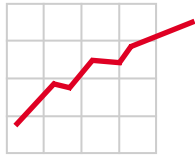


Report on  
Financial Year 2002



### **Adoption of International Financial Reporting Standards (IFRS)**

At the beginning of the 2002 financial year the Biotest Group changed its accounting policy, to bring them into line with International Financial Reporting Standards (IFRS). The key figures for the previous year were adjusted accordingly. On making this change, Biotest also adopted a reporting format based on cost-of-sales accounting.

### **2002: characterised by exceptional items**

During the 2002 financial year, the Biotest Group focused on strategic review and embraced a number of forward-looking changes. Beyond a lower operating result, the year was characterised by a series of exceptional items, including on-going high pre-production costs associated with the Pharmaceutical division's investments in future production and the transition to the Diagnostic division's automated product range. This coincided with essential structural rationalisation concerning the Medical Devices division and a number of other exceptional items.

Against this background of significant challenge, a leading management consultancy was asked to assist in the development of a comprehensive Group restructuring programme. This project, undertaken in the first quarter of 2003, aims to enhance Biotest's future competitiveness.

The discontinuing operation of the Medical Devices division, restructuring costs and impairments are included in the 2002 annual accounts.

### **Turnover grows by 3.4 %**

Biotest's turnover rose by 3.4 % in the 2002 financial year, increasing from € 249.3 million to € 257.9 million. Discontinuing operations achieved turnover growth of 2.2 %. Pharmaceuticals – the division with the highest turnover – achieved growth of 0.4 %, at € 166.7 million, a modest improvement on the previous year. The Diagnostic division continued its positive progress, with turnover up by 7.1 %, while turnover in the discontinuing operations rose by 30.8 %.

The regional picture included the encouraging continuation of turnover stability at the domestic level. This trend first emerged during the preceding year. While Germany is a difficult environment, it proved possible to increase turnover by 8.2 % to € 6.2 million. The strongest growth in turnover, however, was achieved in the Middle East. In contrast, there was a decline in South American and Asian turnover. Overall, the proportion of consolidated turnover accounted for by export sales fell slightly, to 68.1 %, as a consequence of above average growth in Germany.

### **Consolidated shortfall of € 20 million for the year**

The operating profit of continued operations was at € 8.8 million distinctly positive.

The shortfall for the year totalled € 20 million. This is the result of a fall in the operating income from continued operations, the implementation of a new strategic configuration for the Biotest Group (referred to earlier) and losses arising from discontinued operations. Impairment and restructuring costs also contributed to the shortfall.

In the case of the Pharmaceutical division, the continued rise of the euro against the US-dollar generated severe pricing pressure in countries beyond Europe. Start-up costs for the validation of new plant for plasma fractionation also put pressure on the 2002 operating result. Furthermore, the establishment of the division's own plasmapheresis stations had a negative impact on the year's result. In addition, necessary depreciation had an influence on foreign receivables.

During 2002, the Diagnostic division was unable to commence the planned large-scale marketing of TANGO fully-automated blood group diagnosis machines. The year, again, was focused on essential optimisation tasks, to ensure bought-in hardware and software components meet stability requirements of daily operation. The optimisation programme commenced in August 2002 and had produced an enhanced version of the equipment by the early part of the 2003 financial year. While the manufacture of TANGO machines and the construction of installation and service infrastructures for the Diagnostic division's automated products have introduced high cost burdens, these products represent the foundation of future growth in the extremely attractive transfusion diagnostics market.

The operating result of continued operations was burdened by exceptional items. The book values of some tangible assets were higher than the expected future cash flows and, in consequence, appropriate value adjustments were made. Impairment of € 6.8 million had an adverse impact on the operating result.

The income situation in the Medical Devices division (now discontinued operations) was dominated by an operating loss and value adjustments concerning the assets of Biotest Medizintechnik GmbH, now involved in insolvency proceedings.

The operating result was –€ 5.6 million and the decision to withdraw from this area will have a positive influence on the Group's future income.

### **Dividend**

The Management Board and the Supervisory Board propose that no dividend be distributed for the 2002 financial year.

### **Balance sheet total up by 5.3 %**

The Biotest Group's balance sheet, as at end-2002, shows growth of 5.3 %, to € 372 million. On taking account of capital expenditure and depreciation, together with impairments, tangible fixed assets (including the leased plant of Biotest Pharma GmbH) increased by around € 12 million.

While the inventory level was unchanged on the preceding year, the figure for trade receivables fell by over € 2 million. New debt management strategies and value adjustments totalling € 4 million contributed to this outcome.

The major increase in other assets is largely attributable to a debt claim linked to plasma sales and outstanding sums due from a leasing company.

The financing picture is marked by the diminution of shareholders' equity, arising from the loss for the year and the distribution of a dividend in July, 2002. At the close of a difficult year, during which necessary restructuring and review was addressed, the equity ratio held firm at about 30 %.

Finance debts rose by € 34 million, to around € 167 million. The increase reflects short-term loans.

Given the very heavy requirement for funding the Pharmaceutical division's investment programme, together with temporary yet significantly greater commitment of funds under current assets, the development of a new basis for financing assumed high priority in the short term. Accordingly, a security trust agreement was concluded in early 2003 with the existing group of banks. It will apply in the period to December 31, 2004. Under this arrangement, the banks have agreed, in principle, to continue existing short-term loan lines of around € 100 million, subject to the approval of a restructuring plan, including projected expenditure, devised with management consultancy input.

### **Capital expenditure volume approaches € 32 million**

A number of significant investments were made in 2002, especially in tangible fixed assets. The latter totalled € 26 million and continued to form the pivot of Dreieich's investment programme; Biotest Pharma GmbH accounted for over € 24 million.

Goodwill was added under "intangible assets". During the Spring of 2002 Biotest acquired a further 9% of the shares in Envitec-Wismar GmbH.

Depreciation totalled nearly € 20 million (€ 10 million representing depreciation on tangible fixed assets). Impairment included the fixed assets of Biotest Medizintechnik GmbH (no longer a member of the Group of companies as a result of the insolvency application), some fixed assets of Diaclone SAS and certain assets at Dreieich.

### **Research and Development**

During the year under review, Research and Development expenditure totalled € 19 million, a figure representing 7.5% of turnover.

Research and Development activities in the Pharmaceutical division centred on the further development and production of new generation plasma products.

The Research and Development focus in the Diagnostic division during 2002 was on technical optimisation and refinement of TANGO automated blood group diagnosis machines and the development of new hygiene monitoring systems.

Envitec-Wismar GmbH progressed the development of new oxygen sensors – due for market launch during the 2003 financial year. In addition, the development of alcohol breathanalyser and drug detector products offering enhanced reliability is proceeding according to plan.

### **Personnel**

The Group employed 1,357 members of staff, as at end-2002 (1,263 full-time posts). The 2002 average totalled 1,277, an increase of 115 on the preceding year. The new jobs were created in the first nine months. 100 specialised employments were needed in the production sections.

Staff numbers reduced in some areas as a result of the departure of Biotest Medizintechnik GmbH from the Group of companies and in response to normal business fluctuations.

In the cases of Biotest AG and Biotest Pharma GmbH, restructuring measures – introduced at the end of the year with the aim of increasing profitability – incorporated a staff reduction plan in areas other than those sections requiring additional personnel as a result of expansion. An agreement for "reconciling interests", together with redundancy payments was agreed with the workers council. The strategy calls for cuts involving 108 jobs in the divisions continuing following reorganisation. The costs of the redundancy payments are reported as restructuring costs' in the 2002 accounts. The implementation of these measures commenced in the first quarter of 2003.

### **Outlook for 2003**

In the first few months of 2003, modest progress was made in terms of turnover. During the first quarter, the Biotest Group's turnover approached € 64 million (€ 60 million attributed to continuing operations). For 2003 we expect a moderate growth in turnover in continued operations of Pharmaceutical and Diagnostic divisions.

Costs associated with the restructuring and cost-saving initiatives introduced in late 2002 were taken into account in the preceding year's balance sheet. Most of the positive impact will emerge in the second half of 2003. It is anticipated that the results will include an easing of the costs situation. This trend will be overlaid by the ongoing high pre-production costs arising from the Pharmaceutical division's strategic investments. The income-boosting effect of measures taken will not begin to materialise until the second half of 2004. Higher expenditure arising from interest on borrowings and consultancy fees associated with strategic re-orientation (both of a transient nature) will also be posted in the 2003 results.

On the heels of a difficult financial year, we anticipate to break even for 2003 as a whole. It will be crucial to ensure that the exceptional factors exerting a negative influence during 2002 do not weigh down the new financial year. In the longer term, new strategies and initiatives lead to the expectation of a positive trend of rising results as from 2004.

### **2002 AGM**

The company's AGM will be held on July 10, 2003 at 10.30, at the Congress Centre, Messe-Frankfurt, Ludwig-Erhard-Anlage 1, Frankfurt am Main.

Frankfurt am Main, April 2003

Biotest Aktiengesellschaft  
The Board of Management

## Biotest Group Report on Financial Year 2002 (short version)

### Biotest Group Income Statement

€ million	Continued operations		Discontinued operation		Total	
	2002	2001	2002	2001	2002	2001
Sales	244.3	239.0	13.6	10.3	257.9	249.3
Cost of sales	-132.3	-121.8	-9.8	-7.2	-142.1	-129.0
<b>Gross profit</b>	<b>112.0</b>	<b>117.2</b>	<b>3.8</b>	<b>3.1</b>	<b>115.8</b>	<b>120.3</b>
Distribution costs	-61.2	-60.5	-2.7	-1.8	-63.9	-62.3
Administrative expenses	-18.7	-17.5	-1.2	-0.7	-19.9	-18.2
Research and Development costs	-18.0	-19.6	-1.3	-1.1	-19.3	-20.7
Other operating expenses	-5.3	-2.0	-3.1	-0.1	-8.4	-2.1
<b>Operating profit before exceptional items</b>	<b>8.8</b>	<b>17.6</b>	<b>-3.6</b>	<b>-0.6</b>	<b>5.2</b>	<b>17.0</b>
Impairment	-6.7	-	-2.0	-	-8.7	-
Restructuring costs	-3.3	-	-	-	-3.3	-
<b>Profit from operating activities</b>	<b>-1.2</b>	<b>17.6</b>	<b>-5.6</b>	<b>-0.6</b>	<b>-6.8</b>	<b>17.0</b>
Finance costs	-10.0	-8.3	-0.5	-0.4	-10.5	-8.7
<b>Profit before tax</b>	<b>-11.2</b>	<b>9.3</b>	<b>-6.1</b>	<b>-1.0</b>	<b>-17.3</b>	<b>8.3</b>
Income tax expense	-2.4	-3.5	-0.1	-0.2	-2.5	-3.8
<b>Profit after tax</b>	<b>-13.6</b>	<b>5.8</b>	<b>-6.2</b>	<b>-1.2</b>	<b>-19.8</b>	<b>4.5</b>
Minority interest	-0.2	0.0	0.0	-0.1	-0.2	0.0
<b>Net profit for the period</b>	<b>-13.8</b>	<b>5.8</b>	<b>-6.2</b>	<b>-1.3</b>	<b>-20.0</b>	<b>4.5</b>
<b>Net earnings per share in €</b>					<b>-2.56</b>	<b>0.53</b>
<b>Additional dividend entitlement per non-voting preference share in €</b>					<b>0.11</b>	<b>0.06</b>
<b>Result per non-voting preference share in €</b>					<b>-2.45</b>	<b>0.59</b>

### Biotest Group Balance Sheet

€ million	31.12.2002	31.12.2001
<b>Assets</b>		
Intangible assets	4.9	4.2
Tangible assets	141.1	129.8
Financial assets	1.0	1.0
<b>Fixed assets</b>	<b>147.0</b>	<b>135.0</b>
Inventories	129.9	129.1
Trade receivables	63.6	66.0
Other assets	19.1	11.3
Cash and cash equivalents	8.1	9.9
<b>Current assets</b>	<b>220.7</b>	<b>216.3</b>
<b>Deferred tax, assets</b>	<b>4.3</b>	<b>1.7</b>
<b>Total assets</b>	<b>372.0</b>	<b>353.1</b>
<b>Liabilities and equities</b>		
Shareholders' equity, Biotest AG	108.5	131.5
Minority interest	2.3	1.3
Accruals and provisions	60.6	54.1
Interest bearing borrowings	167.4	133.5
Other liabilities	33.2	32.7
<b>Total equity and liabilities</b>	<b>372.0</b>	<b>353.1</b>

### Biotest Group Statement of Changes in Equity

€ million	2002	2001
Shareholders' equity, Biotest AG (1.1.)	131.5	128.8
Currency effects for the period	-0.8	+0.4
Net loss for the year (in the previous year = plus)	-20.0	+4.5
Dividends	-2.2	-2.2
<b>Shareholders' equity, Biotest AG (31.12.)</b>	<b>108.5</b>	<b>131.5</b>

### Cash Flow Statement

€ million	2002	2001
Net cash flows from operating activities	-2.4	+1.2
Net cash flows from investing activities	-30.5	-31.7
Net cash flows from financing activities	+31.2	+28.6
<b>Net change in cash and cash equivalents</b>	<b>-1.7</b>	<b>-1.9</b>
Other change in cash and cash equivalents	-0.1	+0.1
Cash and cash equivalents at beginning of period	9.9	11.7
<b>Cash and cash equivalents at end of period</b>	<b>8.1</b>	<b>9.9</b>

### Notes: Financial Statements

- This report from the Biotest Group, for the 2002 financial year, conforms to the International Financial Reporting Standards (IFRS).
- The same balance sheet accounting and valuation methods adopted in the preparation of the consolidated annual accounts, in accordance with the IFRS, were applied to the figures for the 2001 financial year.
- This summary is an extract from the 2002 year-end report certified by the auditors, KPMG Deutsche Treuhand-Gesellschaft, Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft.
- Segment reporting

#### 4.1 Revenue

Business Division	2002	2001
Pharmaceutical	166.7	166.0
Diagnostic	75.8	70.8
Holding/not allocated	1.9	2.2
Discontinued operation	13.5	10.3
<b>Group</b>	<b>257.9</b>	<b>249.3</b>

#### 4.2 Profit from operating activities

Business Division	2002	2001
Pharmaceutical	5.8	16.5
Diagnostic	-3.1	0.9
Holding/not allocated	-3.9	0.2
Discontinued operations	-5.6	-0.6
<b>Group</b>	<b>-6.8</b>	<b>17.0</b>

#### 4.3 Personnel (full-time staff, at the accounting date)

	2002	2001
Distribution	373	370
Administration	140	143
Production	635	563
Research and Development	115	129
<b>Group</b>	<b>1,263</b>	<b>1,205</b>

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