to a definite useful life is carried out on a prospective basis.

6 Property, plant and equipment

Property, plant and equipment are carried at cost of purchase and sales less accumulated scheduled depreciation and unscheduled depreciation in accordance with the purchase cost model. Depreciation is carried out on a straight line basis over the expected useful life in accordance with the component approach as follows:

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

If necessary, unscheduled depreciation is recognised in accordance with IAS 36. Here the book values of the property, plant and equipment are compared with the respective recoverable amounts if there are indications for impairment.

With regard to self-constructed property, plant and equipment, in addition to material and personnel costs, the conversion costs include an appropriate portion of overheads. Repair and maintenance expenses are recognised in the income statement when incurred. Extensions and material improvements are capitalised. Interest cost is recognised as an expense. Government grants reduce the cost of purchase or conversion.

7 Leasing

Whether or not an agreement is or contains a leasing relationship is determined on the basis of its economic content. Here an assessment is required as to whether the performance of the contractual agreement is dependent on the use of a specific asset or specific assets and whether the agreement grants the right to use the asset (IFRIC 4.6).

If assets are rented or leased and the Biotest Group essentially bears all the risk and rewards relating to the leased assets, such contracts are classified as finance leases. These are capitalised at the lower of the fair value and present value of the minimum lease payments at the time of contract conclusion in accordance with IAS 17 "Leases". Amortisation and depreciation are carried out over the expected useful life. Where necessary, unscheduled depreciation is recognised in accordance with IAS 36. The corresponding payment obligations under the future lease payments are correspondingly recognised on the liabilities side of the balance sheet. The interest element of lease payments is recognised in the income statement as interest expense over the term of the lease agreement.

The assets capitalised in the context of finance leases mainly relate to production facilities and software.

Unless all the relevant risks and rewards related to the leased item transfer to the Biotest Group under lease agreements, the lease is accounted for as an operating lease. The lease payments are recognised as expense when they are incurred.

8 Impairment

Should facts or circumstances imply the impairment of long-lived assets or an annual impairment test of an asset be required, the recoverable amount which represents the higher of the net sale value and its value in use is determined.

The recoverable amount is determined for each individual asset, unless the asset does not generate any cash flow that is largely independent of those of other assets or other groups of assets.

To determine the value in use, the estimated future cash flows are discounted to their present value based on a discount rate before tax which reflects current market expectations relating to the interest rate effect and the specific risks of the asset.

If the recoverable amount is below the book value, the value of the asset is deemed to be impaired and it is written down to the recoverable amount.

Impairment expenses of the ongoing business divisions are recognised in the expense categories that correspond to the function of the impaired asset. In accordance with IAS 1, material amounts are shown as a separate line item in the income statement.

Apart from in relation to goodwill, write-ups up to a maximum of the amortised cost are carried out if estimates are higher than the book value.

9 Inventories

Inventories are carried at cost or at lower recoverable net selling value as of the balance sheet date. The latter corresponds to the estimated selling price which may be recovered in the course of the ordinary business reduced by expected completion or selling costs. The conversion cost is determined on the basis of the "first in first out" method or weighted average. In addition to the directly allocatable individual costs, pursuant to IAS 2 "Inventories", the production cost includes appropriate portions of the overheads allocatable to the production process. These are based on the normal capacity of the production plant without taking account of interest costs.

10 Trade receivables and other assets

Trade receivables and other assets are carried at nominal value. Accounts receivable denominated in foreign currencies are translated at the closing rates. Foreign exchange gains or losses are recognised as income or expenses. Default and transfer risks are accounted for through the recognition of allowances. The allowances are determined on the basis of experience and individual risk assessment. An allowance is recognised if there is an objective and substantial indication that the Group will not be in a position to collect the accounts receivable. Accounts receivable are taken off the books as soon as they are unrecoverable.

Accounts receivable which arise through application of the percentage of completion method, are reported less payments on account if the production cost already incurred, including the profit portion, exceeds the payments on account received.

11 Cash and cash equivalents

Cash and cash equivalents comprise cash and current account balances, cheques and financial investments which can be disposed of at short notice with maturities of less than three months.

12 Pension provisions

The Biotest Group operates several defined contribution and defined benefit pension plans.

Commitments under defined contribution plans are determined by the contributions to be made in the period, so that in this case no actuarial assumptions are required.

Defined benefit plans are valued on the basis of actuarial opinions in accordance with the projected unit credit method. The pension costs for the financial year are forecast on the basis of the approaches determined at the beginning of the financial year. The parameters included (interest rate, staff turnover rate, salary increases etc.) are anticipated factors.

IAS 19.93A–19.93D has been applied for the first time this financial year. The Biotest Group has decided to stop applying the corridor method under IAS 19.92 to actuarial gains and losses but to report all actuarial gains and losses directly in equity. Under IAS 8.19b), changes in accounting and valuation policies are to be applied retrospectively and the comparative figures for the previous year have been adjusted accordingly.

Any service period costs to be charged retrospectively which arise in a financial year due to a retrospective change in pension commitments are 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 costs are recognised in the income statement as an expense in that period.

13 Other provisions

In accordance with IAS 37, provisions should be recognised when there is a present (legal or constructive) obligation arising out 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.

The provisions are discounted at a rate before tax that reflects the risks specific to the liability, whereby the increase in the provision caused by the passage of time is recognised as interest expense.

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

Long Term Incentive Programme

Biotest AG pursues a business policy focused on the interests of shareholders in terms of the shareholder value principle, which promotes the long-term value enhancement of the Biotest Group. To this end, in August 2005, with the consent of the Supervisory Board, the company decided to set up a Long Term Incentive Plan (LTIP) based on a stock option plan with preference shares for selected senior employees who, through their function within the Group, their decisions, management and actions significantly influence the success of the company. The LTIP was designed to create an incentive system for this important group of employees with regard to the long-term success of the company. However, the granting of preference shares was dependent on the creation of contingent capital, but the required 75% majority of the votes at the extraordinary meeting of preference shareholders was not obtained. As a result, the programme could not be set up in its original form.

With the consent of the Supervisory Board, the company has now developed an alternative plan which no longer provides for the granting of shares, but retains the positive elements of the old programme.

The programme was launched on 1 October 2006 and runs until 31 December 2008.

Participation in the programme is contingent on the participant's personal investment through the purchase of preference shares in Biotest AG. 25% of the acquisition was supported by Biotest AG. Participants were able to either retain or use as their personal investment those preference shares already acquired in 2005 ahead of the then anticipated Long Term Incentive Programme. The personal investment in preference shares is to be held in the custody account until the incentive payment is disbursed.

On expiry of the programme, each beneficiary will receive an incentive payment in cash after the Annual Shareholders' Meeting scheduled for May 2009; this cash payment will depend on the level of own investment, the fixed salary as of 1 October 2006 and the achievement of two performance targets. The performance targets are allocated to factors by which the own investment is multiplied.

The level of the incentive payment is calculated in accordance with the following formula:

$$\frac{\text{own investment x performance factor 1} + \text{own investment x performance factor 2}}{100} \times \text{annual fixed salary as of 1 October 2006} = \text{payment}$$

The level of the performance factors derives from the extent to which the company has achieved agreed performance targets.

Performance target 1 refers to the development of the share price compared to a relevant comparative parameter. Here the performance of Biotest preference shares is compared to shares listed on the SDAX.

Position vs. benchmark (SDAX)	Performance factor 1
Better than 3rd quartile	0.04
Same as median	0.02
Better than 1st quartile	0.01
Worse/same as 1st quartile	0

However, the key criterion for performance factor 1 is that in financial year 2008, the company achieves earnings before interest and tax (EBIT) of at least €5.0 million before taking account of the LTIP. If EBIT remains below €5.0 million in 2008, the factor is 0.

Performance target 2 relates to the average EBIT margin achieved in the years 2006, 2007 and 2008 based on the total of the annual EBIT margins divided by three.

Performance factor 2 is also linked to another key criterion. The factor only comes into effect when the price of Biotest preference shares has outperformed the 1st quartile of the SDAX shares during the term. The calculation is carried out in the same way as for performance factor 1.

Average EBIT margin 2006–2008	performance factor 2
16.0% and higher	0.04
Equal to 12.5%	0.02
At least 9.1%	0.01
Below 9.1%	0

For targets achieved that lie between the values indicated above, the respective factor is determined by linear interpolation.

If both performance criteria are met, on expiry of the performance period a minimum of 2% and a maximum of 8% of the annual fixed salary as of 1 October 2006 is paid out if there is a personal investment of 100 shares.

In addition to the members of the Board of Management, a further 58 (2005: 46) people participate in the Long Term Incentive Programme with a total personal investment of 17,990 (2005: 17,050) preference shares.

The valuation was carried out using the Monte Carlo simulation by external consultants (Towers Perrin, Frankfurt/Main). In the valuation of market conditions as well as non-market conditions pursuant to IFRS 2 "Share-based payment" conditions which affect the incentive payment but are not observable in the market are separated from observable market conditions. The determination of market conditions is undertaken by means of a fair value assessment. As of 31 December 2006, the fair value determining the granting of an incentive payment relating to outperformance of the SDAX peer group amounts to €1,506 per 100 preference shares in the equity and €100 fixed payment. Non-market conditions are taken into account through the addition of performance factor 2, determined on the basis of budget forecasts. The sum of the factors as of 31 December 2006 amounts to 3.398%.

All market parameters that are not directly observable are obtained through statistical estimates. Historical market data is used in the valuation to factor in the volatility. The risk free market interest rate to be used is determined on the basis of the Svesson method parameters published by Deutsche Bundesbank. To determine the number of people likely to leave the programme during the period, a staff turnover rate of 4% was assumed for the beneficiaries.

The total expense up to 2008 was set at €785 thousand on the basis of 31 December 2006.

Under IFRS 2, the balance sheet valuation is treated as a continuation of the programme from 2005 with amended parameters. In the continuation of the programme from 2005, the valuation in the balance sheet as of 31 December 2006 therefore follows on from the value as derived at the time of the Annual Shareholders' Meeting in May 2006 and increases this value to the year-end value of €490 thousand. The period expense therefore amounted to €355 thousand.

14 Financial liabilities

Financial liabilities are reported at loan amount less transaction costs and subsequently carried at amortised cost in accordance with the effective interest rate method. Any difference between the net loan amount and the repayment value is shown over the term of the financial liability in the income statement.

15 Revenue

Revenue from the sale of products is recognised at the time of transfer of economic ownership, that is at the time of transfer of the risks and rewards to the purchaser, based on the respective contractual agreements less any discount and VAT.

Customer-specific construction contracts are accounted for according to the percentage of completion method under IAS 11 "Construction Contracts". The service provided including pro rata results are reported under revenue according to the percentage of completion. The percentage of completion is determined according to the expenses incurred (cost-to-cost method). Contracts are reported under accounts receivable or liabilities according to percentage of completion method.

Where the accumulated performance (contract cost and contract result) exceed payments received on account in an individual case, the construction contracts are reported on the assets side of the balance sheet under accounts receivable according to percentage of completion method. If the balance after deducting payments received is negative, this is reported as a liability under construction contracts on the liabilities side of the balance sheet as liabilities according to percentage of completion method. Anticipated contract losses which are determined taking account of discernible risks, are covered through write-downs or provisions.

16 Research and development expenses

Research costs are recorded as expense at the time incurred. Development costs are also generally 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 "Intangible assets" are therefore generally not complied with in full. Development costs still incurred after approval by the authorities are not material.

17 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.

18 Interest

Interest is recognised as income or expense when incurred. The interest component contained in the lease payments for finance leases is determined using the effective interest rate method and recognised as interest expense. The effective interest rate method uses a calculation interest rate with which the estimated future cash inflow is discounted over the expected term of the financial instrument to the net book value of the financial asset.

19 Taxes

The actual tax assets and tax liabilities for the current period and for earlier periods are to be valued at the amount at which a refund from or payment to the tax authorities is to be expected. The calculation reflects the tax rates and tax legislation of the respective national tax regulations of the countries in which the Biotest Group operates.

Deferred taxes are recognised for all deductible temporary differences, as yet unused tax loss carryforwards and unused tax credits to the extent that it is probable that taxable income will be available against which the deductible temporary differences and as yet unused tax loss carryforwards and tax credits can be offset.

The book value of deferred tax assets is reviewed on each balance sheet date and reduced by the amount by which it is no longer probable that sufficient taxable income will be available to offset the deferred tax claim in part at least. In addition, deferred tax assets which have not been applied are reviewed on each balance sheet date and carried at the amount according to the probability that a deferred tax asset to be used for any future taxable income.

The respective tax rates or those rates which were already passed by parliament are used to determine current tax expenses and deferred taxes.

Deferred tax assets and deferred tax liabilities are offset against each other, if there are actionable claims for offsetting actual tax refund claims against actual tax liabilities and these refer to income tax with the same tax subject and levied by the same tax authority.

20 Estimates

The preparation of the consolidated financial statements in accordance with IFRS requires the use of estimates when reporting and measuring assets and liabilities. These are reviewed on an ongoing basis. Prospective changes are recorded in the reporting period or in future periods. Assumptions and estimates are made in particular in connection with the measurement of goodwill, provisions, allowances for bad debts and on inventories, the measurement of share-based payments as well as in the determination of the fair values which apply. The material assumptions and parameters for the estimates made are disclosed in the notes.

C Segment Reporting

Information disclosed in the segment report has been prepared in accordance with IAS 14 “Segment Reporting”.

As part of the strategic refocusing, as from financial year 2005, the Biotest Group included the Biotherapeutic segment in its management reporting. The development of monoclonal antibodies in the Biotherapeutic segment is shown separately from the Pharmaceutical segment since both the mode of action and the manufacturing method of the products are completely different.

Segmentation in the Biotest Group is primarily aligned along product lines in accordance with internal reporting; the company is divided into Pharmaceutical, Diagnostic and Biotherapeutic and Corporate segments.

- **Pharmaceuticals:** The Pharmaceutical segment researches, develops, manufactures and distributes drugs on the basis of human blood plasma. The preparations are used to treat diseases of the immune or haemopoietic systems.
- **Diagnostics:** The Diagnostic segment primarily produces and distributes diagnostic preparations for use in medical laboratories and for hygiene monitoring in the industry.
- **Biotherapeutics:** The Biotherapeutic segment researches, develops and produces monoclonal antibodies, including for the treatment of rheumatoid arthritis and multiple myeloma.
- **Corporate:** The costs of the overriding Group management are shown separately in the Corporate segment. Assets contain other financial assets, income tax receivables, deferred tax assets and cash and cash equivalents. Liabilities pertain to bank loans for the financing of assets not assigned to the operating segments, income tax liabilities and deferred tax liabilities. In addition, expenses and earnings that cannot be assigned to other segments due to their uniqueness are reported in the Corporate segment.

The allocation of revenues to business segments (primary segmentation) was effected in accordance with their origination.

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 business segment

€ thousand		Pharma-ceuticals	Diagnostics	Biothera-peutics	Corporate	Total
Revenue with third parties	2006	205,085	76,856	–	–	**281,941**
	2005	160,453	77,162	–	–	**237,615**
Operating profit	2006	47,600	– 640	– 9,851	– 5,723	**31,386**
	2005	28,928	3,366	– 3,711	– 3,301	**25,282**
Income from associates	2006	– 323	–	–	–	**– 323**
	2005	– 304	–	–	–	**– 304**
Assets	2006	281,050	59,434	–	21,575	**362,059**
	2005	271,314	61,819	–	17,880	**351,013**
Investments in associates	2006	1,015	–	–	–	**1,015**
	2005	729	–	–	–	**729**
Capital expenditure	2006	9,575	6,550	–	700	**16,825**
	2005	10,259	5,165	–	–	**15,424**
Liabilities	2006	114,487	37,814	1,426	29,019	**182,746**
	2005	123,013	40,742	894	21,526	**186,175**
Scheduled depreciation	2006	10,771	2,881	1,161	11	**14,824**
and amortisation	2005	10,706	3,156	–	436	**14,298**
Non-scheduled depreciation	2006	335	334	–	–	**669**
and amortisation	2005	–	–	–	–	–
Cash inflow (outflow) from	2006	40,507	3,141	– 9,311	– 7,964	**26,373**
operating activities	2005	27,960	5,690	– 2,190	– 4,686	**26,774**

Segment information by region

€ thousand	Revenue with third parties		Assets		Capital expenditure	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Germany	92,433	86,138	298,367	296,993	15,300	14,776
Rest of Europe	136,016	115,575	61,005	50,969	1,353	583
America	12,099	11,849	3,266	3,110	169	65
Asia	38,178	20,012	– 579	– 59	3	–
Rest of world	3,215	4,041	–	–	–	–
	281,941	**237,615**	**362,059**	**351,013**	**16,825**	**15,424**

There were no material supplies between the individual segments.

D Explanatory Notes to the Income Statement

D1 Revenue

€ thousand	2006	2005
Other revenue	271,756	237,615
Revenue from toll manufacturing	6,463	–
Revenue according to percentage of completion method	3,722	–
	281,941	**237,615**

D2 Cost of materials purchased

€ thousand	2006	2005
Raw materials and supplies	71,748	58,580
Services purchased	11,680	12,665
	83,428	**71,245**

D3 Staff cost

€ thousand	2006	2005
Wages and salaries	60,323	54,532
Social security contributions	11,369	10,331
Pension costs	1,608	1,529
	73,300	**66,392**

Staff cost includes severance pay of €351 thousand (2005: €395 thousand).

The average number of employees in terms of full-time equivalents amounted to 1,118 in financial year 2006 (2005: 1,054). As of 31 December 2006, the Biotest Group employed a staff complement of 1,149 (2005: 1,074) in terms of full-time equivalents.

As of 31 December 2006, the actual number of employees amounted to 1,247 (2005: 1,161).

D4 Research and development expenses

Research and development expenses amounting to €26,078 thousand (2005: €16,872 thousand) were reported in full in the costs of sales in the income statement.

D5 Other operating income

€ thousand	2006	2005
Insurance reimbursements and other refunds	2,515	2,302
Release of deferred liabilities	1,938	660
Release of other provisions	986	1,647
Foreign exchange gains	858	2,244
Other earnings with associated companies	14	2,433
Gains from the disposal of fixed assets	7	30
Reversal of write-downs	6	186
Government grants	–	6
Other	1,491	1,367
	7,815	**10,875**

D6 Other operating expenses

€ thousand	2006	2005
Foreign exchange losses	1,592	955
Losses from the disposal of fixed assets	742	434
Unscheduled depreciation and amortisation	669	–
Provisions for forced discount	584	–
Write-downs of receivables	526	54
Additions to provisions	114	306
Expense for compensation claims	34	1,648
Other expenses in connection with services from associates	15	867
Other	1,853	1,561
	6,129	**5,825**

D7 Financial income

€ thousand	2006	2005
Interest income	300	358
Bank waiver	–	586
Interest from tax refunds due to opposition proceedings	–	456
Other	63	19
	363	**1,419**

D8 Financial expenses

€ thousand	2006	2005
Interest expenses	6,983	10,427
Interest costs syndicated loan agreement (2005: collateral trustee agreement)	1,125	392
Other	1,722	572
	9,830	**11,391**

The syndicated loan agreement concluded in 2005 was ended prematurely in 2006 and replaced with a new agreement with considerably better conditions. For this reason, the structuring costs of the syndicated loan agreement from 2005 to be spread over the term of the agreement had to be released before maturity in the remaining amount of €786 thousand.

D9 Income from associated companies

Income from associated companies amounting to €–323 thousand (2005: €–304 thousand) includes a loss share of €361 thousand (2005: €165 thousand) from the joint venture with BioDarou P.J.S. Co. based in Teheran/Iran.

D10 Income tax

Income tax expense is broken down as shown below:

€ thousand	2006	2005
Taxes in the financial year	5,498	3,606
Current tax income for previous years	– 426	– 940
Current taxes	**5,072**	**2,666**
Deferred taxes	**– 817**	**1,136**
Income tax expense	**4,255**	**3,802**

Applying the nominal income tax rate of 37.9% in 2006 and 2005 respectively, the expected tax expense will vary for financial years 2006 and 2005 from the actual amounts as follows:

€ thousand	2006	2005
Profit before tax	**21,596**	**15,006**
Expected tax expense (37.9%)	**8,185**	**5,687**
Unvalued losses in the financial year	158	261
Utilisation of unvalued loss carryforwards from previous years	– 4,016	– 1,859
Deferred taxes on loss carryforwards from previous years	– 208	– 798
Write-downs on deferred tax assets	–	231
Tax refunds	– 426	– 940
Tax effect from capitalisation of corporation tax credit	45	–
Tax effect from non-deductible expenses	880	1,290
Tax effect from application of foreign tax rates and use of foreign tax losses carried forward	– 146	– 691
Tax effect from tax-free income	– 20	– 301
Tax effect from capital increase costs	–	516
Other effects	– 197	406
Income tax in accordance with income statement	**4,255**	**3,802**

The calculation of the tax rate of 37.9% is based on a corporation tax rate of 25%, a solidarity surcharge of 5.5% and the rate at which trade tax is levied by the municipality of Dreieich (registered office of parent company).

D11 Auditors' expenses

Pursuant to section 285 No. 17 of the German Commercial Code (HGB), the Biotest Group incurred auditors' expenses totalling €316 thousand (2005: €503 thousand). These break down into fees of €195 thousand (2005: €250 thousand) for the audit, €113 thousand (2005: €149 thousand) for tax consultancy services and €8 thousand (2005: €104 thousand) for other audit-related services as well as €0 thousand (2005: €0 thousand) for other services.

E Notes to the Balance Sheet

E1 Intangible assets

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

€ thousand	Goodwill	Patents, licences and similar rights	Leased assets	Payments in advance	Total
Cost of purchase					
Balance as of 31 December 2004	**1,730**	**14,349**	**–**	**–**	**16,079**
Offsetting pursuant to IFRS 3	– 1,513	–	–	–	– 1,513
Additions	–	1,831	1,608	11	3,450
Disposals	–	– 1,792	–	–	– 1,792
Currency translation differences	9	49	–	–	58
Balance as of 31 December 2005	**226**	**14,437**	**1,608**	**11**	**16,282**
Additions	–	2,314	–	–	2,314
Book transfers	–	10	–	– 10	–
Disposals	–	– 681	–	–	– 681
Currency translation differences	– 7	– 42	–	– 1	– 50
Balance as of 31 December 2006	**219**	**16,038**	**1,608**	**–**	**17,865**
Accumulated depreciation					
Balance as of 31 December 2004	**1,513**	**8,412**	**–**	**–**	**9,925**
Offsetting pursuant to IFRS 3	– 1,513	–	–	–	– 1,513
Depreciation in the financial year	–	2,434	161	–	2,595
Disposals		– 704			– 704
Currency translation differences		49	– 1		48
Balance as of 31 December 2005	**–**	**10,191**	**160**	**–**	**10,351**
Depreciation in the financial year	–	1,096	387	–	1,483
Unscheduled depreciation and amortisation	–	–	669	–	669
Book transfers	–	1		–	1
Disposals	–	– 69	–	–	– 69
Currency translation differences	–	– 39	1	–	– 38
Balance as of 31 December 2006	**–**	**11,180**	**1,217**	**–**	**12,397**
Book value as of					
31 December 2005	226	4,246	1,448	11	5,931
31 December 2006	**219**	**4,858**	**391**	**–**	**5,468**

There are contractual obligations amounting to €1,482 thousand for the acquisition of intangible assets.

The additions in patents, licences and similar rights in the financial year amounting to €701 thousand (2005: €0 thousand) relate to payments for ERP software. At €1,593 thousand, the additions to leased assets in financial year 2005 pertained to software.

Disposals in patents, licences and similar rights relate essentially to expenses incurred in the previous year for the introduction of a new enterprise resource management system, which in future will no longer be usable due to the new IT strategy. Furthermore, in this regard unscheduled depreciation of €669 thousand was recognised on leased intangible assets.

The following items in the income statement include planned depreciation and unscheduled depreciation in the financial year:

€ thousand	2006	2005
Cost of sales	97	132
Distribution expense	379	1,528
Administrative expenses	688	668
Research and development expenses	319	267
Other operating expenses	669	–
	2,152	**2,595**

In the previous year, intangible assets with a book value of €384 thousand as of the balance sheet date served as collateral for liabilities to banks. No intangible assets were used as collateral for the liabilities to banks in the new syndicated loan agreement signed in 2006.

The goodwill acquired during mergers as well as the remaining intangible assets with an indefinite useful life were allocated to the cash generating units which correspond to the four segments and two production companies and tested for impairment.

The book values for goodwill and intangible assets with an indefinite useful life are allocated to the individual cash generating units as follows:

Companies in the Biotest Group	Cash generating unit	Intangible assets	Book value as of 31 December 2006 in € thousand
Heipha Dr. Müller GmbH	Heipha Dr. Müller GmbH	Goodwill	155
Biotest Diagnostics Corp.	Diagnostics	Goodwill	64
Biotest K.K.	Diagnostics	Concessions	1
			220

The recoverable amount of the respective cash generating unit is determined through the calculation of a value in use on the basis of cash flow forecasts based on a one to five-year business plan drawn up by the company management. The after-tax discount rates of between 7% and 9% are based on the relevant weighted average cost of capital (WACC). The underlying growth rate in the calculation depends on the particular business and is between 0% and 2%. Necessary write-downs are determined by comparing the book value of the cash generating unit with the recoverable amount.

In the course of the annual impairment test, there was no requirement for any write-down on the individual cash generating units.

E2 Property, plant and equipment

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

€ thousand	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 as of 31 December 2004	**102,062**	**35,546**	**62,660**	**35,391**	**14,311**	**249,970**
Additions	965	485	2,402	610	7,512	11,974
Book transfers	5,681	1,442	–	–	– 7,123	–
Disposals	–	– 1,237	– 2,676	– 127	– 7	– 4,047
Currency translation differences	33	68	39	10	–	150
Balance as of 31 December 2005	**108,741**	**36,304**	**62,425**	**35,884**	**14,693**	**258,047**
Additions	1,054	1,494	4,422	89	7,451	14,510
Book transfers	–	13,774	3,539	109	– 17,421	1
Disposals	– 1,606	– 172	– 1,205	–	– 1	– 2,984
Currency translation differences	– 8	– 45	– 36	– 7	–	– 96
Balance as of 31 December 2006	**108,181**	**51,355**	**69,145**	**36,075**	**4,722**	**269,478**
Accumulated depreciation						
Balance as of 31 December 2004	**32,316**	**27,376**	**37,597**	**5,240**	**–**	**102,529**
Depreciation in the financial year	2,322	1,570	4,652	3,159	–	11,703
Book transfers	–	–	–	–	–	–
Disposals	–	– 1,080	– 2,174	– 110	–	– 3,364
Currency translation differences	55	41	41	4	–	141
Balance as of 31 December 2005	**34,693**	**27,907**	**40,116**	**8,293**	**–**	**111,009**
Depreciation in the financial year	2,924	2,271	4,957	3,190	–	13,342
Book transfers	–	–	– 1	–	–	– 1
Disposals	– 345	– 129	– 991	–	–	– 1,465
Currency translation differences	– 5	– 36	– 29	– 6	–	– 76
Balance as of 31 December 2006	**37,267**	**30,013**	**44,052**	**11,477**	**–**	**122,809**
Book value as of						
31 December 2005	74,048	8,397	22.309	27,591	14,693	147,038
31 December 2006	**70,914**	**21,342**	**25.093**	**24,598**	**4,722**	**146,669**

State grants for the purchase or manufacture of assets reduce the cost of purchase or conversion costs. In financial year 2006, the accumulated reduction amounted to €643 thousand (2005: €584 thousand).

Assets capitalised as finance leases primarily relate to production facilities of Biotest AG for plasma fractionation and sterile final fill. The sterile final fill was completed in 2002 and depreciation was recorded for the first time in the same year. The plasma fractionation facility started operations in 2004. The term of the leasing contracts for the two facilities amounts to 8 years in each case. Biotest may terminate the contracts with three months' notice. The earliest possible date, however, is a date on which at least 40% of the contractual term has passed. Biotest only has the right of termination prior to expiry of 90% of the contractual term if Biotest provides evidence of exceptional circumstances with regard to the possibility or ability to utilise the facilities. After expiry of the contracts, Biotest may purchase the facilities at market value.

In 2005, property, plant and equipment with a book value of €99,868 thousand as of the balance sheet date served as collateral for liabilities to banks. No property, plant and equipment was used as collateral for liabilities to banks in the new syndicated loan agreement from 2006.

Facilities under construction primarily include payments in advance of €4,687 thousand (2005: €14,655 thousand) for the expansion of the IG-CP facility (facility for chromatographic purification of immunoglobulins) and the adjustment of production functions.

E3 Investments in affiliates

Investments in affiliates amounting to €100 thousand break down as follows:

€ thousand	2006	2005
Biotest Hycon GmbH	50	–
Biotest Immobilien Verwaltungs GmbH	25	–
Biotest Immobilien GmbH & Co. KG	25	–
	100	**–**

Biotest Hycon GmbH is a wholly-owned subsidiary of Biotest AG and Biotest Immobilien Verwaltungs GmbH as well as Biotest Immobilien GmbH & Co. KG are wholly-owned subsidiaries of Biotest Pharma GmbH. These companies are not operationally active and are therefore not consolidated for negligibility reasons.

E4 Investments in associates

Investments in associates refer to the 49% stake held by Biotest Pharma GmbH in BioDarou P.J.S. Co. with registered office in Teheran/Iran which is valued using the equity method.

In the first stage, the partners in the joint venture intended for the company to gradually provide equity of up to €4 million. The respective required shareholder resolutions were adopted separately according to the financial requirement. To date, Biotest Pharma GmbH has paid a contribution of €796,572. The capital of BioDarou P.J.S. Co. amounts to 17 billion rials and is fully paid up.

The joint venture had the following assets and liabilities as of 31 December 2006:

The value of the non-current assets amounted to €4,544 thousand (2005: €4,983 thousand) as of 31 December 2006; the value of current assets amounted to €1,693 thousand (2005: €817 thousand) as of 31 December 2006.

The value of non-current liabilities amounted to €3,410 thousand (2005: €693 thousand) as of 31 December 2006; the value of current liabilities amounted to €1,891 thousand (2005: €3,874 thousand) as of 31 December 2006.

Operating expenses amounted to €382 thousand (2005: €1,820 thousand) in financial year 2006, while operating income in financial year 2006 amounted to €0 thousand (2005: €1,512 thousand).

E5 Other financial assets

Other financial assets comprise the following:

€ thousand	2006	2005
Bond funds ("financial asset at fair value through profit and loss")	177	184
Fixed-income securities ("held-to-maturity")	137	166
Loans to employees ("loans and receivables")	27	30
	341	**380**

In financial year 2005, €184 thousand previously reported under "available-for-sale" was reclassified as "financial assets at fair value through profit and loss"; no book value transfers were carried out in the current financial year.

The fair value of the "financial assets at fair value through profit and loss" category comprises various positions, whose fair value is determined in different ways. The major portion comprises bond funds, the fair value of which as of 31 December 2006 was advised by the custodial bank in writing. Another component in this position is life assurance cover capital valued by the insurance company as of 31 December 2006 using actuarial methods.

The fair value of the "held-to-maturity" category, which includes fixed-term deposits, corresponds to the nominal value.

The "loans and receivables" category includes loans to employees; the fair value is set at the nominal value.

E6 Deferred tax assets and deferred tax liabilities

The deferred tax assets and deferred tax liabilities refer to the following items on the balance sheet:

€ thousand	Assets		Equity and liabilities		Net	
	2006	2005	2006	2005	2006	2005
Intangible assets	129	25	235	618	– 106	– 593
Property, plant and equipment	19	64	15,317	15,484	– 15,298	– 15,420
Other financial assets	243	434	62	71	181	363
Inventories	6,056	2,756	44	48	6,012	2,708
Accounts receivable	12	215	2,525	547	– 2,513	– 332
Provisions	260	1,519	3,257	36	– 2,997	1,483
Financial liabilities	7,199	8,717	–	48	7,199	8,669
Other liabilities	5,254	8	–	514	5,254	– 506
Other balance sheet items	4,182	4,789	2	2	4,180	4,787
Tax value of the loss carried forward	4,656	4,729	–	–	4,656	4,729
Total	**28,010**	**23,256**	**21,442**	**17,368**	**6,568**	**5,888**
Less netted deferred tax assets and liabilities	– 18,772	– 15,086	– 18,772	– 15,086	–	–
Deferred tax assets/liabilities	**9,238**	**8,170**	**2,670**	**2,282**	**6,568**	**5,888**

Deferred taxes have not been recognised for tax loss carryforwards of €4,566 thousand (2005: €7,925 thousand) 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 €4,406 thousand (2005: €7,728 thousand) are attributable to German companies and €160 thousand (2005: €197 thousand) to foreign companies. At present, loss carryforwards can be carried forward for an unlimited time in Germany.

E7 Inventories

€ thousand	2006	2005
Raw materials and supplies	18,186	14,905
Work in progress	66,718	73,451
Finished goods and merchandise	19,851	20,006
	104,755	**108,362**

Write-downs on inventories amounted to €3,910 thousand (2005: €4,397 thousand) as of the balance sheet date; after the write-down to the net realisable value, the corresponding inventories had a residual book value of €13,711 thousand (2005: €7,571 thousand).

In the previous year, inventories with a book value of €98,547 thousand as of the balance sheet date served as collateral for liabilities to banks. No inventories were used as collateral for liabilities to banks in the new syndicated loan agreement signed in 2006.

Inventories with a reach of more than one year are recorded at a book value of €0 thousand (2005: €5,044 thousand).

Impairment losses on the inventories broke down as follows in the financial year:

€ thousand	2006	2005
As of 1 January	**4,397**	**6,618**
Utilisations	– 2,746	– 2,945
Releases	– 112	– 1,181
Additions	2,376	1,899
Foreign exchange differences	– 5	6
As of 31 December	**3,910**	**4,397**

E8 Trade receivables

All trade receivables are due within one year and comprise the following items:

€ thousand	2006	2005
Trade receivables (gross)	100,479	79,444
Sale of receivables	– 22,435	– 9,563
Allowance for bad debts	– 4,142	– 3,802
	73,902	**66,079**

Under factoring contracts, Biotest AG and Biotest Hellas MEPE disposed of receivables in the amount of €22,435 thousand (2005: €9,563 thousand) as of the balance sheet date. The factoring programme provides for the sale of domestic and foreign accounts receivables of Biotest AG, whereby each customer has an individual credit limit. Furthermore, these contracts provide for the sale of receivables from private hospitals in Greece of Biotest Hellas MEPE up to a volume of €8 million. Provided that the receivables are legally valid, the factor carries the risk of the customer's inability to pay the receivables purchased (risk of default). Accounts receivable with a book value of €0 thousand (2005: €23,219 thousand) served as collateral for liabilities to banks as of the balance sheet date.

Trade receivables include accounts receivable according to percentage of completion method amounting to €3,722 thousand (2005: €0 thousand). These relate to customer-specific construction contracts which are valued at the corresponding cost of sales incurred including pro rata profit.

E9 Cash and cash equivalents

€ thousand	2006	2005
Bank balances	8,806	7,512
Cash on hand	97	77
	8,903	**7,589**

E10 Other assets

€ thousand	2006	2005
Accounts receivable from the factoring company	6,681	2,879
Accounts receivable from associated companies	1,220	217
Value-added and other tax claims	828	438
Deferred items	632	737
Payments in advance	97	64
Accounts receivable from cooperation partners	–	188
Other receivables	1,029	1,222
	10,487	**5,745**

Other assets of €37 thousand (2005: €263 thousand) refer to items with a term of more than one year.

As of the balance sheet date in 2005, as the lessor, the Biotest Group capitalised finance lease claims of €182 thousand in relation to the leasing of laboratory devices. The underlying lease agreements typically have a term of 5 years. Before applying discounting procedures, the repayment amounts stood at €215 thousand. Of these, €73 thousand were due in less than one year and the remaining amount of €142 thousand in the following four years. In financial year 2006, the corresponding lease agreements were terminated and the lease receivables written down in full.

According to the valid operating lease agreements with customers as of the balance sheet date in 2005, an amount of €91 thousand in lease payments would have been collected in 2006 and a total of €111 thousand in the following four years, making €202 thousand overall. In the current financial year the corresponding lease agreements were terminated and therefore no lease payments will be collected in future.

E11 Equity

Two capital increases took place in financial year 2005. On 3 August 2005, the subscribed capital was increased by €2,916,224 (1,139,185 ordinary shares) and again on 18 October 2005 by €3,899,372 (856,525 ordinary shares and 666,667 preference shares).

The subscribed capital is fully paid up and as in the previous year amounted to €27,295,596 (ordinary shares: €15,348,928; preference shares: €11,946,668) as of 31 December 2006. It is divided into 5,995,675 ordinary shares of no-par value and 4,666,667 preference shares of no-par value and without voting rights. Certification of shares is precluded. The theoretical nominal value of these shares therefore amounted to €2.56.

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

As of the balance sheet date, the Dr. Schleussner family held more than 50% of the ordinary shares and Kreissparkasse Biberach more than 10% as well as Deka Investment GmbH, Baden-Württembergische Investmentgesellschaft mbH and BayernInvest Kapitalanlagegesellschaft mbH hold over 5%. The remaining ordinary shares and 100% of the preference shares are in free float on the stock market. The proposed appropriation of profits provides for a dividend distribution of €2,839 thousand in 2006. The dividend on ordinary shares amounts to €0.24/share and on preference shares €0.30/share. Preference shares carry minimum dividend rights of €0.11 per share. Moreover, should holders of ordinary shares receive a dividend of more than €0.11/share, holders of preference shares receive an additional dividend of €0.06/share. If no dividend is paid on a preference share in one year, this must be paid in the following year. If the dividends are not paid in the second year, the preference shares are furnished with voting rights (see Section140 (2) of the German Stock Corporation Act (AktG)).

By resolution of the Annual Shareholders' Meeting held on 11 May 2006, Biotest AG was authorised to purchase own ordinary shares and/or preference shares pursuant to Section 71 (1) No. 8 of the German Stock Corporation Act (AktG) until 10 November 2007 up to 10% of the capital stock at the time of purchase in the amount of €27,296 thousand. Moreover, with the consent of the Supervisory Board, the Board of Management was authorised by resolution of the Annual Shareholders' Meeting on 20 May 2005 to increase the capital stock of Biotest AG by up to €10,240 thousand through the issue of new ordinary and preference shares in return for contributions in cash or in kind (authorised capital). Following the two capital increases on 3 August 2005 and 18 October 2005, the authorised capital amounts to €3,424 thousand.

Issuance can take place once or on several occasions, whereby the shareholders statutory subscription rights may be excluded. In addition, the Board of Management was authorised with the consent of the Supervisory Board to issue profit-sharing rights until 7 July 2009 with a nominal amount of up to €50,000 thousand. Use was made of this authorisation in financial year 2005 in the amount of €10,000.

Earnings per share are determined by dividing the consolidated profit attributable to all shareholders by the weighted average number of shares outstanding. In 2005, the number of shares outstanding at Biotest AG changed:

	2006	2005
Profit for the period (in € thousand)	16,041	10,196
Additional dividend on preference shares (in € thousand)	– 280	– 280
Consolidated earnings adjusted for additional dividend rights (in € thousand)	**15,761**	**9,916**
Number of shares outstanding (corresponds to weighted average)	10,662,342	8,771,730
Earnings per share (in €)	**1.48**	**1.13**
Additional dividend rights per preference share (in €)	0.06	0.06
Earnings per preference share (in €)	1.54	1.19

Statement of changes in equity

of the Biotest Group for the period from 1 January to 31 December 2006

€ thousand	Subscribed capital	Share premium	Accumulated differences from currency translations	Consolidated earnings and reserves	Equity before minority interest	Minority interests	Total equity
As of 1 January 2005	**20,480**	**78,964**	**– 926**	**7,507**	**106,025**	**1,941**	**107,966**
Gains/losses recognised immediately in equity	–	– 711	287	– 4,135	– 4,559	–	– 4,559
Profit for the period	–	–	–	10,196	10,196	1,008	11,204
Total result	**–**	**– 711**	**287**	**6,061**	**5,637**	**1,008**	**6,645**
Capital increase	6,816	44,804	–	–	51,620		51,620
Dividend payments for 2004	–	–	–	– 880	– 880	– 513	– 1,393
As of 31 December 2005	**27,296**	**123,057**	**– 639**	**12,688**	**162,402**	**2,436**	**164,838**
As of 1 January 2006	**27,296**	**123,057**	**– 639**	**12,688**	**162,402**	**2,436**	**164,838**
Gains/losses recognised immediately in equity	–	– 135	– 224	112	– 247	– 13	– 260
Profit for the period	–	–	–	16,041	16,041	1,300	17,341
Total result	**–**	**– 135**	**– 224**	**16,153**	**15,794**	**1,287**	**17,081**
Dividend payments for 2005	–	–	–	– 1,559	– 1,559	– 1,047	– 2,606
As of 31 December 2006	**27,296**	**122,922**	**– 863**	**27,282**	**176,637**	**2,676**	**179,313**

E12 Pension provisions and similar obligations

The benefits are based on the employee's length of service and salary. 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-time payment upon retirement.

Pension provisions and similar obligations consist of the following:

€ thousand	2006	2005
Pensions	41,918	41,068
Similar obligations	1,205	1,295
	43,123	**42,363**

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

€ thousand	2006	2005
Present value of retirement benefit obligations funded by provisions	**42,843**	**42,095**
Present value of retirement benefit obligations funded by pensions liability insurance	956	897
Fair value of plan assets (employer's pension liability insurance)	– 676	– 629
Present value of retirement benefit obligations	**43,123**	**42,363**

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

€ thousand	2006	2005
Pension provisions as of 1 January	**42,363**	**36,520**
Pension payments in the reporting period	– 2,057	– 1,842
Liquidation of pension provisions for persons no longer eligible for benefits	–	– 10
Pension costs	3,011	2,153
Actuarial gains (2005: losses) recognised in equity	– 194	5,542
Pension provisions as of 31 December	**43,123**	**42,363**

Defined benefit plans generated overall expenses of €3,011 thousand during the reporting year (2005: €2,153 thousand), comprising the following components:

€ thousand	2006	2005
Current service cost	1,372	511
Changes in the fair value of plan assets (employer's pension liability insurance)	– 47	137
Interest expense	1,686	1,505
	3,011	**2,153**

In financial year 2006, actuarial gains amounting to €194 thousand (2005: losses of €6,544 thousand) were recognised in equity. Due to the changes in valuation method applied, the previous year 2005 included cumulated acturial losses from previous years amounting to €1,002 thousand as well as actuarial losses from 2005 amounting to €5,542 thousand.

In the financial year, €5,319 thousand (2005: €4,869 thousand) was recorded as an expense for defined contribution pension plans.

Pension costs are included in the following items in the income statement:

€ thousand	2006	2005
Cost of sales	571	140
Distribution expense	304	191
Administrative expense	256	133
Research and development expenses	183	47
Other operating expenses	58	–
Financial expenses	1,639	1,642
	3,011	**2,153**

The calculations are based on the following actuarial assumptions:

in %	2006	2005
Discount rate as of 31 December	4.1–4.5	3.6–5.0
Expected return on plan assets	4.0–4.3	4.0
Salary progression	1.5	1.5
Pension progression	1.5	1.5
Staff turnover rate	3.0–4.5	1.5

The actuarial assumptions are based on empirical values.

The following table shows the reconciliation account for the present value of the defined benefit obligation (DBO):

€ thousand	2006	2005
Defined benefit obligation as of 1 January	**42,992**	**37,287**
Current service cost	1,372	511
Interest expense	1,686	1,505
Actuarial gains and losses	– 194	5,542
Pensions paid	– 2,057	– 1,853
Defined benefit obligation as of 31 December	**43,799**	**42,992**

The following table shows the reconciliation account for the present value of the plan assets:

€ thousand	2006	2005
Defined benefit obligation as of 1 January	**629**	**766**
Expected return on plan assets	26	43
Actuarial gains and losses	5	8
Employer's contribution	17	–
Plan participants' contributions	– 1	– 188
Fair value of plan assets as of 31 December	**676**	**629**

The actual income from the plan assets amounted to €26 thousand in the financial year (2005: €25 thousand).

As in the previous year, the plan assets exclusively comprise insurance contracts.

IAS 19.120A p) requires the presentation of an overview of the current year and preceding four years.

€ thousand	2006	2005	2004	2003	2002
Present value of the defined benefit obligation (DBO)	43,799	42,992	37,286	34,376	35,194
Fair value of plan assets	676	629	766	770	671
Expectation-related adjustments:					
a) plan liabilities	1,501	2,226	3,701	– 1,653	– 1,047
b) plan assets	– 32	– 8	7	37	– 14

The costs for defined benefit obligation plans comprise the following:

€ thousand	2006	2005
Defined benefit obligation plan	219	151
Employer contributions to statutory pension insurance	5,100	4,718

E13 Other provisions

€ thousand	Partial retirement	Other staff-related cost	Other	Total	Of which short-term
As of 31 December 2005	**4,932**	**3,994**	**3,518**	**12,444**	**8,122**
Additions	96	6,349	2,176	**8,621**	
Drawdowns	– 1,371	– 3,491	– 1,129	**– 5,991**	
Releases	– 15	– 121	– 850	**– 986**	
Currency translation differences	–	– 15	– 3	**–18**	
Addition of accrued interest	281	50	–	**331**	
As of 31 December 2006	**3,923**	**6,766**	**3,712**	**14,401**	**10,903**

The impact of changes to the discount rate on the present value of the previous year amounts to €440 thousand.

The corresponding provision has been recognised pursuant to the collective agreement to promote partial retirement of Bundesarbeitgeberverbandes Chemie e.V., which runs until 31 December 2009. In addition to obligations for current partial retirement arrangements (performance backlog, top-up amounts and severance payments if required), the provision includes funds for anticipated future drawdowns (top-up amounts and severance payments where necessary).

The other staff-related provisions essentially comprise provisions for profit sharing, anniversaries and contributions to the employer's liability insurance association.

Other provisions include provisions for the long-term incentive programme as well as the negative fair value of derivative financial instruments, the utilisation of guarantees, process risks and similar facts.

At €499 thousand, the release of other provisions essentially refers to reduced risks from negative fair values of derivative financial instruments.

E14 Financial liabilities

€ thousand	2006	2005
Non-current liabilities		
Collateralised liabilities to banks	41,209	40,686
Unsecured subordinated loans	9,713	9,713
Unsecured other loans	390	401
Liabilities from finance leases	13,341	18,362
	64,653	**69,162**
Current liabilities		
Collateralised liabilities to banks	–	–
Other collateralised liabilities to banks	9,607	11,549
Short-term portion of collateralised liabilities to banks	**9,607**	**11,549**
Other collateralised loans	–	–
Other unsecured loans	1,845	1,618
Other loans	**1,845**	**1,618**
Short-term portion of liabilities from finance leases	5,180	4,938
Unsecured liabilities to banks	37	1,193
	16,669	**19,298**

In October 2006, the existing syndicated loan agreement was replaced with a new agreement for a long-term financing with a seven year term at significantly better conditions.

The syndicated loan agreement includes a short-term tranche of €35 million as well as a long-term tranche of the same amount with full amortisation within seven years.

Information on hedging exchange rate and interest risks is given in section F1 “Financial instruments”.

Via the profit-participation certificate dated 25 November 2005, unsecured subordinated loans include a bullet loan in the amount of €9,713 thousand (2005: €9,713 thousand), for which a subordinated claim was extended. The nominal amount of the loan totals €10,000 thousand. The return on this loan depends on the key financial figures. The loan was disbursed minus a discount.

In connection with the syndicated loan agreement, Biotest AG is obliged to maintain certain financial ratios. These apply to both a certain ratio of net debt to EBITDA, as well as to a certain ratio of net debt to liable equity. These financial ratios are determined quarterly to the end of the quarter based on the annual or quarterly consolidated financial statements.

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

€ thousand	Total	< 1 year	1–5 years	> 5 years
Collateralised liabilities to banks:				
Euro – floating between 4.6 to 8.3%	35,731	5,731	20,000	10,000
Euro – fixed between 3.5 to 6.4%	15,085	3,876	8,579	2,630
Other loans:				
Euro – floating between 5.0 to 6.6%	1,165	1,165	–	–
Euro – fixed between 3.3 to 6.0%	1,070	680	50	340
Liabilities from finance leases:				
Euro – fixed between 3.0 to 7.0%	18,519	5,178	13,341	–
USD – fixed at 11.0%	2	2	–	–
Unsecured loans:				
Euro – floating between 4.7 to 6.9%	9,750	37	–	9,713
	81,322	**16,669**	**41,970**	**22,683**

An increase in interest rates by one percentage point would result in an increase in interest expenses of approximately €0.2 million (2005: €0.2 million).

Liabilities from finance leases are redeemed as follows:

€ thousand	Payment	Interest	Redemption
2006			
Due in less than one year	6,339	1,159	5,180
Due in 1 to 5 years	14,904	1,563	13,341
Due in more than 5 years	–	–	–
	21,243	**2,722**	**18,521**
2005			
Due in less than one year	6,441	1,503	4,938
Due in 1 to 5 years	21,068	2,706	18,362
Due in more than 5 years	–	–	–
	27,509	**4,209**	**23,300**

The syndicated loan agreement and collateral framework agreement concluded in July 2005 with the then group of banks was replaced in October 2006 by a syndicated loan agreement. The collateral framework agreement was terminated. Collateral for the new syndicated loan agreement was provided by a charge of €95 million on real estate belonging to Biotest AG, Biotest Pharma GmbH and Biotest Grundstücksverwaltungs GmbH as third party assignor. The appointment of a global land charge on real estate belonging to the company and its subsidiaries of €100 million was notarised on 18 March 2003 as part of an earlier collateral trustee agreement.

E14 Other liabilities

€ thousand	2006	2005
Commission payable	5,676	4,275
Value added tax liabilities	3,416	3,319
Deferred liabilities	1,277	1,122
Wage tax liabilities	1,153	924
Social security liabilities	636	1,527
Liabilities from other taxes	5	136
Other liabilities	610	883
Deferred items	232	479
	13,005	**12,665**

Other liabilities of €6 thousand (2005: €294 thousand) have a remaining time to maturity of over one year.

F Other Explanatory Notes

F1 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 directives are exclusively entered into with banks with impeccable creditworthiness.

Currently Biotest does not comply with all requirements of IAS 39 (revised 2004) for hedge accounting. Consequently, all gains and losses recorded when derivative financial instruments used to hedge interest rate and currency risks are marked to market have been accounted in the income statement.

Financial instruments are recognised when the corresponding contracts are entered into. Financial instruments are accounted for at cost and then valued at the corresponding market value as of 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.

The market value of derivative financial instruments are shown in the balance sheet under other assets and other provisions respectively. As of 31 December 2006, €197 thousand (2005: €65 thousand) was reported under other assets and €362 thousand (2005: €695 thousand) 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' creditworthiness. Moreover, part of the German accounts receivable and selected foreign accounts receivable are sold to factoring companies or banks.

As of the reporting date, there were no significant customer groups representing a particular credit risk.

For some customers in selected countries, credit insurance is in place with various companies.

Interest rate risk

The company is also exposed to interest rate risks resulting from existing loans (see also section E14 “Financial liabilities”). Interest rate hedging instruments were entered into to minimise such risks.

The following interest rate hedging transactions were in place as of 31 December 2006:

€ thousand	Nominal volume		Market values	
	2006	2005	2006	2005
Interest rate caps	45,113	45,113	– 74	– 307
Interest rate/currency swaps	11,181	16,107	57	– 353
	56,294	**61,220**	**– 17**	**– 660**

The nominal volume is the sum of all purchase and sale 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 for liquidation of the derivative contracts on the balance sheet date.

The following times to maturity were in place for hedging transactions (nominal volumes) as of 31 December 2006:

€ thousand	2006	Time to maturity		
	Total	< 1 year	1–5 years	> 5 years
Interest rate caps	45,113	–	45,113	–
Interest rate/currency swaps	11,181	256	7,925	3,000
	56,294	**256**	**53,038**	**3,000**

€ thousand	2005	Time to maturity		
	Total	< 1 year	1–5 years	> 5 years
Interest rate caps	45,113	–	35,113	10,000
Interest rate/currency swaps	16,107	2,653	6,391	7,063
	61,220	**2,653**	**41,504**	**17,063**

To hedge against interest rate risk, floating rate financial liabilities amounting to €6.1 million (2005: €13.1 million) were swapped for fixed-interest positions. Interest in a range of 3.1% to 3.7% was paid on fixed-rate financial liabilities.

Under the interest rate caps, financial liabilities with a volume of €25.1 million (2005: €25.1 million) are also secured against an increase in variable interest rates via agreed threshold values of between 3.5% and 5.1%.

Foreign currency risks from operating activities

The Biotest Group is exposed to currency risks that mainly arise from an imbalance in the global cash flow. This imbalance primarily results from higher sales in US dollars in the face of lower purchases in US dollars. The Group protects itself as a matter of principle against identifiable future currency risk when it anticipates such exposure. In addition, the Biotest Group selectively hedges risks in the balance sheet. The Group utilises opportunities to naturally offset currency risks as well as currency futures for the management of currency risks.

As of the balance sheet date, the following currency options were in place:

€ thousand	Nominal volume		Market values	
	2006	2005	2006	2005
Currency option contracts	10,827	2,543	– 148	31

As of the balance sheet date, the remaining times to maturity for currency options and currency futures (nominal volumes USD 3,000 thousand, HUF 960,000 thousand and GBP 4,200 thousand; 2005: USD 3,000 thousand) are as follows:

€ thousand	Total	Time to maturity < 1 year
31 December 2006	**10,827**	**10,827**
31 December 2005	2,543	2,543

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.

F2 Contingencies

€ thousand	2006	2005
Other contingent liabilities	12,579	342
	12,579	**342**

Contingent liabilities are potential obligations which result from past events and whose existence has to be confirmed by the occurrence or non-occurrence of one or more uncertain future events, which are not within the full control of the company. Contingent liabilities can also stem from current obligations resulting from past events, which however, are not recorded because either the outflow of resources plus losses of financial benefit is not probable or the amount of the obligation cannot be estimated with sufficient reliability.

In financial year 2006, Biotest AG filed a claim for equitable relief on spirit duty on the denatured alcohol used in plasma fractionation; the competent custom authorities have not yet made a decision about the application. The company inadvertently failed to file the new application for the release on transfer of pharmaceutical production from Biotest Pharma GmbH to Biotest AG. As a result of the correct use of the alcohol, Biotest AG continues to assume that the application will be forthcoming and there will be no adverse impact on income.

F3 Other financial commitments

€ thousand	in 2007	2008–2011	From 2012	Total
Commitments to acquire tangible assets	9,229	–	–	**9,229**
Commitments to acquire intangible assets	1,482	–	–	**1,482**
Future payments from rent, lease and operating leases	2,119	3,244	793	**6,156**
Other financial commitments	99	–	–	**99**
	12,929	**3,244**	**793**	**16,966**

Payments for the approved investment in fixed assets will be made within one year.

Biotest rents and leases operating equipment. Operating leases include vehicle and office equipment with a base rental term of two to five years. In 2006, expenditure from rental and operating lease contracts amounted to €4,063 thousand (2005: €3,862 thousand).

F4 Related party relationships

Disclosure is required for the Biotest Group's relationship with associated companies BioDarou P.J.S. Co. Teheran/Iran and members of the Board of Management and the Supervisory Board and their related persons.

a) Associated companies

In financial year 2006, the Biotest Group recorded purchases amounting to €0 thousand (2005: €12 thousand) from the associate BioDarou P.J.S.Co. in Teheran/Iran. Liabilities of the Group to BioDarou amounted to €0 thousand (2005: €0 thousand) as of the balance sheet date.

The company purchased goods and services from the Biotest Group amounting to €1,220 thousand (2005: €2,873 thousand). As of 31 December 2006, a liability of the associated company existed resulting from know-how transfer in the amount of €689 thousand (2005: €414 thousand) as well as another loan amounting to €334 thousand (2005: €0 thousand); the know-how and other loans is to be available to BioDarou permanently. In addition, trade payables existed at the associated company in the amount of €1,220 thousand (2005: €217 thousand).

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 of more than 50% of Biotest AG's ordinary shares. In addition to the Supervisory Board emoluments, there are contracts or relationships under rental and consultancy agreements. As of the balance sheet date, the Biotest Group recorded liabilities of €79 thousand (2005: €102 thousand). The total expenses of Biotest amounted to €65 thousand (2005: €319 thousand). In the previous year, €221 thousand was attributable to interest expenses on shareholder loans.

The law firm Ashurst received €160 thousand (2005: €434 thousand) for advisory services as a related party.

c) Supervisory Board and Management Board

Board members

As of 31 December 2006, the members of the Supervisory Board and the Board of Management additionally serve on statutory Supervisory Boards and comparable control boards of commercial enterprises as follows:

Supervisory Board

Dr. Thorlef Spickschen, businessman, Seeheim
Chairman
Stiftung Orthopädische Universitätsklinik, Heidelberg, Germany
Cytos AG, Zürich, Switzerland
Pharmion Corp., Boulder, USA
EpiCept Corp., Englewood Cliffs, USA (until 7 January 2006)

Dr. Cathrin Schleussner, Biologist, Neu-Isenburg, Germany
Deputy Chairman

Kerstin Birkhahn, graduate engineer (Diplom), Langen, Germany

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

Johannes Hartmann, clerk, Weiterstadt, Germany

Dr. Jochen Hückmann, businessman, Frankfurt/Main, Germany
CEO Merz GmbH & Co. KGaA,
Frankfurt/Main, Germany
(until 30 September 2006)
Chairman of the Merz Group Shareholders' Committee
(since 1 October 2006)
Chairman Merz Group

2006 € thousand	Fixed emoluments	Variable emoluments	Total emoluments
Dr. Thorlef Spickschen (Chairman)	38	5	43
Dr. Cathrin Schleussner (Deputy Chairman)	26	5	31
Kerstin Birkhahn	15	5	20
Reinhard Eyring	18	5	23
Johannes Hartmann	18	5	23
Dr. Jochen Hückmann	23	5	28
	138	**30**	**168**

2005 € thousand	Fixed emoluments	Variable emoluments	Total emoluments
Dr. Thorlef Spickschen (Chairman)	23	3	26
Werner Spinner (Chairman until 20 May 2005)	15	2	17
Dr. Cathrin Schleussner (Deputy Chairman)	26	5	31
Kerstin Birkhahn	15	5	20
Reinhard Eyring	18	5	23
Johannes Hartmann	18	5	23
Dr. Jochen Hückmann	23	5	28
	138	**30**	**168**

Board of Management

Prof. Dr. Gregor Schulz, physician, Umkirch, Germany
Chairman

Dr. rer. pol. Michael Ramroth, lawyer, Mörfelden-Walldorf, Germany
Member of the Board of Management
Atkon AG, Wiesbaden, Germany (until 31 July 2006)

Total remuneration for the members of the Board of Management who actively served in 2006 amounted to €1,092 thousand (2005: €778 thousand).

Of this, fixed remuneration in the amount of €278 thousand relate to Professor Dr. Gregor Schulz, plus allowances, for example, for insurance policies and benefits in kind for a company car in the total amount of €34 thousand. A provision of €151 thousand was recognised for performance-related remuneration.

€257 thousand of the total relate to fixed remuneration for Dr. Michael Ramroth, plus allowances for insurance policies and benefits in kind for a company car totalling €32 thousand. A provision of €140 thousand was recognised for performance-related remuneration.

In addition, Professor Dr. Schulz and Dr. Ramroth each received a non-recurring performance-related payment for capital measures amounting to €100 thousand, for which a provision of €20 thousand each was recognised in 2005 and also reported in this regard.

The employment contracts of both members of the Board of Management include a severance regulation in the event that the contracts are prematurely terminated as a result of a change of control defined below. The severance payment comprises the fixed remuneration until the end of the term plus pro rata bonuses calculated on the average amount of the last two financial years plus a remuneration for the value in use of the company car. If the remaining term is less than three years, the severance payment amounts to triple the annual fixed remuneration plus bonuses and company car remuneration. The entitlement does not arise if the Board of Management employment contract is terminated early for good cause, illness or incapacity for work or if the member of the Board of Management was already aged 60 when the contract terminated or received incentives or advantages from third parties in conjunction with the change of control.

There are no other one-off or recurring commitments in the event of a termination of the Board of Management position.

Participation of the members of the Board of Management in the long-term incentive programme breaks down as follows:

2006 € thousand	Value of shares purchased	Company allowance for own investment	Total costs of the stock option plan	Cost of the stock option plan in financial year
Prof. Dr. Gregor Schulz	23	–	95	48
Dr. Michael Ramroth	23	–	88	43
	46	**–**	**183**	**91**

2005 € thousand	Value of shares purchased	Company allowance for own investment	Total costs of the stock option plan	Cost of the stock option plan in financial year
Prof. Dr. Gregor Schulz	34	9	154	9
Dr. Michael Ramroth	34	9	154	9
	68	**18**	**308**	**18**

Pension provisions in the amount of €964 thousand (2005: €634 thousand) were recognised for the active members of the Board of Management. Of these, €721 thousand (2005: €476 thousand) are attributable to Professor Dr. Gregor Schulz and €243 thousand (2005: €158 thousand) to Dr. Michael Ramroth.

Provisions of €4,471 thousand (2005: €4,732 thousand) were recognised for pension obligations to former members of the Board of Management. As of the balance sheet date, there were no loan claims against any members of the company's management bodies.

The pension payments to former members of the Board of Management amounted to €331 thousand (2005: €361 thousand).

F5 Material subsidiaries

The following subsidiaries were fully consolidated in the financial statements of the Biotest Group.

Company name	Registered office	Interest held (in % of capital)	Shareholders' equity € thousand	Profit after tax € thousand
Biotest Pharma GmbH	Dreieich / Germany	100.0	76.5	9.9
Biotest Grundstücksverwaltungs GmbH	Dreieich / Germany	98.0	3.3	0.4
Biotest Seralc° N.V.	Ternat / Belgium	100.0	1.1	– 0.3
Biotest S.a.r.l.	Buc / France	100.0	1.4	0.1
Biotest (UK) Ltd.	Solihull / UK	100.0	1.9	0.5
Biotest Italia S.r.l.	Trezzano / Italy	100.0	8.8	– 0.1
Biotest K.K.	Tokio / Japan	100.0	– 0.1	0.0
Biotest Austria GmbH	Wien / Austria	100.0	2.8	1.1
Biotest (Schweiz) AG	Rupperswil / Switzerland	100.0	0.9	0.2
Biotest Hungaria Kft.	Törökbálint / Hungary	100.0	3.4	0.5
Biotest Diagnostics Corporation	Denville / USA	100.0	2.1	0.2
Heipha Dr. Müller GmbH	Eppelheim / Germany	51.0	5.1	2.7
Viro-Immun Labor-Diagnostika GmbH	Oberursel / Germany	51.2	0.2	0.0
Plasmadienst Tirol GmbH	Innsbruck / Austria	100.0	0.5	0.0
Plasma Service Europe GmbH *	Dreieich / Germany	100.0	0.3	0,0
Biotest Hellas MEPE	Maroussi / Greece	100.0	2.9	0,5

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

F6 Pending and imminent litigation

As of the balance sheet date, provisions amounting to €214 thousand (2005: €238 thousand) were recognised for litigation pending.

F7 Events after the balance sheet date

There were no known major events occurring after the balance sheet date that affect the net assets, financial position and results of operations of the Biotest Group.

F8 Exercise of discretion and uncertainty of estimates

When preparing the consolidated financial statements, to a certain degree assumptions and estimates have to be made, which have an effect on the amount and disclosure of the recorded assets and liabilities as well as the revenues and expenses during the period under review. The assumptions and estimates for the most part relate to the recoverability of accounts receivable and inventories and the assessment of the probabilities of occurrence with regard to the potential requirement to recognise provisions. In evaluating these assumptions and estimates the management relies on experience from the past, assessments of experts (lawyers, rating agencies, trade associations) and the result of carefully weighing different scenarios. Due to developments that deviate from these assumptions and that are beyond the control of management, the actual amounts can differ from the initially expected estimated values. In the cases where the actual development deviates from the expected development, the premises and where necessary the book values of the assets and liabilities concerned are adjusted accordingly.

At the time of preparing the consolidated financial statements, the underlying assumptions and estimates were not subject to material risks, and from a current perspective a material adjustment of the book values of assets and liabilities in the coming financial year is not to be expected.

F9 Corporate Governance

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

Dreieich, 23 February 2007

Professor Dr. Gregor Schulz

Dr. Michael Ramroth

Auditor's report

We have audited the consolidated financial statements prepared by the Biotest Aktiengesellschaft, Dreieich (until July 31, 2006: Frankfurt/Main), comprising the income statement, the balance sheet, statement of recognized income and expense, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2006. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

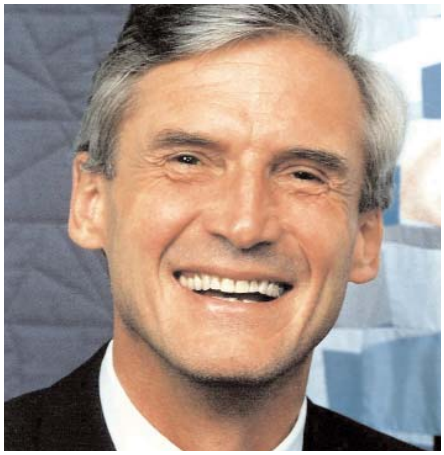
Our audit has not led to any reservations.

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

Frankfurt/Main, 26 February 2007

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Böttcher (Wirtschaftsprüfer)
Hommel (Wirtschaftsprüferin)



Report of the Supervisory Board for 2006

During the past financial year, the Supervisory Board has carefully and regularly monitored and advised the Board of Management. The Management Board regularly, promptly and comprehensively informed the Supervisory Board through written and oral reports about all issues relating to planning, business development, the risk situation and risk management. Detailed explanations were given on any business developments deviating from the planning. The strategic orientation of the company was coordinated by the Board of Management and the Supervisory Board and the progress of strategic implementation discussed at regular intervals.

The Supervisory Board met at six regularly convened meetings during financial year 2006. In addition to the Supervisory Board meetings, the Chairman of the Supervisory Board was regularly informed of current business developments and major business transactions by the Board of Management. The Supervisory Board was involved in any major decisions at an early stage. In addition to explanations regarding the topics indicated below given at Supervisory Board and Committee meetings and written and oral information provided by the Board of Management, the Supervisory Board also receives monthly written reports on the business position and business developments. These reports also contain explanations concerning any deviations from current or planned developments. Beyond this, the Chairman of the Supervisory Board automatically receives all internal audit reports as well as copies of the minutes of Board of Management meetings, which are supplied on request.

Main focus of the deliberations of the Supervisory Board

Topics of regular deliberation of the Supervisory Board included planning and the current business development of the company, as well as its strategic orientation, financial position and future financing structure.

At the meeting held on 15 March 2006, the Supervisory Board discussed the annual financial statements of Biotest AG and the consolidated financial statements with the auditors, KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, as well as considering individual balance sheet items in detail. The annual financial statements of Biotest AG and the consolidated financial statements were subsequently adopted. The list of topics relating to the 2006 internal audit was also discussed and the proposed appropriation of profits to be made to the Annual Shareholders' Meeting agreed. The Supervisory Board concluded the meeting by deliberating on a number of specific details concerning the invitation to the 2006 Annual Shareholders' Meeting and the proposed agenda for this was approved.

For reasons of time, the Supervisory Board meeting was continued on 20 March 2006. The Board of Management initially reviewed and reported on business development to the end of February 2006. A further cooperation in the field of monoclonal antibodies, the

progress report on Cytotect and the market potential of Heipha products were also elucidated and discussed. To conclude, the Supervisory Board debated the performance targets set for the Board of Management for financial year 2005, which were achieved to a level in excess of 90% and noted and approved the targets for the Board of Management agreed with the Chairman of the Supervisory Board for financial year 2006.

The Supervisory Board session, which took place on 11 May 2006 directly before the Annual Shareholders' Meeting in the Congress Center of the Messe Frankfurt exhibition grounds, served to prepare the Supervisory Board for the meeting.

Current business development and the status of current projects were explained and discussed at the Supervisory Board meeting held on 30 June 2006. In the light of the fact that the Long Term Incentive Programme did not receive the necessary approval of the Annual Shareholders' Meeting, some preliminary deliberations on a different solution for the issue of performance-related employee remuneration took place. The Supervisory Board also declared itself to be in agreement with an efficiency audit.

A Supervisory Board meeting was held on 21 September 2006 in the conference rooms of Merz GmbH & Co. KgaA, Frankfurt/Main. The Board of Management gave a comprehensive explanation of the strategic refocusing of the Diagnostic segment decided on as a result of an analysis of the market and competitive position. In addition, the introduction of a new Long Term Incentive Programme without stock options was unanimously agreed.

In its meeting of 13 December 2006, after a detailed explanation by the Board of Management, the Supervisory Board approved the 2007 budget and the investment proposed. Among other items, this includes the introduction of SAP, which is scheduled for 2007. The outlook for corporate and sales development over the next ten years was also presented, as was the Supervisory Board analysis of the efficiency audit, which was positively rated in respect of the work of the Supervisory Board.

Committees

The Supervisory Board was supported in its work by the Presiding and Audit Committees established by it. In addition to attending regular Supervisory Board meetings, the Presiding Committee also met with the Board of Management for five meetings to enable detailed preparations to be made for the Supervisory Board meetings which followed.

The Audit Committee held two meetings in 2006. At the first meeting held in March, it reviewed and discussed the annual financial statements and the auditors' report on the key aspects of their work. The second meeting was convened in October to discuss matters which included any issues relating to the 2006 annual financial statements.

Corporate Governance

In 2006, the Supervisory Board continued to deal with the subject of Corporate Governance in the company on a regular basis. In accordance with Section 3.10 of the German Corporate Governance Code, the Board of Management and the Supervisory Board report on Corporate Governance within Biotest AG appears on pages 127 to 129. In March 2006, the Board of Management and Supervisory Board of Biotest AG submitted

the Declaration of Compliance with the recommendations of the Government Commission on the German Corporate Governance Code pursuant to Section 161 of the Stock Corporation Act (AktG).

Changes in the Board of Management and Supervisory Board

No changes have taken place in the membership of the Board of Management or the Supervisory Board. At a Supervisory Board meeting held on 20 March 2006, a resolution was passed unanimously to extend the period of office of Dr. Ramroth, which would have expired on 31 January 2007, from 1 February 2006 for another five years to 31 January 2011.

Financial statements and consolidated financial statements

The annual financial statements of Biotest AG and the consolidated financial statements at year-end 2006, as well as the management report and the Group management report have been examined by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft and issued with an unqualified certification. The Supervisory Board has acknowledged the results of the audit and concurs with these. The auditors' report was presented to all members of the Supervisory Board. The auditors attended the meeting of the Supervisory Board on 12 March 2007 concerning the annual financial statements and consolidated financial statements and reported on the key findings of the audit and were available to provide supplementary information where required. On completion of the examination, the Supervisory Board found no cause for objection. The Supervisory Board approved the financial statements and consolidated financial statements presented by the Board of Management. The annual financial statements and consolidated financial statements were therefore adopted. The Supervisory Board endorsed the proposal of the Board of Management for appropriation of the distributable profit.

Pages 20 to 67 of the Group management report contain details on the important provisions which take effect in the event of a change of control. Under these agreements, the lending banks party to the syndicated loan agreement and the creditors party to the profit-participation certificate are all granted the right to termination in the event of a change of control. Furthermore, the service contracts of both members of the Board of Management provide for a settlement in the event that their Board of Management contracts are prematurely terminated as the result of a change of control. For further details, we make reference to the relevant passages in the Group management report, rather than repeating these at this juncture.

The Supervisory Board would like to express its thanks to the Board of Management and all employees for their dedication and the success of their accomplishments in financial year 2006.

Dreieich, 12 March 2007
The Supervisory Board

Dr. Thorlef Spickschen, Chairman

Corporate Governance

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

Biotest's corporate strategy is oriented towards broadening the product range through a focused research and development programme and on reinforcing its position in very profitable markets by intensifying its sales activities. In the longer term, this will secure an attractive ratio between opportunity and risk for the stakeholders in the company – shareholders, customers, business partners and employees.

In light of this, Biotest views corporate governance, risk and opportunity management, risk controlling and compliance as an integrated subject area. We pursue our corporate goals responsibly and efficiently while ensuring that we are not exposed to any uncontrollable risks.

Responsible management with a focus on long-term success and close monitoring of the management by the Supervisory Board are an integral part of Biotest's corporate culture. Both executive bodies work closely together and are guided by internationally recognised standards of good corporate governance. This ensures compliance with the regulatory provisions and transparency requirements of the capital market at all times.

The German Corporate Governance Code (the "Code") in its most current version determines the definition and continuous refinement of our principles. Corporate management and control at Biotest meet the requirements listed there ("should" provisions).

Amendments made to the Code in the reporting year

With effect from 12 June 2006, two sections of the Code were adjusted to reflect the current legal framework conditions:

The provisions on holding a General Meeting were supplemented under Section 2.2.4 clause 2 by the suggestion that the Chairman of the Meeting should be guided by the fact that an ordinary General Meeting should last no longer than four to six hours. This wording reflects the Corporate Integrity and Modernisation of the Right of Rescission Act (Gesetz zum Unternehmensintegrität und Modernisierung des Anfechtungsrechts UMAG) which came into force on 1 November 2005.

The second amendment refers to the regulations on disclosing the remuneration of the Board of Management in light of the Management Compensation Disclosure Act (VorstOG) that applies for the first time to annual and consolidated financial statements for 2006. The elements of the overall compensation to be disclosed are clarified and specified under Section 4.2.3. which, in addition to monetary elements, include benefits and other commitments as well as fringe benefits promised in relation to activities by the Board of Management or granted during the financial year. Pursuant to Section 4.2.5, this information includes the value of the compensation components with long-term incentive effect and risk elements as well as annual allocations to the pension provisions or the pension fund in relation to benefit commitments.

Also to be disclosed are any payments promised in the event of a termination of the activity of a member of the Board of Managing Directors, where these materially diverge from the commitments issued to the employees. In the present consolidated financial statements, Biotest applies the new regulations to the presentation of the remuneration paid to the Board of Management.

Implementation of the recommendations and suggestions of the Code at Biotest

The Supervisory Board and Board of Management have comprehensively addressed the recommendations and suggestions in the version of the Code dated 12 June 2006. Both bodies agree that Biotest should continue to implement the “should” provisions in their entirity and the “can” provisions (suggestions) with one exception: the transmission of the Annual Shareholders’ Meeting over the internet proposed in Section 2.3.4 is waived for cost reasons.

The statement of compliance which was approved at the balance sheet meeting of the Supervisory Board on 12 March 2007 is available on the company’s website (www.biotest.de). Also available on the site are the previous declarations of compliance, the Corporate Governance report, the remuneration report and the company’s Articles of Association.

Corporate Governance in financial year 2006

In financial year 2006, there was a deviation from the declaration of compliance applicable for the period: the simultaneous provision of information to all shareholders required by Section 6.3 of the Code was not complied with in full in one case. Due to technical difficulties, there was a delay of one day in making the information disseminated at the Press and Analysts’ Conference on 21 March 2006 available to all our shareholders on our website.

83.46% of the ordinary share capital was represented at the Annual Shareholders' Meeting, which took place on 11 May 2006 in Frankfurt/Main. The ordinary shareholders approved all the proposals made by the Board of Management with a substantial majority.

A legal challenge has been raised against the resolution contained in item 9c of the agenda to amend the Articles of Association of Biotest AG. The amendment adopted grants the Chairman of the Shareholders' Meeting the right to restrict individual shareholders' right to speak and raise questions at the Shareholders' Meeting so as to ensure that the meeting lasts no longer than six or ten hours. Biotest is consequently implementing the provisions of the UMAG and the Code. The challenge was rejected by the Frankfurt/Main District Court in the first instance (Ref. No. 3–5 O 61/06); the appropriateness of the amendment to the Articles of Association was confirmed in the reasons given for the judgement. The plaintiff has filed an appeal against this ruling, which means that the verdict is not yet legally binding.

Ordinary shareholders also approved the creation of contingent capital. The new shares issued from the contingent capital were to be used to offer senior managers performance-related remuneration as part of a Long Term Incentive Plan (LTIP). However, this agenda item did not receive the majority approval required at the subsequent meeting of the preference shareholders. The Board of Management developed a new programme to replace the one which was planned initially, which is presented in detail in the "Personnel" section of the Group Management Report (page 52).

Efficiency review by the Supervisory Board

The Supervisory Board reviewed the efficiency of its activities in financial year 2006. The evaluation of the review was presented and adopted by the Supervisory Board meeting on 13 December 2006, which reached a positive conclusion regarding the efficiency of the work carried out by the Board.

Directors' Dealings

The following purchases and sales subject to notification by members of the executive bodies and other senior management members at Biotest AG took place in financial year 2006:

Name	Function	ISIN	Share class	Purchase/sale	Trade date	Number of shares	€ Price	€ Value
Dr. Joachim Herborg	Head of Sales and Marketing	DE0005227235	Pref. share	Purchase	19.05.2006	500	24.98	12,490
Dr. Michael Ramroth	Executive body	DE0005227235	Pref. share	Purchase	16.05.2006	1,000	27.40	27,400
Dr. Michael Ramroth	Executive body	DE0005227235	Pref. share	Purchase	16.11.2006	1,000	20.29	20,290
Prof. Dr. Gregor Schulz	Executive body	DE0005227235	Pref. share	Purchase	16.05.2006	1,000	27.40	27,400
Dr. Thorlef Spickschen	Supervisory body	DE0005227235	Pref. share	Purchase	23.05.2006	2,000	23.63	47,260

Remuneration of the Board of Management and the Supervisory Board

Joint report by the Board of Management and the Supervisory Board of Biotest AG as part of the Corporate Governance report

Remuneration of the Board of Management

The Supervisory Board specifies the remuneration for members of the Board of Management. It is composed of a fixed remuneration, a bonus and a component entailing a long-term incentive effect and risk elements. Added to this are benefits in kind. All remuneration components are appropriate, both individually and as a whole.

Pursuant to Section 4.2.3 of the Code, the remuneration of the Board of Management including the non-monetary components is presented in detail below.

Fixed remuneration

The non-performance related fixed remuneration of members of the Board of Management is composed of their fixed salary and fringe benefits. The amount is based on Biotest's financial position and future prospects and on remuneration in the competitive environment. The annual fixed salary is specified for the entire term of the respective contract of employment and paid in 13 monthly instalments. In the past financial year, the fixed salary of Professor Dr. Schulz amounted to €278 thousand, while that of Dr. Ramroth amounted to €257 thousand.

Members of the Board of Management received fringe benefits above and beyond their fixed salary.

Insurance policies

Both members of the Board of Management are insured professionally and privately as part of Biotest AG's collective accident policy. Members of the Board of Management receive an allowance for social insurance and also for direct insurance. In 2006, the value of these benefits amounted to €27 thousand for Professor Dr. Schulz and €23 thousand for Dr. Ramroth.

The members of the Board of Management and Supervisory Board of Biotest AG are covered by the Group-wide Directors' & Officers' insurance with excess, which Biotest has concluded for its entire senior management.

Further benefits in kind

Both members of the Board of Management are provided with a top-of-the-range company car free of charge, which may also be used privately. The value of the benefits in kind in 2006 amounted to €7 thousand for Professor Dr. Schulz and €9 thousand for Dr. Ramroth.

The Board of Management of Biotest AG is also included in Biotest AG's occupational pension scheme. The members of the Board of Management receive an individual commitment as part of Biotest AG's pension scheme, for which provisions are created. The amount of the provisions for this type of pension scheme is dependent on the number of years worked, the creditable salary and the benefits scale applicable below and above the social contribution assessment limit.

No loans or advances were granted in financial year 2006.

Bonuses

The performance-related component of the remuneration (bonuses) is based on the achievement of corporate and personal targets. The operating profit (EBIT), the return on capital employed (RoCE) and the achievement of individual targets established in the previous financial year are appropriately weighted and used as the basis for the calculation. The individual targets are agreed annually between members of the Board of Management and the Chairman of the Supervisory Board. The latter determines the level of the performance-related components after the end of the financial year.

A provision has been recognised for the performance related remuneration for 2006 in the amount of €151 thousand for Professor Dr. Schulz and €140 thousand for Dr. Ramroth. In addition, Professor Dr. Schulz and Dr. Ramroth each received a one-off performance-related payment for capital measures of €100 thousand in 2006, for which €20 thousand had been provided in 2005 and reported in this connection.

Remuneration components with a long-term incentive effect and risk elements

The remuneration components with a long-term incentive effect and risk elements are based on Biotest's Long Term Incentive Programme (LTIP) (see page 54 of the Group Management Report). In addition to the members of the Board of Management, this also includes selected senior managers, who have a profound influence on the company's success through their position within the Group, their decisions, their management and their actions. The programme's structure is geared to the established criteria, which the capital market sets for systems of this kind and complies with the requirements of the Code. The programme started on 1 October 2006 and will run until 31 December 2008.

The precondition for participation is the participant's own investment through the purchase of preference shares in Biotest AG. For members of the Board of Management, the maximum number of preference shares amounts to 1,000 shares. The shares must be held in a securities account at least until the incentive total is disbursed.

The level of the incentive payment is calculated from the performance of Biotest preference shares compared to the SDAX (benchmark) and from the average EBIT margin for 2006 to 2008. It is anticipated that participants will be paid the incentive component in May 2009.

The total value of the LTIP over the entire period and for all participants amounted to €785 thousand at the 31.12.2006 valuation date, of which €95 thousand was attributable to Professor Dr. Gregor Schulz and €88 thousand to Dr. Michael Ramroth.

In financial year 2006, the allocation to pension reserves for the Board of Management totalled €330 thousand. Of this figure, €245 thousand was attributable to Professor Dr. Gregor Schulz and €85 thousand to Dr. Michael Ramroth.

Remuneration system for former members of the Board of Management and their surviving dependants

In principle, the pensions agreed in their service contracts are paid to former Board of Management members and their surviving dependants. A total of €4,471 thousand is provided for former members of the Board of Management and their surviving dependants.

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is regulated in the Articles of Association. Members receive an annual fixed remuneration of €15 thousand each. The Chairman of the Supervisory Board shall receive twice this amount and his Deputy one and a half times. For work in a Supervisory Board committee, a member will receive a further €3 thousand, while the Chairman of the committee will receive a further €5 thousand. In addition, Biotest will reimburse the VAT payable on the Supervisory Board remuneration.

Furthermore, the members of the Supervisory Board receive a variable remuneration of €500 for every €1 million by which the operating profit (EBIT) exceeds a minimum amount of currently €15.7 million. The minimum contribution will increase by 10% up to and including financial year 2007.

As shown in the relevant paragraph on Remuneration of the Board of Management, Biotest paid the premiums as part of the Directors' & Officers' insurance policy with excess for all members of the Supervisory Board. No further benefits in kind were granted.

Remuneration of Supervisory Board members of Biotest AG in financial year 2006

€ thousand	Fixed remuneration	Variable remuneration	Total remuneration
Dr. Thorlef Spickschen (Chairman)	38	5	43
Dr. Cathrin Schleussner (Deputy Chairman)	26	5	31
Dr. Jochen Hückmann (Chairman of the Audit Committee)	23	5	28
Reinhard Eyring	18	5	23
Johannes Hartmann	18	5	23
Kerstin Birkhahn	15	5	20
Total	**138**	**30**	**168**

Glossary Technical terms

ACR 70

Set of criteria developed by the American College of Rheumatology (ACR) to assess the efficacy of treatments for rheumatological conditions. An ACR70 response (ACR 70) is defined as a 70% improvement of defined symptoms, such as joint pain, joint swelling or function impairment.

Antibody

Antibodies are substances that are produced by the body against attack from a foreign invading substance (antigen).

Antigen

The molecule that is recognised by the immune system. The immune system can differentiate between “foreign” and “self” and trigger defence mechanisms, where appropriate.

Autoimmune diseases

Activity of the immune system directed against the patient’s own body.

Bioequivalence

Bioequivalence is a term used to assess the expected in vivo biological equivalence of two pharmaceutically equivalent preparations in respect of bioavailability, i.e. plasma concentration over defined times.

CE certification

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 – factor XV).

Cytomegalovirus

Viral infection which is generally harmless. However, if occurring in pregnancy, it can cause severe foetal damage.

DNA

Deoxyribonucleic acid. Genetic blueprint of hereditary information.

FDA

Food and Drug Administration. US regulatory authority for harmaceutical products.

Fibromyalgia

Chronic non-inflammatory disease presenting with extensive pain affecting the muscles and tendons.

Filter aid procedure

Fractionation procedure for blood plasma with the help of filters and aggregates.

Fractionation

Physical separation of substance mixes (for example, blood plasma) by precipitation, centrifugation, filtration or chromatography.

Good Manufacturing Practice (GMP)

Regulations on the safety and quality in manufacturing pharmaceutical preparations and diagnostic products.

Haematology

Branch of medicine concerned with blood and blood disorders.

Haemophilia

A blood clotting disorder resulting from defective or missing coagulation factors VIII or IX (type A or B haemophilia).

Human albumin (albumin)

A protein produced in the liver which regulates and maintains the protein balance in the vascular system, as well as binding and transporting various plasma components.

ICR

Isolated Clean Rooms.

Immune system

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

Immunoglobulins

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

Immunohaematology

Relates to blood group typing, testing for the presence of antibodies and antibody type differentiation.

Immunology

The science of the defence mechanisms of the body against alien substances and pathogens, as well as of the deficiencies of these defence mechanisms.

Indication

Condition for which an active ingredient/drug can be developed and approved.

Intramuscular application (IM)

Administering a drug by injecting it into the muscle.

Intravenous application (IV)

Administering a drug by injecting into a vein.

In vitro

Procedure that takes place in a laboratory setting, for example, in a test tube or on a microscope slide.

Monoclonal antibody (mAb)

Antibodies that can be traced back to a single originator cell. Antibodies attach themselves to a particular alien substance (antigen). They are produced with the help of hybridoma cells.

Multiple myeloma

Malignant plasma cell growth in the bone marrow..

Mutual Recognition Procedure (MR Procedure)

European mutual recognition procedure by which, once national approval has been granted, products registrations can be sought in other EU countries.

Nanometer filtration

Pressurised membrane filtration procedure which separates out particles in the nanometer range.

Orphan drug status

Orphan drug status is given to drugs for which there is a high medical need, but which cannot be developed without subsidies, due to the prohibitive cost or low market potential.

Paul Ehrlich Institute (PEI)

German federal authority for sera and vaccines. The PEI is responsible for the authorisation of clinical trials and approval processes.

Plasma

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

Plasmapheresis

Generation of plasma from blood donations. The cellular elements are immediately reinfused to the donor.

Psoriasis

Scaly patches. Chronic skin disease.

Reagents

Substances used to test for the presence of and identify another substance.

Recombinant

Recombinant proteins are produced with the aid of genetically modified micro-organisms or cell lines.

Rheumatoid arthritis

Inflammation of the joints.

Subcutaneous application (SC)

Administering a drug by injecting it beneath the skin.

Tender business

Delivery of products to governmental organisations.

Typing

Determination of individual characteristics of blood or somatic cells.

von-Willebrand disease

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

Glossary Financial terms

Assets
Assets in the balance sheet.

Authorised capital
Scope for capital increases which is provided by the Annual Shareholders' Meeting of a joint stock company to the management (Board of Management).

Available-for-sale
IAS 39 classification that describes financial instruments available for immediate sale.

Cash flow
Reflects the actual flows of cash in a period (revenues and expenditure) and is an indicator of the internal financing ability of a company.

Cash value
Corresponds to the current value of a payment due in the future.

Collateral trustee agreement
Loan security agreement between Biotest and its lending banks.

Corporate governance
All legal and institutional basic conditions that directly or indirectly affect the management decisions of a company and consequently, its success.

Deferred items
Transitory assets and liabilities included in the balance sheet. For example, expenses which were paid in the past financial year, but which relate to expenses for the coming year (transitory assets).

Deferred taxes
Income taxes payable or receivable in the future, which do not yet constitute actual receivables or liabilities at the time relating to the balance sheet concerned.

Earnings per share
Indicator that reflects earnings after taxes and minority interests in relation to the average number of shares.

EBIT
Earnings before interest and taxes.

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 associates. In most cases, the fair value is identical to the market price.

First-in-first-out method
Method applied to the valuation of cost of materials. The basis is always the purchase price of the tranche purchased earliest.

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

Hedge accounting
The establishment of hedging relationships between underlying transactions and derivative financial instruments used for hedging purposes.

HGB

German Commercial Code (Handelsgesetzbuch).

IAS/IFRS

The International Accounting Standards/International Financial Reporting Standards.

Intangible assets

Balance sheet items which do not relate to tangible assets, for example, concessions, licences and goodwill.

Interest rate swap

Agreement for an exchange of interest rate payments for a fixed term based on a notional capital sum. An existing variable-rate liability can be swapped for a fixed-rate liability by a payer swap.

Loss carryforwards

Losses that cannot be attributed to past financial years may be carried forward to coming financial years in order to become relevant for tax purposes.

Monte Carlo simulation

Computational method based on the frequent repetition of random number sequences to solve complex problems relating to natural sciences, technology and medicine.

Offsetting

Closing out of a previous stock market transaction by the corresponding sale of the position at a later date.

Plan assets

Assets held by a company in respect of pension plans.

Preference dividend

Special dividend paid to holders of preference shares.

Purchase accounting

Mandatory method for consolidation of subsidiary companies.

WPHG

German Securities Trading Act (Wertpapierhandelsgesetz).

Acknowledgements

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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. The English translation of the Biotest group annual report is provided for convenience only. The German original is definitive.

Financial calendar

16 March 2007	Publication of consolidated annual statements/annual statements
20 March 2007	Spring conference for analysts and journalists
3 May 2007	Annual Shareholders' Meeting
11 May 2007	Publication of Q1 report 2007
10 August 2007	Publication of Q2 report 2007
13 November 2007	Publication of Q3 report 2007
13 November 2007	Autumn conference for analysts and journalists

Biotest

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