Biotest

From Nature for Life

Focused research.
Global growth.

Biotest AG

2005 | Annual Report

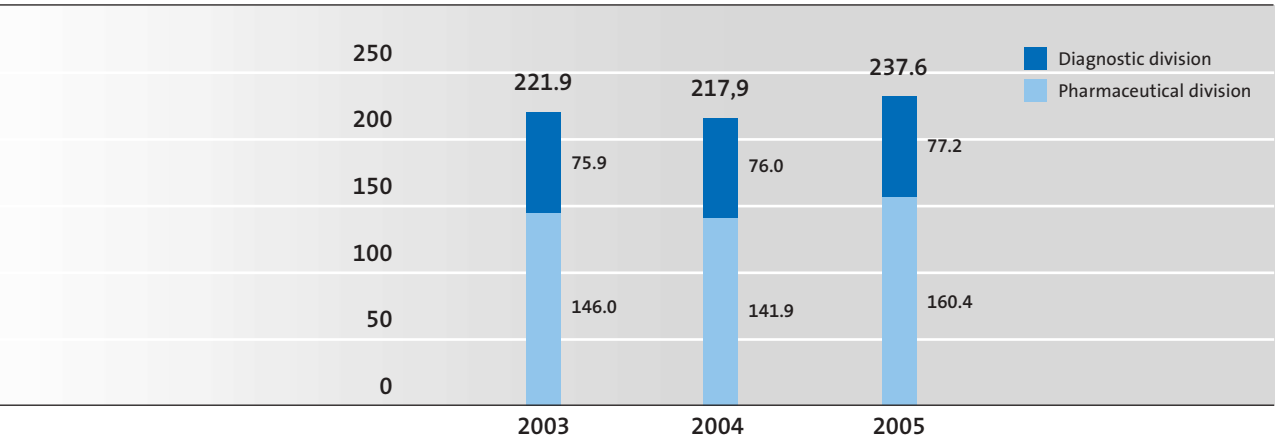
Contents

2005 At a Glance

GROUP		2005	2004	Change %
Revenue	€ million	237.6	217.9	9.1
thereof: Germany	€ million	86.1	76.4	12.8
Rest of world	€ million	151.5	141.5	7.1
thereof: Pharmaceuticals	€ million	160.4	141.9	13.1
Diagnostics	€ million	77.2	76.0	1.6
EBITDA	€ million	39.6	31.5	25.7
EBIT	€ million	25.3	18.6	35.7
Profit before tax	€ million	15.0	6.2	141.1
Profit before tax in % of sales		6.3	2.8	
Net profit	€ million	10.2	5.0	102.3
RoCE	%	8.0	5.7	
Structure of expenses, by nature:				
– Cost of materials	€ million	71.2	78.0	– 8.7
– Staff cost	€ million	66.4	66.0	0.5
– Research and development	€ million	16.9	18.5	– 8.9
thereof: Biotherapeutics	€ million	3.6	1.3	176.9
– Research and development in % of sales		7.1	8.5	
Capital expenditure:				
– Property, plant and equipment and intangible assets	€ million	15.4	18.5	– 16.7
Financing:				
– Cash flow from operating activities	€ million	40.3	32.3	24.8
– Depreciation and amortisation	€ million	14.3	12.9	11.1
Equity	€ million	169.0	108.0	56.5
Equity as % of balance sheet total		48.5	30.1	
Balance sheet total	€ million	348.6	358.3	– 2.7
Number of employees (full-time equivalents) as at year-end		1,074	1,009	6.4
Earnings per share	€	1.13	0.57	98.2
Earnings per preference share	€	1.19	0.68	75.0

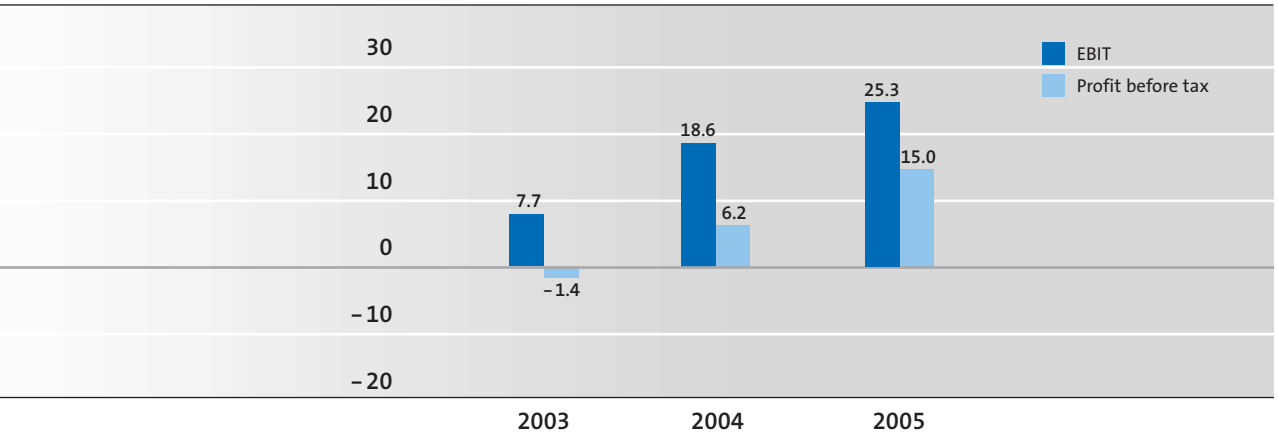
Sales by Business Division

€ million



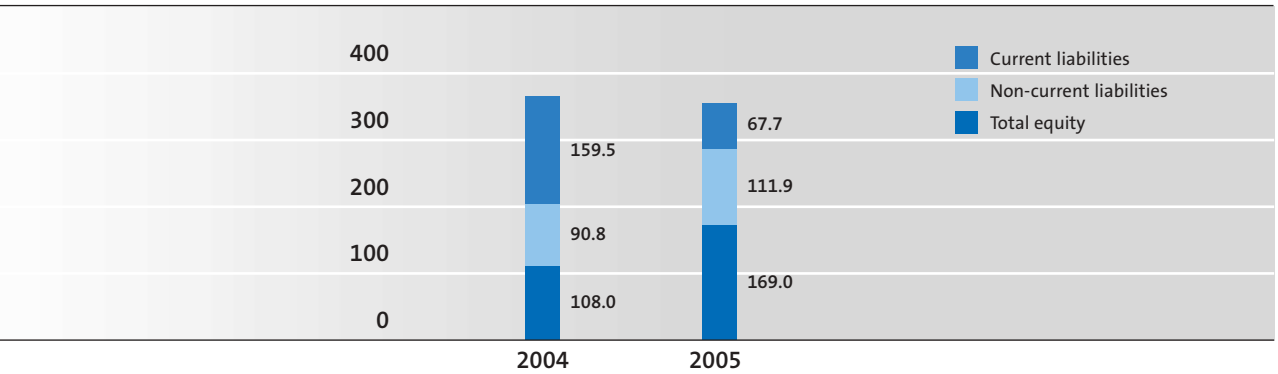
EBIT and Profit before Tax

€ million



Structure of the Group Balance Sheet EQUITY AND LIABILITIES

€ million



Highlights

Focused research, global growth.

Biotest increased sales by 9.1 % and the operating result by 35.7 %. We strongly expanded the business in Europe, especially in the high margin German market.

The polyvalent immunoglobulin Intratect® has received approval for sale in additional nine European countries. Within 15 months of its initial approval in autumn 2004, Intratect® has achieved a market share of 19.4 % in Germany.

As the world's only active ingredient for the treatment of cytomegalovirus infection during pregnancy, we expect to see a considerable increase in the sales potential of Cytotect® Biotest in the medium term.

FDA approval of the blood group serology testing system TANGO® optimo opens the door to the world's largest and most attractive market for transfusion diagnostics for Biotest.

Biotest has achieved important milestones in the development of monoclonal antibodies. All research to date has confirmed earlier estimates regarding sales and earnings potential.

Through capital increases with net receipts totalling € 40 million and an optimised debt structure, Biotest has created the financial structure for future growth.

Foreword

Dear Shareholders,

"For Biotest, 2005 marks the transition to a stage of growth." This is what we told shareholders in the 2004 annual report. Today we can say that we have achieved that expectation. We increased sales by 9.1 % compared to the previous year. It is especially worth mentioning that a large portion of our growth was made in Germany; that is, in a high margin market. This is reflected in our earnings figures: the percentage increase in EBIT, earnings before tax and earnings after tax was clearly stronger than sales.

Progress at Biotest is also being rewarded by the capital markets. The price of our ordinary share has more than doubled, and preference shares were even 132 % higher at year-end than at the beginning of the year. As in the previous year, the Biotest share thus developed clearly ahead of the stock market and industry environment.

The success of our capital measures is an indication of the positive assessment by investors. We have increased the capital stock of Biotest AG by € 3.8 million by issuing new shares in two steps. Investors – both private and institutional – have provided us with a net amount of € 40 million. We are especially pleased with the subscriptions by international investors. We will utilise this money to push the development of Biotest to a globally active specialist for innovative immunology and haematology. In so doing, the focus will be on research and development, as well as on the further internationalisation of our business. We have reached important milestones along this road in 2005:

Our polyvalent immunoglobulin Intratect®, which had already received approval for Germany in 2004, was approved in nine additional European countries in September 2005. Intratect's success has significantly exceeded our expectations: it already has a 19.4 % share of the German market. Marketing efforts just under way in the other European countries have also been extremely successful.

We have also increased the sales potential of our existing plasma preparations, for example with Cytotect® Biotest as a result of its proven effectiveness in the treatment of cytomegalovirus infections during pregnancy. Worth mentioning, sales with the coagulation preparation Haemoctin® grew by 43 % compared to the previous year.

US approval of the fully automated TANGO® optimo blood analysis system has opened up the world's most attractive market for transfusion diagnostics since the end of 2005. 21 TANGO® systems had been delivered to Olympus, our distributor in the USA.

The development of monoclonal antibodies (mAb) for the treatment of autoimmune diseases and cancer offers a promising perspective for long-term growth at Biotest. Continuation of the clinical testing of BT-061 for the indications rheumatoid arthritis and psoriasis is planned for late summer 2006. Good Manufacturing Practice production at Lonza is going according to schedule. In addition, research in order to evaluate efficacy of mAb B-061 in asthma and other inflammatory diseases has started.

With regard to BT-062, which was developed for the therapy of multiple myeloma as well as for other oncological indications such as breast and prostate cancer, we have created important prerequisites for the start of phase I clinical trials. With regard to BT-063, the intensification of pre-clinical development is planned.

So far, clinical trials have substantiated our estimates regarding the efficacy and the specific mode of action of our mAb. BT-061, in particular, has blockbuster potential in the case of a regulatory approval. We will therefore strengthen the development of these projects. To do so, we are working together with renowned partners: both in pre-clinical and clinical research as well as in production.

We have underlined the importance of the mAb projects for corporate strategy by combining the activities into a separate Biotherapeutic segment. Through this new structure investments in these projects are transparent for our shareholders. As in

"We are adhering to our goals: we want to generate revenue of more than € 340 million in 2009 and steadily increase the earnings despite significant expenses for our research project."

all other areas, we will always review our decisions as to whether they have long-lasting positive effects on shareholder value.

In the past financial year, we increased our equity ratio to 48.5 % – through capital increases and through the reduction of liabilities. Consequently, Biotest's financial structure has clearly improved, and we are well armed for the upcoming tasks. Moreover, we were already able to improve the financial result in 2005, and this effect will be even more pronounced in the current year.

We achieved a lot in the past year. Important prerequisite was the ongoing support of both the shareholders and the creditors who have accompanied us on this journey. I would like to express my sincere thanks to all of you. I would also like to especially thank our employees whose commitment and performance is the basis for the success of Biotest. With a new success-related compensation system, we would like to align the management even more closely with the positive development of the company.

We are adhering to our goals: we want to generate revenue of more than € 340 million in 2009 and steadily increase the earnings despite significant expenses for our research project.

We look forward to your continued trust and support.

Sincerely yours,

Prof. Dr. Gregor Schulz

2005

Chronology of events

January

Jointly with AERES Biomedical, Biotest successfully concluded the engineering of BT-062. This created an important prerequisite for beginning the clinical development of the monoclonal antibody for use in multiple myeloma.

March

The FDA approves the TANGO® system for fully-automated transfusion diagnostics for sale in the USA.

May

Change at the head of the Supervisory Board:
Dr. Thorlef Spickschen, who has many years of experience in top positions at pharmaceutical companies, takes the place of Werner Spinner, who resigned at his own request.

January

Demand for haemophilia products in Russia increases following the government's decision to reimburse costs for the prophylactic treatment of adult haemophiliacs as part of the national healthcare system. With Haemoctin® SDH, Biotest holds a significant share of this growth.

February

Biotest takes over the plasma donor station in Halle/Saale, Germany, previously operated by the competitor Baxter. With the plasma obtained at our own four stations, we cover a large part of our raw material need.

June

Biotest and Boehringer Ingelheim conclude an agreement for a joint research effort to investigate the efficacy of the monoclonal antibody BT-061 in infectious diseases such as asthma.

Biotest increases its share capital by € 2.9 million by issuing new ordinary shares. Approximately half of the shares are subscribed by a German financial investor against a cash contribution of € 10.0 million and the other half by the Dr. Schleussner family – major shareholder at Biotest – from the conversion of a shareholder loan totalling more than € 10.0 million in equity.

July

In consultation with the lending banks, Biotest optimises its debt financing: a syndicated loan agreement takes the place of the loans received under the collateral trustee agreement (CTA). This agreement converts part of the previous short-term credit line to long-term financing and reduces the level of debt.

September

Intratect®, which has been available in Germany since 2004, is approved for nine other countries in the European Union as part of a mutual recognition process.

October

Following approval of the corresponding reagents in September, the Annual Meeting of the American Association for Blood Banks (AABB) in Seattle is the kick-off for the marketing of TANGO® optimo in the USA.

The plant for the manufacture of the factor IX preparation Haemonine® in Dreieich receives approval from the authorities. Biotest starts production of the batches for the licensing procedure in November.

October

The New England Journal of Medicine publishes a study that proves that Cytotect® Biotest is suitable for treating cytomegalovirus infections during pregnancy. This doubles the market potential of the hyperimmunoglobulin.

Biotest AG increases its capital stock by an additional € 3.9 million by issuing new ordinary and preference shares. Net issue proceeds amount to approximately € 30 million.

December

Jointly with our cooperation partner Lonza, we complete the manufacture of the first production batches of monoclonal antibody B-061. Good Manufacturing Practice production begins on schedule.

As part of the process to improve the management culture, Biotest starts a workshop series entitled “Management and Cooperation” for executives and employees.

Interview

“The upcoming years are years of growth.”

Chairman of the Board Prof. Dr. Gregor Schulz and CFO Dr. Michael Ramroth in an interview.

“Focused research, global growth” is the motto of your annual report. What is behind this?

Schulz: Our growth strategy rests on two pillars: internationalisation and research. With plasma proteins and diagnostic products, we are opening up new regional markets through new regulatory approvals. We are further developing our plasma proteins already on the market for use in new clinical indications. In addition, we are pushing with the research and development of monoclonal antibodies – or mAb for short – which is associated with significant prospects for growth.

Ramroth: Whereas we are also planning to increase revenue in our traditional business by roughly 50 % in the coming four years. The potential of biotherapeutics tops this off.

Can you better qualify this potential?

Ramroth: Estimates indicate that global market volume for the main indications will be in the double-digit-billion-dollar range by 2011. If Biotest’s project go according to plan, from today’s perspective it is quite conceivable that our products will account for an appreciable share.

How are the mAb from Biotest different from other active ingredients of this kind that either already exist or are currently under development?

Schulz: Our antibodies provide a unique mode of action. For example, BT-061, which can be used in the therapy of rheumatoid arthritis, among others acts immunmodulating; that is, it acts upon the immune system in such a way as to stop only those autoaggressive reactions that are directed against healthy cells, e.g., in the joints. Other biotherapeutics in this field of application are immunsuppressing; that means, they also suppress the body’s own natural defence against infections. As a result, patients are exposed to significant risks of infection and side effects. However, this has not yet been observed with BT-061 in early clinical trials.

When do you expect approval for your active monoclonal antibodies?

Schulz: Provided that development continues to go according to schedule, a possible launch of BT-061 for the indication rheumatoid arthritis could take place in 2010.

Until this comes about, significant investments will be required. Is a company like Biotest in the position to bear these alone?

Ramroth: With the proceeds from last year's capital measures, we have the funds to press ahead alone with the projects through phase II of the clinical development. The subsequent phase III requires studies with large patient groups that are in fact very costly. At this point we will therefore invite globally active pharmaceutical companies to join forces with us.

Schulz: In doing so, we not only diversify the risk but also speed up the projects. We want to set up the licence agreements in such a way that a portion of the sales revenue in Europe stays with Biotest as part of a co-marketing concept. For other regions such as the USA or Japan, out-licensing would be a possibility. In exchange, the potential marketing partner would have to make milestone payments and pay licensing fees.

Mr. Ramroth, you mentioned the capital increase. Why did you already go about collecting money on a grand scale at the stock market this year if the large part of the expenses aren't going to occur until later?

Ramroth: With the start of clinical development, mAb development enters a new phase. We now have the necessary resources to push ahead quickly and can react with flexibility in the process. Money that we won't need until later will be used in the meantime to reduce our liabilities. Our financial result already considerably improved in 2005, and the effect will be made even clearer in 2006.

Schulz: But I would like to point out again that we are also investing in growth in the Pharmaceutical and Diagnostic segments: in research and development as well as in the opening up of new markets.

Apropos internationalisation: which markets are you focusing on?

Schulz: As a premium supplier, we are intensifying our activities in markets with high demands for quality. Besides Europe, this is especially true for North America. There we have reached an important milestone with the marketing start of the TANGO® system for transfusion diagnostics. FDA approval underscores the high quality of our products. Biotest is one of only three suppliers that sells transfusion diagnostics in the USA.

Ramroth: Attractive margins can also be obtained in the USA with plasma proteins and products for hygiene monitoring. That's why we are looking into market entry for our immunoglobulins as well.

When you look into the future – where do you see Biotest in five years?

Schulz: The upcoming years are years of growth. We want to make Biotest a leading supplier worldwide of plasma proteins. For diagnostic products, we want to further develop ourselves towards becoming a systems provider with a strong presence in all highly regulated markets. In addition there is a business with large potential – biotherapeutics. Biotest combines a well-established core business and visions for growth through entry in high revenue markets and new innovative products.

Strategy

Focused research, global growth

Biotest is a specialist for innovative haematology and immunology with the comprehensive approach of a globally active pharmaceutical, diagnostics and biotherapeutics group. And we are expanding this position: through the continuous improvement of our products, targeted research and development and the move into additional markets. Biotest – a combination of substance and growth potential.

Pushing ahead with research projects, speeding up approval processes and expanding distribution on a global scale. In order to better implement these goals, Biotest increased the capital stock in financial year 2005. We are investing the money that was taken – a total of € 40 million – in projects that have the potential of making a significant contribution towards enhancing Biotest's value in the years to come.

Our growth strategy has two focal points: internationalisation and research. In the Pharmaceutical segment, we are further expanding our range of drugs to treat diseases of the immune system and to treat blood coagulation defects (e.g., haemophilia). Top-quality products that are effective, well tolerable and easy to use strengthen our position. Their European-wide approval broadens our sales and earnings potential, and we are also considering entry into the US market with selected plasma products.

We have already taken this step with our diagnostic products. TANGO® optimo, the fully-automated blood group diagnostic system, including all corresponding reagents, has been marketed in the USA since autumn 2005 by our partner Olympus America. The market for so-called manual reagents will also open up following approval planned for the beginning of 2007. In the medium-term, we want to achieve a 20 % market share in the USA for transfusion diagnostics.

Already today, Biotest is among the leading suppliers in many of the markets that we service. Via self-owned companies and distribution partners, our products are sold in 159 countries around the world; the focus of sales, however, lies in Europe with a share of 85 %. In both of these segments, we want to increase business volume by approximately half in the coming four years.

At the same time, in the Biotherapeutic segment we are pushing ahead with the development of monoclonal antibodies (mAb) for the treatment of rheumatoid arthritis and other auto-immune diseases as well as various types of cancer. Alone for the three main indications rheumatoid arthritis, psoriasis and multiple myeloma, global market volume in 2011 is estimated in the two-digit-billion-dollar range. Due to its unique mode of action, scientists place great potential in the mAb from Biotest.

In 2005, we optimised Biotest's financing structure through various measures. With an equity ratio of 48.5 % and significantly reduced liabilities, we have the resources to consistently follow our path of growth in the coming years.

Strategy

New indications, new markets

The prices for plasma proteins are rising around the world. This is particularly true for specialised products with special attributes. Biotest's plasma proteins are quality products. We are taking them into new, attractive markets, we are developing patient-friendly dosage forms and we are expanding the indication spectrum. The success of this growth strategy can already be seen.

Polyvalent immunoglobulins correct defects in the immune system. Patients often require these drugs over a long period of time. Tolerability and an especially simple usage are therefore of exceptional importance. Intratect® meets these requirements. What is particularly convincing about the new polyvalent immunoglobulin from Biotest is its high purity which makes it especially tolerable. Prerequisite for the high quality is a special manufacturing and purification procedure in one of the most modern plants for plasma processing in Europe. Biotest's significant investments in production are paying off: within one year of its launch in Germany, Intratect® has already achieved a market share of 19.4 %.

Meanwhile, the preparation has received approval in nine other European countries, and marketing is under way. It is exemplary of Biotest's strategy in the plasma protein business. Through targeted new and further developments, we are expanding our position and opening up new markets. This works primarily through approval in additional countries.

Already in the past financial year, we increased sales with plasma proteins in European high price markets. We only participate in tenders for large deliveries to government organisations in developing and emerging markets if they meet our earnings expectations.

In the medium term, we also plan to market selected plasma products in the USA. Approval by the FDA would not only open up the door for Biotest to the world's largest market for these drugs but would also be an additional seal of approval that would underscore our position as a premium supplier.

Pharmaceutical drug marketing in Europe

Approval through recognition

Before a drug can be marketed, it has to be approved by the government. In Germany, the Paul-Ehrlich-Institute (PEI) based in Langen, near Darmstadt, is responsible for the approval of plasma proteins, among others. Its tasks also include evaluations with regard to drug safety (pharmacovigilance).

Drug approval in the EU member countries is carried out according to a centralised approval procedure or the decentralised mutual recognition (MR) procedure. If a drug is approved according to the centralised procedure by the European Medicines Agency (EMEA) and the European Commission, it may be marketed in all EU countries. Under the MR procedure, the applicant first approaches the competent higher federal authority in his country. Based on the national approval, recognition of the drugs is then sought in other countries.

Biotest follows the MR procedure when seeking European approval for its plasma proteins. The monoclonal antibodies developed by the Biotherapeutic segment receive approval as biotechnological preparations via the centralised procedure of the EMEA. Biotest possesses extensive resources and considerable experience with approval procedures.

Expansion of the indication spectrum represents a second way of tapping additional growth potential. Accordingly, Cytotect® Biotest – the world's leading hyperimmunglobulin for treating cytomegalovirus infections – is the only drug proven to be suitable for use during pregnancy. A cytomegalovirus infection is a widespread and in most cases, harmless, viral disease. However, the virus is dangerous during pregnancy. About 10 % of children infected before birth exhibit severe brain damage, diseases of the liver and kidneys, and damage to the eyes and ears. A study conducted on 181 pregnant women with a cytomegalovirus infection concluded that both the therapeutic and prophylactic administration of Cytotect® Biotest drastically reduces these severe malformations. This opens up an additional revenue potential in the double-digit-million-dollar range. Cytomegalovirus infection occurs in around 7,000 pregnancies each year in Germany alone.

As a third approach to tap additional markets, we further develop preparations so that they are simpler to use and easier to manage. Presumably in 2007, we will launch Hepatect® SC – the first of our immunoglobulins that can be administered as a drug subcutaneously. Especially for long-term patients, a subcutaneous (in the abdominal wall) injection would denote considerable relief compared to the intravenous (IV) administration widely-used today.

Strategy

Development objective: systems provider

The USA is the largest market for diagnostic products in the world – and at the same time the market with the strictest criteria for approval. The fact that we are allowed to sell our TANGO® system for blood group testing in the USA, as well, underscores the high quality of products by Biotest. It allows us to concentrate on the marketing of our diagnostic products in areas with high standards and attractive margins.

Two things are decisive in transfusion and transplantation diagnostics. First: absolutely reliable results. Second: efficient and cost-effective processes. There is a common solution for both: automation. By relying mainly on automated procedures to carry out blood group analysis, virus testing or tissue typing, the risk of user errors declines and the diagnosis becomes faster. The demand for such systems is rising: even labs in clinics or doctor's offices with a lower testing volume are increasingly relying on automation.

Biotest responded to these market trends at an early stage and implemented the transformation from a pure supplier of test reagents to a systems provider. As an example, the fully automated blood group device TANGO® optimo allows for quick and reliable automated blood group determination. The testing systems QuickStep® and ELPHA® are used in specialised laboratories and clinics for typing associated with organ and tissue transplantations. In addition, we also supply a broad range of reagents for manual blood diagnostics.

The US approval has provided Biotest with access to the world's most attractive diagnostics market. Besides Biotest, only two other suppliers of transfusion diagnostics currently fulfil the strict FDA requirements.

The annual sales volume in the USA lies at approximately USD 200 million, and we want to secure about one-fifth of this amount for Biotest in the medium term. Within five years, we want to sell 300 devices

including their corresponding reagents. The first sales figures attest to this: we already delivered 21 devices in the first three months following market launch to our partner Olympus America which distributes TANGO® optimo and the corresponding reagents.

By offering system solutions and through approval in highly regulated markets, Biotest is removing itself from the price competition in other regions that can sometimes be very fierce. We will continue to pursue this course in coming years as well. We are currently testing the development of a completely new microchip-based typing procedure that could set new standards of quality and efficiency in transplantation diagnostics.

Quality and efficiency are also important requirements for hygiene monitoring solutions. The pharmaceutical industry, in particular, is obligated to closely monitor the purity of their manufacturing plants and to document the results. The hygiene monitoring product area, which includes the Hycon products by Biotest and products from our associated company Heipha Dr. Müller GmbH in Heidelberg, comprises a broad range of devices and reagents which measure the level of germs in the air and on surfaces. We offer a special device for monitoring isolated clean rooms (ICR). We are presently working on a new air sampler that is easier to operate and delivers even more reliable results than those of products now on the market.

Just like in transplantation and transfusion diagnostics, the USA is also the world's most attractive market for premium suppliers in the area of hygiene monitoring. Biotest already has a presence in the USA via a distribution company – in light of the large potential, we are planning to set up our own manufacturing plant for Heipha products.

New developments with large potential

Biotest is currently developing three monoclonal antibodies (mAb). The biotechnologically active ingredients could be used to treat chronic and so far incurable diseases as well as autoimmune diseases. The mAb represent an additional sales potential in the billion-dollar range.

Rheumatoid arthritis (RA) affects approximately 800,000 people in Germany alone and approximately 1 % of the population worldwide. The disease often begins with inflammation between the fingers and toes and spreads little by little to other joints. Patients with this disease suffer from severe pain, and their mobility is restricted. Further symptoms include fever, fatigue and a general decline in health.

In the long term, the inflammation causes damage to bones and cartilage in the joints and can completely destroy them. Internal organs can also be affected. The cause of this usually chronic disease has not been definitely investigated, but it is thought to be a malfunction of the body's own immune system. As a result, immune cells migrate to the affected joint where they produce certain cytokines (messengers) that are responsible for the swelling process and the damage to the cartilage.

This is exactly the point targeted by Biotech preparations from competitors, which today account for more than half of the worldwide market volume for the therapy of rheumatoid arthritis. They alleviate or stop the body's damaging immune reaction against itself. However, they also suppress the desired defence reaction of the immune system, which can result in severe infections in patients. Studies show that approximately 20 to 30 % of the patients do not respond to this method of therapy. BT-061, one of three monoclonal antibodies in Biotest's development pipeline, acts immunomodulating by inhibiting the damaging reaction of the immune system (autoaggression) without interfering with other defence functions. That makes it interesting for use in the therapy of various autoimmune diseases: besides for rheumatoid arthritis, where it significantly alleviates symptoms such as morning stiffness or joint pain, BT-061 has demonstrated its effectiveness for psoriasis in first clinical observations. Its suitability for additional

mAb by Biotest

High number of patients, large market potential

mAb represent a significant additional sales potential for Biotest. According to an estimate by the science journal Nature, USD 10.5 billion will be spent for the treatment of rheumatoid arthritis in 2008 worlwide, and approximately 85 % of this amount will be spent on biotechnologically manufactured agents. Experts estimate the market volume for psoriasis preparations at USD 3.3 billion in 2013. Including the indications SLE and multiple myeloma, this yields an estimated market volume of approximately USD 14 billion in 2011.

applications such as asthma and other inflammatory diseases is currently being examined. BT-063 has a similar method of action as BT-061. Among others, it is being developed for the therapy of Systemic Lupus Erythematosus (SLE), a chronic rheumatic disease that often affects the skin, joints and inner organs. In central Europe, approximately 10 to 30 out of every 100,000 people suffer from this disease. It most frequently begins between ages 25 and 35, and more than 90 % of those afflicted are female. BT-063 has already been successfully tested in animal models and in a pilot study with six patients. The third mAb in Biotest's development pipeline also demonstrates promising data for its effectiveness in animal models. BT-062 is a highly specific antibody that destroys cancer cells with a high level of effectiveness and speed. Once development has been successfully completed, it can represent a completely new form of therapy for multiple myeloma. Multiple myeloma is a previously incurable cancer of the bone marrow that has its origin in the uncontrolled growth of plasma cells. Approximately three to four of every 100,000 people in western industrialised countries are affected. Those who come down with the disease build up an increased, life-threatening concentration of plasma cells in the bone marrow. The malignant cells conglomerate into so-called plasmocytoma and can lead to a destruction of the bone's substance. The calcium that is released during this process accumulated in the blood and can trigger kidney failure. The excess of plasma cells decreases the number of red and white blood cells, and a deficiency of white blood cells increases the chance of infection. Up to now, 75 % of those patients die within five years, and after ten years the mortality rate is more than 95 %.

"The benefits of BT-062 are very high, due to its selectivity, potency, and novel mechanism of action compared to any other conventional treatment or novel biologic under development."

Prof. Dr. K. Anderson, Director of Jerome Lipper Multiple Myeloma Centre at Dana-Farber Cancer Institute in Boston and Professor at Harvard Medical School, regarding BT-062.

According to estimates by independent scientists, BT-062 has a great potential in oncology. The first analyses regarding the effectiveness in breast and prostate cancer are under way.

Strategy

Value-oriented research

Through the expansion of own capabilities and cooperation with powerful partners, we are accelerating the development of monoclonal antibodies. This way we can take better advantage of the opportunities associated with this research while controlling risks.

In the development of mAb, we are initially concentrating on indications with a high patient potential and/or a particularly high medical need, i.e., rheumatoid arthritis and psoriasis or multiple myeloma. With regard to BT-061, we have already discussed the structure of the clinical studies with the responsible Paul Ehrlich Institute for use in rheumatoid arthritis (Phase II) and psoriasis (Phase I). With regard to BT-062, preliminary discussions with the FDA are planned. They are the prerequisite for beginning the clinical development in multiple myeloma, which we would like to start together with Harvard Medical School.

It is our view that BT-062 could satisfy the conditions for an accelerated approval procedure in the event that the clinical data show outstanding effectiveness. European and US authorities grant preparations such a procedure if they could possibly constitute a significant improvement in comparison to preparations currently found on the market for the treatment, diagnosis or prevention of a disease. In addition, BT-062 could fulfil the necessary conditions for orphan drug status. This grants companies doing research on drugs that are capable of treating rare diseases (less than 200,000 patients in the USA) tax relief and exclusive distribution rights for seven years following market approval.

We want to proceed with the development of mAb in two steps: up to and including Phase II (see box), we will get started by ourselves. Beginning in Phase III, we are planning to enter into cooperation agreements with large international pharmaceutical companies. This way we could accelerate the development while also reducing costs and thus the associated risk for Biotest. An additional advantage of this approach is

that the distribution and marketing strength of our partners could be helpful in the case of a later market introduction. We intend to set up the license agreements in such a way that Biotest also retains part of the distribution rights for Europe (co-marketing). With the money that we receive for licenses for non-European markets, we want to defray our share of costs for Phase III development.

Since large amounts of antibodies are already required for the clinical trial, we have already set up the system for the large industrial production of BT-061 and BT-062 and are building one for BT-063. We have sourced out the manufacturing to companies specialised in the production of monoclonal antibodies: BT-061, for instance, has been contracted out to a subsidiary of the globally active Lonza group. This further accelerates the development of mAb since it is then not necessary to set up own capacities which would otherwise be very time-intensive.

Clinical testing

Three phases until approval

Before a new drug is approved, there is first a development and a testing phase that takes up several years. After the active ingredient has already been tested in the laboratory and in animal trials for its effectiveness and possible undesirable toxic effects (preclinical research), clinical testing can get underway. It is supposed to deliver insights based on specific findings as to how a drug works when used in humans.

Every test of a drug on humans must be approved by the national approval authority of the country in which the study takes place. The Paul Ehrlich Institute is in charge of our preparation in Germany and has 60 days to ask questions about our application, to approve our application or to deny it. In addition, permission must be received from an ethic commission that is composed of physicians, theologians, lawyers, and other persons with a non-medical background.

In both Europe and the USA, the process from clinical development to approval is divided into three phases: In Phase I of clinical testing, the active ingredient is tested in studies on healthy volunteers or patients, e.g., for cancer drugs. The primary purpose is to determine whether the active ingredient works the same way in the human body as it does in animals, such as in absorption, dispersal and elimination. In addition, possible side effects on blood pressure, pulse and other parameters are documented and investigations are made concerning dosage and tolerability.

During the subsequent Phase II, the drug is administered to a limited group of patients. The studies made during this phase serve to analyse the effectiveness and tolerability of the drug, determine the proper dosage and identify possible side effects.

Phase III studies are also referred to as approval studies or confirmatory studies. The drug is normally examined in a controlled, randomly selected blind study. One half of the patients receive the new drug, while the other half is treated with a form of therapy that has already been approved. The results are then compared with each other. If a therapy does not yet exist for the indication, the control group usually receives a placebo. For first-time approvals, usually at least two independent studies are required that each deliver statistical proof of the drug's effectiveness.

A so-called regulatory approval dossier summarises the results of the three phases and serves as a basis for the responsible authorities in the approval process.

Safety

Expecting a child. During pregnancy, harmless infections can have fatal consequences. For example, a cytomegalovirus infection, which can cause serious harm to the unborn child. A study shows that our immunoglobulin Cytotect® Biotest significantly reduces this danger – and namely without side-effects. So that the wish for “a healthy baby” becomes reality.

Biotest Share is in Demand with Institutional and Private Investors

Successful capital increase, rise in share price of more than 100 %, clear gain in sales: 2005 was also an extremely successful year for Biotest on the capital market.

Dynamic upwards trend on the stock market

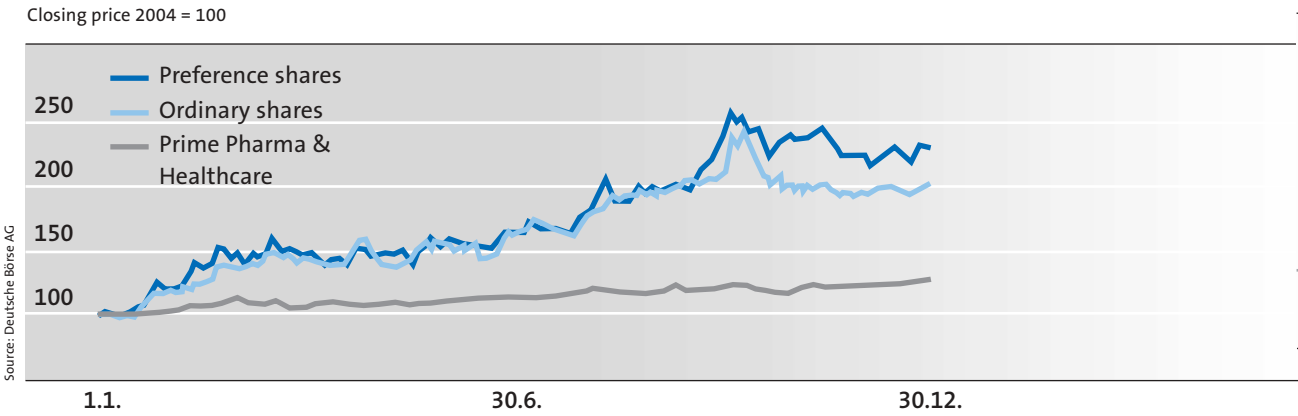
The German stock markets developed very positively in 2005. The Deutsche Aktienindex (DAX) closed on 30 December 2005 with 5,408.26 points approximately 27 % higher than the previous year (4,256.08 points). The SDAX, which is made up of 50 small caps, even managed to push ahead by 35 % to 4,248.90 points. For both indices, the bulk of the upward movement fell on the second half of the year.

The shares of companies from the healthcare industry consolidated in the Prime Pharma & Healthcare Performance Index quoted 26 % higher at the end of the past year as compared to twelve months earlier, and the Euro-Stoxx-Healthcare Index for European shares from the healthcare are increased by 19 %.

Biotest share reaches new peaks

The development of the Biotest share outperformed all comparative indices. Ordinary and preference shares continued uninterrupted along the upwards trend of the previous year. At the end of 2005, the price of ordinary shares in the electronic trading segment

Development of share price in 2005



XETRA was at € 24.45 or twice as high (+ 102 %) as in the previous year. Preference shares increased by 132 % to € 22.30. In the meantime, ordinary shares reached a five-year high with a price of € 30.40, and preference shares even reached a seven-year high with € 26.00. The interim decline in the share price in autumn resulted partially from a technical effect through the inclusion of new shares issues in the course of the capital increase as well as from profit-taking.

On a basis of the closing prices in XETRA, which comprises the largest portion of stock market turnover, the market capitalisation of Biotest AG amounted to € 250.67 million at year's end.

As at 30 December 2005, the 4,666,667 preference shares from Biotest – all of which were free floating – were worth a total of € 104.06 million. With this market capitalisation of its preference shares, Biotest would have held position 44 in the SDAX at 30 December 2005. If our share price continues to develop positively, we hope to move into the small cap index at one of the next regular weighting adjustments.

Successful capital increase ensures more widely spread shareholdings and liquidity

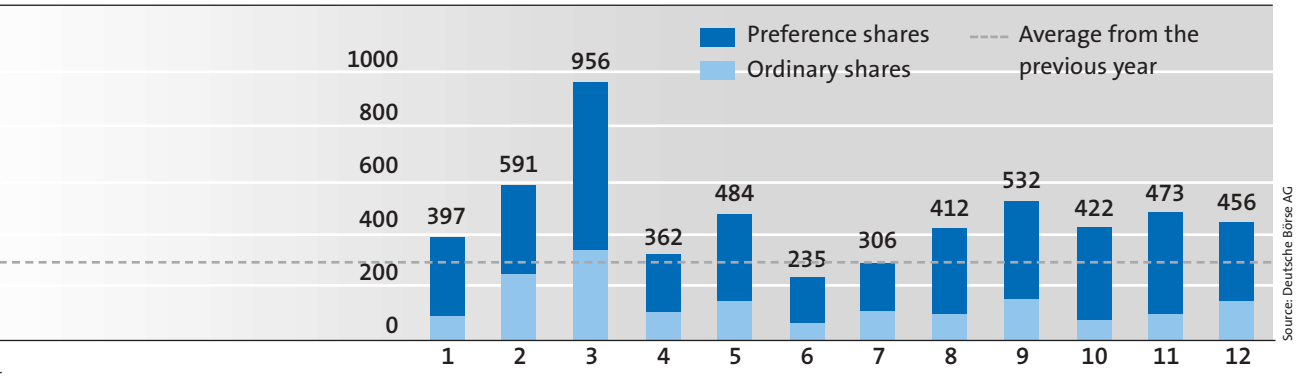
Through the issue of approximately 2.0 million ordinary and 0.7 million preference shares, the capital stock of Biotest AG has increased by € 6.8 million to a current level of € 27.3 million.

In June 2005, Biotest increased the capital stock by € 2.9 million by issuing 1.39 million ordinary shares excluding the subscription rights of existing shareholders. A German financial investor subscribed 570,000 shares in cash to the amount of € 10.0 million, and the Schleussner family subscribed 569,150 shares in exchange for the conversion of a partner's loan with an equity volume of € 10.0 million.

In October 2005, the capital stock was increased by an additional € 3.9 million. The offer comprised 856,525 new ordinary and 666,667 new preference shares. For each six old ordinary or preference shares held, shareholders could subscribe one new share of the same class.

Volume of securities traded

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



Of the preference shares on offer, 99.67 % were subscribed during the two-week subscription period; the subscription rate was 99.29 % for ordinary shares. The Schleussner family made only minimal use of their subscription rights, so that 450,000 ordinary shares were sold within the framework of a private placement. Demand exceeded the available lot by a multiple. The new shares fully qualify for dividend already in financial year 2005.

The capital increase resulted in a further increase in the share of international institutional investors in the capital of Biotest. Especially institutional investors specialised in the healthcare area took up the share certificates that were newly issued in the capital increase. Due to the fact that subscription rights were not exercised, the Schleussner family's stake in ordinary shares declined to 50.03 %; twelve months earlier it was still at 60 %.

In addition, more than 10 % of ordinary shares are held by Kreissparkasse Biberach. The rest of the ordinary shares and all preference shares are widely scattered via the stock market. Capital measures are also the reason for considerably higher sales with Biotest shares. The number of traded shares on all German stock exchanges was approximately 50 % higher than in the previous year and reached 5.6 million. Approximately 90 % of all transactions took place in the XETRA electronic trading segment and in floor trading at the Frankfurt securities exchange.

Investor and creditor relations further intensified

One of the main priorities of investor relations work in the past year was communication in connection with the capital measures. In the forefront of the capital increase without preclusion of subscription rights in October, the Board of Management presented the company and the strategy of growth to national and international investors in a roadshow.

In addition, Biotest sought out an active dialogue with the relevant players on the capital market. The Board of Management gave details on a regular basis regarding the business, earnings and financial situation to portfolio managers, analysts and representatives of the credit-lending banks.

We held press and analysts' conferences in April and October 2005 to announce the 2004 financial statements that were published at the end of March and the third-quarter figures.

Just 26 days after the balance sheet date, detailed information was available on the course of business in both business areas and on the progress of development in the Biotherapeutic segment. The interim reports after the first, second and third quarter were published on average 40 days after the respective accounting date. In the past year, Biotest therefore consistently complied with the deadlines specified by the German Corporate Governance Code for the publication of financial information.

In ad hoc announcements and press releases, we provided the public with comprehensive and current information on the development of the company. Additionally, we presented ourselves to attendees at the DVFA SEQ-Smart Equities Conference in Frankfurt am Main.

The capital measures – as well as the operational success – served to more strongly draw the attention of capital market oriented media to Biotest. Research and analysis firms also commented on the company and its perspectives to a greater extent than in the previous year. Special mention should be made of the inclusion of coverage by the research firm equinet.

Interested parties can view or download presentations, speeches and annual and interim reports at the "Investor Relations" section of our company website (www.biotest.de). We send information on the company to more than 600 addresses both in Germany and abroad.

We published the consolidated financial statements for 2005 on 17 March 2006. This took place 76 days after the balance sheet date and was thus ahead of the 90 day deadline set by the German Corporate Governance Code.

DATA AND KEY FIGURES FOR THE BIOTEST SHARE

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

Stock Exchange Symbol	BIO (ordinary shares), BIO3 (preference shares)
Stock Markets	Frankfurt, Berlin, Dusseldorf, Hamburg, Stuttgart as well as XETRA
Market Segment	Prime Standard/official market
Prime Industry	Pharma & Healthcare
Industry Group	Pharmaceuticals
Designated Sponsor	Deutsche Bank
Number of Shares	5,995,675 ordinary shares, 4,666,667 preference shares
Share Capital	€ 27.3 million
Approved Capital	€ 10.24 million

€	2005	2004	2003
Dividend per ordinary share	0.12 [1)]	0.11	0.00
Dividend per preference share	0.18 [1)]	0.11	0.22 [2)]
Earnings per share	1.13	0.57	- 0.77
Additional dividend rights preference shares	0.06	0.11	0.11
Earnings per preference share	1.19	0.68	- 0.66
Cash flow [3)] per share	3.78	4.04	2.67
Ordinary shares			
Opening price XETRA	12.21	7.16	5.08
High XETRA	30.40	13.85	8.50
Low XETRA	11.78	7.16	3.15
Closing price XETRA	24.45	12.10	7.50
Market capitalization at year-end (€ million)	146.59	48.40	30.00
Preference shares			
Opening price XETRA	9.46	4.82	3.28
High XETRA	26.00	11.45	6.85
Low XETRA	9.17	5.03	2.85
Closing price XETRA	22.30	9.58	4.96
Market capitalization at year-end (€ million)	104.07	38.32	19.84

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

Corporate Governance at Biotest

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

Corporate Governance principles

Biotest's corporate strategy is oriented towards broadening the product range through a focused research and development program and on this basis towards shaping growth in international markets. In the long 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 management and controlling and compliance as an integrated subject area. In the pursuit of overriding strategic goals, it is our policy to attain the greatest possible efficiency at each level of the company, to act in a responsible manner at all times, and to limit the risks incurred as a necessity, such as with regard to long-term research projects.

A responsible management with a focus on the long term and its efficient control are as a matter of course an integral part of our corporate culture. Both executive bodies work together in a trusting manner and orient themselves on internationally recognised standards of good corporate governance. In so doing, compliance with regulatory provisions and transparency requirements of the capital market at all times is self-evident.

The German Corporate Governance Code (the "Code") in its most current version is always authoritative for the concrete implementation and further development of our principles of responsible corporate conduct. Effective 2 June, 2005, several new recommendations were added to the Code, which in particular set higher standards concerning the composition of the Supervisory Board and the Audit Committee. Board of Management and Supervisory Board have intensively dealt with the new requirements and decided to implement the recommendations of the Code without exception in the future as well.

Corporate Governance in financial year 2005

During financial year 2005, there were no deviations from the Declaration of Compliance applicable for the period. There were no conflicts of interest during the reporting period. Statutes and bylaws of Biotest AG in their current version are fully compliant with the Code.

Approximately 170 persons participated in the Annual Shareholders' Meeting of the company on 20. May, 2005 in Frankfurt/Main. With 78.41% of all ordinary shares present, they approved all the agenda items with a large majority. Particularly noteworthy is the creation of a new approved capital in the amount of € 10.24 million. The preferred shareholders also approved this agenda item at a separate meeting following the annual shareholders' meeting with 19.50 % of the votes present. The statutes of Biotest AG were amended accordingly.

All necessary reports and documentations were also made available in advance on the Internet pages of Biotest. The Chairman of the Supervisory Board also informed the Annual Shareholders' Meeting about the basics of the remuneration system.

Efficiency review by the Supervisory Board

The Supervisory Board of Biotest AG has made preparations for the renewed review of the efficiency of its activities in the first half of the year 2006. As already in 2004, potential for improvement is to be revealed through special interviews with all members of the Supervisory Board. Biotest will report on the results in the next annual report. An efficiency review should be conducted at least every two years.

Implementation of the recommendations and suggestions of the code

Biotest AG is compliant with all of the recommendations of the German Corporate Governance Code also in its new version of 2 June 2005. Furthermore, Biotest also complies largely with the suggestions of the Code. Sole exception: for cost reasons, we will not broadcast the Annual Shareholders' Meeting of the company via the Internet. The statement of compliance that was approved at the balance sheet meeting of the Supervisory Board on 15 March 2006 is available on the company's web page at www.biotest.de. Also available at this site are the previous statements of compliance, the corporate governance report, the remuneration report and the company statutes.

In addition to the principle of "comply-or-explain," according to which companies only need to justify their deviations from the Code, Board of Management and Supervisory Board elaborate on two major new recommendations in this report.

According to section 5.4.2 sentence 1, the Code recommends that the Supervisory Board, based on its own judgement, needs to include a sufficient number of independent members. The Supervisory Board of Biotest AG is composed of four shareholders' representatives and two employee representatives. No business or personal relationships that constitute a conflict of interest exist between these members and Biotest AG or its Board of Management. In so far, the entire Supervisory Board is independent in the sense of section 5.4.2 sentence 1 of the Code. The law firm Ashurst, where Mr. Reinhard Eyring, member of the Supervisory Board, is engaged, received a total of € 504 thousand (previous year: € 134 thousand) for consulting services in financial year 2005. The increase is due to legal counsel in connection with the capital increase of Biotest AG, among others (due diligence and submission of stock exchange prospectus).

According to section 5.3.2, the Code requires that the chairman of the auditing committee is in the possession of special knowledge and experience in the application of accounting standards and internal controlling procedures. Chairman of the auditing committee is Dr. Jochen Hückmann. As Chairman of the Management Board of Merz GmbH & Co. KGaA, he commands extensive knowledge and experience. Merz has already reported in accordance with International Accounting Standards for a number of years.

New legal requirements

Biotest has fulfilled all legal requirements concerning capital market communication during financial year 2005. All purchases and sales that are subject to reporting obligations (exceeding Euro 5,000 per annum) of officers and other executives of the company have been reported immediately. Due to the Ordinance specifying Duties to Notify, Inform and Disclose and the Duty to Maintain Insider Lists according to the Securities Trading Act (Verordnung zur Konkretisierung von Anzeige-, Mitteilungs- und Veröffentlichungspflichten sowie der Pflicht zur Führung von Insiderverzeichnissen nach dem Gesetz über den Wertpapierhandel – Wertpapierhandelsanzeige- und Insiderverzeichnisverordnung – "WpAIV") that became effective at the end of 2004 and is also

taken into consideration in the amended section 6.6 of the Code, Biotest is publishing the transactions for the first time as part of the Report on Corporate Governance.

Directors' Dealings 2005

Name	Function	W0N/ISIN	Share class	Purchase/ Sale	Trade date	Number of shares	€ Price	€ Value
Dr. Joachim Herborg	Other management	522723	Pref. share	Sale	31.10.2005	1,000	22.96	22,956.60
Dr. Rainer Pabst	Other management	522723	Pref. share	Sale	28.10.2005	200	22.96	4,591.12
Dr. Michael Ramroth	Executive body	522723	Pref. share	Sale	31.10.2005	1,500	22.96	34,440.00
Dr. Cathrin Schleussner	Supervisory body	522720	Ord. share	Sale	27.10.2005	16,199	22.50	364,477.50
Dr. Cathrin Schleussner	Supervisory body	522720	Ord. share	Sale	15.08.2005	288,039	17.57	5,060,852.00
Joshua Schleussner		522720	Ord. share	Sale	27.10.2005	395	22.50	8,887.50
Sylvie Schleussner		522720	Ord. share	Sale	27.10.2005	395	22.50	8,887.50
Prof. Dr. Gregor Schulz	Executive body	522723	Pref. share	Sale	31.10.2005	1,500	22.96	34,440.00
Dr. Thorlef Spickschen	Supervisory body	522720	Ord. share	Sale	31.10.2005	367	22.50	8,339.40
Dr. Thorlef Spickschen	Supervisory body	A0FAPJ/00	Subscr. right	Sale	20.10.2005	2	0.40	0.80
Dr. Thorlef Spickschen	Supervisory body	522720	Ord. share	Sale	10.08.2005	2,200	22.51	49,531.25
Dr. Rolf Vornhagen	Other management	522723	Pref. share	Sale	31.10.2005	1,000	22.9566	22,956.60

In the implementation provisions of the German Law for the Improvement of Investor Protection, which also encompasses the duty to keep lists of insiders, Biotest orientates itself on the Issuer Guideline prepared by the German Federal Financial Supervisory Authority (BaFin).

Compensation of the Board of Management and the Supervisory Board

Joint report by the Supervisory Board and the Board of Management of Biotest AG pursuant to Section 4.23 of the German Corporate Governance Code

Compensation of the Board of Management

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

The annual fixed salary is based on the economic position and future prospects of Biotest as well as on the level of compensation paid in a comparable environment. The variable compensation component is based to 35 % on EBIT, to 35 % on Return on Capital Employed (RoCE) and to 30 % on the achievement of individual goals in the previous financial year. The individual targets are agreed annually between the members of the Board of Management and the Presiding Committee. After the end of the financial year, the Presiding Committee sets the level for the performance-related component.
The component with long-term incentive effect and risk elements was based for the first

time in the financial year on the newly created Long-Term Incentive Plan (LTI), which includes further executives in addition to the members of the executive board. It replaces the virtual share options program of Biotest AG that expired in financial year 2004.

Both members of the Board of Management were given the option of purchasing 1,500 preference shares of Biotest AG per person at the current market price. 25 % of the purchase price will be reimbursed by Biotest AG. The shares purchased must be held in the securities account for three years. Once this period has elapsed, additional preference shares are granted depending on the achievement of defined performance targets. The beneficiaries are required to pay the proportionate amount of the equity capital – € 2.56 per share – for those shares. Challenging execution hurdles were defined for these performance targets. No additional preference shares are granted below an annual average EBIT-margin of 8.5 % or for a share price advance of less than 10 %. In addition, a cap was agreed for extraordinary and unforeseeable developments. The number of preference shares that can be obtained after three years have elapsed is limited to a maximum of six times the number of preference shares initially purchased.

In financial year 2005, the individual members of the Board of Management received the following compensation.

Total remuneration for the active members of the Board of Management amounted to a total of € 778 thousand in 2005 (previous year: € 995 thousand).

Of this amount, apportionable to Prof. Dr. Gregor Schulz is a fixed salary of € 250 thousand, plus allowances for insurance, among others, and non-cash compensation for a company car totalling € 40 thousand and performance-related earnings in the sum of € 114 thousand. In addition, a pro-rata provision was made for Prof. Dr. Gregor Schulz in the amount of € 20 thousand for performance-related earnings for the successful conclusion of capital measures in 2005. This amount, however, will not be paid out until November 2006 upon fulfilment of further conditions.

Of the total amount, a fixed salary of € 200 thousand is apportionable to Dr. Michael Ramroth, plus allowances for insurance, among others, and non-cash compensation for a company car totalling € 40 thousand and performance-related earnings in the sum of € 94 thousand. In addition, a pro-rata provision was made for Dr. Michael Ramroth in the amount of € 20 thousand for performance-related earnings for the successful conclusion of capital measures in 2005. This amount, however, will not be paid out until November 2006 upon fulfilment of further conditions.

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

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

Compensation of the Supervisory Board

The compensation of the Supervisory Board is stipulated in the Articles of Association. The members each receive an annual fixed compensation of € 15,000 as well as a variable compensation payment in the amount of € 500 for every € million that exceeds EBIT with a minimum amount of € 14.3 million. This minimum amount increases annually by 10 % beginning in financial year 2005 up to and including financial year 2007.

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

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

2005 in € thousand	Fixed compensation	Variable compensation	Total compensation
Dr. Thorlef Spickschen (Chairman since 20 May 2005)	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**

Annual Document

Pursuant to Sec. 10 of the German Securities Prospectus Act (WpPG), listed companies are obligated to make annually available to the public a document containing information published or made available to the public in the twelve preceding months to comply with certain regulations under German company or capital market law.

The following table contains all information that Biotest AG published or made available to the public in the period from January 2005 up to and including December 2005 as a result of the regulations of negotiable instruments law as stated in Sec. 10, para 1, WpPG. The third column of the table lists where the information was published and where it can be viewed. Provided that information was only published on the Internet, the respective printed version of the document can be requested from Biotest.

A list in accordance with Sec. 10, para 1, WpHG is updated at the end of each quarter and can be viewed in the Investor Relations area of the Biotest website.

Information type	Date of publication	Publication in/available at
Ad hoc announcements		
Ad hoc announcement pursuant to Sec. 15 WpHG: „Excellent preliminary result: Biotest achieves group profit of € 5.0m in 2004	16.03.2005	www.biotest.de Category: Investor Relations – Announcements
Ad hoc announcement pursuant to Sec. 15 WpHG: "Change of the Supervisory Board"	24.03.2005	www.biotest.de Category: Investor Relations – Announcements
Ad hoc announcement pursuant to Sec. 15 WpHG: "Biotest AG increases capital stock by up to € 2.92m"	30.06.2005	www.biotest.de Category: Investor Relations – Announcements
Ad hoc announcement pursuant to Sec. 15 WpHG: "Biotest AG increases capital stock by up to € 3.9m"	06.09.2005	www.biotest.de Category: Investor Relations – Announcements
Ad hoc announcement pursuant to Sec. 15 WpHG: "Biotest fixes subscription price"	10.10.2005	www.biotest.de Category: Investor Relations – Announcements
Documents regarding capital measures		
Securities prospectus for capital increase	10.10.2005	Download file at: www.biotest.de/de/data/pdf/wertpapierprospekt.pdf
Rights offer for shares from the capital increase	10.10.2005	Download file at: www.biotest.de/de/data/pdf/bezugsangebot.pdf
Annual Reports		
Annual Report 2004	30.03.2005	www.biotest.de Category: Investor Relations – Publications
Quarterly Reports		
Q1 Report 2005	10.05.2005	www.biotest.de Category: Investor Relations – Publikationen – Quarterly Reports
Q2 Report 2005	05.08.2005	www.biotest.de Category: Investor Relations – Publications – Quarterly Reports
Q3 Report 2005	14.11.2005	www.biotest.de Category: Investor Relations – Publications – Quarterly Reports
Annual General Meeting		
Invitation/Agenda of Annual General Meeting 2005	07.04.2005	www.biotest.de Category: Investor Relations – Annual General Meeting
Invitation/Agenda of Additional Meeting 2005 of Preference Shareholders	07.04.2005	www.biotest.de Category: Investor Relations – Annual General Meeting
Corporate Governance		
Declaration of Compliancy pursuant to Sec. 161 AktG	18.03.2005	www.biotest.de Category: Investor Relations – Corporate Governance

Trust

Blood transfusions during serious operations are a routine clinical procedure. Precisely for this reason, it must be guaranteed that the blood types of donors and recipients exactly match. The fully-automated testing system TANGO® optimo from Biotest determines blood types reliably and efficiently. That makes security during transfusions a sure thing.

Group Management Report

The Financial Year in Review

Profit-yielding growth, improvement in the financing structure through capital increases and restructuring of external financing with reduction of debts and important advances in the implementation of the strategy: the financial year 2005 was very successful for Biotest.

At € 237.6 million, revenue was approximately 9.1 % higher than in the previous year; for the first time in three years, Biotest was on a path of growth. At 35.7 %, the operating result (EBIT) grew at an above-average rate to € 25.3 million (previous year: € 18.6 million). Earnings after interest (EBT) showed even more dynamic progress, and at € 15.0 million was more than twice as high as in 2004 (€ 6.2 million).

With our corporate strategy, we are pursuing the goal of strengthening Biotest's position as a global specialist for innovative immunology and haematology. We reached important milestones in this direction in 2005. We made significant headway both in the internationalisation of the business and in the diversification of our products – for instance, through the approval of our immunoglobulin Intratect® in nine additional European countries and the diagnostic system TANGO® in the USA. The development of therapeutic monoclonal antibodies is proceeding on schedule.

Following replacement of the collateral trustee agreement (CTA) by a syndicated loan, conclusion of an additional profit-sharing rights agreement and successful capital measures, the financial basis for our future growth appears extremely sound: equity ratio stood at 48.5 % as at the balance sheet date; at 78.6 %, total equity, pension reserves and long-term financial liabilities altogether accounted for a much larger share of the balance sheet total than in the previous year (53.6 %).

About Biotest

Biotest is a pharmaceutical and diagnostics company active in the research and development, production and distribution of medical preparations for the therapy of diseases of the immune system and in the haemopoietic systems, of reagents and testing systems for blood and transplantation diagnostics as well as of substances and systems for hygiene monitoring of air and surfaces.

Biotest has approximately 1,100 employees worldwide, most of which work in Germany at the headquarter in Dreieich near Frankfurt am Main. In addition, we have subsidiaries and associated companies in Germany and in ten further countries in Europe, America and Asia.

Segmentation

Since financial year 2005, Biotest's activities have been divided into three operating segments: Pharmaceuticals, Diagnostics and Biotherapeutics. The Corporate segment shows costs incurred by the overarching group management. The figures for financial year 2004 have been adjusted for the changed presentation to make them comparable with last year's data.

In the Pharmaceutical segment, Biotest researches, develops, produces and distributes drugs derived from human plasma. These can be divided into three groups: immunoglobulins, coagulation factors and albumins. Our preparations are used in diseases of the immune and haemopoietic systems.

The Diagnostic segment comprises the development and production of various reagents and devices for the typing of red and white blood cells and other tissue cells, as well as testing substances and systems for hygiene monitoring.

The Biotherapeutic segment was set up in financial year 2005. The development of monoclonal antibodies (mAb) is clustered within this segment. The biotechnically-produced active ingredients are to be used in the treatment of rheumatoid arthritis and other autoimmune diseases as well as for the therapy of multiple myeloma, a malignant cancer of the bone marrow. With the new segmentation, we are staying abreast of the large potential that the development of mAb holds for Biotest, while furthermore ensuring the transparency of expenses incurred in this regard.

Key Figures on Corporate Management

Key figures used in the management of Biotest are Return on Capital Employed (RoCE) as relates to the overall company and Earnings before Interest and Tax (EBIT) and Earnings before Tax (EBT) at the segmental level. Cash flow is an important parameter with regard to corporate financing. In this regard, measures based on key figures aimed at reducing working capital were introduced in financial year 2005.

Market Conditions

At a glance

Market conditions relevant for Biotest in the Pharmaceutical segment encompass the areas of plasma collection, processing and purification as well as marketing of the final products. The Diagnostic segment is active in the market for blood transfusions, infection diagnostics and the transplantation of human tissue (organs and bone marrow). The pharmaceutical industry is the main customer group for hygiene monitoring, and it uses our products for monitoring cleanroom conditions during production.

Market conditions for the pharmaceutical business developed favourably. In the second half of 2005, a recovery that started in the USA was noticeable for the immunoglobulin market, which was also accompanied by price increases in Europe. The markets served by Biotest outside of Europe (the Middle East, North Africa, South America) were again characterised by intense competition. Thus margins on calls for tenders continued to be under pressure.

The markets for diagnostic devices remained difficult in Europe in 2005, and the continuing cost pressure in the healthcare sector weighted down prices. In the USA, we continue to observe positive market conditions for suppliers of diagnostic products, especially in the transfusion medical sector.

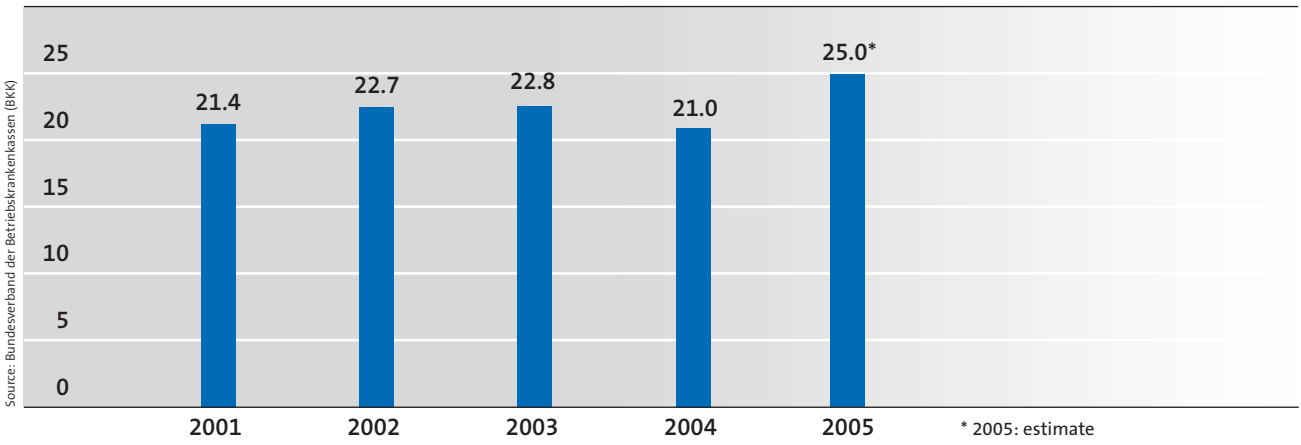
On a whole, Biotest's overall expectations concerning market development as mentioned in the 2004 annual report by and large materialised.

Plasma proteins

The plasma protein industry is currently dominated by three large companies, which hold approximately 70 % of the global market volume. Biotest achieved a world market share of approximately 2 % in financial year 2005. Within the markets that we serve, the revenue share of our products reached approximately 9 %, and this share was substantially exceeded in sub-markets. As an example, the polyvalent immunoglobulin Intratect® achieved a market share of 19.4 % already in its first year following market introduction in Germany.

Spending on drugs by the statutory health insurance sector in Germany

€ billion



Human plasma is raw material for three major product groups: immunoglobulins, coagulation factors and albumin. As Biotest expected, excess supply on the global plasma markets declined in 2005. This development results from a major reduction of capacities by many large suppliers that already took place in 2004 and the accompanying drawdown of sizeable inventories. Due to the limited supply, the purchasing prices for plasma raw material were 5 % higher for Biotest at the end of the year compared to the beginning. In some instances, price increases were even higher. The reduced supply of raw material also led to increasing prices for plasma preparations, but the development differed by regions and product groups.

Price increases were witnessed for immunoglobulins in the past year, caused by lower supply and an increasing demand.

The prices for coagulation factors were largely stable in Europe. Biotest distributes drugs with the coagulation factors VIII and IX. Countries outside Western Europe and the USA cover their demand predominantly with plasmatic preparations, since these are considerably less expensive. In continental Europe, somewhat more than half of all haemophiliacs are treated with biotechnologically manufactured – so called recombinant – factors. The relationship between the two has remained unchanged in the past financial year. In Great Britain and North America, recombinant factors dominate the treatment of haemophilia.

There is some evidence that the plasmatic factor VIII concentrates induce fewer inhibitors (inhibitors hinder the effectiveness of factor VIII). Furthermore, there are indications that plasmatic factor VIII medications with von-Willebrand factors are more effective in the therapy of inhibitors. Our factor VIII product Haemoctin® SDH combines both advantages. In our assessment, these preparations will continue to attract a significant share of the demand in Europe.

In Russia, sales of coagulation factors were up sizably because costs for the prophylactic treatment of adult haemophiliacs in Russia have been covered by the state health system since 2005. The prices achieved in competitions for tenders in emerging markets continued to be under pressure. However, indications were mounting that the price decline is coming to a halt, especially with regard to factor VIII drugs.

As in the previous years, the market for albumin was difficult. The effects of the excess supply from previous years are being felt more strongly than for coagulation factors and immunoglobulins.

In Germany, with a share of 37.0 % in annual revenue the single most important market for Biotest's Pharmaceutical segment, the regulatory framework conditions have somewhat improved. The mandatory discount for producers of pharmaceuticals, which in 2004 was increased to 16 % in the context of the Statutory Health Insurance Modernisation Act, was reduced to 6 % on 1 January 2005. The statutory health insurance funds spend € 25 billion on drugs according to an estimate by the German Association of Company Health Insurance Schemes. This was significantly more than in the previous

year (€ 21 billion). According to calculations by the German Institute of Medical Statistics (IMS), the pharmaceutical industry lost revenues in the amount of € 600 million due to the mandatory discount. In the previous year, with the higher rebates in place, the loss was € 1.8 billion.

All prescription preparations that are distributed via public pharmacies and are not subject to the regulation on fixed charges are subject to the mandatory rebate in the statutory health insurance system. At Biotest, approximately 85 % of revenues from immunoglobulins obtained in the pharmacy market in Germany are affected by this regulation.

The concentration process among German pharmacies, which set in as a result of a lifting of the ban on owning more than one pharmacy (Mehrbesitzverbot) in 2004, continued in 2005. Due to specialisation and the cooperation with hospital associations, as well as the aggregation of orders, the purchasing power of pharmacies increased.

In the other countries relevant for Biotest, the framework conditions remained substantially unchanged.

Biotherapeutics

Monoclonal antibodies (mAb) are genetically engineered, highly specialised antibodies. Due to their specific mode of action, mAb have great potential for human medicine – with a focus on oncology, haematology and autoimmune diseases. According to a study by Datamonitor, 32 % of global sales in biotechnology could be related to mAb by 2008. A market volume of approximately USD 30 billion is predicted for 2010.

Major indications of the mAb in Biotest's development pipeline are rheumatoid arthritis, psoriasis and multiple myeloma, a form of leukaemia. Rheumatoid arthritis – also called chronic polyarthritis – is the most frequently occurring rheumatic disease. According to estimates, approximately 0.5 % to 1 % of the population are afflicted with this chronic inflammatory disease, which mostly affects the joints and, less frequently, inner organs. Significantly more than 50 % of the market volume for the therapy of rheumatoid arthritis relate to biotechnologically manufactured drugs. With the foreseeable market approval of additional biotherapeutic products in the coming years, the market for pharmaceuticals for the treatment of rheumatoid arthritis will grow to USD 10.5 billion according to a forecast by the science journal Nature. According to expectations, more than 85 % of the market volume (2001: 56 %) will then relate to biotherapeutical products. Following approval, we are optimistic that we can capture a significant share of this market since mAb BT-061 by Biotest possesses a unique mode of action: it is immunmodulating and causes fewer side effects than the TNFα antagonists, that are currently in predominant use and which suppress the immune system. Psoriasis is a chronic, inflammatory skin disease with increased production of scaly skin that occurs in waves. Approximately 1 % to 3 % of the global population are affected. As an example, in the USA a prevalence rate of 2.1 % (equivalent to 4.5 million patients) is cited, and all age groups are affected.

An increase in registered diseases is expected due to population growth. The market for psoriasis therapeutics is likely to grow at an above-average rate, since here as well the share of the more expensive biotherapeutical products – predominantly TNFα antagonists – is increasing. A market volume of USD 3.3 billion is expected in 2013. Multiple myeloma is a currently incurable cancer of the bone marrow, which has its cause in an uncontrolled growth of plasma cells. Affected are about 3 to 4 out of 100,000 persons in western industrialised countries. The development of new methods of treatment will lead to an increase of the market volume in 2011 to approximately USD 1.2 billion according to estimates. About USD 500 million will relate to new agents, among them monoclonal antibodies, according to a study by the specialist journal Nature.

Diagnostics

In transfusion and transplantation diagnostics, more than 80 % of global market volume was generated in the highly regulated markets of North America, Europe and Japan in the previous year. The global diagnostics market is also characterised by a high degree of concentration among suppliers. The world's ten leading producers of in-vitro diagnostics (IVD) hold a combined market share of 80 %.

In Europe, the market continued to be characterised by unchanged fierce price competition. In December 2005 the transition period for the IVD directive of the European Union (EU) ended. Since then only diagnostic devices with a CE certification are allowed for sale inside the EU. In the year under review, suppliers of products without seal of quality sold those at extremely low prices in order to make use of the last possibility for a legal disposal. This put the price level in the entire market under pressure. The transplantation sector was also struggling with a declining demand: this was true in particular for sales to the operators of databases for bone marrow donors.

Especially in the area of transfusion medicine, the market for diagnostics in the US is highly attractive. Due to strict criteria for approval, only two suppliers were active in transfusion diagnostics prior to the market entrance of Biotest with its fully automated blood group device TANGO® in October 2005. The price level is thus significantly higher than in Europe and will continue to move upward in the current year. In the area of transplantation diagnostics, the trend towards DNA-based procedures has continued, while transfusion diagnostics continue to be based almost exclusively on proven serological methods.

The business with products for hygiene monitoring for the pharmaceutical industry was further characterised by a favourable environment. Strict legal requirements continued to support the stable demand for hygiene monitoring products.

Strategy – Global Specialist for Innovative Immunology and Haematology

Biotest's line of business has a strong ethical component, and our products and our operating principles have to satisfy these demands. The overriding objective at Biotest is to offer patients with largely chronic, partly life-threatening immunological, haematological or oncological diseases the chance for a lasting effective therapy with the greatest possible safety, compatibility and in a patient-friendly dosage form.

Biotest views itself as a globally active specialist for innovative immunology and haematology. Group strategy is targeted accordingly: we provide resources for research and development in order to develop new markets both at home and abroad with innovative plasma proteins, biotherapeutic products and diagnostic products.

After extensive investments in the production of pharmaceuticals, we can process considerably more plasma, achieve larger outputs during production and, at the same time, ensure products of premium quality. In the Pharmaceutical segment, we are striving to become one of the five largest producers of plasma proteins in Europe and double our world market share within five years. In the same time period, the share of all immunoglobulins within Germany's growth market is to increase from 14.9 % (at the beginning of 2005) to more than 20 %. We are going to gear ourselves strictly towards the principle "profitability before revenue" and are therefore focusing our activities on products with high margins and attractive market segments. The latter is also true for the Diagnostic segment, where we are concentrating our activities on markets with strict licensing procedures (Europe, USA, Japan) and on products with high quality standards.

Internationalism of the plasma proteins and diagnostic products business

Biotest is placing more effort – centred around an optimised product range – on the approval of its plasma proteins in those foreign markets that are especially conducive to the achievement of adequate and comparably stable margins. These mainly include the countries of the European Union (EU) and the United States (USA). Following one approval by the Food and Drug Administration (FDA), we want to launch plasma proteins with particular product attributes and for special indications in the US market. This mainly relates to the polyvalent immunoglobulin Intratect® and hyperimmunoglobulins. Since it is a sign of quality which has a positive effect on the product-image, FDA approval would also serve to benefit sales in additional international markets, including Asia among others.

By means of a stronger presence with premium products in high price markets, Biotest wants to reduce the percentage of sales generated in tender markets. This is based on the grounds that sales volumes in this area are unpredictable, and the attainable price is on average lower than via other distribution channels.

In addition, we are planning to expand our toll manufacturing business. As part of the joint venture BioDarou P.J.S. Co. with the Iranian company Darou Paksh already set up in financial year 2003, we are establishing donor capacities in Iran. The plasma collected there will be processed in Dreieich into plasma preparations – coagulation factors, immunoglobulins und albumin – and will be sent back to Iran.

The BioDarou joint venture can serve as a model for similar agreements in further countries, and negotiations are in progress. By means of toll manufacturing, Biotest is opening up an interesting growth market and can further stabilise the capacity utilisation of plasma protein production.

In the area of transfusion diagnostics, we have the opportunity to accelerate our international business as a result of the FDA approval of the fully automated blood group device TANGO® and all reagents. We market the TANGO® system in the USA via our distribution partner Olympus America Inc. The marketing of manual reagents to smaller clinics is to take place via our own distribution organisation. We are also going to internationalise the device and reagent business for hygiene monitoring with a special focus on North America. In order to develop the attractive US and Canadian markets for products by Heipha Dr. Müller GmbH, own production facilities set up locally are planned.

Higher product quality

We are also able to achieve higher margins through improved product quality. An example of this is our polyvalent immunoglobulin Intratect®, with which we were already able to gain market acceptance for price increases in 2005. Chromatographic precision cleaning lends Intratect® special product attributes and thus allows its positioning as a premium preparation.

Tapping new indication fields for plasma proteins

With a target-oriented research and development, Biotest is supporting the value-based expansionary course in the pharmaceutical area. At the centre of the innovation process is the investigation of new indications within the immunoglobulin product area.

Development of new ways of administering plasma proteins

Immunoglobulins are almost exclusively administered intravenously (IV) or intramuscularly (IM). Biotest is accelerating the clinical development of subcutaneous (SC) dosage forms, starting with the hyperimmunoglobulin Hepatect®. The advantage for patients, who often have to be treated on a permanent basis, is that they can administer the medicine themselves and save numerous visits to the hospital or doctor's office.

Adding to the product portfolio

To round off the product range, in-house developments are to replace preparations that up to now have been marketed under license. This includes, among others, our own coagulation factor IX (Haemonine®).

Ensuring supply with human plasma

In order to gain more independence from price developments on the international plasma markets, we want to meet approximately 40 % of the plasma requirement with our own collection stations in the long term. Moreover, through a high degree of self sufficiency, we are ensuring the consistent quality of our raw material.

Development of monoclonal antibodies

The focus of the Biotherapeutic segment is on the value-based development of the monoclonal antibodies BT-061, BT-062 and BT-063. In terms of large revenue and result potential, we are concentrating first of all on indications with high patient frequencies of occurrence (rheumatoid arthritis, psoriasis) and/or especially high therapeutic requirements (multiple myeloma). Biotest intends to press ahead with the development of mAb up to and including clinical phase II using own resources. Starting with the cost-intensive clinical phase III, we would like to continue the development together with pharmaceutical or biotech partners. Our goal is not to completely out-license the products but rather to do so just for specific markets outside of Europe. While the funds for the execution of phase II will come to a large extent from the capital increase conducted in 2005, we would like to raise our share of the costs beginning in Phase III through the expected milestone and upfront payments of development partners. Accelerated development is needed especially with regard to BT-061 and BT-062 because potential mAb competitors are also currently pursuing clinical development. Besides the mode of action, a shortest-possible time-to-market decides the success of a product.

Advancement to systems provider for diagnostics

With regard to diagnostics products, we are continuing the strategic advancement from a supplier of reagents to systems provider. In transplantation diagnostics, Biotest is aiming at the further expansion of genomic evidence methods and to this end is strengthening the research efforts in the area of chip technology.

Cooperations

We will also implement our strategy of growth through cooperation with partner companies. The cooperations extend across the entire value-added chain. We are placing the emphasis of the cooperations on research and development, and within this area we will focus in particular on the mAb projects, on the production of plasma proteins via toll manufacturing and on the in-sourcing of licensing production and in distribution.

Major Events in the Financial Year

Approval in attractive international markets

After approval was issued twelve months ago in Germany, in September 2005 the polyvalent immunoglobulin Intratect® was approved in the context of the mutual recognition procedure in nine additional European countries. For Greece, the United Kingdom, Ireland, Italy, Austria, Poland and Hungary, confirmation of approval is on hand.

The fully automated blood group device TANGO® was approved for marketing in the USA in early summer, and the accompanying reagents were approved in autumn. Furthermore, activities are under way for the approval of manual reagents in the USA and Canada. Following their successful conclusion, our diagnostic products will be approved for distribution in all highly regulated markets of the world. Since only few suppliers are active in these markets due to the stringent criteria for approval, they offer a very attractive price level.

We have also expanded the international toll manufacturing business. As part of the joint venture BioDarou P.J.S. Co., we set up a donor facility in Teheran. In addition, a further toll manufacturing agreement was reached with the partially state-owned company Iranian Blood Research & Fractionation (IBRF).

Opening up new fields of indications for plasma proteins

Our hyperimmunoglobulin Cytotect® Biotest is the only drug worldwide with a proven effectiveness in the treatment of cytomegalovirus infection in pregnant women, according to the publication of a study in the renowned New England Journal of Medicine. The treatment with Cytotect® Biotest can help to prevent severe deformations in newborns. For our immunoglobulin Intratect®, we are currently researching its suitability for the treatment of chronic pain syndrome (fibromyalgia). Furthermore, studies were started on the application of Pentaglobin®, among others, in the case of abdominal sepsis (poisoning of the abdominal area).

Development of monoclonal antibodies

For the monoclonal antibody BT-061 for the treatment of rheumatoid arthritis and psoriasis which has advanced furthest in development, the continuation of clinical trials is planned for the late summer 2006. The preparations for this are advancing according to plan. Furthermore, we agreed on a research programme with the pharmaceutical company Boehringer Ingelheim in June 2005, with the goal of testing the efficacy of BT- 061 in allergic illnesses such as asthma.

The antibody BT-062 for the treatment of multiple myeloma was humanised by our partner AERES Biomedical Ltd. at the beginning of 2005. This was an important prerequisite for the start of clinical trials. For BT-063 work on humanisation and for the establishment of the production system has begun.

In the implementation of its strategy, Biotest has restructured pharmaceutical research and development in order to optimise functional processes between the R&D sectors plasma proteins and biotherapeutical products. In order to increase development capacities for biotherapeutical products, personnel were increased.

Financing of the growth course

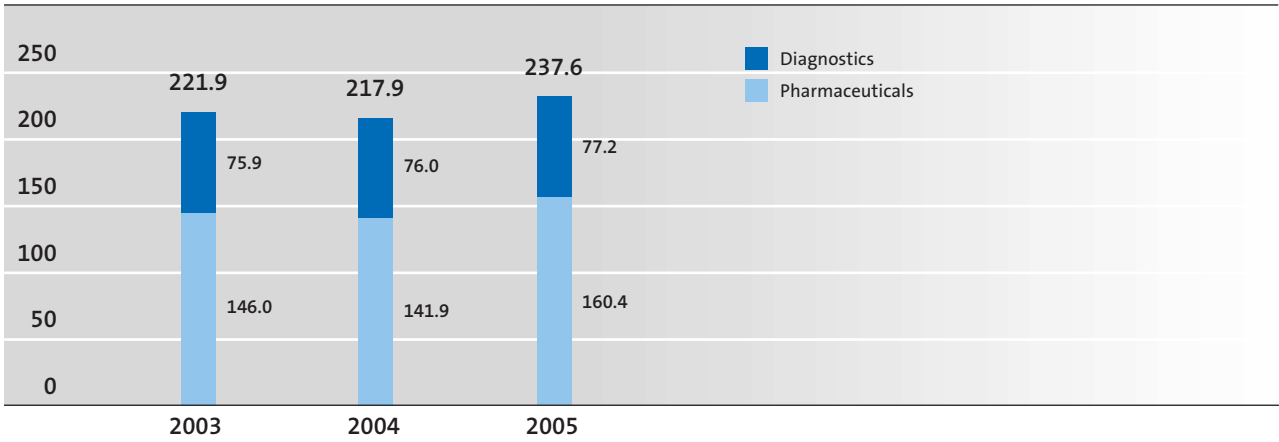
Biotest's goal is to largely finance growth from equity. In order to reach that goal, the registered capital of the company was increased by € 6.8 million. The capital increases resulted in a net cash inflow of approximately € 40 million.

Business Situation

At € 237.6 million, Biotest increased group revenue by 9.1 % compared to the previous year (€ 217.9 million). For the most part, growth was the result of a very good development in Europe. In Germany, revenue increased by 12.8 % from € 76.4 million to € 86.1 million. The share of domestic revenue in group revenue thus increased to 36.3 % (previous year: 35.1 %). In Europe excluding Germany (and including Russia), Biotest had sales of € 115.6 million that were 12.6 % higher than in the previous year. Growth in Europe more than compensated for the weak development in other markets. Outside of Europe, revenues of € 35.9 million were 7.6 % below previous year's value.

Revenue by segment

€ million

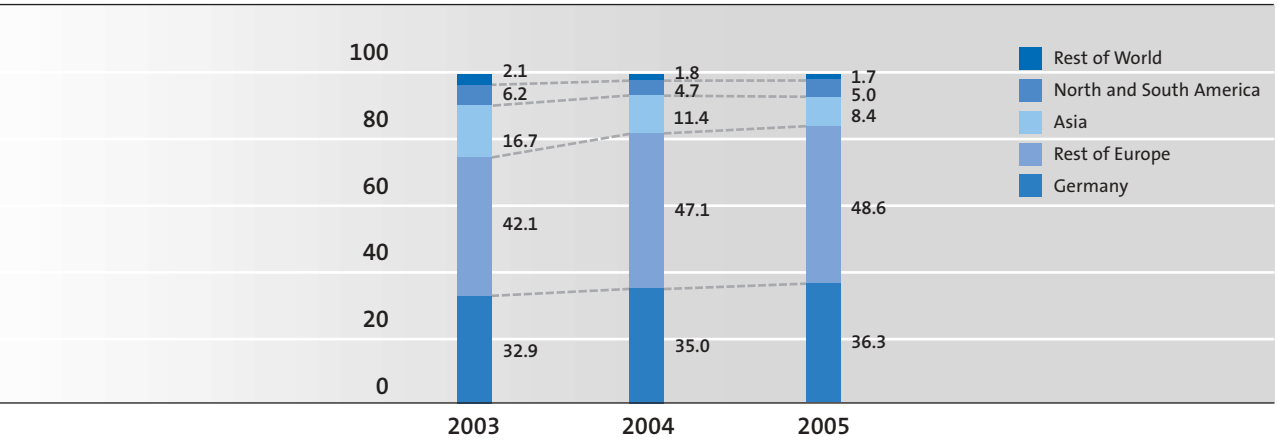


Business development pharmaceuticals

The pharmaceutical business had the most significant share in growth. At € 160.4 million, revenue for the Pharmaceutical segment exceeded previous year's figure (€ 141.9 million) by 13.1 %. Main growth drivers were the polyvalent immunoglobulins and the coagulation factors. With the polyvalent immunoglobulin Intratect®, Biotest obtained sales in Germany that were 50.6 % higher than in financial year 2004 (with Intratect® and the predecessor product Intraglobin®). Our premium preparation has already achieved a market share of 19.4 % in Germany within the first year following approval (unlike most competitor preparations). Intratect® can be stored at room temperature, is available in liquid form ready for infusion and is also suitable for patients with sugar intolerability. In the context of the mutual recognition at the European Union level, Intratect® has meanwhile been approved in nine European countries (besides Germany) including Italy and the United Kingdom. Both countries have a particularly high demand for immunoglobulins.

Revenue by region

in %



With coagulation preparations, we obtained 43.4 % more than in the previous year. In particular, sales of the factor VIII product Haemoctin® SDH advanced markedly. In Germany, Biotest has increased its market share in plasmatic coagulation factors from 18 % to 20 %.

At the international level, the additional business with Russia was the main reason for the growth of Haemoctin® SDH. Since the decision by the Russian government to reimburse the costs for the pre-treatment of adult haemophiliacs, an attractive market has opened up in which Biotest has had a significant share from the very beginning.

Business with hyperimmunoglobulins, which are used in the prophylaxis and therapy of specific inflammations, developed without a clear trend. Sales of Hepatect®, which is used in the prophylaxis of hepatitis B, developed favourably. Biotest, amongst others, profited from the delayed approval of a product by a Spanish competitor.

Revenues declined compared to the previous year for business with the other immunoglobulins Cytotect® Biotest and Varitect® because the more cost-efficient virostatics were frequently given preference over our products.

The increase in revenues for immunoglobulins and coagulation factors was predominantly caused by higher volumes. In Germany, the increase for immunoglobulins is also due to higher prices: as an example, in September 2005 we were able to put through a price increase of 5 % on average thanks to the very high demand. An additional positive price effect resulted from the reduction of the mandatory discount for medications in the statutory health insurance system.

The revenue obtained with Pentaglobin® for the treatment of severe bacterial infections increased by 24.4 %. The growth results among others from noticeably stronger sales in Greece and Russia.

In light of the very good business development in Europe and the continuation of the strained situation in the markets for tender business in emerging and developing countries, Biotest exercised restraint just as in the previous year.

Due to the continuation of the difficult market situation, revenues with albumin were 1.7 % below previous year's figure.

Business development diagnostics

In the Diagnostic segment, Biotest had sales of € 77.2 million, or 1.6 % more than in the previous year (€ 76.0 million). Gains in the strong-selling transfusion diagnostics (+5.0 %) and hygiene monitoring (+2.7 %) product groups stood out against losses in the rest of the business areas: volume in transplantation diagnostics was 6.4 % below previous year's level, and with reagents for clinical infection diagnostics in the laboratory area, Biotest sold 8.3 % less than in 2004. The market was characterised by fierce price competition, which is why Biotest is taking a conservative approach to this field, analogous to the strategy regarding tender competition for plasma proteins.

German business with devices and reagents used in transfusion diagnostics was largely stable. In August, Biotest delivered eight TANGO® fully automated blood group devices to the hospital corporation LBK Hamburg GmbH. With seven hospitals and more than 20 service providers, LBK is one of the largest health companies in Europe. Biotest prevailed with its proposal in a European-wide tender.

The business development of our subsidiary in Hungary was very dynamic due to the further expansion of our market share in the area of reagents for transfusion diagnostics and the first two placements of QuickStep® fully automated devices for antibody detection in transplantation diagnostics. In addition, in 2005 the Hungarian company started marketing Biotest products in Bulgaria and Romania.

We also achieved higher sales in France. Growth, however, did not meet our expectations.

The most important event for this business area was the approval of TANGO® and all of its corresponding test reagents in the USA. Immediately following approval, our partner Olympus America, Inc., started its marketing effort. As a kick-off, Olympus America presented the system during the annual meeting of the American Association for Blood Banks (AABB) in Seattle, Washington, and triggered a lot of interest. In 2005, 21 systems were already sold to Olympus.

The business with reagents for transplantations diagnostic was again difficult. The intensity of competition remains high, and the market volume is down as a whole, especially regarding sales to operators of donor data files. Biotest clearly felt the effects of the collapse of the UK market. In light of these general business conditions, we are focusing distribution in transplantation diagnostics on the target group immunological laboratories at hospitals.

The bulk of growth in the business with systems, reagents and devices for hygiene monitoring of air and surfaces was accounted for by Heipha Dr. Müller GmbH, in which we have a 51% share. The company sold significantly more than in the previous year, especially with products for the pharmaceutical industry. Due to high requirements on the reliability of the monitoring systems, this market segment can only be served by top-quality suppliers.

Business development biotherapeutics

In the Biotherapeutic segment, the development of monoclonal antibodies (mAb) proceeded according to plan. Further information about our biotherapeutics can be found in the section “Research and Development.” Since all products are still in an early stage of development, no sales were achieved in this area.

Earnings Position

The earnings position of the Biotest group considerably improved in the past financial year. The determining factors were strong gains in the operational business and a significantly improved financial result. We increased earnings before interest and taxes (EBIT) by 35.7 % to € 25.3 million. At € 15.0 million, the group result before taxes (EBT) was 141.1 % above previous year’s figures (€ 6.2 million). Return on sales, defined as the ratio between earnings before interest and taxes divided by sales, amounted to 10.6 % across the group, approximately a quarter more than in 2004.

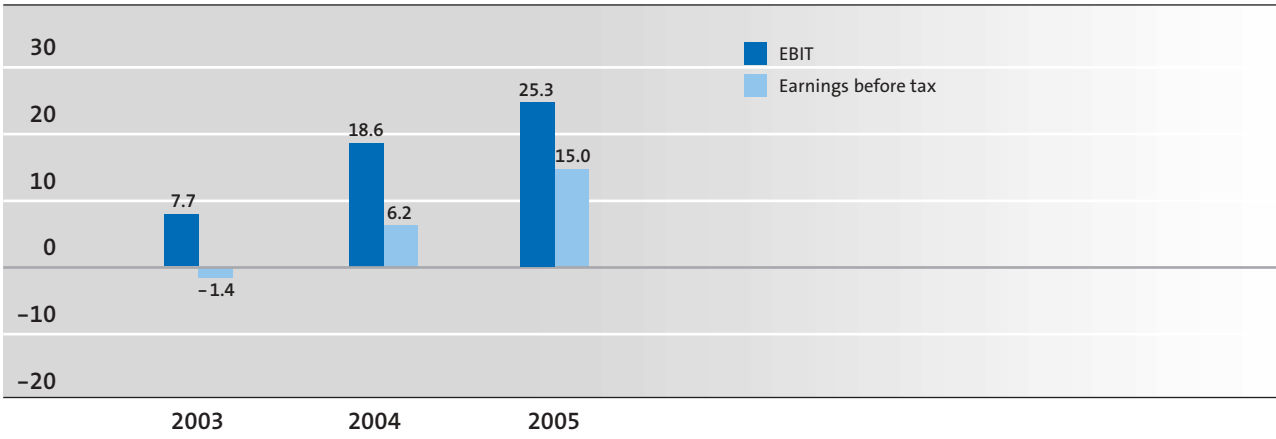
At 8.0 %, the return on capital employed (RoCE) was notably higher than in the previous year (5.7 %).

Growth in earnings primarily resulted from the positive development in the Pharmaceutical segment, which at € 28.9 million achieved a 32.0 % higher EBIT than in the previous year (€ 21.9 million). The increase was mainly due to an expansion of sales.

The Diagnostic segment clearly increased EBIT to € 3.4 million (previous year: € 1.2 million), but still remained below expectations due to continued intensive competition in the European market which put a strain on margins. At € 2.0 million, earnings before tax (EBT) provided a basis for the segment's return to profitability (previous year: € – 0.3 million).

EBIT and earnings before tax

€ million



In the Biotherapeutic segment, the development of monoclonal antibodies led to expenses of € 3.7 million (previous year: € 1.5 million) and accordingly to a negative operating result in this amount.

At € 3.3 million, the costs shown in the Corporate segment for cross-functional functions (primarily the Board of Management and strategic projects) were 8.2 % higher than in 2004 (€ 3.1 million) due to increased cross-functional project expenses.

The above-average positive development of earnings before tax (EBT) can be attributed to the financial result. At € – 10.0 million, it significantly improved compared to the previous year (€ – 12.2 million). The main reason for this is the discontinuation of the financing costs associated with the collateral trustee agreement. Furthermore, credits for interest on tax refunds from previous financial years and a remission of a debt by the banks had a positive effect on the financial result.

After tax and without interests in the result of minority partners (Heipha Dr. Müller GmbH – Viro-Immun Labor-Diagnostika GmbH and Biotest Grundstücksverwaltung GmbH), a net profit remains totalling € 10.2 million. Taking into account the capital increases, this yields a result of € 1.13 per share (previous year: € 0.57) and € 1.19 per preference share (previous year: € 0.68).

Cost of sales

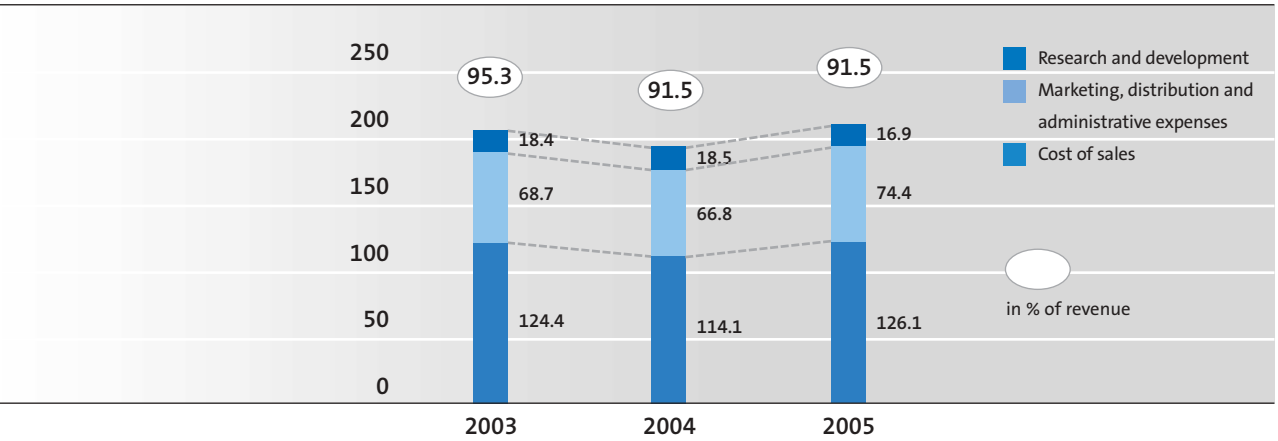
Cost of sales increased group-wide by 10.5 % to € 126.1 million. The increase is due to higher expenses in the Pharmaceutical segment. At 55.4 %, the cost of sales ratio (cost of sales relative to revenue) was higher in this segment than in the previous year, whereas we were able to reduce this ratio in the Diagnostic segment by 3.5 percentage points.

On the one hand, the reason for the increase in cost of sales for plasma proteins was the sizeable increase in business volume, especially with regard to Intratect®. The primary products for albumin and cryoprecipitate, the basis for coagulation factors, are automatically generated during the manufacturing process of Intratect®. Still, albumin, in particular, could only be marketed at low margins due to the continuation of the difficult market environment.

On the other hand, the cost of sales ratio was weighted down by non-recurring special items. As an example, in 2005 Biotest sold a large position of factor VIII at an unusually low price as part of a one-time offer. These were inventories that had already been accumulated in financial year 2004 in order to meet a call for tenders in Brazil. However, following the intervention of a competitor, Biotest did not get the contract after all.

Costs

€ million



The beginning of price rises on the global plasma markets had no bearing on us due to long-term supply agreements and the increased self-supply ratio. Biotest invested at an early stage in achieving a larger independence from the raw materials markets. In February 2005, our subsidiary Plasma Service Europe GmbH took over a plasmapheresis station in Halle, Germany that had been formerly operated by our competitor Baxter. As a result, Biotest now has four of its own donor stations (three in Germany and one in Austria).

In the Diagnostic segment, we were able to reduce the cost of sales ratio through a streamlining of the product line and the associated optimisation of the range of products offered as well as through process optimisation.

Distribution and administrative expenses

Expenses for distribution and administration increased by 11.3 % from € 66.8 million in the previous year to € 74.4 million. At 31.3 %, their share of revenue was nearly unchanged.

R&D expenses

In the last financial year, Biotest spent € 16.9 million for research and development, 8.6 % less than in the previous year (€ 18.5 million). Of this, direct research and development programmes accounted for 78 % and developments supporting products accounted for 22 %. In the Pharmaceutical segment, the expense amounted to € 9.3 million (previous year: € 13.4 million). The decline can be traced back to the fact that in 2004 the R&D expense was characterised by the approval of Intratect® and the change-over in the production of plasma proteins to the new manufacturing technology.

We significantly increased expenditures for the development of monoclonal antibodies combined under the Biotherapeutic segment by 176.9 % to € 3.6 million. This development occurred as scheduled and is the outcome of additional milestones that we reached in the development of three mAb.

At € 4.0 million, R&D expenses in the Diagnostic segment were slightly higher than in the previous year (€ 3.8 million). The key aspects were activities for the approval of manual reagents for use in transfusion diagnostics in the USA.

Other operating income and expenses

The balance of other operating income and expenses amounted to € 5.1 million compared to € 2.5 million in the previous year. The earnings mainly resulted from increased exchange rate gains and higher earnings from secondary businesses such as the cross-charging of costs and earnings from the disclosure of know-how.

Proposal for the distribution of earnings

The next Annual Shareholders' Meeting of Biotest AG takes place on 11 May 2006 in Frankfurt am Main, Germany. The Board of Management and the Supervisory Board will propose to distribute a dividend in the amount of € 0.12 per ordinary share and € 0.18 per preference share (previous year: € 0.11 in each case) corresponding to the balance sheet profit of Biotest AG in the amount of € 4.4 million and to carry forward € 2.8 million to a new account. Due to the capital measures undertaken in financial year 2005 and the entitlement to dividend of the new shares, the planned total amount of € 1.6 million to be distributed as dividend is € 0.7 million higher than in financial year 2004.

Capital Expenditure and Depreciation and Amortisation

At € 15.4 million, the capital expenditure volume at Biotest was below previous year's level (€ 18.5 million). At € 12.0 million, property, plant and equipment accounted for 78 % of capital expenditure; Biotest invested € 3.4 million in intangible assets.

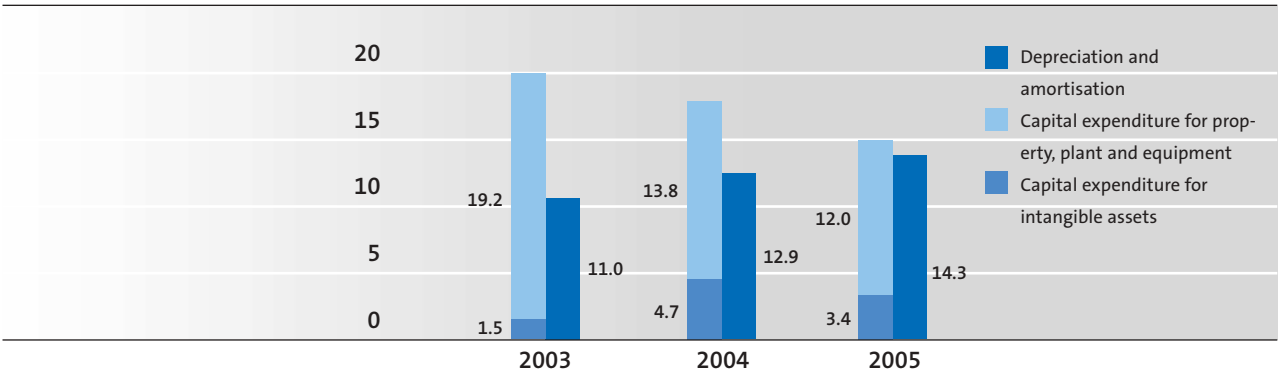
The capital expenditures were counterbalanced by depreciation and amortisation charges in the amount of € 14.3 million (previous year: € 12.9 million). The increase was especially caused by the fact that we activated a distribution right for Greece purchased from our former distributor in financial year 2004. The depreciation and amortisation on this intangible asset took effect over a full year for the first time in 2005.

As in previous years, the Pharmaceutical segment also accounted for the lion's share of the capital expenditure volume in 2005. Of the € 10.3 million (previous year: € 14.5 million) that Biotest invested in this segment, € 7.9 million was poured into the modernisation and expansion of production facilities. Focal points continued to be the cGMP (cGMP = current good manufacturing practises) adjustment to upgrade the pharmaceutical production. In reaction to the high demand for our plasma proteins, we also decided to double the capacity of immunoglobulin production in a second step to 4,000 kilograms per year.

Another important capital expenditure was the purchase of the plasmapheresis station in Halle, Germany. Furthermore, we set up a new environmentally-friendly waste-water treatment plant at the site in Dreieich, Germany amounting to € 1.1 million.

Capital expenditure and depreciation and amortisation

€ million



In the Diagnostic segment, Biotest invested € 5.2 million (previous year: € 4.0 million).

From the capital expenditure projects currently still under way, consequential liabilities accrue for the upcoming years. These mainly concern the capital expenditure programme in the production of plasma proteins. Of the volume scheduled until 2008, Biotest had accomplished 83 % at year's end. An additional € 4.0 million is required to conclude projects still outstanding for the adjustment of production, of which approximately € 2.2 million will be accounted for in 2006 and the rest in 2007 and 2008.

We will invest an additional € 0.8 million in the first stage of immunoglobulin production. Expansion through the second stage will add up to approximately € 2.5 million in 2006 for a total of € 9.0 million (presumably until 2008).

Financial Position and Statement of Assets Balance Sheet

Assets

At € 147.0 million, tangible fixed assets (including leased property, plant and equipment), corresponds approximately to the value as at 31 December 2004 (€ 147.4 million).

At € 108.4 million, the inventory volume was significantly lower than in the previous year (€ 116.7 million). As in previous years, the Pharmaceutical segment accounted for the lion's share at € 87.3 million. While we increased our inventories of raw materials in order to serve the orders concluded for the first half of 2006, inventories of unfinished products significantly decreased.

In addition to the good sales situation, this was reflective of the fact that inventories built up as part of the 2004 approval process for Intratect® were reduced as scheduled. Inventories of Pentaglobin® were higher at year-end 2005 than at the beginning. The product can no longer be manufactured in the new production facility. We have therefore awarded production to a partner, and we anticipate approval of the respective products for 2006. We have pre-manufactured in preliminary stages the amount of Pentaglobin® that we expect to sell until that time. Increased inventories of Hepatect® FH are due to the necessary production of consistency batches for the approval.

The amount of trade accounts receivable increased from € 56.1 million to € 66.1 million as a result of the higher revenue volume and increased sales in countries with longer payment time periods (e.g., in Russia).

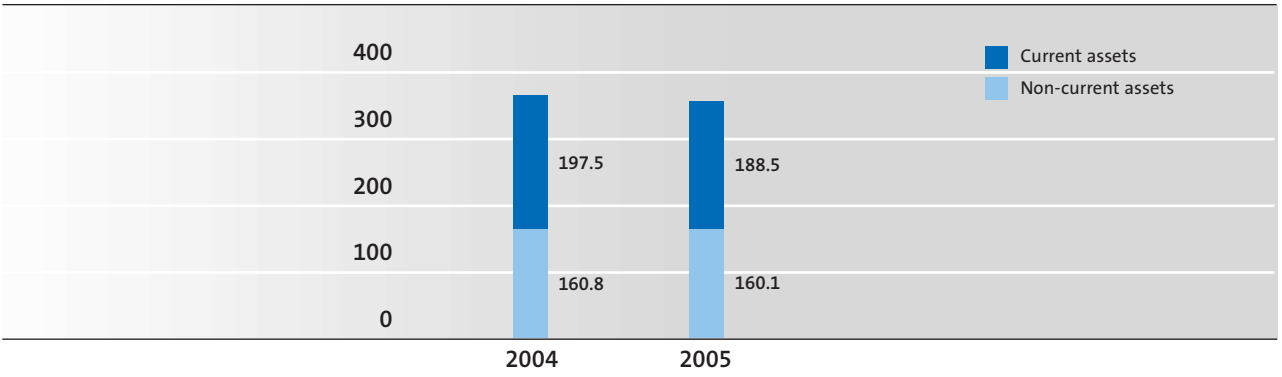
At € 7.6 million, the amount of liquid assets held on 31 December 2005 was considerably below previous year's figure (€ 19.6 million). However, the 2004 figure had significantly risen due to the balance sheet date cut-off, since we had built up liquidity at that time that we then used for debt redemption at the beginning of 2005.

Equity and liabilities

In June 2005, Biotest increased the registered capital by approximately € 2.92 million by issuing new ordinary shares. With the approval of the Supervisory Board, the Board of Management made partial use of Authorised Capital excluding shareholders' subscription rights. 570,000 ordinary shares were subscribed by a German financial investor against a cash contribution of € 10.01 million, and an additional 569,150 ordinary shares were subscribed by the Dr. Schleussner family from the conversion of a shareholder loan totalling € 10 million. In October 2005, Biotest increased the registered capital by an additional € 3.9 million by issuing 856,525 new ordinary shares and 666,667 new preference shares. The capital increase was fully placed, and net issue proceeds totalled approximately € 30 million.

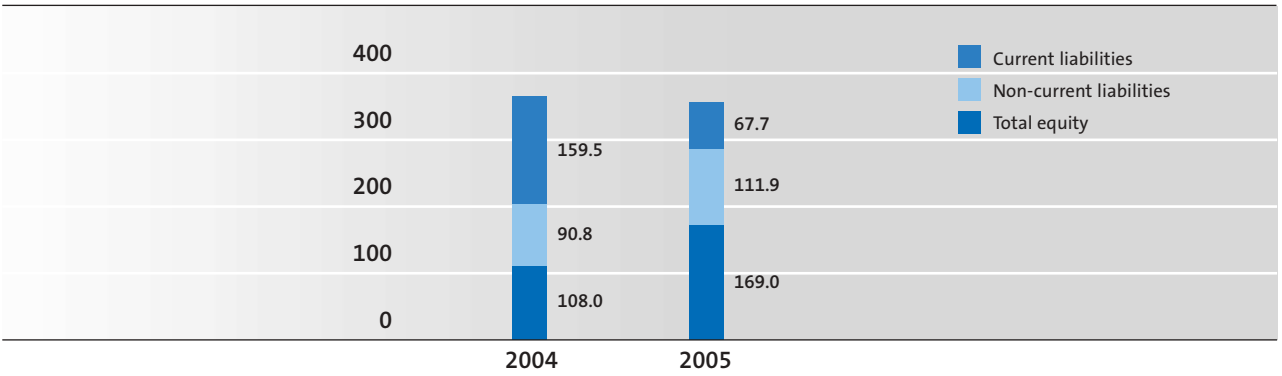
Structure of the group balance sheet ASSETS

€ million



Structure of the group balance sheet EQUITY AND LIABILITIES

€ million



Biotest is using the funds received to continue with its planned international growth and to accelerate the clinical development of monoclonal antibodies. Since the proceeds from the emission will be needed over a period of several years, we have temporarily used a portion to reduce our financial liabilities.

Biotest is using the funds received to push ahead with its planned international growth and to accelerate the clinical development of monoclonal antibodies. Since the proceeds from the emission will be needed over a period of several years, we have temporarily used a portion to reduce our financial liabilities.

Already mid-year, a syndicated loan agreement took the place of the loans received under the collateral trustee agreement (CTA) that had been in existence since February 2003. This agreement converts part of the previous short-term credit line totalling € 47.5 million to long-term financing. In addition, Biotest accrued approximately € 10.0 million as part of a profit-sharing rights agreement which will be due in seven years. These are subordinate loans. We used these funds to reduce loans at the end of the year.

Because of the capital increase, the share of subscribed capital grew from € 20.5 million to € 27.3 million. At € 123.1 million, capital reserves were more than 50 % higher than the balance sheet of the previous year (€ 79.0 million).

At € 169.0 million as at 31 December 2005, total equity at the Biotest group was 56.5 % higher overall than in the previous year (€ 108.0 million). The equity ratio increased from 30.1 % to 48.5 %.

We significantly reduced financial liabilities from € 163.7 million to € 88.5 million. Due to funds accrued through the capital measures, we have used only a small portion of the credit line agreed to on the part of the banks at the end of the financial year.

Resulting from the reduction in the financial liabilities, total liabilities for the group decreased from € 250.3 million at the end of financial year 2004 to € 179.6 million as at 31 December 2005.

Cash flow statement

At € 26.8 million, cash flow from operating activities was approximately 5.9 % higher than in 2004 (€ 25.3 million). Operating cash flow (before change in working capital) amounted to € 40.3 million and thus exceeded previous year's value in the amount of € 32.3 million by 24.8 %. The decisive factor was the overall positive business development which resulted in significantly higher earnings before tax.

However, we were unable to further decrease working capital despite a significant reduction in inventories. In the financial year, a cash outflow of € 2.0 million (previous year: cash inflow of € 4.5 million) arose from the change in the working capital.

At € 12.6 million, cash outflow from investment activity was significantly lower than in the previous year (€ 17.3 million). Due to high advance payments in the previous year for the adjustment of pharmaceutical production, considerably fewer cash payments for capital expenditures in plant and equipment were required in the reporting year. This trend will continue in financial year 2006 as expected.

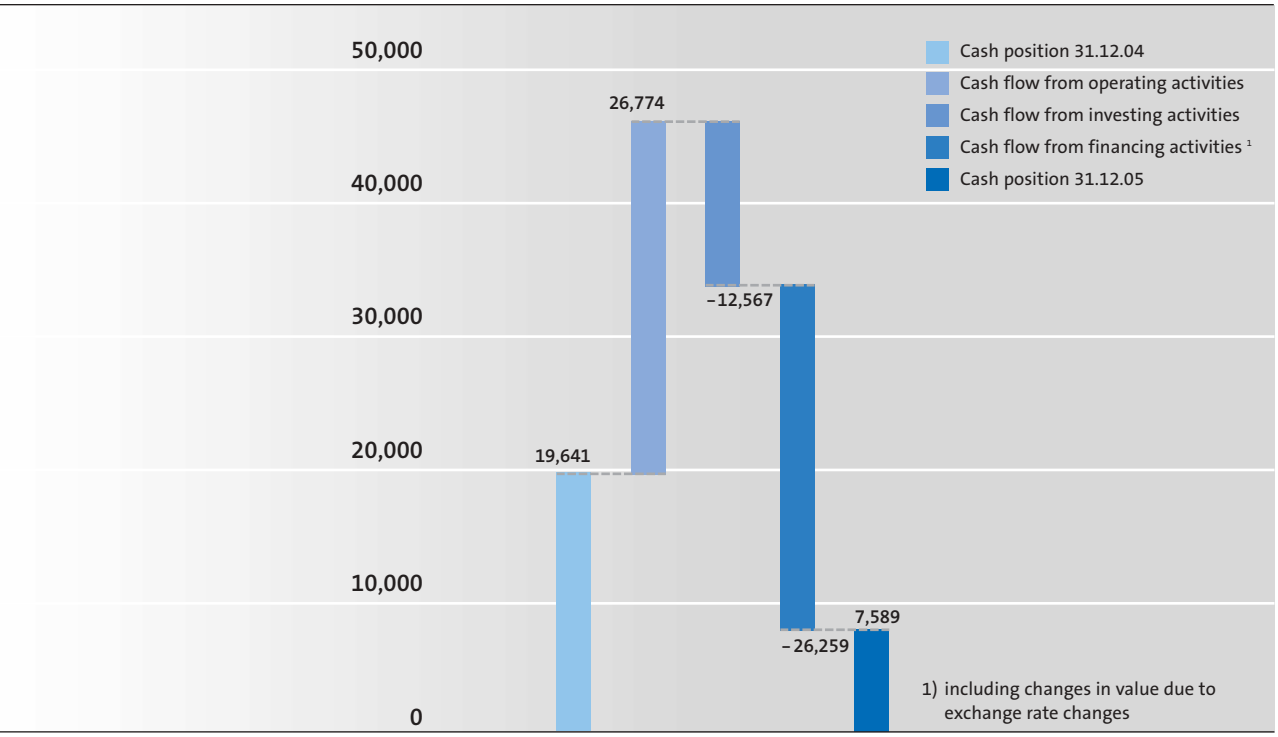
Cash outflow from financing activity amounted to € 26.4 million (previous year: € 0.5 million). The high cash inflows from the capital increases in the total gross amount of € 41.6 million were primarily used to reduce short-term bank liabilities since these won't be needed until sometime in the following financial year for research and development projects and for the further internationalisation of Biotest.

As at the balance sheet date, Biotest had cash and cash equivalents in the amount of € 7.6 million (previous year: € 19.6 million). Previous year's high figure was caused by changes in the circle of credit-lending banks: immediately after the 2004 balance sheet date, Biotest paid off a loan and again significantly reduced liquid funds.

In the past financial year, Biotest was able to fulfil its payment obligations at all times. In light of the clearly improved financing structure, from today's perspective the fulfilment of such obligations is also ensured in the future.

Cash flow statement

€ thousand



Business situation of the group

The business situation of Biotest significantly improved in 2005 compared to the previous year. The positive development resulted from higher earnings in operational business as well as from the optimised financial structure with an increase in equity, reduction of debts and the conversion of short-term into long-term liabilities. The continued existence of the company was not at any time in jeopardy in the past financial year is also not jeopardised from today's point of view.

Research and Development

The goal of research and development at Biotest is to complement the existing product portfolio in the Pharmaceutical and Diagnostic segments with new products that have large revenue and earnings potential. This refers to both the further development of existing pharmaceutical products and diagnostic devices – for example, through a simplified dosage form and the expansion of the indication spectrum for immunoglobulins – as well as completely new developments, such as mAb.

Biotest has its own resources in pre-clinical research, in all phases of clinical research and in the management of drug approvals. Through various cooperations, we improve the efficiency of our R&D activities. This is especially true for the Biotherapeutic segment, where we accelerate product development through cooperation with well-known international partners. Because we hand over production of testing and approval batches, for instance, to companies specialised in this area, Biotest does not have the expenses otherwise necessary for the construction of own production capacities. We also cooperate with other companies for research and development in the Diagnostic segment.

In financial year 2005, we defined new focal points for research and development. Expenses in previous years resulted to a large degree from the switchover of production in the Pharmaceutical segment to the new filter aid procedure and the transfer of production based on the centrifugal process to cooperation partners. This development work is now successfully completed, and routine production has started. In contrast, we have sharply increased R&D expenditures in the Biotherapeutic segment.

Plasma proteins

For plasma proteins, the successful conclusion (for Intratect®) and continuation of approval procedures were at the core of our R&D activities. With regard to the coagulation preparation Haemoctin® SDH, which is approved in several European countries, Biotest has advanced the procedure for approval in additional European countries.

In the context of the switchover of production to the new filter aid procedure, Biotest has filed for the approval of the product Albumin FH in the context of a notification of amendment for Greece and Hungary. Work for approval in other European countries (mutual recognition procedure) is under way.

The switchover of production of Hepatect® to the new filter aid procedure took place on schedule. In the filter aid procedure centrifugation stages are replaced by filtration. This allows for higher yields in production.

In the second half of the year, technical approval of the production facilities for Biseko® and Haemonine® SDH by the responsible supervisory authorities took place. Haemonine® SDH is to replace a factor IX preparation that up to now was delivered in the context of a licensing agreement. The technical approval was a prerequisite for the production of the drug batches required for the approval procedure. Biotest began with the production in November 2005.

The development of a new von-Willebrand factor proceeded as planned. Furthermore, we continued our work to open up new fields of indications for our plasma proteins – among others for Intratect® and Pentaglobin® (see “Strategy” section).

Another example for the extension of the application area of existing drugs is the possibility of using Cytotect® Biotest for the treatment of a cytomegalovirus infection during pregnancy. Cytomegalovirus infection is a wide-spread in most cases, harmless, viral disease. However, the virus is dangerous during pregnancy, the infection rate in pregnant women is between 1 % and 2 %. About 10 % of children infected before birth exhibit severe brain damage, diseases of the liver and kidneys, and damage to the eyes and ears. These symptoms can lead, among other things, to blindness, deafness and mental retardation. Conventional drugs (virostatics) cannot be used because of their side effects. Cytomegalovirus infection occurs in around 7,000 pregnancies each year in Germany alone.

A study conducted on 181 pregnant women with a CMV infection concluded that both the therapeutic and prophylactic administration of Cytotect® Biotest drastically reduces these severe malformations. No undesirable side effects were observed.

The development of intramuscular and subcutaneous dosage forms for immunoglobulins, which previously was available exclusively for intravenous therapy, is proceeding as planned. Hepatect® SC is to be the first drug introduced in the market in 2007.

Biotherapeutics

In the new Biotherapeutic segment, the focus is on the value-based further development of the monoclonal antibodies BT-061, BT-062 and BT-063. In the past financial year, the projects proceeded according to plan.

The three monoclonal antibodies under development are targeted at the treatment of autoimmune deficiencies and leukaemia: BT-061 for the treatment of rheumatoid arthritis and psoriasis, BT-062 for the therapy of multiple myeloma, a form of leukaemia, and BT-063 for the treatment of systemic lupus erythematosus, commonly called SLE or lupus. For all antibodies, promising data on effectiveness is already available from clinical trials (BT-061 and BT-063) or from pre-clinical trials within the scope of animal models (BT-062).

In January 2005, we concluded an agreement with Lonza Biologics plc, a company of the Lonza group, for the production of consistency batches of BT-061. Production, which is in line with the requirements of Good Manufacturing Practices (GMP), commenced in December 2005. The agreement also includes an option for the future large-scale production of the agent.

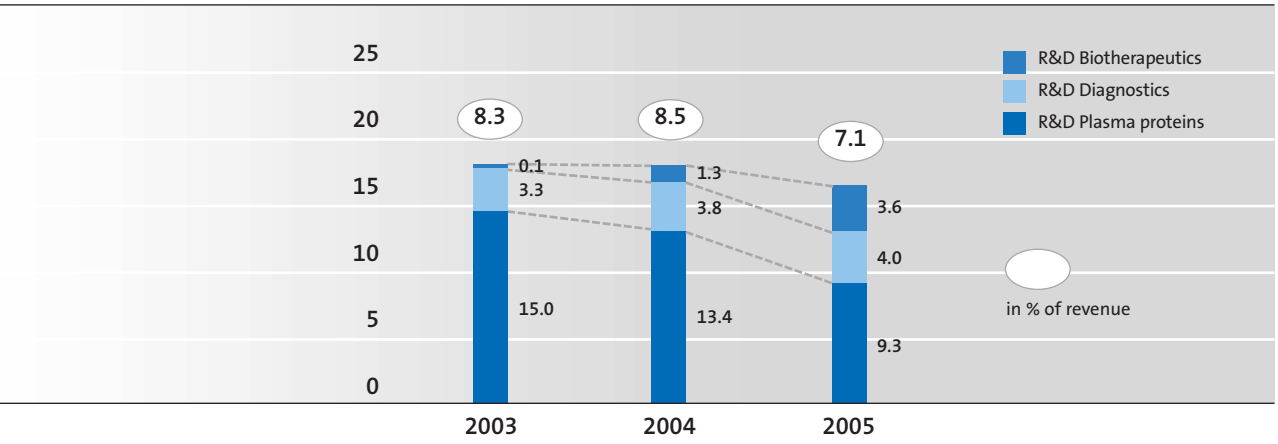
Thus the prerequisites are in place for the clinical trial in phases I and II. Biotest can combine these two phases, since prior results concerning the effectiveness of BT-061 exist from previous trials. This is why BT-061 can already be tested on a group of patients.

Phase I clinical trials are usually conducted with a limited number of patients in order to determine the safety profile of a drug candidate and the safe dosage range that can be given to patients. They further serve to find out how a drug candidate is accepted by the body, distributed, broken down, and excreted, and for how long its effectiveness lasts. Phase II clinical trials are usually structured in a way that the safety of the drug for the given dosage is tested on a larger group of patients.

In June 2005, Biotest concluded an agreement with the pharmaceutical company Boehringer Ingelheim Pharma GmbH & Co. KG for a joint research effort to investigate the efficacy of BT-061 in pre-clinical asthma models, which is being driven forward by Boehringer. The expansion of the indication spectrum of BT-061 appears possible, since the antibody has a unique, immunoregulatory mode of action. Biotest's agent is thus substantially different from TNFα antagonists, which are already very successful today but cannot be used in TNF-independent diseases such as asthma.

Expenses for research and development

€ million



In January 2005, we successfully completed the engineering of BT-062 with our partner AERES Biomedical, Ltd., and thus created an important prerequisite for trials in humans. Negotiations for the in-licensing of a toxin are close to contractual agreement. The toxin is to destroy the tumour cells on which the mAb has docked.

The development of BT-063 is proceeding according to plan. In cooperation with the company Glycotope GmbH, which specialises in monoclonal antibodies, we are currently humanising the antibody and are establishing a system for the production of the first testing batches of the agent. This creates the prerequisites for clinical trials.

Diagnostics

In the Diagnostic segment, the further development of the TANGO® blood group testing system took centre stage in the R&D activities.

TANGO®, which was jointly developed with the cooperation partner STRATEC, received FDA approval in March 2005 and in September 2005 the FDA "Biologic License Application (BLA)" approval followed for all reagents.

Parallel to this, we have further improved TANGO®. The new generation with the name TANGO® optimo is equipped with a new image processing system, a completely revised software and provided with additional security features. We are currently investigating whether a system for lower test volumes – for instance, for hospitals with a maximum of 300 beds – could be developed based on TANGO®.

The approval process is under way in the USA and Canada for our reagents for manual transfusion diagnostics.

The test systems for the molecular HLA-typing in transplantation diagnostics were enhanced further. In addition, we started a project for the development of a novel testing procedure on a microchip basis.

In the area of hygiene monitoring, the development of a next generation airborne particle collector is in progress. We currently expect to launch the product in 2007. It will be easier to use and delivers even more reliable results.

Production

Production in the Pharmaceutical segment extends from the generation of plasma in currently four own donor centres, separation of the plasma into its individual protein components (fractionation) and their subsequent processing into various preparations.

As part of a comprehensive investment programme (see section „capital expenditure“), Biotest is realigning the production of plasma proteins. The new facility enables a significantly higher yield, among others. Currently, the plasma fractionation in Dreieich has a maximum capacity of 500,000 litres per year, the capacity utilization was at approximately 30 % capacity in the past financial year.

We have assigned the fractionation using the centrifugal procedure that is associated with production of the immunoglobulins Hepatect®, Cytotect® Biotest and Varitect® to our partner Teva in Hungary. This allows us to bridge the time gap from the conversion of production in Dreieich until approval and registration of the drugs made using the filter aid procedure.

At times, the processing facilities, especially the chromatographic precision cleaning procedure, were working at their capacity limits. Since a high degree of utilisation in the production of factor VIII and of immunoglobulins is on the horizon for the coming year due to high demand, we have taken measures to expand capacity (see section “capital expenditure”).

In the financial year, we withdrew a batch of factor IX delivered from France by LFB within the scope of a licensing agreement. This precautionary measure was taken because a plasma donor was diagnosed with the new variant Creutzfeldt-Jakob disease (vCJD). Biotest now only allows the preparation to be manufactured with plasma attained in Germany.

In the production of the Diagnostic segment, we started a programme to increase efficiency. All processes are analysed on the basis of the management system “Six-Sigma” and examined for optimisation possibilities. As a result, we were already able to reduce costs in the past financial year.

Staff

The number of employees in the Biotest group increased in the past financial year. This was especially true for teams that are of particular importance to the implementation of our corporate strategy. We thus strengthened the personnel resources in the Regulatory Affairs and Clinical Research areas and further added to distribution. Through the acquisition of the plasmapheresis station in Halle, the number of employees also increased at our subsidiary Plasma Service Europe GmbH.

Number of employees and personnel costs

The number of full-time positions at the Biotest group increased during the year from 1,009 to 1,074. Companies within Germany accounted for 892, or 83.1 %, of the full-time positions, and companies outside of Germany accounted for 182 full-time positions. Based on the number of jobs, our largest sites outside of Germany are the subsidiaries in Italy and the USA. Across the group, the number of jobs is approximately evenly divided between the Pharmaceutical and Diagnostic segments. At € 66.4 million, personnel cost was 0.6 % higher than in the previous year (€ 66.0 million) due to the increase in the number of employees.

Personnel management

Personnel management was focused on the introduction of a value-based compensation system and the improvement of the management culture.

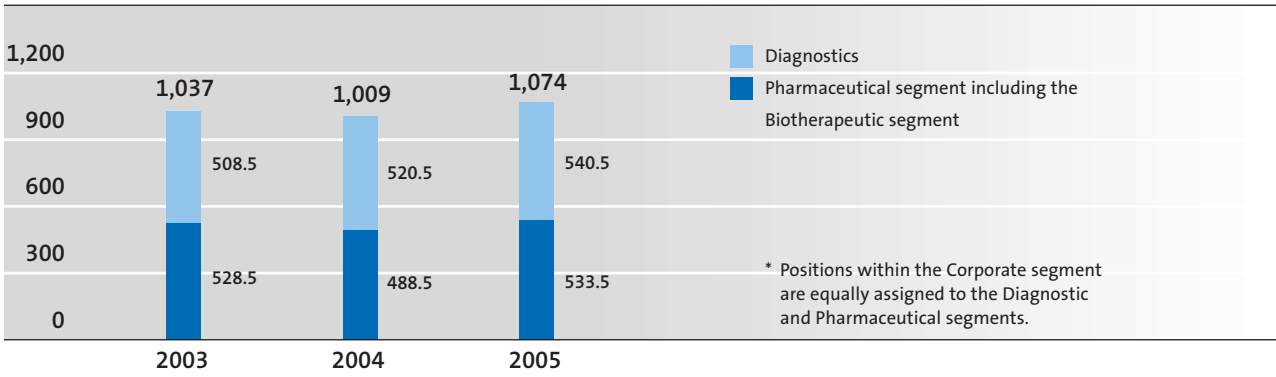
Selected employees, who play a decisive role in the success of the company through their position within the Biotest group, their decisions, their leadership and their actions, can purchase Biotest preference shares annually as part of a long-term incentive programme. The maximum number of shares that can be purchased is determined by the Board of Management. Biotest reimburses the participants for 25 % of their own investment. After three years, every participant receives up to a maximum of six additional preference shares. The number received depends on the degree to which performance objectives were reached – defined by the average EBIT margin and the absolute price increase of preference shares in the previous three years.

In summer 2005, we finalised a target agreement system with the employee representatives that contains an integrated short-term incentive programme for non-pay-scale employees. Depending on the performance of the company and measured on the return on capital employed (RoCE) as well as on set individual targets, a profit bonus is paid after the financial statements have been approved.

In the past financial year, the management consultancy Hay group evaluated approximately 60 functions in the non-pay-scale area according to the Hay job value method. This was then used as a basis for the review of non-pay-scale salaries. Subsequently, all other non-pay-scale functions were assigned to the evaluated positions according to the proposal of the Hay group and after discussion with the management of the company. The results were used in two steps for an internal and an external salary comparison (benchmark with the pharmaceutical industry). Based on the findings, we have started grouping the non-pay-scale functions and assigning salary bandwidths to the groups.

Staff by segment* as of year-end

Full-time positions



With the support of a human resources consulting firm, we started to evaluate all tariff-bound positions at the end of the financial year. If necessary, these positions will be assigned to appropriate pay scales.

To improve the management culture of the company, we already started the initiative "Biotest – Responsibility for Success" in financial year 2004. At the beginning of the past financial year, we presented management's new mission statement to the employees. In order to achieve a trusting and open atmosphere for the defined objectives, various measures were taken in this financial year:

- In management forums, heads of departments and department managers brainstormed on ways of implementing the mission statement's goals into their normal course of business.
- In a second employee survey conducted in May 2005, we analysed which changes in the management culture employees noticed compared to the first survey in 2004. It turned out that, as a trend, employees see improvement in the management culture but further measures are expected.
- In reaction to this result, we started the workshop series "Leadership and Cooperation" in December 2005. In approximately 50 events, managers and employees will jointly work out possibilities for a more intensive dialogue and better cooperation. The workshops are moderated by company employees who attend special seminars in preparation of this task. By training selected employees to moderate workshops, we are in a position to independently steer upcoming change processes in the future as well.

Supplementary Report

No significant events for the development of the company occurred after the balance sheet date.

Risk Report

Business operations and the development of sales and results at Biotest depend on various factors whose occurrence cannot always be predicted and that we can influence either only in part or not at all. Based on this situation, risks arise whose occurrence can have an adverse effect on Biotest's asset, financial and result situation. However, they also represent opportunities for the Company to develop considerably better than can be foreseen from a present standpoint.

Risk strategy

The Board of Management and the Supervisory Board at Biotest have specified in their joint risk strategy that the Company takes controlled risks in cases where the perspective exists for long-lasting, profit-yielding growth. This primarily refers to the establishment of the new biotherapeutics business field. The development of monoclonal antibodies opens up a substantial sales and earnings potential for Biotest. However, for this purpose considerable expenses will be initially incurred for which there is no guarantee as to whether or not they will result in the commensurate success.

On the basis of milestone planning, we are therefore constantly monitoring the project's progress; in addition, we regularly cross-check our estimates regarding potential with the current market data. As a matter of principle, at Biotest all managerial decisions of significant importance – such as the approval of capital expenditures – are made after detailed evaluation of the risks associated with this decision.

Risk management and controlling

Biotest systematically compiles and assesses operative and strategic risks, and their management is an integral part of the overall management of the Company. All risks with wide implications and sufficient probability are closely monitored.

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

Presentation of significant risks

The risks described below are not the only ones that Biotest is exposed to. Further risks and uncertainties that we are currently unaware of or that we currently see as insignificant could also affect business operations at Biotest and have an adverse effect on the asset, financial and result situation.

The order in which the following risks are listed is not in any way an indication of the probability of their occurrence.

Economic and political risks

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

In 2005, conditions slightly improved in Germany, currently Biotest's largest market. The mandatory discount on certain drugs, which had been raised to 16 % in 2004 to the benefit of statutory health insurance, was returned to its previous level of 6 %. Since the pressure on the institutions financing the healthcare system has prolonged despite various reforms, we expect further governmental cost-cutting measures in the short to medium-term.

The healthcare systems in other European countries are also affected by the necessity to be cost efficient. Various legal regulations are having an influence on their market structures.

Biotest earns a part of its sales in the Pharmaceutical business area through large-volume deliveries of drugs that are publicly tendered by national authorities. These business transactions can only be budgeted to a certain degree, and in certain countries they are subject to a high level of political influence. In some instances, contracts already granted to Biotest have been withdrawn. Even if Biotest had already incurred expenses with regard to the contract, in such cases claims for compensation are not reimbursed or are only paid after great effort.

The performance of tender contracts can lead to a fluctuating and therefore unpredictable utilisation of production. Since Biotest is currently taking a very conservative approach in this market area, the associated risk decreases along with the declining business volume.

Biotest maintains relations with companies worldwide. The unstable political situation in certain countries in Africa, South and Central America and in Asia can affect the business relationships and business outlook in unfavourable circumstances. This could possibly result in a significant reduction in revenue that we earn outside of Europe. Should international sanctions or even an embargo be imposed upon Iran, this could jeopardise the goals and investments of the BioDarou joint venture.

On the other hand, political decisions can have a positive effect on Biotest's business outlook. As an example from the past financial year it should be mentioned that in Russia the costs of a haemophilia treatment with coagulation products are not only reimbursed for adults but also now for children.

Supply market risks

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

SUPPLY WITH BLOOD PLASMA

Of particular importance is the supply of our pharmaceutical production with human plasma. Price increases on the world market can be observed starting in the second half of 2005. A consolidation process in the industry has led to a significant reduction in the amount of plasma available on the market.

Biotest has concluded long-term delivery agreements and furthermore covers a large part of the growing demand via proprietary plasmapheresis stations. In the medium to long term, we would like to increase the share of blood plasma obtained from our own plasmapheresis stations from a current 30 % to 40 %. Both of these measures ensure that we have a stable supply of raw materials and make it extremely unlikely that shortages should occur in the medium term.

Should the donor willingness decline or new, tighter regulatory requirements for the procurement of plasma come into effect, the supply with raw materials could become more difficult. Since all preparations produced by Biotest – immunoglobulins, coagulation factors and albumin – are made on the basis of blood plasma, all product groups in the Pharmaceutical business area would be affected. We do not see any indication for such a risk at the present time.

The purchase of preparations, as well, is assured via medium to long-term contracts with external toll manufacturers. Owing to the expansion of the proprietary production capacities, Biotest will in the future be in a position to by and large cover these from own production.

Blood plasma is obtained from blood or plasma donations from a multitude of people. Incoming blood and plasma donations go through extensive test and quarantine phases at Biotest. The testing procedures that we use comply with the newest scientific standard and reliably detect currently known bacteria and viruses.

Nevertheless, there is a risk that plasma could enter into production which is contaminated by bacteria, viruses or prions that are currently known but remained undiscovered or that were unknown at that time. Although the current manufacturing process involves virus inactivation steps or virus depletion steps, in such a case the authorities could mandate a recall of individual charges from the market or restrict or cancel the approval. Meanwhile, in particular contamination with a previously unknown bacteria, virus or prion could result in tighter governmental control of the production of drugs made on a plasma basis, which could lead to the shutdown of national markets for products of a certain origin, manufacturing method or composition.

SUPPLY WITH OTHER RAW MATERIALS AND SUPPLIES

In the Pharmaceutical and Diagnostic business areas, we require special raw materials and supplies in the production process such as antigens, serums and biological products for manufacturing reagents for transplantation and transfusion diagnostics or a special chromatographic gel for the purification of plasma. Should a shortage or significant increase in the price of raw materials and supplies take place, Biotest may possibly be limited in its production and supply ability. Due to long-term contracts with suppliers, it is our view that this risk is also very limited.

Sales market risks

Sales market risks comprise risks associated with price, quantity, substitution and loss of receivables.

PRICE RISKS

The development of supply and demand on the international markets plays a decisive role in the prices that we can obtain for our products. Due to consolidation in the European sales market that started taking place in the second half of 2005, the price risk has decreased significantly. Especially in the pharmaceutical business, there is a chance that the price development surpasses our expectations and therefore has a positive effect on revenue and earnings.

The prolonged strong competition for tenders can also lead to falling sales in the future since Biotest refrains from submitting a bid for tender in cases where the achievable margin is insufficient. However, we have already taken this practise into account for the compilation of our sales and result forecasts.

QUANTITY RISKS

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

Since Biotest's plasma proteins are complementary products, there is a risk that different sales opportunities for the individual finished products can lead to increased stocks for other preliminary and finished products.

SUBSTITUTION RISKS

Substitution risks exist for plasmatic coagulation preparations in industrialised countries. Especially in the United Kingdom and in the USA biotechnically produced (recombinant) factors are being used more often. The reason for this is the fear that viruses could be transmitted through contaminated plasma. This fear is just the opposite of clear statements made by the licensing agencies FDA and PEI declaring both product groups as comparably safe. The observation in recent years that there could be a higher risk for the formation of inhibitors in conjunction with recombinant products has considerably slowed the substitution of plasmatic factors with recombinant factors. Business with coagulation preparations containing the von-Willebrand factor, in particular, could benefit from this finding.

In caring for their haemophilia patients, developing und emerging markets primarily resort to plasma-based preparations which are considerably less expensive in comparison to recombinant products. According to estimates by the World Federation of Haemophilia, only approximately 25 % of haemophiliacs currently receive treatment. Increasing prosperity and greater public perception of the problem could contribute to an increase in this quota in the future. This provides Biotest with an opportunity to open up new markets for plasmatic coagulation factors, such as the Russian example showed in the previous financial year.

In transplantation diagnostics, there are substitution risks in particular for serological assay techniques, which can increasingly be replaced by DNA methods. Biotest is limiting this risk through the parallel offer of classical and modern HLA technologies.

LOSS OF RECEIVABLES RISKS

Loss of receivables risks were reduced again in financial year 2005 by means of strict receivables management.

Process and production risks

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

During the manufacturing of our plasma and diagnostic products, we use special substances that comprise certain environmental and quality risks. These risks could occur despite high standards in quality management at Biotest as well as at cooperation partners and suppliers.

RISKS FROM SUPPLIER RELATIONSHIPS

Biotest works together with external suppliers, subcontractors and other contractors in the manufacture and processing of products, investigational medicinal products and intermediary products. We try to get a contractual agreement regarding production and supply capability. There is risk involved in the awarding of contracts to third parties since individual business or cooperation partners may not comply or correctly comply with their obligations or may cancel the contract with the Company.

Furthermore, there is a risk that we are claimed for the breaches of our partners.

ENVIRONMENTAL AND QUALITY RISKS

We counter environmental and quality risks with high standards in quality management. This includes the continuous improvement of processes and plants as well as their certification by international standards and laws. Quality assurance also covers purchased raw materials and final products. The production process is currently not associated with major environmental risks. Should there be changes in the environmental standards as a result of new requirements and orders, however, it could be necessary to adjust production processes and the supporting systems.

Biotest has taken out insurance policies to reduce the financial effects of liability risk and material damage to plant and machinery. The volume of the insurance coverage is audited regularly and adjusted as required.

Risks in product approval

Biotest is shifting the production of its plasma proteins over to the filter aid procedure. The product Pentaglobin® can no longer be manufactured according to the new procedure and is to be produced in the future by a cooperation partner who will take over the existing plant under our guidance. In order to ensure supply for patients, we have therefore produced and stored preliminary stages of this product to last a period of several years. Additional depreciation and amortisation may be needed if we are unable to continue the distribution of Pentaglobin® in the expected amount and have to destroy the intermediary products because the expiration date has been exceeded.

RISKS THROUGH SIDE-EFFECTS OR DRUG INTERACTIONS

Unexpected stronger side-effects or drug interactions that were previously unknown can become apparent in drugs that have already been approved. For the most part, our pharmaceutical and diagnostic products are biological products that place great demands on handling, storage or application. Inappropriate handling, storage or application can have considerable negative repercussions for recipients and patients. Measures that have to be taken by the authorities in such cases range from ordering a recall of single charges to the restriction or suspension of the approval.

In addition, side-effects, drug interactions or quality defects can damage Biotest's reputation.

Risks in research and development

During the research and development of new products, new indications and new forms of application, there is a risk that the projects will not be successfully concluded. New drugs must pass several clinical trials prior to approval and market introduction. Moreover, the investment amount needed for the development cannot be exactly predicted – unexpected additional costs could arise.

In the development of new indications and forms of application for already introduced plasma proteins, this risk is comparably low. This is different for the monoclonal antibodies that are in an early research stage and that are still several years away from a possible market introduction. Since this involves entering into new pharmaceutical-technical terrain, there is increased risk that the developments fail either in part or completely, that approvals are not granted as expected or that third parties initiate patent infringement procedures. On the basis of milestone planning, we constantly monitor the development progress of individual projects and can respond at an early stage to potential risks that may arise.

In addition, there is a risk that competitors develop products that can also be used for the therapy of a special indication and that these products obtain approval earlier, are more effective or less expensive or have a higher marketing or distribution budget. This can hinder our expansion strategy in this area.

On the other hand, there is the chance that research activities open up additional application areas for Biotest's mAb and thus generate added revenue and earnings potential.

Furthermore Biotest reduces the economic risk through cooperation agreements with other pharmaceutical companies that are doing research. During clinical studies, we often work together with Contract Research Organisations (CROs). In doing so, we are limited in our ability to monitor these organisations throughout the execution and data collection of studies. By means of inspections at regular intervals, we monitor the risk involved. Furthermore, in the development of new products we work together with partners who supply us with preliminary products. Should Biotest lose a development partner, we cannot apply the development activities already conducted up to that time but have to repeat them again. That could cause significant additional costs and unexpectedly delay projects.

Employee risks

Biotest has sufficient personnel resources in production and administration and in the past has always been able to recruit qualified specialists and managers and to retain them in the Company for the long run. Existing labour and service contracts do not contain a non-competition clause. The loss of managers with specific technical know-how, especially in the area of product development and approval, could have substantial adverse effects on the Company.

Biotest's further success also depends on hiring and keeping qualified employees in the future as well. In the search for qualified employees, we have to compete with other companies in the pharmaceutical and diagnostics industry.

Tax and legal risks

Charges from tax audits and changes in tax legislation could cause a sustained reduction in the profit after tax. The tax statements for the years 1999–2005 have not been returned or are not yet final. They are subject to the reservations of a tax review, for example in an external audit. In light of the increased complexity of tax legislation in recent years, it cannot be ruled out that the financial authority will demand additional claims.

Legal risks can arise for example from patent disputes or from infringements of licensing or cooperation agreements. In 2005, Biotest was again not exposed to material legal risks.

Currency risks

Fluctuations in the exchange rate between the euro and foreign currencies could have an effect on the group result of Biotest. A weak US dollar also weakens sales opportunities in dollar-denominated markets.

Biotest in part applies derivative financial instruments to hedge for assets, liabilities and expected future currency flows that are denoted in foreign currencies.

Financial risks

In the past financial year, Biotest has considerably improved its financing structure. Through capital measures, the group received additional equity, and we also clearly reduced our financial debt. In addition, more than half of the short-term credit volume with our main banks was converted into a long-term financing of up to seven years.

Respective underwriting agreement has replaced the annual terminable collateral trustee agreement. It can only be cancelled by the credit lending banks under certain circumstances. These include the failure to comply with the stipulated financial ratios or the non-payment of interest and amortisation instalments. We have also reduced the group of creditor banks.

Biotest is thus still dependent on financing via outside capital, but the risk for the continuity of the Company does not exist beyond the degree associated with every credit financing.

Outlook

BIn financial year 2005, Biotest secured a good starting position for growth and value enhancement in financial year 2006. As a result of new product approvals in the past months – especially the approval of Intratect® in nine European countries along with TANGO® and its respective reagents in the USA – we anticipate sales to rise by 8–10 %. At the same time, the already visible improvement in the market environment for plasma proteins will have a favourable impact. We expect cash flow from operating activities to further increase.

Although we intend to significantly increase expenses for research and development in 2006, in particular for the accelerated expansion of the Biotherapeutic segment, we expect the result to be above the 2005 figure. This, however, will require higher sales and a continued business shift into the high margin markets in Europe and the USA.

Products launched in 2006 will make a business contribution over a 12-month period for the first time in 2007. The same is true for the toll manufacturing business in regard of BioDarou. For this reason, we have assumed that revenue and result will continue to move upwards in 2007. In this estimate, we have taken into consideration significantly higher expenses in the Biotherapeutic segment for 2007 as compared to 2006, providing that progress in the development of the active agents will be according to plan.

Biotest is striving to increase sales in the Pharmaceutical and Diagnostic segments, whereas growth in the Pharmaceutical segment should be considerably more pronounced. According to our planning, both of these segments will contribute to an improvement in the operating result. A more favourable cost structure will also play a role in this development. We will become more efficient as a result of process improvements in production and distribution, and we would like to conduct a larger part of our ordering system and order processing, among others, via e-business. Because of the improved financing structure of the Biotest group, the financial result will noticeably improve in 2006 and will turn out to be more favourable in 2007 than in the past financial year.

Expected business trend for plasma proteins

Our estimates indicate that the recovery of prices on the market for plasma proteins in the USA and in Europe, which could already be seen starting in the second half of 2005, will continue. We anticipate a sustained stabilisation of prices especially with regard to immunoglobulins and coagulation factors, whereas improvement in the albumin situation will at first be more gradual and slower. We see a continuation of the difficult market conditions for the tender contract business, even though the first signs are on the horizon for a stabilisation of prices in this area as well.

Biotest is striving to significantly expand its share of the European market in 2006. Besides Intratect®, the new products Hepatect® FH and Haemoctin® SDH are expected to make a contribution, and this figure should be considerably higher in 2007. Marketing of the coagulation factor Cofact® and the C1 inhibitor Cetor® is scheduled either for the end of 2006 or the beginning of 2007. We want to include these in our product range within the scope of a licensing agreement with the Dutch company Sanquin. Further-

more, we expect advancing sales with Cytotect® Biotest due to its proven suitability for use in the treatment of pregnant women.

The new von-Willebrand factor by Biotest is to enter clinical development (phase I) at the end of 2006.

In addition to a higher sales volume, rising prices should also provide for sales growth. According to our planning, the sales pattern will continue to shift in favour of the high price markets in Europe with a corresponding positive effect on margins.

We expect to generate sales from our joint venture BioDarou for the first time in 2006. In addition, we will further increase the capacity for plasma fractionation in Dreieich in the case of a successful conclusion of negotiations for toll manufacturing with the Iranian Blood Research and Fractionation Company (IBRF).

Expected business trend for the Diagnostic segment

In the Diagnostic segment, we expect the market environment in the markets most important for Biotest – those in Europe and especially in the USA – to develop favourably. A substantial weakening in the price competition within Europe through low-cost suppliers is anticipated. Once the transition period granted by the European IVD guidelines has expired as of the end of 2005, only CE certified diagnostic devices may be sold within the European Union. According to our estimates, a substantial reduction in the number of suppliers is likely to take place, but we do not anticipate a radical stabilisation of prices to start until the beginning of the second half of the year. From today's perspective, our European sales will thus remain at approximately previous year's level.

In the first complete year following market entry in the USA, we expect business to be successful. Reactions at the outset of the marketing of TANGO® via our partner Olympus America Inc. were without exception positive. Moreover, we are counting on the approval of reagents for manual transfusion diagnostics in Canada in the first half of 2006 and in the USA in 2007. As soon as approval has been received, we will immediately begin with marketing. Overall, we assume that the Diagnostic segment will contribute to Biotest's objective of achieving growth in revenue and earnings, albeit to a lesser extent than the Pharmaceutical segment.

Expected trend for the Biotherapeutic segment

Further milestones are expected in the development of our monoclonal antibodies in 2006: we will carry forward with the clinical test procedure already under way for BT-061. We want to further develop BT-062 so that we can start clinical testing phase I in 2007.

Freedom

To this day, rheumatoid arthritis is still not curable. Millions of people worldwide suffer from symptoms such as chronic pain, swelling and stiffness in the joints. BT-061, one of three monoclonal antibodies currently under development at Biotest, showed good results in the first clinical trials for the treatment of patients with rheumatism. That's why we are speeding up the development. So that in the future, rheumatism and freedom of movement are no longer opposing forces.

Group Income Statement

of Biotest AG for the period from 1 January through 31 December 2005

€ thousands	Note	2005	2004
Revenue		237,615	217,851
Cost of sales		– 126,106	– 114,123
Gross profit		**111,509**	**103,728**
Other operating income	D1	10,875	7,410
Distribution expense		– 54,891	– 50,035
Administrative expense		– 19,514	– 16,799
Research and development expense		– 16,872	– 18,530
Other operating expenses	D2	– 5,825	– 4,903
Profit from operations before special effects		**25,282**	**20,871**
Write-offs	D3	–	– 106
Restructuring cost	D4	–	– 2,139
Operating profit		**25,282**	**18,626**
Financial income	D7	1,419	940
Financial expenses	D8	– 11,391	– 13,166
Financial result		**– 9,972**	**– 12,226**
Income from associated companies	D9	– 304	– 177
Profit before tax		**15,006**	**6,223**
Income tax	D10	– 3.802	– 369
Profit after tax		**11,204**	**5,854**
thereof:			
Equity holders of the parent company		**10,196**	**5,040**
Minority interest		1,008	814
Profit for the period		**11,204**	**5,854**
Earnings per share in €		**1.13**	**0.57**
Additional dividend rights per preference share in €		**0.06**	**0.11**
Earnings per preference share in €		**1.19**	**0.68**

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

Group Balance Sheet

of Biotest Group as at 31 December 2005

€ thousands	Note	31.12.2005	31.12.2004
ASSETS			
Intangible assets	E1	5,931	6,154
Property, plant and equipment	E2	119,447	117,290
Finance lease assets	E2	27,591	30,151
Investments in associates	E3	729	148
Other investments	E4	380	478
Other assets	E7	263	363
Deferred tax assets	E9	5,761	6,196
Non-current assets		**160,102**	**160,780**
Inventories	E5	108,362	116,664
Trade receivables	E6	66,079	56,082
Current income tax assets		990	751
Cash and cash equivalents	E8	7,589	19,641
Other assets	E7	5,482	4,357
Current assets		**188,502**	**197,495**
TOTAL ASSETS		**348,604**	**358,275**
EQUITY AND LIABILITIES			
Issued capital		27,296	20,480
Share premium		123,056	78,964
Reserves		5,989	1,541
Retained earnings attributable to equity holders of the parent company		10,196	5,040
Shareholders' equity	E10	**166,537**	**106,025**
MInority interest		2,436	1,941
Total equity	E10	**168,973**	**107,966**
Provisions for pensions and similar obligations	E11	35,819	35,518
Other provisions	E12	4,322	4,705
Financial liabilities	E13	69,162	48,489
Other liabilities	E14	294	–
Deferred tax liabilities	E9	2,282	2,113
Non-current liabilities		**111,879**	**90,825**
Other provisions	E12	8,122	8,225
Current income tax liabilities		2,812	1,160
Financial liabilities	E13	19,298	115,213
Trade payables		25,149	23,216
Other liabilities	E14	12,371	11,670
Current liabilities		**67,752**	**159,484**
Liabilities		**179,631**	**250,309**
TOTAL EQUITY AND LIABILITIES		**348,604**	**358,275**

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

Statement of Changes in Equity

of Biotest AG for the period from 1 January through 31 December 2005

€ thousands	Issued capital	Share premium	Accumulated differences from currency translations	Consolidated earnings and retained earnings	Equity before minority interest	Minority interest	Total
Balance at 1 January 2004	**20,480**	**78,964**	**– 937**	**3,347**	**101,854**	**1,433**	**103,287**
Gains recognised immediately in equity	–	–	11	–	11	–	11
Profit for the period	–	–	–	5,040	5,040	814	5,854
Total result	–	-	**11**	**5,040**	**5,051**	**814**	**5,865**
Dividend payments for 2003	–	–	–	– 880	– 880	– 306	– 1,186
Balance at 31 December 2004	**20,480**	**78,964**	**– 926**	**7,507**	**106,025**	**1,941**	**107,966**
Balance at 1 January 2005	**20,480**	**78,964**	**– 926**	**7,507**	**106,025**	**1,941**	**107,966**
Gains/losses recognised immediately in equity	–	– 711	287	–	– 424	–	– 424
Profit for the period	–	–	–	10,196	10,196	1,008	11,204
Total result	**–**	**– 711**	**287**	**10,196**	**9,772**	**1,008**	**10,780**
Capital increase	6,816	44,804	–	–	51,620	–	51,620
Dividend payments for 2004	–	–	–	– 880	– 880	– 513	– 1,393
Balance at 31 December 2005	**27,296**	**123,057**	**– 639**	**16,823**	**166,537**	**2,436**	**168,973**

Explanations on equity are contained in the Notes under E10.

Gains/losses recognised immediately in equity

€ thousands	2005	2004
Difference from currency translation	287	11
Costs of capital increase	– 1,362	–
Deferred taxes on costs of capital increase	516	–
LTI programme	135	–
	– 424	**11**

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

Cash Flow Statement

of Biotest AG for the period from 1 January through 31 December 2005

€ thousands	Note	2005	2004
Net profit before tax		15,006	6,223
Depreciation and amortisation of intangible assets and property, plant and equipment	E1; E2	14,298	12,868
Loss from associates		304	177
Write-ups in investment securities		–	– 3
Losses (2004: gains) from the disposal of fixed assets		404	– 160
Increase in provisions for pensions	E11	301	961
Net interest income		9,972	12,226
Cash flow from operating activities before changes in working capital		**40,285**	**32,292**
Decrease (2004: increase) in other provisions	E12	– 532	2,186
Increase (2004: decrease) in inventories, accounts receivable and other assets		– 3,170	2,711
Increase (2004: decrease) in liabilities and other items on the liabilities side of the balance sheet		1,706	– 386
Cash flow from changes in working capital		**– 1,996**	**4,511**
Interest paid		– 10,242	– 10,044
Taxes paid		– 1,273	– 1,468
Net cash from operating activities		**26,774**	**25,291**
Cash from the disposal of fixed assets		1,367	775
Cash used for investments in fixed assets	E1; E2	– 15,444	– 18,616
Cash used for the acquisition of additional shares		–	– 2,036
Cash from the disposal of affiliated companies less cash equivalents from deconsolidation		–	1,752
Changes in other financial assets		98	– 105
Interest received		1,412	896
Net cash used in investing activities		**– 12,567**	**– 17,334**
Dividend payments for 2004		– 880	– 880
Cash changes to minority interests		– 513	– 305
Cash changes from the sales of accounts receivable	E6	–	28
Proceeds from capital increase		41,620	–
Payments for the costs of capital increase		– 1,362	–
Proceeds from borrowings	E13	108,631	67,046
Payments for redemption of debt	E13	– 173,858	– 66,363
Net cash used in financing activities		**– 26,362**	**– 474**
Cash changes in cash and cash equivalents		– 12,155	7,483
Exchange rate-related changes		103	40
Cash and cash equivalents at beginning of period	E8	19,641	12,118
Cash and cash equivalents at end of period	**E8**	**7,589**	**19,641**

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

Notes

A General Information

Biotest Aktiengesellschaft (Biotest AG) is the group's parent company with registered office in Frankfurt/Main. The group's headquarters are located in Landsteinerstr. 5, 63303 Dreieich, Germany. With its Pharmaceutical and Diagnostic divisions, Biotest AG and its subsidiaries are active in research, production and marketing. The Pharmaceutical segment produces and distributes banked serum, protein solutions, immunoglobulins and coagulation preparations. The products are manufactured on the basis of blood plasma and human blood. Plasma Service Europe GmbH, Dreieich, which was established in 2001, and Plasmadienst Tirol GmbH, Innsbruck, Austria, support the supply of blood plasma within the group. Furthermore, Biotest conducts targeted research and development of monoclonal antibodies in the Biotherapeutic segment. The Diagnostic segment manufactures serology and microbiology products and is active in research and development in these areas. The products include test sera, culture media and hygiene monitoring devices as well as similar merchandise.

The consolidated financial statements of Biotest AG and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) as is obligatory for use by all publicly traded European Union companies. The IFRS comprise not only International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS), but also the Interpretations (SIC) of the Standing Interpretation Committee. Accounting at the Biotest group is based strictly on all IFRS valid as at the end of the reporting period.

As these consolidated accounts relief us of the obligation to prepare consolidated accounts in accordance with the provisions of the German Commercial Code (§ 315a), we will not prepare such a set of accounts.

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

On 1 March 2006, 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 valuation and accounting policies due to new standards

In financial year 2005, Biotest applied accounting policies that comply with IFRS effective at December 2005, the so-called stable platform, which are mandatory for annual periods beginning on or after 1 January 2005 or later years.

From these standards, the following versions as amended by the IASB – as far as relevant for the business activities of our company – are applied for the first time in financial year 2005.

IAS 1 Presentation of Financial Statements
IAS 2 Inventories
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 Events After the Balance Sheet Date
IAS 16 Property, Plant and Equipment
IAS 17 Leases
IAS 21 The Effects of Changes in Foreign Exchange Rates
IAS 24 Related Party Disclosures
IAS 32 Financial Instruments: Disclosure and Presentation
IAS 33 Earnings per Share
IAS 36 Impairment of Assets
IAS 38 Intangible Assets
IAS 39 Financial Instruments: Recognition and Measurement
IFRS 2 Share-based Payment
IFRS 3 Business Combinations

The application of these standards was carried out in accordance with the respective transition provisions. Unless not specifically provided in the respective standard and separately explained, application takes place retroactively; that is, presentation takes place as if the new valuation and accounting policies had been applied in the past. The comparative figures from previous years have been adjusted accordingly.

In detail, this resulted in the following presented effects on the periods presented in the consolidated financial statements:

IAS 1 "PRESENTATION OF FINANCIAL STATEMENTS"

According to the amended standard, the consolidated balance sheet has to be classified by maturity. For that purpose, assets and liabilities are classified as current or non-current in the balance sheet. We classify those items as current for which realisation or amortisation is expected within the business cycle of our business areas or within a time period of twelve months after the balance sheet date.

The interests of non-group shareholders (minority interest) will be shown as a separate item within equity. In the Income Statement, the profit and loss shares of minority shareholders are part of the group result. Appropriation of the group result to the shareholders of the parent company and the minority shareholder will be presented separately.

The change in the minority interest was shown in the statement of changes in equity.

IAS 21 "THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES"

According to the amended standard, the functional currency of companies included in the consolidated financial statements is determined by the primary economic environment in which an entity operates. Examination of the functional currencies of the companies included did not result in any changes.

According to the amended standard, goodwill and adjustments of the actual cash value of assets and liabilities to be reconciled that were acquired within the scope of business combination are to be carried in the functional currency of the respective subsidiary and to be converted into the presentation currency of the group at any balance sheet date. This regulation will be applied according to the transition provision in IAS 21.59 prospectively to all acquisitions after 1 January 2005. The adjustment amounts previously converted on a one-time basis according to the right of option in IAS 21.33 (old version) for company acquisitions prior to 1 January 2005 will continue in the presentation currency of the company acquired.

IFRS 3 "BUSINESS COMBINATIONS"

Biotest will apply IFRS 3 to business combinations made from 31 March 2004 onwards.

The first-time application of IFRS 3 on business combinations for contracts concluded before 31 March 2004 had the following effect on the current consolidated financial statement:

According to the transition provision of IFRS 3.79, the scheduled amortisation of goodwill was discontinued as at 31 December 2004. The cumulated amortisation realised until then in the amount of € 1,513 thousand was accounted for at the historical costs of acquisition of goodwill as at 1 January 2005. The remaining goodwill will be examined for depreciation annually and whenever indications suggest.

In financial year 2004, scheduled amortisation of goodwill in the amount of € 92 thousand was recorded. Due to the change in the presentation of the accounting of goodwill, no respective expenses will be incurred in financial year 2005.

IAS 38 "INTANGIBLE ASSETS"

With regard to intangible assets, judgement was used to determine as at 1 January 2005 whether the expected useful life was in each case limited or unlimited. In addition, for items with a limited expected useful life, a new estimate of the expected useful life was conducted.

IAS 39 "FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT"

We made use of the possibility of designating financial assets upon initial recognition of IAS 39 (revised 2003) to the valuation category "financial assets at fair value through profit or loss." Pension funds were designated to the category. The expenses/earnings resulting from the valuation of these pension funds were realised affecting net income.

Standards/Interpretations not yet applied ahead of schedule

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

IFRS 7 "FINANCIAL INSTRUMENTS: DISCLOSURES"

The IASB issued IFRS in August 2005. In this standard, disclosures to the financial instruments are summarised that had previously been regulated by IAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions" and IAS 32 "Financial Instruments: Recognition and Measurement." Several disclosure requirements were thereby changed or supplemented. IFRS 7 is effective for annual periods beginning on or after 1 January 2007, with earlier application encouraged.

The standard, which is mandatory for all companies, will result in more extensive details regarding financial instruments when it is fully applied by Biotest AG for the first time in financial year 2006.

IFRIC 4 "DETERMINING WHETHER AN ARRANGEMENT CONTAINS A LEASE"

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

Application of the interpretation is mandatory for all annual periods beginning on or after 1 January 2006. The transition provision allows for the opportunity to apply the interpretation retroactively or to apply it to those agreements that exist at the beginning of the earliest period for which comparable data is presented in the financial statements.

Biotest AG is currently reviewing the effects of the interpretation on the consolidated financial statements.

IFRIC 8 "SCOPE OF IFRS 2"

The IASB issued Interpretation IFRIC 8 in January 2006 to clarify the scope of application of IFRS 2. IFRS 2 "Share-based Payment" applies to arrangements where an entity makes share-based payments for goods or services. According to IFRIC 8, IFRS 2 is also to be applied if the company cannot clearly identify the received goods and services.

IFRS 8 is effective for annual periods beginning on or after 1 May 2006, with earlier application encouraged.

The interpretation does not have an effect on the future consolidated financial statements of Biotest AG since no such business transactions as mentioned in the interpretation have taken place or will take place in the foreseeable future at any company included in the consolidated financial statements.

AMENDMENT TO IAS 1 "PRESENTATION OF FINANCIAL STATEMENTS" – DETAILS ABOUT THE CHAPTER

In August 2005 in connection with the publication of IFRS 7 "Financial Instruments: Disclosures," the IASB disclosed a change to IAS 1. Accordingly, information shall 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 effective for annual periods beginning on or after 1 January 2007, with earlier application encouraged.

This first-time application of this amendment to IAS 1 by Biotest AG in financial year 2007 will result in more extensive details regarding notes.

AMENDMENT TO IAS 19, "EMPLOYEE BENEFITS" – RECOGNITION OF ACTUARIAL GAINS AND LOSSES, GROUP PLANS AND FINANCIAL STATEMENT DISCLOSURES

The IASB issued an amendment to IAS 19 in December 2004. The amendment pertains to the following aspects:

- Expansion of the option of recognising actuarial gains and losses in full in the period in which they occur outside the income statement, that is, in equity.
- Requirement to recognise accounts receivable or accounts payable resulting in a profit or loss acording to the contractual agreements for group plans that are entered into the balance sheet as defined contribution plans due to insufficient information.
- Presentation of performance-oriented plans within the risk grouping of several companies under shared control.
- Change to disclosure requirements in the notes regarding performance-oriented pension plans.

The changes to IAS 19 are mandatory – unless otherwise stated – for annual periods beginning on or after 1 January 2007, with earlier application encouraged.

The initial application of this change to IAS 19 by Biotest AG in financial year 2006 is only expected to lead to changes in disclosure in the financial statements for the group's performance-oriented pension plans. Currently, there are no plans within the group to switch over to recognition of actuarial gains and losses by the corridor method. Collaborative pension plans do not exist within the group.

B Material Accounting Policies

1 Scope of consolidation

All material subsidiaries are included in Biotest AG's consolidated financial statements. Biotest AG directly or indirectly holds the majority of voting rights in 5 (2004: 5) German and 11 (2004: 11) foreign companies.

In financial year 2004, two companies, BioDarou P.J.S. Co. with registered office in Teheran/Iran as an associated company at equity and Biotest Hellas MEPE with registered office in Maroussi/Griechenland, were included in the consolidated financial statements in full for the first time. In 2005, one company, BioDarou P.J.S. Co. with registered office in Teheran/Iran, will be included in the consolidated financial statements as an associated company at equity.

The material companies included in the consolidated financial statements have been included in note F5 of the notes to the consolidated financial statements. A complete listing of all companies in which an equity interest is held by Biotest group is filed with the commercial register of the local court (Amtsgericht) of Frankfurt/Main under number HR B 27614.

The balance sheet date for the consolidated financial statements and all consolidated companies is 31 December 2005.

2 Consolidation principles

Capital consolidation has been accounted for pursuant to IFRS 3 according to the purchase method, and cost of purchase have been offset against the market 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 within intangible assets, which is subjected to a regular impairment test. To the extent that this measurement results in lower fair values, this leads to unplanned depreciation. If the fair value of the share of equity capital attributable to the parent company is greater than acquisition cost, this results in a reassessment of the fair value. To the extent that this measurement results in lower fair values, any impairment is recognised in income.

The first-time consolidation in the consolidated financial statements is effected as at the time of purchase.

The book value of investments in associated companies includes profits not yet distributed on a pro-rata basis from the time a material influence is exercised. According to IAS 28 (investments in associates) the book value of investments in associates does not only include the cost of purchase but also the financial commitments (i.e. loans). Corresponding losses are offset against the book value of the investment on a pro-rata basis.

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

3 Currency translation

The functional currency concept applies to the translation of financial statements of consolidated companies prepared in foreign currencies. The subsidiaries of the Biotest group conduct their operations independently. The functional currency of these companies is the respective local currency. When translating annual accounts of subsidiaries whose functional currency is not the euro, assets and liabilities have been translated using the mean rate of exchange at the balance sheet date and income and expenses have been translated using annual average rates. The resulting accumulated differences are recognised in a separate equity capital item without effect on the income statement. This separate equity capital item is disclosed under reserves in the balance sheet.

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

According to IAS 21, goodwill is translated as assets of the economically independent foreign subsidiaries as at the closing rate. In this regard, Biotest is making use of the option of IAS 21.33 (old version): the one-time translated adjusted figure from companies acquired before 1 January 2005 will continue to be presented in the currency of the acquired company.

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

Equivalent for € 1	Average rates		Rates at the balance sheet date	
	2005	2004	31.12.2005	31.12.2004
US dollar	1.2448	1.2433	1.1797	1.3621
Pound sterling	0.6839	0.6786	0.6853	0.7051
Japanese yen	136.87	134.40	138.90	139.65
Swiss franc	1.5483	1.5441	1.5551	1.5429
Hungarian forint	248.04	251.78	252.87	245.97

4 Derivative financial instruments

To hedge interest rate and currency risks, the group uses derivative financial instruments such as currency options, 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 market conditions at the balance sheet date. For derivative financial instruments held for hedging purposes, changes in the market value are accounted for in accordance with the type of the corresponding hedge transaction.

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

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 acquired assets and liabilities. Goodwill is recorded at cost of purchase. For goodwill incurred prior to 31 March 2004, the fair value as of 31 December 2004 is measured at cost. Goodwill shown is no longer amortised according to schedule but rather tested at least annually for impairment instead and amortised where appropriate in accordance with IAS 36.

Goodwill is allocated to the respective cash-generating units. In the case of distribution companies, these companies are viewed as the cash-generating unit, and in the case of production companies, the segments serve as cash-generating units. The recoverable amount of a cash-generating unit is determined by using the discounted cash flow method. This method discounts future cash flows based on both a medium-term business plan and a long-term growth rate forecast. This growth rate depends on the particular business and is between 0 % and 2 %. The after-tax discount rates between 7 % and 9 % are based on the weighted average cost of capital applicable. 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 for a consideration 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 the useful life. If necessary, according to IAS 36 non-scheduled amortisation will be undertaken. The expected useful lives are between 3 and 5 years. A distribution right acquired in 2004 was amortised in full over the remaining term of 17 months.

6 Property, plant and equipment

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

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

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

7 Leasing

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

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

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

8 Impairment

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

9 Inventories

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

10 Trade receivables and other assets

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

11 Cash and cash equivalents

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

12 Pension provisions

Biotest group operates several defined contribution and performance-oriented pension plans.

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

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

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

13 Other provisions

In accordance with IAS 37, provisions should be recognised when an enterprise has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the outflow of resources. It is valued at the probable amount. Provisions with an expected completion time of more than 12 months after the balance sheet date are recorded at present value.

LIABILITIES FOR PART-TIME WORK FOR ELDER WORKERS

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

14 Financial liabilities

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

15 Revenue

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

16 Research and development expense

Research cost is recorded as expense at the time incurred. Development cost, too, is recorded as expense when incurred as it is not sufficiently certain that products may be marketed or production processes employed until they have been approved by the authorities and such approval is typically granted only at the end of the development process. The requirements for capitalisation pursuant to IAS 38 thus are for the most part not fully complied with. Development cost incurred after approval by the authorities is 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 share of interest contained in leasing payments for finance leases is recorded using the effective interest rate method and recognised as interest expense.

19 Taxes

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

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

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

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

20 Stock option plan

The company follows a business policy focused on the interests of shareholders in terms of the shareholder value principle which promotes the long-term appreciation in value of the Biotest group.

With approval of the Supervisory Board, the company decided to set up a stock option plan with preference shares (long-term-incentive-programme) for selected employees who, through their position within the group, their decisions, their leadership and their actions, significantly influence the success of the company. The stock option plan creates an incentive system for this circle of employees who are important for the long-term success of the company.

Servicing this programme with preference shares requires the approval of the Annual General Shareholders' Meeting.

Granting options is connected with a personal investment, which had to be registered for execution with the company by 27 October 2005. Based on this requirement, the grant date for valuation purposes was set for the end of October 2005.

From the viewpoint of the company, the programme is initially restricted to three years. The granting can be renewed each year. Should the Annual General Meeting fail to create an authorised capital to service the stock options exercised, the company has the option of making use of its authorisation to purchase own preference shares for this purpose. The company, however, is also entitled to forfeit the stock options or to settle them in cash.

For the personal investment in preference shares of the company, the Board of Management decides on the maximum number per beneficiary. Biotest reimburses the participants for 25 % of their personal investment.

At the end of three years each beneficiary receives up to six additional preference shares for an exercise price of € 2.56. Exercise is fixed for a time period of two weeks following the Annual General Shareholders' Meeting in 2008, except when the beneficiary obtains knowledge of insider information in terms of § 13 of the German Securities Trade Act (WpHG). In this case, the exercise periods begins only after the information is no longer insider information.

The number of additional preference shares granted by the option depends on the degree to which performance targets have been reached – defined with reference to the average EBIT margin (non-market conditions) and the absolute price advance of the preference shares (market conditions) in the previous three years. The average EBIT margin must be at least 8.5 %, and the absolute price advance of the share must be at least 10 %.

In addition to the members of the Board of Management, 46 persons are participating in the long-term-incentive-programme with a personal investment totalling 17,050 preference shares.

The period for measuring the performance of the share price for the options granted is from 20 May 2005 through 31 December 2007. Financial years 2005 through 2007 serve as the basis for measuring the average EBIT margin.

The fair value of the share options amounts to € 63,615 as at the valuation date 31 October 2005, without taking non-market conditions into consideration. Taking into account non-market conditions leads to a factor that in our assessment is 1.612 in relation to the above quoted fair value. This translates into an overall expected volume of 72,804 preference shares at the exercise date in 2008. The amount of share options outstanding as at 31 December 2005 thus also amounts to 72,804.

The valuation was conducted using a binomial model based on the modelling by Cox, Ross and Rubinstein by external consultants (Towers Perrin, Frankfurt/Main).

In the valuation of market conditions as well as non-market conditions pursuant to IFRS 2, conditions that affect the exercise of the option but that are not observable in the market are separated from observable conditions.

The determination of market conditions is undertaken by means of an assessment of the fair market value. The consideration of additional conditions then leads to a change in the number of shares on the balance sheet. In the valuation model used, this is done by multiplication with a factor. The value of this factor depends on the fulfilment of the non-market conditions.

All market parameters that are not directly observable are obtained through statistical estimates. For the volatility, historical volatilities of the preference shares of Biotest AG during a time period of 250 days are used in the valuation.

The risk free interest rate to be used was determined with the help of yields of publicly listed German government bonds. The parameters of the Svensson method published by Deutsche Bundesbank serve as the basis.

An equity dilution factor is taken into account.

To ascertain the number of subscription rights that are likely to lapse during the period, the fluctuation rate was assumed to be 4 % of the employees that benefit from the plan.

The expense for 2005 amounts to € 134 thousand, whereas two months of the total of 26 months were taken into account because of the grant date; in the balance sheet, the amount was booked as a capital reserve in equity.

21 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. Changes are prospectively recorded in the reporting period or in future periods. Assumptions and estimates are made in particular in connection with the measurement of goodwill and provisions. The material assumptions and parameters for the estimates made are disclosed in the Notes.

C Segment Reporting

1 Segment reporting

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

As part of the strategic reorientation, the Biotest group altered its management reporting with the business segment Biotherapeutic starting at the beginning of financial year 2005. The development of monoclonal antibodies in the new Biotherapeutic segment will be presented separately from the Pharmaceutical segment since both the mode of action and the manufacturing method of the products are completely different. Moreover, this guarantees a better measurement of the success of the Pharmaceutical segment. Previous year’s figures were adjusted accordingly.

Segmentation in the Biotest group is primarily aligned along products in accordance with internal reporting; in this context, the company is divided into Pharmaceutical, Diagnostic and Biotherapeutic divisions.

- PHARMACEUTICAL SEGMENT: 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.
- DIAGNOSTIC SEGMENT: The Diagnostic segment primarily produces and distributes diagnostic preparations for both the medical laboratory and for hygiene monitoring in the industry.
- BIOTHERAPEUTIC SEGMENT: The Biotherapeutic segment researches, develops and manufactures monoclonal antibodies for the treatment of rheumatoid arthritis and psoriasis (scaly patches).
- CORPORATE: Costs of the overriding group management are shown separately in the Corporate segment. Assets contain other financial assets and cash and cash equivalents. Liabilities pertain to bank loans for the financing of assets not assigned to the operating segments. In addition, expenses and earnings are shown in Corporate that cannot be assigned to the other segments due to their uniqueness.

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

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

Segment information by division

€ thousands		Pharma-ceuticals	Diagnostics	Biothera-peutics	Corporate	Total
Revenue with third parties	2005	160,453	77,162	–	–	**237,615**
	2004	141,912	75,939	–	–	**217,851**
Operating profit	2005	28,928	3,366	– 3,711	– 3,301	**25,282**
	2004	21,923	1,235	– 1,482	– 3,050	**18,626**
Income from associates	2005	– 304	–	–	–	**– 304**
	2004	– 177	–	–	–	**– 177**
Assets	2005	271,314	61,819	–	15,471	**348,604**
	2004	272,250	58,811	–	27,214	**358,275**
Investments in associates	2005	729	–	–	–	**729**
	2004	148	–	–	–	**148**
Capital expenditure	2005	10,259	5,165	–	–	**15,424**
	2004	14,495	4,030	–	–	**18,525**
Liabilities	2005	118,318	39,028	887	21,398	**179,631**
	2004	194,409	42,541	–	13,359	**250,309**
Scheduled depreciation and amortisation	2005	10,706	3,156	–	436	**14,298**
	2004	9,543	3,219	–	–	**12,762**
Non-scheduled write-downs	2005	–	–	–	–	–
	2004	106	–	–	–	**106**
Cash inflow (outflow) from operating activities	2005	27,960	5,690	– 2,190	– 4,686	**26,774**
	2004	33,722	2,208	– 1,482	– 9,157	**25,291**

In the 2005 financial year, the Pharmaceutical segment recorded non-scheduled write-downs of € 0 thousand (previous year: € 106 thousand).

Segment information by region

€ thousands	Revenue with third parties		Assets		Captial expenditure	
	2005	2004	2005	2004	2005	2004
Germany	86,138	76,387	294,584	306,096	14,776	15,832
Rest of Europe	115,575	102,652	50,969	49,025	583	2,541
America	11,849	10,175	3,110	3,008	65	149
Asia	20,012	24,824	– 59	146	–	3
Rest of world	4,041	3,813	–	–	–	–
Total	**237,615**	**217,851**	**348,604**	**358,275**	**15,424**	**18,525**

2 Changes in the scope of consolidated companies

In financial year 2005, there were no changes in the scope of consolidation of the Biotest group. The two companies included for the first time in financial year 2004 are included for the first time with twelve months in financial year 2005.

BioDarou P.J.S. Co. with registered office in Teheran/Iran was newly founded in financial year 2004 and since then has been included in the consolidated financial statements at equity. In 2005, the company made a contribution to consolidated earnings of € – 304 thousand (2004: € – 177 thousand).

The distribution company Biotest Hellas MEPE with registered office in Maroussi/Greece was also founded in financial year 2004 and will be consolidated in full. The company made a contribution to consolidated earnings of € 459 thousand (2004: € 45 thousand).

D Explanatory Notes to the Income Statement

D1 Other operating income

€ thousand	2005	2004
Other earnings with associated companies	2,433	200
Release of provisions and deferred liabilities	2,307	2,293
Insurance reimbursements and other refunds	2,302	70
Foreign exchange gains	2,244	2,766
Reversal of write-downs	186	406
Gains from the disposal of fixed assets	30	234
Government grants	6	12
Other	1,367	1,429
	10,875	**7,410**

D2 Other operating expenses

€ thousands	2005	2004
Expense for compensation claims	1,648	–
Foreign exchange losses	955	2,871
Other expenses in connection with services to associated companies	867	–
Losses from the disposal of fixed assets	434	74
Transfers to provisions	306	170
Write-downs of receivables	54	252
Amortisation of goodwill	–	93
Other	1,561	1,443
	5.825	**4,903**

D3 Write-downs

€ thousands	2005	2004
Fixed assets Plasma Service Europe GmbH, Station Berlin, Pharmaceutical segment	–	106
	–	**106**

As part of the closing of Plasma Service Europe GmbH's station in Berlin, write-downs of property, plant and equipment were effected in 2004 in the amount of € 106 thousand and scrapped.

D4 Restructuring

€ thousands	2005	2004
Severance payments and obligations vis-à-vis the employment office (Arbeitsamt)	–	1,232
Consultancy fees	–	907
	–	**2,139**

In addition to severance payments, the restructuring cost item moreover contains expenses for consultants who supervised and developed the implementation of the realignment and restructuring concept called for within the scope of the agreements with the banks.

D5 Staff cost

Staff cost comprises the following items:

€ thousands	2005	2004
Wages and salaries	54,532	53,112
Social security cost	10,331	10,116
Pension cost	1,529	2,820
	66,392	**66,048**

Staff cost includes severance pay in the amount of € 395 thousand (2004: € 1,048 thousand).

Staff was employed in jobs equalling an average number of 1,054 (2004: 1,025) full-time jobs in the 2005 financial year. On 31 December 2005, staff was employed in jobs equalling an average number of 1,074 (2004: 1,009) full-time jobs in the Biotest group.

On 31 December 2005, the actual number of people employed by the group amounted to 1,161 (2004: 1,082).

D6 Cost of materials purchased

Cost of materials purchased comprises of the following items:

€ thousands	2005	2004
Raw materials and supplies	58,580	66,242
Services purchased	12,665	11,763
	71,245	**78,005**

D7 Financial income

€ thousands	2005	2004
Bank waiver	586	–
Interest from tax refunds due to opposition proceedings	456	–
Interest income	358	896
Other income	19	44
	1,419	**940**

D8 Financial expenses

€ thousands	2005	2004
Interest expense	10,427	10,788
Interest expense syndicated loan agreement (2004: collateral trustee agreement – CTA)	392	2,370
Other expenses	572	8
	11,391	**13,166**

D9 Income from associated companies

Income from associated companies in the amount of € – 304 thousand (2004: € – 177 thousand) includes a share in the loss of € 165 thousand (2004: € 133 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:

€ thousands	2005	2004
Taxes in the financial year	3,606	3,052
Current tax income for prior years (2004: tax expense)	– 940	32
Current taxes	**2,666**	**3,084**
Deferred taxes	**1,136**	**– 2,715**
Income tax expense	**3,802**	**369**

Applying the nominal tax rates of 37.9 % in 2005 and 2004, respectively, the expected tax expense for the 2005 and 2004 financial years will vary from the actual amounts as follows:

€ thousands	2005	2004
Group profit before tax	**15,006**	**6,223**
Expected tax expense (37.9 %)	**5,687**	**2,358**
Unvalued losses in the financial year	261	1,669
Utilisation of unvalued loss carryforwards of previous years	– 1,859	– 603
Deferred taxes on tax loss carryforwards for prior years	– 798	– 3,575
Write-down deferred tax assets	231	1,645
Tax refunds (2004: tax payments)	– 940	32
Tax effect from non-deductible expenses	1,290	694
Tax effect from application of foreign tax rates and use of foreign deferred tax assets	– 691	– 473
Tax effect from tax-free income	– 301	– 1,150
Tax effect from capital increase costs	516	–
Other effects	406	– 228
Income tax in accordance with income statement	**3,802**	**369**

The tax rate of 37.9 % is based on a corporate tax rate of 25 %, a solidarity surcharge of 5.5 % and the rate at which trade tax is levied by the municipality in which the individual companies are located (group head office Dreieich).

D11 Auditors' expenses

Pursuant to section 285 no. 17 of the HGB (German Commercial Code), auditors' expenses shall be shown separately for the first time in 2005. Overall, the Biotest group incurred expenses for this purpose in the amount of € 705 thousand. These can be broken down as follows: € 417 thousand for fee paid for audits of the financial statements, € 164 thousand for tax consultancy services, € 106 thousand for other audit-related services and € 18 thousand for other services.

E Notes to the Balance Sheet

E1 Intangible assets

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

€ thousands	Goodwill	Patents, licenses and similar rights	Leased assets	Payments in advance	Total
Cost of purchase					
Balance at 31 December 2003	**1,738**	**8,802**	**–**	**938**	**11,478**
Additions	–	4,677	–	28	4,705
Book transfers	–	966	–	– 966	–
Disposals	–	– 74	–	–	– 74
Currency translations differences	– 8	– 22	–	–	– 30
Balance at 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 translations differences	9	49	–	–	58
Balance at 31 December 2005	**226**	**14,437**	**1,608**	**11**	**16,282**
Accumulated depreciation					
Balance at 31 December 2003	**1,424**	**6,577**	**–**	**–**	**8,001**
Depreciation financial year	93	1,924	–	–	2,017
Book transfers	–	6	–	–	6
Disposals	–	– 74	–	–	– 74
Currency translation differences	– 4	– 21	–	–	– 25
Balance at 31 December 2004	**1,513**	**8,412**	**–**	**–**	**9,925**
Offsetting pursuant to IFRS 3	– 1,513	–	–	–	– 1,513
Depreciation financial year	–	2,434	161	–	2,595
Disposals	–	– 704	–	–	– 704
Currency translation differences	–	49	– 1	–	48
Balance at 31 December 2005	**–**	**10,191**	**160**	**–**	**10,351**
Book value at					
31 December 2004	217	5,937	–	–	6,154
31 December 2005	**226**	**4,246**	**1,448**	**11**	**5,931**

At € 1,593 thousand, additions to leased assets in the financial year pertain to software. On 31 December 2005, intangible assets of a book value of € 384 thousand (2004: € 4,412 thousand) served as collateral for liabilities to banks.

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

€ thousands	2005	2004
Cost of sales	132	344
Distribution expense	1,528	993
Administrative expense	668	470
Research and development expense	267	117
Other operating expenses	–	93
	2,595	**2,017**

The following is a breakdown by individual cash generating unit of the book value of goodwill and intangible assets with indefinite useful lives:

Cash Generating Unit	Segment	Intangible assets	Book Value as at 31.12.2005 € thousands
Heipha Dr. Müller GmbH	Diagnostics	Goodwill	155
Biotest Diagnostics Corp.	Diagnostics	Goodwill	71
Biotest K.K.	Diagnostics	Concessions	2
			228

In the course of the annual impairment test, there was no material need for any write-downs for the individual cash generating units.

E2 Property, plant and equipment

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

	Land and buildings	Machinery	Other plants, furniture and fixture and office equipment	Leased assets	Payments in advance and facilities under construction	Total
Cost of purchase						
Balance at 31 December 2003	97,909	34,284	55,999	35,309	14,350	237,851
Additions	1,216	1,080	4,890	100	6,534	13,820
Book transfers	3,162	618	2,758	35	– 6,573	–
Disposals	– 301	– 409	– 1,001	– 53	–	– 1,764
Currency translation differences	76	– 27	14	–	–	63
Balance at 31 December 2004	**102,062**	**35,546**	**62,660**	**35,391**	**14,311**	**249,970**
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 at 31 December 2005	**108,741**	**36,304**	**62,425**	**35,884**	**14,693**	**258,047**
Accumulated depreciation						
Balance at 31 December 2003	30,175	25,891	33,775	3,024	–	92,865
Depreciation financial year	2,220	1,669	4,638	2,218	–	10,745
Write-offs		106				106
Book transfers	–	–	– 6	–	–	– 6
Disposals	– 77	– 272	– 800	–	–	– 1,149
Currency translation differences	– 2	– 18	– 10	– 2	–	– 32
Balance at 31 December 2004	**32,316**	**27,376**	**37,597**	**5,240**	**–**	**102,529**
Depreciation financial year	2,322	1,570	4,652	3,159	–	11,703
Disposals	–	– 1,080	– 2,174	– 110	–	– 3,364
Currency translation differences	55	41	41	4	–	141
Balance at 31 December 2005	**34,693**	**27,907**	**40,116**	**8,293**	**–**	**111,009**
Book value at						
31 December 2004	69,746	8,170	25,063	30,151	14,311	147,441
31 December 2005	**74,048**	**8,397**	**22,309**	**27,591**	**14,693**	**147,038**

State grants for the purchase or manufacture of assets reduce the cost of purchased or self-constructed assets. In the 2005 financial year, the cumulated reduction amounted to € 584 thousand (2004: € 579 thousand).

Assets capitalised as finance leases primarily include plasma fractionation and sterile final fill production facilities of Biotest AG. The sterile final fill facility was completed in 2002, and depreciation was recorded starting in 2002. The plasma fractionation facility started operation in 2004. The term of the leasing contracts for these two facilities extends over 8 years in each case. Biotest may terminate the contracts with 3 months' notice. The earliest possible date, however, is a date on which at least 40 % of the contractual term has passed. Biotest has the right of termination at a date on which not more than 90 % of the contractual term has passed only in the event that Biotest provides evidence of exceptional circumstances with regard to the possibility or ability to utilise the facilities. Upon expiration of the leasing contracts, Biotest may purchase the facilities at market value.

At 31 December 2005, property, plant and equipment with a book value of € 99,868 thousand (2004: € 140,507 thousand) served as collateral for liabilities to banks.

Facilities under construction primarily include payments in advance of € 14,655 thousand (2004: € 14,291 thousand) for the expansion of the facility for the chromatographic purification of immunoglobulins and the adjustment of production functions.

E3 Investments in associates

Investments in associates include a 49 % share of Biotest in BioDarou P.J.S. Co. with registered office in Teheran/Iran. This investment is recorded at equity. The value of non-current assets amounted to € 4,983 thousand (2004: € 700 thousand) as at 31 December 2005; the value of current assets amounted to € 817 thousand (2004: € 228 thousand) as at 31 December 2005.

The value of non-current liabilities amounted to € 693 thousand (2004: € 1,105 thousand) as at 31 December 2005; the value of current liabilities amounted to € 3,874 thousand (2004: € 18 thousand) as at 31 December 2005.

Operating expenses amounted to € 1,820 thousand (2004: € 361 thousand) in financial year 2005, while operating income amounted to € 1,512 thousand (2004: € 0 thousand) in financial year 2005.

E4 Other investments

Other investments comprise the following items:

€ thousands	2005	2004
Bond funds ("financial asset at fair value through profit and loss")	184	183
Fixed-income securities ("held-to-maturity")	166	192
Loans to employees	30	103
	380	**478**

In financial year 2005, € 184 thousand was reclassified from the category "available-for-sale" to the category "financial assets at fair value through profit and loss."

E5 Inventories

€ thousands	2005	2004
Raw materials and supplies	14,905	12,300
Work in progress	73,451	84,827
Finished goods and merchandise	20,006	19,537
	108,362	**116,664**

Write-downs of inventories amounted to € 4,397 thousand (2004: € 6,618 thousand) as at the balance sheet date. The portion of stock that is written down to the net realised value amounts to € 7,571 thousand (2004: € 8,060 thousand).

Inventories of a book value of € 98,547 thousand (2004: € 107,702 thousand) served as collateral for liabilities to banks at the balance sheet date. Inventories with a reach of more than one year are recorded at a book value of € 5,044 thousand (2004: € 11,643 thousand).

E6 Trade receivables

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

€ thousands	2005	2004
Accounts receivable, trade (gross)	79,444	66,737
Less:		
Sale of receivables	– 9,563	– 6,435
Allowance for bad debt	– 3,802	– 4,220
	66,079	**56,082**

Within the scope of factoring contracts, Biotest AG and Biotest Hellas MEPE disposed of receivables in the amount of € 9,563 thousand (2004: € 6,435 thousand) as at the balance sheet date. The factoring programme provides for the sale of domestic accounts receivable from customers of Biotest AG of impeccable creditworthiness and for Biotest Hellas MEPE the sale of accounts receivable from private hospitals in Greece up to a volume of € 5 million each. Provided that the receivable are legally rightful, the bank undertakes the risk of the customer's inability to pay the receivables purchased (risk of default). Accounts receivable of a book value of € 23,219 thousand (2004: € 24,581 thousand) served as collateral for liabilities to banks at the balance sheet date.

E7 Other assets

€ thousands	2005	2004
Accounts receivable from the factoring company	2,879	1,444
Prepayments and deferred income	737	661
Valued added tax claims	438	919
Accounts receivable from associated companies	217	–
Accounts receivable from cooperation partners	188	258
Payments in advance	64	457
Other receivable	1,222	981
	5,745	**4,720**

Other assets of € 263 thousand (2004: € 363 thousand) refer to items with a term of more than one year.

At the balance sheet date, the group capitalised financial leasing claims of € 182 thousand (2004: € 182 thousand) as leaser of laboratory devices. The underlying leasing agreements usually have a term of 5 years. Before applying discounting procedures, the repayment amounts equal € 215 thousand. € 73 thousand thereof being due in less than a year, and the rest of € 142 thousand over the following four years. In the future, interest income in the amount of € 33 thousand will be received in the context of compounding interest for accounts receivable.

Within the context of operating leasing agreements with customers, € 91 thousand of leasing payments will be collected in the next year, and € 111 thousand over the following four years – equalling a total of € 202 thousand (2004: € 379 thousand).

E8 Cash and cash equivalents

€ thousands	2005	2004
Bank balances	7,512	19,567
Cash on hand	77	74
	7,589	**19,641**

E9 Deferred tax assets and deferred tax liabilities

Equity and liabilities recorded in the balance sheet refer to the following items:

€ thousands	Assets		Equity and liabilities		Net	
	2005	2004	2005	2004	2005	2004
Intangible assets	25	73	618	–	– 593	73
Property, plant and equipment	64	49	15,484	12,502	– 15,420	– 12,453
Other investments	434	129	71	108	363	21
Inventories	2,756	1,910	48	40	2,708	1,870
Accounts receivable	215	208	547	696	– 332	– 488
Provisions	1,519	1,516	36	120	1,483	1,396
Financial liabilities	8,717	7,257	48	–	8,669	7,257
Other balance sheet items	2,388	2,117	516	612	1,872	1,505
Tax value of the loss carried forward	4,729	4,902	–	–	4,729	4,902
Total	**20,847**	**18,161**	**17,368**	**14,078**	**3,479**	**4,083**
Less netted deferred tax assets and liabilities	– 15,086	– 11,965	– 15,086	– 11,965	–	–
Deferred tax assets/liabilities	**5,761**	**6,196**	**2,282**	**2,113**	**3,479**	**4,083**

Deferred taxes for tax loss carryforwards of € 7,925 thousand (2004: € 9,132 thousand) have not been recognised as we currently do not expect with sufficient certainty to be able to use such loss carryforwards. Deferred taxes not recognised for loss carryforwards of € 7,728 thousand (2004: € 8,919 thousand) are attributable to German companies, and € 197 thousand (2004: € 213 thousand) to foreign companies. At present, loss carryforwards can be carried forward for an unlimited time in Germany.

E10 Equity

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

Issued capital is fully paid and remains unchanged at an amount of € 27,295,596 (ordinary shares: € 15,348,928, preference shares: € 11,946,668) at 31 December 2005. It has been divided into 5,995,675 ordinary shares of no-par value and 4,666,667 million preference shares without voting right of no-par value. Certification of shares is precluded. Consequently, the theoretical par value of these shares amounts to € 2.56 (previous year: € 20,480,000 (ordinary shares: € 10,240,000; preference shares: € 10,240,000)). Prior to the capital increase, the issued capital was divided into 4 million no-par ordinary shares and 4 million non-voting preference shares.

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

The share of ordinary shares held by the Dr. Schleussner family is over 50 % and more than 10 % of ordinary shares are held by Kreissparkasse Biberach. The remaining ordinary shares and all preferred shares are widely dispersed across the stock exchange. The proposal on the appropriation of profits provides for a dividend distribution of € 1,559 thousand for 2005. Ordinary shares receive a dividend of € 0.12 per share, and preference shares receive a dividend of € 0.18 per 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 per share, holders of preference shares receive an additional dividend of € 0.06 per share. Dividends not paid on preference shares in any one year must be paid in the following year. If dividends are not paid in the second year either, the preference shares shall be furnished with voting rights (cf. Art. 140 sec. 2 of the German Stock Corporation Act – AktG).

By resolution of the Annual General Meeting held on 20 May 2005, Biotest AG was authorised to purchase own ordinary and/or preferred shares until 19 November 2006 of up to 10 % of the capital stock at the time of purchase in the amount of € 20,480 thousand pursuant to art. 71 sec. 1 no. 8 of the German Stock Corporation Act (AktG). Moreover, the Board of Management was authorised, subject to consent of the Supervisory Board, to increase the capital stock of Biotest AG on or before 7 July 2009 by up to € 10,240 thousand through the issuance of new ordinary and preferred shares in return for contributions in cash and/or property, plant and equipment (Authorised Capital). After both of the capital increases on 3 August 2005 and 18 October 2005, authorised capital amounted to € 3,424 thousand.

Issuance may occur once or on several occasions; the shareholders' statutory subscription rights may be excluded from this capital increase. The Board of Management was also authorised, subject to consent of the Supervisory Board, to issue profit-sharing rights on or before 7 July 2009 by up to a par value of € 50,000 thousand. Usage was made of this authorisation in financial year 2005 in the amount of € 10,000 thousand.

Earnings per share are determined by dividing the consolidated profit attributable to all shareholders by the weighted average number of shares outstanding. In 2005, no changes in the number of shares outstanding were recorded at Biotest AG:

	2005	2004
Consolidated earnings in € thousands	10,196	5,040
Additional dividend on preference shares in € thousands	– 280	– 440
Consolidated earnings adjusted for additional dividend rights in € thousands	**9,916**	**4,600**
Number of shares outstanding (corresponds to weighted average)	8,771,730	8,000,000
Earnings per share in €	**1.13**	**0.57**
Additional dividend rights per preference share in €	0.06	0.11
Earnings per preference share in €	1.19	0.68

Due to the stock option programme, earnings per share are diluted. The average number of shares, however, only increased by 10,770 to 8,782,500. Consequently, there is no change in earnings per ordinary or preference share.

E11 Pension provisions and similar obligations

The benefits are based on the employee's time of employment 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.

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

€ thousands	2005	2004
Pensions	34,574	34,336
Similar obligations	1,245	1,182
	35,819	**35,518**

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

€ thousands	2005	2004
Present value of retirement benefit obligations funded by provisions	41,989	36,184
Present value of retirement benefit obligations funded by pension liability insurance	1,474	1,063
Present value of plan assets (employer's pension liability insurance)	– 1,392	– 770
Present value of retirement benefit obligations	**42,071**	**36,477**
Balance of actuarial losses not yet recognised in the balance sheet	– 6,252	– 959
Net value of amounts recognised at the balance sheet date	**35,819**	**35,518**

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

€ thousands	2005	2004
Pension provisions on 1 January	35,518	34,557
Pension payments in the reporting period	– 1,842	– 1,740
Liquidation of pension provisions for persons no longer eligible for benefit	– 10	– 2
Conversion of a performance-oriented to a defined contributions pension system	– 539	–
Pension cost	2,692	2,703
Pension provisions at 31 December	**35,819**	**35,518**

Defined benefit plans caused overall expenses of € 2,692 thousand (2004: € 2,703 thousand), comprising the following components:

€ thousands	2005	2004
Current service cost	1,050	904
Changes in the fair value of plan assets (employer's pension liability insurance)	– 33	– 28
Interest expense	1,675	1,827
	2,692	**2,703**

Because the net value of the unrealised gains and losses in the financial year exceed 10 % of the total pension commitments as at the balance sheet date, gains and losses calculated in the pension report will be accounted for in the ongoing labour expenses via the average remaining working years of employees included in the plan starting in financial year 2006.

In the financial year, expenses of € 296 thousand were recorded for defined contribution pension plans.

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

€ thousands	2005	2004
Cost of sales	380	401
Distribution expense	308	244
Administrative expense	233	155
Research and development expense	129	104
Net interest income	1,642	1,799
	2,692	**2,703**

The calculations are based on the following assumed developments:

in %	2005	2004
Discount rate at 31 December	3.6 – 5.0	4.4 – 4.8
Salary progression	1.5	1.5
Pension progression	1.5	1.5

E12 Other provisions

€ thousands	Pre-retirement part-time work	Other staff-related cost	Other	Total
Balance at 31 December 2004	**5,081**	**2,623**	**5,226**	**12,930**
Additions	615	3,660	1,817	6,092
Drawdowns	1,010	2,010	2,188	5,208
Releases	–	308	1,339	1,647
Currency translation differences	–	14	2	16
Addition of accrued interest	246	15	–	261
Balance at 31 December 2005	**4,932**	**3,994**	**3,518**	**12,444**

Thereof short-term

As at 31 December 2004	8,225
As at 31 December 2005	**8,122**

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

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

Other provisions contain provisions for the negative fair value of derivative financial instruments as well as provisions for the utilisation of warranties, risks of legal proceedings and similar items.

Release of other provisions relate in particular to a reduction of risks from the insolvency of Biotest Medizintechnik GmbH (€ 532 thousand).

E13 Financial liabilities

€ thousands	2005	2004
Non-current liabilities		
Collateralised liabilities to banks	40,686	15,906
Unsecured subordinated loans	9,713	–
Unsecured other loans	401	11,090
Liabilities from finance leases	18,362	21,493
	69,162	**48,489**
Current liabilities		
Liabilities to banks collateralised by CTA*	–	96,122
Other collateralised liabilities to banks	11,549	9,175
Short-term portion of collateralised liabilities to banks	**11,549**	**105,297**
Other loans collateralised by CTA*	–	480
Unsecured other loans	1,618	987
Other loans	**1,618**	**1,467**
Short-term portion of liabilities from finance leases	4,938	4,301
Unsecured liabilities to banks	1,193	4,148
	19,298	**115,213**

Please refer to F1 "financial instruments" for information on hedging currency and interest rate risks.

Via the profit participation certificate from 25 November 2005, the unsecured subordinated loans contain a bullet loan in the amount of € 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. Payment of the loan took place less a discount.

In the previous year, unsecured other loans included € 10,091 thousand in loans from the shareholders of Biotest AG, for which subordination was agreed. Such loans paid interest at the base rate plus 2.5 percentage points at the balance sheet date with 3.63 % p.a.

* Collateral trustee agreement – for details cf. note F2

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

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

€ thousands	Total	< 1 year	1–5 years	> 5 years
Collateralised liabilities to banks:				
Euro – floating between 3.3 and 10.6 %	32,659	4,854	20,271	7,534
Euro – fix between 3.5 and 6.4 %	18,848	6,451	10,658	1,739
HUF – floating at 8.0 %	728	243	485	–
Other loans:				
Euro – floating between 2.8 and 6.0 %	1,431	1,030	48	353
Euro – fix at 5.0 %	588	588	–	–
Liabilities from finance leases:				
Euro – fix between 2.6 and 7.3 %	23,267	4,908	18,359	–
USD – fix at 11.0 %	33	30	3	–
Unsecured liabilities to banks:				
Euro – floating at 9.0 %	2	2	–	–
Euro – fix between 3.9 and 6.9 %	10,904	1,191	–	9,713
	88,460	**19,297**	**49,824**	**19,339**

An increase in interest rates by one percentage point would result in an increase in interest expenses by approximately € 0.2 million (2004: € 0.5 million).

Repayment schedule of liabilities from finance leases:

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

E14 Other liabilities

Other liabilities include the following items:

€ thousands	2005	2004
Commissions payable	4,275	4,455
Value added tax liabilities	3,319	3,108
Social security liabilities	1,527	1,378
Deferred liabilities	1,122	963
Wage tax liabilities	924	825
Liabilities from other taxes	136	34
Other liabilities	883	812
Accrued interest and accruals and deferred income	479	95
	12,665	**11,670**

Other liabilities in the amount of € 294 thousand (2004: € 0 thousand) have a remaining time to maturity of 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 derivatives are exclusively entered into with banks with impeccable creditworthiness.

Currently, Biotest does not comply with all requirements of IAS 39 (revised 2004) (Hedge Accounting). Hence, all profits and losses recorded when derivative financial instruments used to hedge interest rate and currency risks are marked to market have been accounted for with an effect on income.

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

Derivate financial instruments are shown in the balance sheet under other assets and other provisions, respectively. As at 31 December 2005, € 65 thousand are shown under other assets and € 695 thousand are shown under other provisions.

Credit risks

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

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

Notes

Interest rate risk

The company is also exposed to interest rate risks resulting from existing loans (please refer to section E13 for more details). Interest rate hedging instruments were entered into to minimise such risks.

The following interest rate hedging transactions were in place at 31 December 2005:

€ thousands	Nominal amount		Market value	
	2005	2004	2005	2004
Interest rate caps	45,113	55,339	– 307	– 327
Interest rate swaps	16,107	20,635	– 353	– 622
Interest rate/currency swaps	–	6,227	–	– 187
	61,220	**82,201**	**– 660**	**– 1,136**

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

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

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

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

To hedge against short-term interest rate risks, floating-rate loan capital with a volume of € 13.1 million was swapped for fixed-rate positions. Interest with a fluctuation margin of 2.9 % to 5.1 % will be paid for the fixed-rate debt.

Under the interest rate caps, financial liabilities with a volume of € 25.1 million are also secured against an increase in variable interest rates via an agreed-upon threshold value of between 3.5 % and 4.0 %.

Foreign currency risks from operating activities

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

The following currency option contracts had been completed as at the balance sheet date:

€ thousands	Nominal volume		Market value	
	2005	2004	2005	2004
Currency option contracts	2,543	–	31	–

The following times to maturity were in place for currency option contracts (nominal volume USD 3,000 thousand) as at the balance sheet date.

€ thousands	Time to maturity	
	Total	< 1 year
31.12.2005	**2,543**	**2,543**
31.12.2004	–	–

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

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

€ thousands	2005	2004
Other contingent liabilities	342	–
Guarantees	–	10
	342	**10**

The collateral trustee agreement concluded in financial year 2003 with the circle of banks existing at that time was replaced on 27 July 2005 by a syndicated loan agreement with a general agreement on security. The general agreement on security serves to secure the loan through short and long-term credit lines granted as part of a syndicated loan agreement. The syndicated loan agreement has been agreed to for an unspecified time and can be cancelled by the participating credit institutions and Biotest at a notice of three months to the end of a calendar-year quarter.

All material assets of Biotest AG (including the global assignment of selected trade receivables, assignment of all inventories, assignment of part of plant facilities and equipment, pledge of purchase price claims regarding shares in eleven directly held holding companies, assignment of various claims from group loans, pledge of all rights to trademarks, concessions, property rights, patent and licence rights as well as a global charge over party) as debtors and Biotest Pharma GmbH (i.e., assignment of part of plant facilities and equipment, pledge of purchase price claims regarding shares in one directly held holding company, pledge of all rights to trademarks, concessions, property rights, patent and licence rights as well as a global charge over party) and Biotest Grundstücksverwaltungs GmbH (assignment of all inventories) as third-party guarantor are provided as collateral within the scope of the general agreement on security. The creation of a global charge over property of the company in the amount of € 100 million was attested by a notary on 18 March 2003.

F3 Other financial commitments

€ thousands	in 2006	2007–2010	in and after 2011	Total
Order liabilities	1,185	–	–	**1,185**
Future payments from rent and lease contracts and operating leasing	2,246	3,525	352	**6,123**
Other financial liabilities	394	102	–	**496**
	3,825	**3,627**	**352**	**7,804**

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

Biotest rents and leases operating equipment respectively. Operating leases include vehicles and office equipment with a base rental term of two to five years. In 2005, expenditure from rental and operating lease contracts amounted to € 3,862 thousand (2004: € 4,164 thousand).

F4 Related party relationships

Disclosure is required for Biotest group's relationships to the associate BioDarou P.J.S. Co.,Teheran/Iran, as well as to the members of the Board of Management and the Supervisory Board and their related persons.

a) Associates

In the 2005 financial year, the group recorded purchases of € 12 thousand (2004: € 0 thousand) from the associate BioDarou P.J.S.Co., Teheran/Iran. Liabilities of the group vis-à-vis BioDarou amounted to € 0 thousand (2004: € 0 thousand) as at the balance sheet date.

This company purchased goods and services from the group company amounting to € 2,873 thousand (2004: € 341 thousand). On 31 December 2005, a liability of the associated company existed resulting from know-how transfer in the amount of € 414 thousand (2004: € 246 thousand); the know-how is to be available to BioDarou permanently. In addition, trade payables existed at the associated company in the amount of € 217 thousand (2004: € 0 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. Purchase, loan, rent and consultant contracts or relationships exist in addition to above emoluments of the Supervisory Board. At the balance sheet date, the group recorded liabilities of € 102 thousand (2004: € 10,217 thousand). Biotest's aggregate expenses amounted to € 319 thousand (2004: € 583 thousand); € 221 thousand (2004: € 367 thousand) thereof are attributable to interest expenses for shareholder loans.

The law firm Ashurst as a related party received € 434 thousand for advisory services.

Notes

c) Supervisory Board and Board of Management

Board members

The members of the Supervisory Board and the Board of Management (information as at 31 December 2005) additionally serve on statutory Supervisory Boards and comparable control boards of commercial enterprises:

Supervisory Board

Dr. Thorlef Spickschen, businessman, Seeheim
Chairman (since 20 May 2005)
Biovision AG, Hanover, Germany
Stiftung Orthopädische Universitätsklinik, Heidelberg, Germany
Cytos AG, Zurich, Switzerland
Pharmion Corp., Boulder, Colorado, USA
EpiCept Corp., Engelwood Cliffs, New Jersey, USA (until 7 January 2006)
Heidelberg Innovation GmbH, Heidelberg, Germany (until 31 January 2005)

Werner Spinner, businessman, Cologne, Germany
Chairman (until 20 May 2005)
CSM N.V., Amsterdam, the Netherlands
GfK AG, Nürnberg, Germany

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

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

Reinhard Eyring, lawyer, Kronberg/Taunus, 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

2005 in € thousands	Fixed emoluments	Variable emoluments	Total emoluments
Dr. Thorlef Spickschen (Chairman since 20 May 2005)	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

Total emoluments for the members of the Board of Management who actively served in 2005 amounted to € 778 thousand (2004: € 995 thousand).

Of this, fixed emoluments in the amount of € 250 thousand relate to Prof. Dr. Gregor Schulz, plus allowances for insurance policies and a company car in the total amount of € 40 thousand, as well as an achievement-related emolument in the amount of € 114 thousand. For an achievement-related emolument for the successful conclusion of capital measures in 2005, a pro-rata provision in the amount of € 20 thousand was set up for Prof. Dr. Gregor Schulz. This will, however, only be due for payment in November 2006 in the case that additional conditions are met.

Of this, fixed emoluments in the amount of € 200 thousand relate to Dr. Michael Ramroth, plus allowances for insurance policies and a company car in the total amount of € 40 thousand, as well as an achievement-related emolument in the amount of € 94 thousand. For an achievement-related emolument for the successful conclusion of capital measures in 2005, a pro-rata provision in the amount of € 20 thousand was set up for Dr. Michael Ramroth. This will, however, only be due for payment in November 2006 in the case that additional conditions are met.

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

2005 in € thousands	Value of shares purchased	Company allowance for own investment	Total costs of the stock option plan	Cost of the stock option plan in 2005
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 € 634 thousand have been set up for active members of the Board of Management. Of this, Prof. Dr. Gregor Schulz accounts for € 476 thousand and Dr. Michael Ramroth for € 158 thousand.

Provisions of € 4,732 thousand (2004: € 4,485 thousand) have been set up for pension obligations to former members of the Board of Management. As at the balance sheet date, there were no loan claims against any members of the company's management bodies.

Previous payments made to former members of the Board of Management amounted to € 361 thousand (2004: € 318 thousand).

F5 Substantial subsidiaries

All of the following subsidiaries were included in the group financial statements:

Company name	Registered office	Interest held (in % of capital)	Shareholders' equity € 000	Profit after tax € 000
Biotest Pharma GmbH	Dreieich / Germany	100.0	62.9	4.5
Biotest Grundstücksverwaltungs GmbH	Dreieich / Germany	98.0	2.9	0.4
Biotest Seralc° N.V.	Ternat / Belgium	100.0	1.4	0.1
Biotest S.a.r.l.	Buc / France	100.0	1.3	0.2
Biotest (UK) Ltd.	Solihull / Great Britain	100.0	1.3	0.3
Biotest Italia S.r.l.	Trezzano / Italy	100.0	9.0	0.3
Biotest K.K.	Tokio / Japan	100.0	– 0.2	0.0
Biotest Austria GmbH	Wien / Austria	100.0	2.3	0.6
Biotest (Schweiz) AG	Rupperswil / Switzerland	100.0	0.8	0.2
Biotest Hungaria Kft.	Törökbálint / Hungary	100.0	2.9	0.6
Biotest Diagnostics Corporation	Denville / USA	100.0	2.9	0.5
Heipha Dr. Müller GmbH	Eppelheim / Germany	51.0	4.6	2.1
Viro-Immun Labor-Diagnostika GmbH	Oberursel / Germany	51.2	0.3	0.0
Plasmadienst Tirol GmbH	Innsbruck / Austria	100.0	0.8	0.0
Plasma Service Europe GmbH *	Dreieich / Germany	100.0	0.3	0.0
Biotest Hellas MEPE	Maroussi / Greece	100.0	2.5	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

For litigation pending as at the balance sheet date, provisions in the amount of € 238 thousand (2004: € 0 thousand) were set up.

F7 Events occurring after the balance sheet date

There were no known major events occurring after the balance sheet date that affect the asset, financial and earnings situation of the Biotest group.

F8 Use of discretion and uncertainty of estimates

When setting up the Consolidated Financial Statements to a certain degree assumptions as well as estimates have to be made, which have an effect on amount and publication 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 value of accounts receivable and inventories and the estimate of probabilities of occurrence concerning the requirement of setting up necessary provisions. In evaluating these assumptions, management relies on experience from the past, assessments of experts (lawyers, rating agencies, trade associations) and the result of carefully weighting different scenarios. Due to developments that deviate from these assumptions and that are beyond the control of management, the amounts that actually materialise can be different from the initially expected estimated values. In the cases were 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 when the Consolidated Financial Statements were set up, the underlying assumptions and estimates were not subject to material risks, so that 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 Art 161 of the German Stock Corporation Act (AktG) and made it permanently available to the shareholders.

Frankfurt/Main, 1 March 2006

Prof. Dr. Gregor Schulz

Dr. Michael Ramroth

Auditor's Report

We have audited the consolidated financial statements prepared by the Biotest Aktiengesellschaft, Frankfurt am Main, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2005. 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 Art. 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 Art. 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.

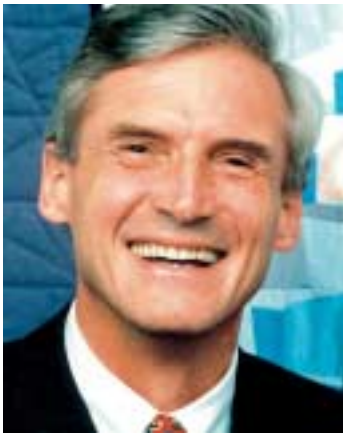
Frankfurt/Main, 2 March 2006

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Böttcher
Wirtschaftsprüfer
(German Chartered Accountant)

Hommel
Wirtschaftsprüferin
(German Chartered Accountant)

Report of the Supervisory Board



During the past financial year, the Supervisory Board has carefully and regularly monitored the work of the Board of Management and provided advice. The Board of Management regularly, in due time and comprehensively informed the Supervisory Board both in written and oral reports on all questions of planning, business development, risk situation and risk management relevant for the company. Deviations of the business development from the planning were commented on in detail. The strategic orientation of the company was coordinated between the Board of Management and the Supervisory Board, and the state of the strategy implementation was debated at regular intervals.

In financial year 2005, the Supervisory Board met at four regularly convened meetings. In addition to the meetings of the Supervisory Board, the chairman of the Supervisory Board was regularly informed by the Board of Management on the current development of the business situation and material business transactions. The Supervisory Board was involved early on in decisions of major significance.

Main focus of the deliberations of the Supervisory Board

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

At the meeting on 18 March 2005, the Supervisory Board intensively debated the Consolidated Financial Statements and the Annual Accounts with the Board of Management and the Auditors. Regarding the upcoming Annual General Meeting, the agenda for the Annual General Meeting was approved.

At the meeting on 20 May 2005 which was held following the Annual General Meeting, Dr. Thorlef Spickschen, who on the same day was appointed to the Supervisory Board by the Annual General Meeting, was elected as the new Chairman of the Supervisory Board of Biotest AG.

The meeting on 29 June 2005 served to deliberate and decide on the planned capital measures. The Supervisory Board granted the approval for the implementation of the planned capital increase in cash and in kind. In the context of the capital increase in cash, 570,000 new ordinary shares at an issue price of € 17.57 per share were disbursed and subscribed and taken over by a financial investor. In the context of the capital increase in kind, 569,150 preference shares at an issue price of € 17.57 per share in kind were disbursed by exchanging a loan in the amount of € 10 million and subscribed and taken over by members of the Schleussner family. The statutory subscription right of other shareholders was excluded in these cases.

Topic of the meeting on 7 July 2005 mainly referred to the further financing of the Biotest group. The Board of Management reported on the state of the financing discussions with the credit institutions. Furthermore, the partial utilisation of the profit-sharing capital of Biotest AG was debated. In addition, the Board of Management reported on the introduction of a new stock option plan for management at Biotest AG, the Long-Term-Incentive Plan.

By written consent, the Supervisory Board approved on 6 September the resolution of the Board of Management to carry out a cash capital increase with a volume of up to € 3.9 million.

The telephone conference of the Supervisory Board on 10 October 2005 served solely to make a decision on this planned additional cash capital increase. The Supervisory Board gave its consent to the volume of the capital increase and to the subscription price. Moreover, the Supervisory Board agreed to the closed acquisition agreement between the company and the underwriting banks. As part of this cash capital increase, the capital stock of Biotest AG was increased by € 3,899,271.52 to € 27,295,595.52 by issuing 856,525 ordinary shares and 666,667 preference shares. The subscription price amounted to € 22.50 for an ordinary share and € 18.50 for a preference share. The shareholders of Biotest AG were entitled to the statutory subscription right.

In the meeting on 16 December 2005, the Board of Management informed the Supervisory Board on the current state of the implementation of the strategic measures that were agreed upon in the closed-door meeting of the Supervisory Board on 1 July 2004. Moreover, the Supervisory Board agreed to the budget submitted by the Board of Management for 2006.

Committees

The Supervisory Board was supported in its work through the Presiding Committee and the Audit Committee. In addition to the regular meetings of the Supervisory Board, the Presiding Committee met with the Board of Management for six meetings; these served to thoroughly prepare for the upcoming Supervisory Board meetings.

The Audit Committee convened on 4 March 2005 in Frankfurt. At the meeting, the financial statements were reviewed, changes compared to the previous year were explained and the use of discretion and uncertainty of estimates was discussed. The external auditor described the audit procedure, commented on the key aspects of the audit and explained the result of the audit. Furthermore, the Audit Committee was informed about the progress of talks with the banks on the refinancing.

In the meeting on 31 October 2005, the Audit Committee discussed the manner and extent of the comfort letters to be submitted by the external auditor as part of the capital increase. In addition, information was given regarding the results of the auditory review of the half-year report by the auditors. Additional topics included inventory valuation, the business situation in Greece, insurance coverage and the manner and extent of consultancy services of that particular law firm which has a member that also belongs to the Supervisory Board.

In a third meeting on 15 December 2005, the Audit Committee deliberated on and defined the key aspects for the audit of the 2005 financial statements.

Corporate Governance

In 2005, the Supervisory Board regularly dealt with the Corporate Governance in the company. The Board of Management and the Supervisory Board report on Corporate Governance on pages 24 through 29 pursuant to Section 3.10 of the German Corporate Governance Code. Pursuant to Section 161 of the German Stock Corporation Act, the Declaration of Compliance to the Recommendations of the Government Commission on the German Corporate Governance Code was submitted by the Board of Management and the Supervisory Report of Biotest AG in March 2005.

Changes in the Board of Management and the Supervisory Board

With the end of the Annual General Meeting on 20 May 2005, the Chairman of the Supervisory Board Werner Spinner resigned from the Supervisory Board. The Supervisory Board of Biotest AG extends its gratitude to Werner Spinner for his responsible collaboration in the board. At the same time, Dr. Thorlef Spickschen was appointed by the Annual General Meeting as new member of the Supervisory Board. In the subsequent meeting of the Supervisory Board on 20 May 2005, Dr. Thorlef Spickschen was elected Chairman of the Supervisory Board.

There were no personnel changes in the Board of Management.

Financial statements and consolidated financial statements

The Financial Statements of Biotest AG and the Consolidated Financial Statements as at year-end 2005, as well as the Management Report and the group Management Report have been examined by KPMG Deutsche Treuhand-Gesellschaft, Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Frankfurt/Main and issued with an unqualified certification. The Supervisory Board has acknowledged the results of the audit and concurs with them. The auditor's report was presented to all members of the Supervisory Board. The auditors who signed the Financial Statements took part in the meeting of the Supervisory Board on 15 March 2006 dealing with the approval of the Financial Statements and Consolidated Financial Statements. They reported on the key findings of the audit and were available to provide additional information.

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

The Supervisory Board would like to thank the Board of Management and all employees for their commitment and the successful work accomplished in financial year 2005.

Frankfurt/Main, 15 March 2006
The Supervisory Board

Dr. Thorlef Spickschen, Chairman

Glossary TECHNICAL TERMS

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

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

Autoimmune Disease
Activity of the immune system directed against the patient's own body.

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 through factor XV). The bleeding disorder haemophilia (type A or B) is caused by defective or missing factors VIII or factors IX.

DNA
Deoxyribonucleic acid
Carrier of hereditary information.

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

Filter Aid Procedure
New fractionation procedure for blood plasma with the help of filters and aggregates.

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

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

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

Haematology
Branch of medicine concerned with blood and blood disorders.

Haemophilia
A blood clotting disorder.

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

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

ICR
Isolated clean rooms.

Immune System
The sum of all factors responsible for the body's defense 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 range of infections and hyperimmunoglobulins against special antigens.

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

Indication
Reason for performing a medical examination or treatment.

Intramuscular (IM)
Inside the muscle; type of injection.

Intraveneous (IV)
Literally: "in a vein." Drugs are administered through injection in a vein.

In-vitro
Literally: "in a glass". Procedure that takes place in a laboratory setting, e.g. in a test tube.

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

Multiple Myeloma
Malignant plasma cells growth in the bone marrow.

Mutual Recognition
Mutual recognition of plasma-critical product registrations within EU countries.

Paul-Ehrlich-Institut (PEI)
German federal authority for sera and vaccines. PEI is responsible for the approval of drugs made from human blood or animal blood and for the protection against infection.

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

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

Plasma Derivatives
Medical preparations produced from blood plasma.

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

Psoriasis
Scaly patches. Chronic skin disease.

Recombinant
Recombinant proteins are produced with genetically altered microorganisms.

Rheumatoid Arthritis
Inflammable disease of the joints.

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

Subcutaneous (SC)
Underneath the skin, type of injection.

Tender
Delivery of products to governmental organizations.

Typing
Determination of individual characteristics on blood or body cells.

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

von-Creutzfeldt-Jakob Disease
Progressive disease of the brain that effects the brain tissue through cell loss and protein deposits. Within a short period of time, it results in a loss of brain functions.

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

Glossary FINANCIAL TERMS

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

Approved Capital
Scope for capital increases, that is provided by the Annual General Meeting af a listed company to the management (Board of Management) of a company.

Assets
Assets in the balance sheet.

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

Book Value Method
Method of capital consolidation in which the acquisition costs of a holding in a subsidiary is offset against the equity ratio at the time of the acquisition.

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

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

Earnings per Share
Figure that puts earnings after taxes 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 partners. In most cases, the fair value is identical to the market price.

First in First out Method

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

Free Float

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

Hedge Accounting

Establishment of so called hedging relationships between basic transactions (e.g. loan to private client) and the derivative financial instruments used for hedging.

HGB

German Commerical Code (Handelsgesetzbuch)

Hidden Reserves

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

IAS/IFRS

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

Imparity Principle

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

Intangible Assets

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

Interest Rate Swap

Agreement for an exchange of interest rate payments for a fixed duration on the basis of a notional principal amount.

Key Account

Large/important client.

Losses Carrying Forward

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

Offsetting

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

Preference Dividend

Special dividend paid to the holders of preference shares.

Present Value

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

Purchase Commitments

Amount of open and binding orders from external suppliers.

WPHG (German Securities Trade Act)

Law governing securities trading in Germany.

Financial calendar

11 May 2006	Annual General Meeting Congress Center Frankfurt, 10:30 a.m. Frankfurt/Main, Germany
11 May 2006	Publication of Q1 Report Quarterly Report for Q1 2006
14 August 2006	Publication of Q2 Report Quarterly Report for Q2 2006
14 November 2006	Analysts' conference Autumn conference for analysts and journalists
14 November 2006	Publication of Q3 Report Quarterly Report for Q3 2006

Imprint

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

Biotest

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