

Professor Dr. Gregor Schulz

Deputy Chairman of the Board of Management of Biotest AG, Dreieich

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

Ladies and Gentlemen

As already outlined by Dr. Merz, Biotest at the beginning of this year has still been very active in a broad range of markets. Various synergies existed between the individual areas in the Pharmaceutical, Diagnostic and Medical Devices divisions. Moreover, every segment and each unit of the company followed interesting projects and perspectives. This was, however, not only an advantage but also Biotest's problem, as it was impossible to pursue all the interesting and promising projects at the same time – in the end they stretched our management and financing resources too far.

The logical consequence was to introduce a strict restructuring and strategic realignment programme and to implement it without delay. This will be the only way to successfully complete key projects in the core business and to secure the company's future. The strategic market position of Biotest is yet another indicator for the necessity to change the direction of our company's activities. (Slide 1)

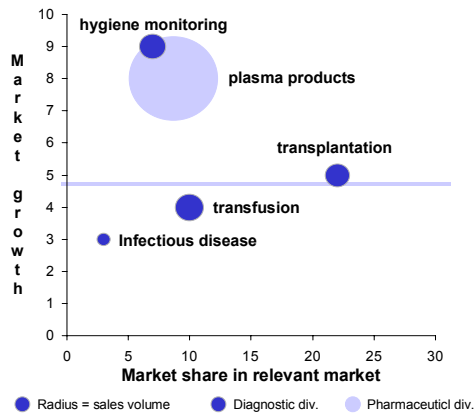


## Strategic market position



The strategic market position is characterised by imbalances between the business segments

Strategic market position



### Comments

- **Plasma products** and **hygiene monitoring** in attractive markets (>8% market growth)
- **Transplantation** largest market share (22%), but smallest market
- **Transfusion** largest diagnostics segment but shows only modest market growth (+4%)
- **Infectious disease diagnostics** neither placed in an attractive market (3%) nor material market share (3%)

The diversity of Biotest's strategic positioning in the individual segments and the great differences in terms of market share and market growth affect the focus and the strategic setting of the company's future course. In this context, the particularities of our markets, especially the plasma market, must also be taken into consideration.

In a detailed position and potential analysis, the following strategic realignment factors took shape and were taken into account in our future strategy. (slide 2) Additional measures which have been introduced and implemented in part were already outlined by Dr. Merz



## Strategic reorientation with focus on Pharmaceutical and Diagnostic division



- strict concentration of portfolio of companies and support of prioritised projects
- expansion of core competencies and core business (cf. competitiveness)
- development through strategic alliances

I would now like to explain these items in detail.

### Company focus

Whilst the Medical Devices division has certain areas in which it overlaps with the Diagnostic division (the transfusion segment in particular), it does, for example in the area of sensor systems (gas analytics) in which Envitec is active, not form part of our core competence. Moreover, the funding requirements for future projects exceed our abilities, and funding of such projects would be to the detriment of key projects in the Pharmaceutical and Diagnostic divisions. The disposal of this division thus was a logical consequence. Last autumn we already discontinued the Medical Devices segment in Alzenau. In May 2003, Envitec-Wismar GmbH was sold to a holding company and the management. Shortly before, we sold our fully consolidated subsidiary Diaclone in France, a specialist for monoclonal antibodies, to the French biotechnology company Opi. We have, however,

secured for ourselves the exclusive rights in some monoclonal antibodies of therapeutic interest. We intend to develop and market these products in alliance with a renowned pharmaceutical partner. I will revert to this matter in due course.

## Expansion of the core business

Topmost requirement for the future is the full concentration of resources on key projects and the expansion of marketing activities by means of new admissions and registrations in high-price markets. (slide 3) For the Pharmaceutical division this means:



### Pharmaceutical division



- technological edge through state-of-the art production plants and opportunity of new registrations, e.g. in the US
- distinct cost advantages across the complete value added chain
- reduced dependence on raw materials through increased own plasma generation
- capacity expansion and production advantages in growing markets
- supplementation of product portfolio through R&D and licensed products

By mid-2004 we will have almost trebled the plasma fractionating capacities from 250,000 litres today to 700,000 litres through our new production facility for plasma proteins. In the same period, the capacity of the

coagulation plant will be doubled from 150 million units to 300 million units. In immunoglobulins we will in fact have expanded capacity from 1 ton to 4 tons by 2006.

At the same time, we will achieve yield enhancement through the new procedures of more than 50%, e.g. through the new poly-specific immunoglobulin Intratect<sup>®</sup>. Our new plant technology will generate distinct improvements in the result. EBIT, for example, will improve by € 4.7 million by 2004 and will be further increased over the next five years (to € 41.6 million in 2007).

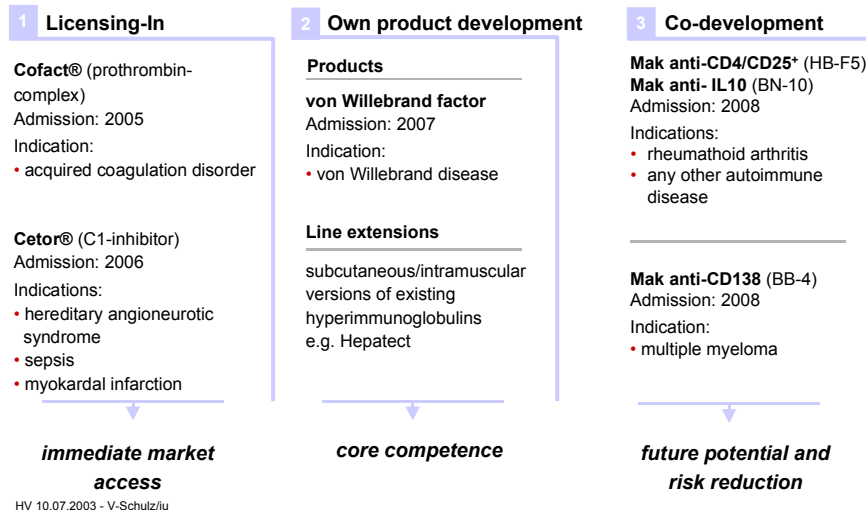
The new state-of-the-art facilities incorporate the newest technologies world-wide and enable us to receive admission of our products in the US over the long term.

Parallel to the expansion of our production facility, we will increase our share of own plasma from 10% to 25% by 2006 by setting up new plasmapheresis centres and thus reducing our dependence on suppliers.

Our development project pipeline (slide 4) comprises licensed products, proprietary development projects as well as monoclonal antibodies of Diaclone for which we reserved exclusive development and marketing rights before selling the company.



Biotest R&E concept (pharmaceuticals) is based on licensing-in, own and co-developed projects



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For the Cofact<sup>®</sup> and Cetor<sup>®</sup> preparations we hold a license from the Dutch company Sanguin (formerly: CLB).

Admission for Cofact<sup>®</sup> is expected in 2005 and for Cetor<sup>®</sup> in 2006. Both preparations are plasma proteins and as such are an ideal supplement to our current range of products.

Cofact<sup>®</sup> is used in acquired bleeding disorders, e.g. in liver diseases or overdoses of Macumar.

The C1 inactivator Cetor<sup>®</sup> is the favourite medication for treating a hereditary disease, the so-called "angioneurotic oedema". This preparation also has therapeutic potential with patients suffering from sepsis or a heart attack. Once these preparations have been successfully developed for the new indications as well, they will have a market potential together of approximately € 150 million in Europe.

We ourselves are developing the "von Willebrand factor" which is intended to be used as a concentration for the respective hereditary bleeding disorder. Incidentally, this hereditary disease is more common than

haemophilia. At the same time, new forms of application of our hyper immunoglobulins, such as Hepatect<sup>®</sup>, have a high priority in our development.

The monoclonal antibody HB-F5 from Diaclone's research laboratories opens up a completely new therapeutic concept for the treatment of auto-immune diseases. This antibody stimulates regulatory T-cells and has produced therapeutic effects in first clinical tests on patients with rheumatoid arthritis without the side-effects that are otherwise observed in the application of immunosuppressives. In order to cut development costs, we intend to develop and market this monoclonal antibody and another antibody against plasmocytes (malign myelopathy) together with partners. In Germany alone there were approximately 13,000 patients suffering from rheumatoid arthritis in 2001. Comparable preparations used for this indication (Celebrex, Bextra, Enbrel) already now record revenues of US\$ 1 to 3 billion. The HB-F5 antibody thus has blockbuster potential. (Slide 5)



## Treatment of SARS with Biotest's Pentaglobin®



### Press release of Queen Mary Hospital, Hong Kong (16 April 2003):

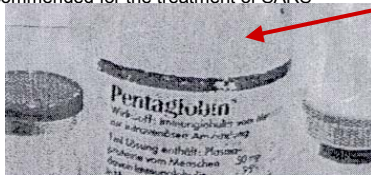
6 patients were successfully treated with Pentaglobin®

### Prince of Wales Hospital, Hong Kong

Another 12 patients were successfully treated with Pentaglobin®

### China Medical Tribune

According to an official notice for the Guangzhou province (PR China), Pentaglobin® is recommended for the treatment of SARS



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We moreover are trying to find new clinical indications and generate new market potential with the products we already offer. In this context, a large randomised clinical study with Pentaglobin® conducted with patients with peritonitis (postoperative) will be evaluated by mid-July.

Pentaglobin® as the only immunoglobulin preparation with a high IgM-proportion surprised with positive clinical effects on patients with SARS which were treated in Hong Kong. The patients in the intensive care units suffered from an aggressive course of disease with a so-called respiratory distress syndrome. The positive effect is explained by the IgM proportion which deactivates so-called inflammation mediators and prevents bacterial superinfections.

The advantages of our products, the special market structure and developments are a reliable indicator that our Pharmaceutical division with its focus on plasma products will remain competitive in a market which continues to grow quickly. (Slide 6)





## Special factors underpin Biotest Pharma's competitiveness



- high market entry barriers new competitors away from markets (e.g. regulatory requirements, high quality management requirements)
- unique production know-how
- high cost of capital/capital expenditure with long lead times for new plant
- national particularities in the handling of blood/plasma
- growing markets, in particular in the area of plasma products  
(annual growth rate > 8%)

### (Slide 7)

The Diagnostic division continues to be one of Biotest's core divisions. Not only does it make a large contribution to covering fixed cost at the Dreieich location. It also contributes largely to sales and, in the future, again to the result of the Group of companies. The four business units must, however, be strategically weighted in this division as well.

The Diagnostic division will concentrate on the segments of transfusion and transplantation diagnostics which are closely related to the pharmaceutical area. The division will therefore pursue the following priorities:



## Diagnostic division



### TRANSFUSION

- relaunch and further development of the fully automated blood group device TANGO
- tapping the US-market with the strategic partner Olympus

### TRANSPLANTATION

- consistent implementation of technological changes towards gene analysis and expansion of global market share

(Slide 8)

The two other segments are to be restructured.



## Restructuring of hygiene monitoring and infectious disease segments in Diagnostic division



### INFECTIOUS DISEASE

- no material future investments; the medium term objective is to out-phase this segment

### HYGIENE MONITORING

- rigorous utilisation of synergies between the product group HYCON and Heipha Holding, in particular in the areas of production and marketing

## Alliances

Elements of particular importance for our future orientation comprise strategic alliances to support our critical mass and to fill strategic gaps in the following areas:

- tapping new markets
- new technologies/products
- procuring raw materials
- opening up additional manufacturing capacities.

The US – where we already found an excellent partner for TANGO in Olympus – is our most important target with respect to tapping new markets. In the Pharmaceutical division we are negotiating production and marketing co-operations for our plasma products in the US with interesting companies. The US-market for plasma products amounts to US\$ 2.6 billion, equalling a share of 35% in the overall world market. These figures emphasise the importance of this project.

We aim at co-operating with as many companies as possible which are prioritising marketing in the US and have a size comparable to that of Biotest. Thus, both partners may gain access to new products in their core markets by cross licensing. In the long run, we intend to find a competent marketing partner for our plasma proteins in Japan as well.

Our new-product-strategy has been described before.

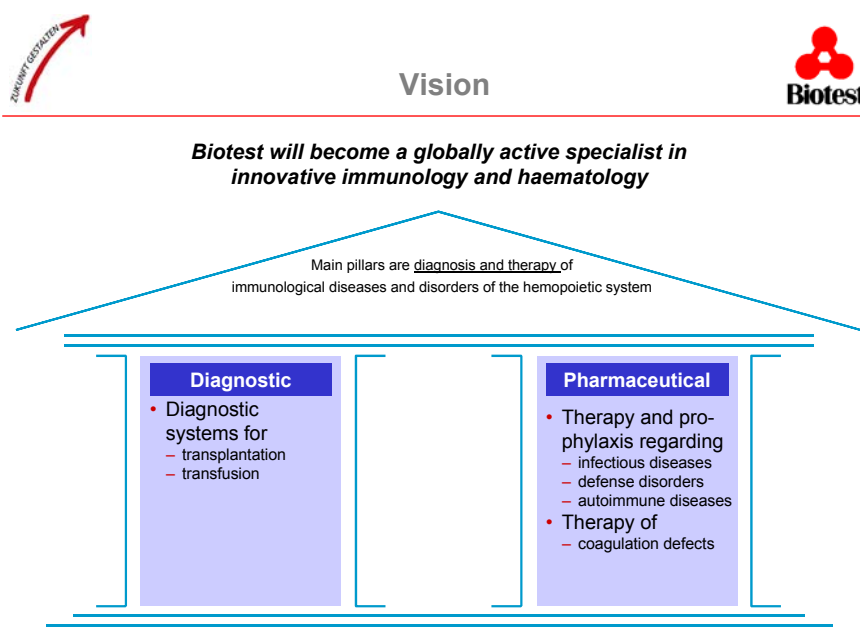
In the context of procuring raw materials and utilising external manufacturing capacities, we already have entered into several co-operations in Germany and abroad which we intend to expand further.

Some examples of our successful efforts in this area are co-operations with Sanguin in Holland, CAF in Belgium and Human in Hungary.

## Visions of the future

### (Slide 9)

Biotest AG is able to survive in competitive markets as a stand-alone-company. The afore-mentioned strategic alliances support and secure this position. The programme which was introduced to restructure and strategically realign the company results in a future-oriented focus and strict promotion of our core capacities. Biotest will distinguish itself as a globally acting specialist in innovative immunology and haematology. Diagnosis and therapy of immunological disorder and diseases of the hemopoietic systems are at the centre of our activities and comprise the following central elements:



In the area of transplantation, we have efficient diagnosis systems, such as ELPHA and Quickstep, and immunoglobulins for therapy and prophylaxis of infections, such as Intratect<sup>®</sup>, Pentaglobin<sup>®</sup>, Cytotect<sup>®</sup> and Hepatect<sup>®</sup>.

In haematology and transfusion medicine, we offer a fully automated device for blood group diagnosis: TANGO. Where therapy is concerned, coagulation preparations are used in these areas and supplemented by new products in the future.

In future, we will consistently implement the vision and strategy we just presented for Biotest. Important strategic courses were already set in the past months and restructuring activities are in full swing. We are convinced that Biotest is in good shape for the future.

Let me finish off with expressing my particular thanks to the employees, who tolerated the additional burdens of restructuring with two external teams of management consultants in addition to their daily routine and contributed to shaping the future of the company in a motivated way. My very personal thanks go to Dr. Merz, who will leave the company at the end of August after 35 successful years with the company. Particularly during the past difficult months, Dr. Merz made supreme efforts to the benefit of Biotest, making it easy for me to commence my work and to assume my position as new Chairman of the Board of Management. The complete staff and the Board of Management would like to thank him for his long-standing and committed work.

My personal thanks, dear Dr. Merz, are combined with the best wishes for the next chapter in your life.

Thank you very much for your attention.