

Dr. Dieter Merz

Chairman of the Board of Management of Biotest AG, Dreieich

**Dr. Merz addresses the shareholders of Biotest AG  
at the Annual General Meeting in Frankfurt/Main on 10 July 2003**

Ladies and Gentlemen

In the name of the Board of Management of Biotest AG, I would like to cordially welcome you to our Annual General Meeting today. First of all, I will provide you with an overview of the past financial year. I will then move on to our restructuring programme and the strategic realignment which my co-member of the Board of Management and designated successor, Prof. Schulz, is going to present to you.

2002 was not only a difficult year for the German economy and important foreign markets in general, but also a very difficult one for Biotest AG in particular and extremely demanding for everyone – shareholders, employees and management alike. Biotest's share price felt the effects of this in full.

I shall begin with an overview of the past financial year before going into the factors that influenced developments materially.

A modest increase in sales was offset by the deterioration of the operating result, which was primarily due to lower margins abroad, resulting from a sharply increasing pressure on prices in own plasma products. Our market is currently going through a stage of consolidation and we, as a medium-sized market participant, particularly felt the adverse effects.

Our strategic investment programme in the core business of plasma production and the new technologies in transfusion and transplantation diagnostics turned out to be exactly the right strategy in this situation. Both are a precondition for the future development of our company.

In this context we must take into consideration that our high investments in the manufacturing technology for plasma products require very long lead times for planning, engineering, validation and registration before implementation in the market. However, our competitors face the same difficulties.

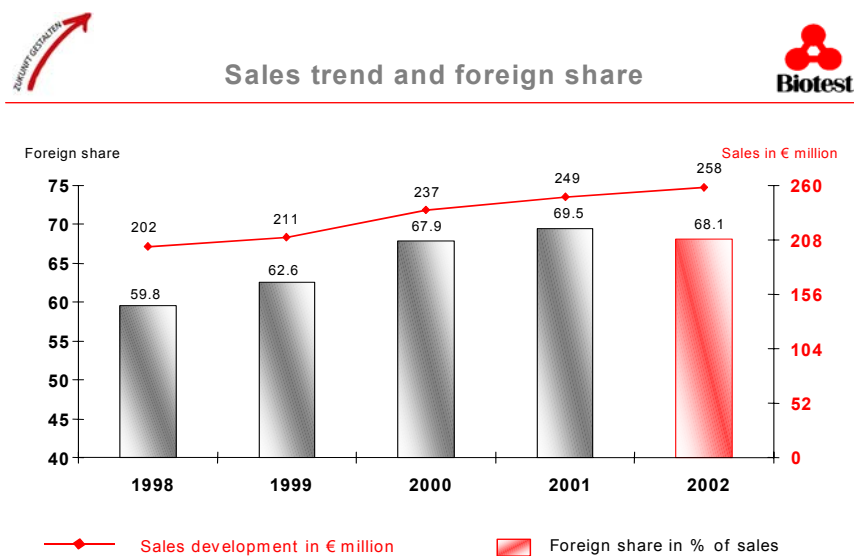
Particularly with regard to the great demand for resources, last year's dented operating result made clear that, to date, Biotest had been present on too many markets and that it was necessary to consistently focus activities and strategically realign operations. Details on these measures will follow shortly.

However, I am now able to say, that today we will show you a Biotest which has evolved from a difficult and painful process to become much more streamlined and transparent. Biotest now has a clear structure geared towards the future where the focus lies on its core business.

## Sales in the 2002 financial year

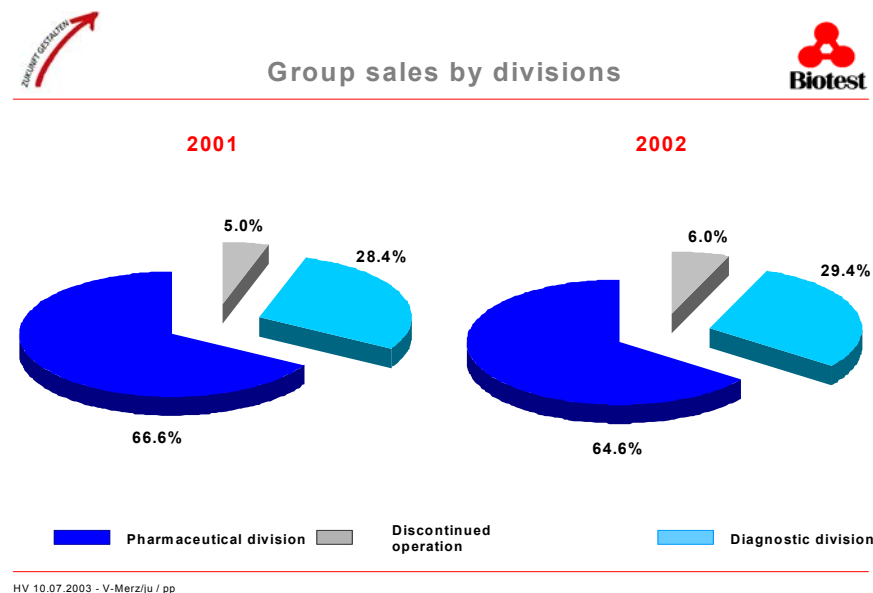
Let us examine the material factors and developments in 2002:

We were able to increase total sales by 3.4% to € 258 million. The German pharmaceutical business contributed to this development with an encouraging increase of 8% against the previous year.



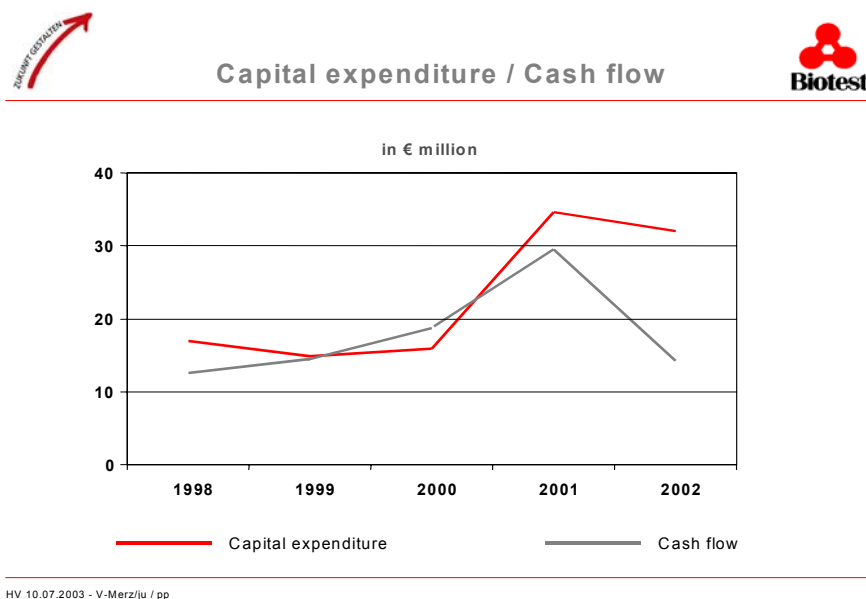
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The foreign share slightly declined to approximately 68% due to the distinct rise of sales in Germany. Sales in Germany and the rest of the Europe accounted for 38.45 each, followed by America, the Middle East and Asia/rest of world, which all account for approximately the same share.



The Pharmaceutical division contributed 65% to Group sales in the past year, while the Diagnostic division was able to slightly increase its share to approximately 30% compared to the previous reporting period.

## Capital expenditure in 2002




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The bulk of the total investment volume of € 32 million was recorded at Biotest Pharma GmbH in Dreieich, accounting for over € 24 million. Unfortunately cash flow decreased and thus remained far behind expectations. Investments in fixed assets in the amount of € 26 million could hence only be financed through short-term bank loans and leasing.

High priority was given to securing financing needs, not least due to the temporary marked rise in funds tied-up in current assets. For that purpose a collateral trustee agreement, ending on 1 December 2004, was entered into with our banks at the beginning of 2003. In this agreement, the banks declared their consent to continue to provide existing short-term credit lines of around € 100 million. It is based on the restructuring and strategic realignment concept developed in co-operation with management consultants.

Let me now proceed with the two divisions to be continued, which focus on pharmaceuticals and cell diagnostics.



Sales by segments 2002



Segment	2001	2002	Change in %
Pharmaceutical	166.0	166.7	+ 0.4
Diagnostic	70.8	75.8	+ 7.1
Holding	2.2	1.9	- 13.6
Discontinued operation	10.3	13.5	+ 31.0
Group	249.3	257.9	+ 3.4


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Despite the encouraging development of its business in Germany, the **Pharmaceutical division** was only able to increase overall sales modestly due to the weak foreign business. Regarding our activities abroad, the Middle East was an exception with two-digit growth rates.


Our large-scale investments in capacity expansion and new production technologies for plasma products continue to play an important role in the Pharmaceutical division. The implementation of investments is being carried out according to schedule. Our new sterile final fill facility finally went into production in summer 2002, at which time the new fractionation facility was completed as well. It is expected that the responsible authorities will authorise production at the beginning of 2004. We will then operate one of the most modern production facilities for plasma products world-wide.

Further projects of the Pharmaceutical division include the capacity expansion in manufacturing coagulation products as well as the production expansion for our new generation of immunoglobulins (CP).

This huge capital expenditure programme of more than € 80 million is expected to lead to a visible effect on the operating result through substantial capacity and yield increases from 2004 onwards – from € 5 million per year in the beginning to over € 40 million per year over the next five years.



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Recording growth of 7%, the **Diagnostic division** can look back on a favourable growth development in a highly competitive market. However, the result could not keep pace with sales growth. Again, the reasons were pricing pressure in the market and additional start-up costs for marketing the fully automated blood group device TANGO, for which an exhaustive launch on the entire market was not possible due to optimisation measures.

This work has been successfully continued until now and has led to the re-launch of TANGO in the first quarter of this year, in particular in the core markets of Germany and France.

An important milestone for this project was the signing of a contract with the US-company Olympus, for the purpose of admitting and launching the TANGO system on the North American market. For that end, tests are currently being conducted at four well-known blood banks in the United States, the results of which will form the basis for the filing of registration

documents with the FDA in autumn. We envisage admission in the next year.

In the field of hygiene monitoring, which operates independently from medical diagnosis, we completed the development of a special sampler of micro-organisms for isolators. This device was launched in the first half of 2003 for this particular clean room technology and was well received by the market.

The **other divisions** comprise the two companies of the Medical Devices division, i.e. Envitec-Wismar GmbH and Biotest Medizintechnik GmbH, as well as Diaclone SAS. Last year, we decided to dispose of these companies as they no longer belong to the core business of our company. The capital that has previously been tied-up in these companies and has now become available will also be used to finance our core business. By now, all companies of the non-core business have dropped out of the scope of consolidated companies of Biotest Group.



## Earnings position

The continued and discontinued operations must be assessed separately when evaluating our earnings position. Continued operations include the pharmaceutical and diagnostics business as well as the holding, including Diaclone, which parted from the scope of consolidated companies in the second quarter of 2003.

While the operating result of the **continued operations** before special factors declined, it was still perceptibly positive at € 9 million. However, the consideration of extraordinary special effects and restructuring cost as well as net interest expenses and income taxes resulted in a considerable net loss for the year of € 13.8 million for these operations which was additionally burdened by negative effects from discontinued operations. Group net loss for the year consequently increased to € 20 million.

In order to comprehend the development of the result, we must take into consideration the special effects from restructuring and other balance sheet-related measures. The individual items in this context are: other operating expenses, write-downs / impairment, restructuring-related social compensation plan / severance pay and income taxes in the amount presented.



## Special effects in the consolidated financial statements 2002



(in euro thousands)	Continued division	Discontinued operation	Total
Other operating expenses	2,762	1,798	4,560
Write-off / Impairment	6,758	1,977	8,735
Restructuring costs (social compensation plan / severance payments)	3,283	0	3,283
Income taxes	6,090	0	6,090
<b>Total special effects</b>	<b>18,893</b>	<b>3,775</b>	<b>22,668</b>
<b>Consolidated net loss after net interest expenses and income taxes</b>	<b>- 13,795</b>		<b>- 20,037</b>

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Almost half of the amount of special effects is attributable to the Medical Devices division, including Diaclone. The consolidated net loss for the year of the Medical Devices division and write-downs/impairments of Diaclone's fixed assets add up to approximately € 10 million.

The comparison shows that in the result of both the continued divisions and the overall Group special effects are distinctly higher than the net loss recorded after taxes. This means that without one-off effects we would have been able to report a positive result.

## **Outlook for 2003**

Before discussing the consequences of these developments and outlining the future course of Biotest, let us glance at the current financial year.

Unfortunately, the development of sales was restrained in the first half of the year. Foreign business remained behind our expectations due to political difficulties and unpredictable developments, e.g. in Brazil and Iraq, which affected the tender business in particular. Right now, it is difficult to forecast to which extent we will be able to catch up on these shortcomings in the second half of the year. We certainly have established systems to detect deviations from the plan in a timely manner, to analyse them and take immediate action, correspondingly.

A further obstacle is the price war which has broken out again in particular in human albumin and immunoglobulins, triggered by large US competitors which obviously intend to gain market shares to the detriment of margins. The strong euro compared to the US dollar also influences our export activities. On the one hand, a strong euro weighs on margins and on the other, a weaker US dollar is a competitive advantage for our competitors. We therefore anticipate sales in the continued business divisions to remain somewhat below the previous year's level in the current reporting period and hope to achieve a balanced result in this financial year – despite additional burdens from high consultancy cost and increased interest expense. You may rest assured that the Board of Management, the management and the employees will do everything possible to achieve this target.

## **The course set in 2002**

Dear Ladies and Gentlemen

I would finally like to elaborate on that part of my report which relates to the future and which Professor Schulz will take up and continue in his speech.

How do we handle this difficult situation at Biotest, what have we already achieved and how can the company achieve turnaround?

When sales growth slowed distinctly in the second half of 2002 and the pressure on our margins increased – whilst investments into the future were unabatedly continued as we can merely extend them over a longer period of time, but not halt them - the Board of Management decided in close consultation with the Supervisory Board on a restructuring programme at Biotest hitherto unseen in terms of size and consequences. This programme is accompanied by the profound strategic re-orientation of the Group. The programme was introduced in autumn 2002 with the motto “Biotest Yield Enhancement” and continued at the end of the year with an all-encompassing concept for restructuring and strategic realignment, being supervised by two competent teams of management consultants.

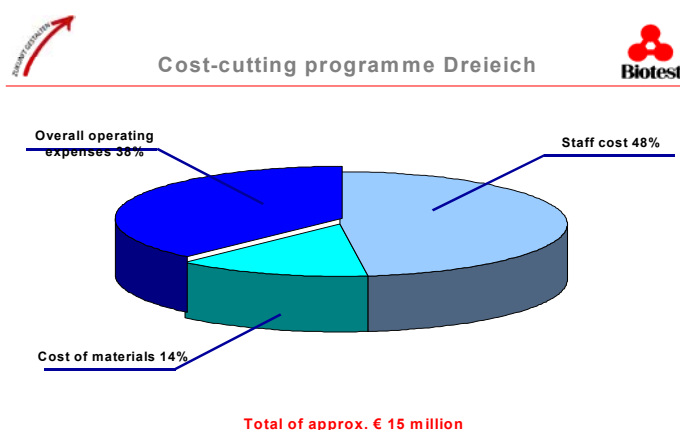
In the course of the programme Biotest put all processes, structures and strategies under the microscope. The programme aims at efficiency and yield enhancement and intends to introduce measures to increase liquidity, in particular with regard to inventories and accounts receivable. Moreover, and this is crucial for the future, it also involves a strategic focus and realignment which take into account the strengths of our company as well as our opportunities in the market. You could say that we took advantage of the difficult times to bring about a dramatic change which can only be taken quickly and consistently in the given situation.

## Cost-cutting programme

I personally will concentrate on the cost-relevant side of the programme and leave to my successor, Professor Schulz, the future-oriented components as he will be responsible for carrying out these components in his function as the new Chairman of the Board of Management.

We have set ourselves high targets and consistently implement the respective measures.

At the Dreieich location, measures to cut cost by a minimum of € 15 million per year were agreed on and are being implemented. A substantial part of this will already be realised in the current financial year.



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Overall operating expenses and cost of materials and staff cost account for approximately half of these cutbacks.

Unfortunately, such a far-reaching programme inevitably involves the reduction of staff. At the Dreieich location alone we will cut 100 jobs through redundancies or by not replacing parting employees. The compensation of interests and a social compensation plan were agreed on

for this purpose. Such reduction in staff does, however, not affect future-oriented projects. It rather builds on internal reorganisation and the improvement of processes in order to increase efficiency and eliminate excess capacities.

The programme moreover comprises additional cost-cuts within the Group as well as sustained measures to increase liquidity by means of reducing inventories and accounts receivable.

Investors will certainly understand that we took advantage of the situation in 2002, where our result was already burdened, and tried to recognise as many restructuring cost and one-off effects as possible in the financial statements of the 2002 financial year. This allows us to keep our options open for the years to come and eliminates risks which otherwise may again burden the Group in the future. This is also true for the disposal of business units which no longer belong to our strategic core activities.

I would, however, like to stress one issue at this point: saving alone has never resulted in a sustained growth course or opened up new perspectives for companies. A difficult situation also requires strategic decisions to set the future course of the business and to effect necessary investments into the future. This is exactly what we have done, even though we will be faced with a certain lean period in the future regarding the implementation of such decisions and investments. In his speech, Professor Schulz will shortly outline the course we have set for the future.

Before my colleague and successor takes the floor, I would like to thank you for your confidence throughout all the years and ask you to remain loyal to the company in the future. Biotest is built on solid ground and has high potential. Our company is active in attractive and growing markets

and offers ethical products of high medical value. But Biotest requires some more time to successfully complete all measures introduced now and over the past three years. I would like to wish my successor, with whom I have worked very closely in a trusting relationship during the last 6 months, all the best and good luck. May he dispose of that certain amount of fortune which has become so vitally important in these days and ages in particular. Thank you very much.