



Quarterly report  
as of June 30, 2003



During the second quarter the Biotest Group continued the restructuring and strategic reorientation program it had already started and this is proceeding on schedule. This process is still being supported by experienced consultants.

During the period under review, the group completed its sale of Envitec-Wismar GmbH with its subsidiary in Denmark and Diaclone SAS, Besançon, as part of its reorientation program.

The investment level for new technologies is still high, in particular for the production of plasma derivatives in the Pharmaceuticals division, and again caused high preliminary expenses in 2003.

### **Sales growth still reserved**

The first half of 2003 has been characterized by continued reserved sales development. This trend became more pronounced in the second quarter; revenue totaled € 113.2 million, down € 13.3 million (–10.5 %) on the same period of the previous year (€ 126.5 million). This difference was mainly due to exports by the Pharmaceuticals division (€ –10.4 million), but a downwards trend can also be seen in business within Germany (€ –1.6 million).

Sales in the individual divisions developed as follows:

<b>Division</b>	<b>Q2/2003 € million</b>	<b>Q2/2002 € million</b>	<b>Q1/2003 € million</b>	<b>Q1/2002 € million</b>
Pharmaceuticals	<b>34.9</b>	41.9	<b>40.1</b>	45.2
Diagnostics	<b>18.8</b>	19.7	<b>19.4</b>	18.8
Holding	–	0.4	–	0.5
<b>Continued Divisions</b>	<b>53.7</b>	<b>62.0</b>	<b>59.5</b>	<b>64.5</b>
Division to be discontinued	–	3.8	–	3.3
<b>Group</b>	<b>53.7</b>	<b>65.8</b>	<b>59.5</b>	<b>67.8</b>

In the **Pharmaceuticals division** differences were primarily recorded in the regions North/South America and Asia. Compared to the previous year, these mostly concern tender revenues with clotting factors that have not yet been regained. In addition, a more restrictive sales policy was pursued in markets with extended payment targets, which also impacted Pentaglobin® sales.

In Germany we recorded further growth for our key product Haemoctin® SDH – despite the insecurities in the healthcare sector. We were also able to successfully continue the transition to the new generation of immune globulins using the CP process.

The technical capacity restrictions in production process for high value products such as immune globulins still exist. Work on the new systems to increase capacity and improve yields is, however, progressing according to schedule and this work will be concluded this year for the most important major investment, plasma fractionation.

The **Diagnostics division** recorded further stabilization during the second quarter. Sales were only slightly down on the previous year's level at –0.8 %; we would have recorded sales growth had it not been for the changes in the exchange rate – this had a negative impact on our business. We recorded pleasing sales growth in our core regions of Germany and Europe. In contrast, America and the Near East recorded slightly lower year-on-year sales, also due to the exchange rates. Heipha Dr. Müller GmbH, a group company, recorded pleasing growth of around 15 % – due to increases in both volumes and prices.

### **Operating result totals € 5.3 million after € 6.7 million last year**

Gross profit percentage rate is down by 3.2 points compared to previous year, with a downturn of € 10.1 million on the same period of the previous year. This is due to the strong price pressure on the international pharmaceuticals market, which is being further amplified by the lower revenues if products are priced in US dollars.

In spite of this, however, the operating result in the second quarter is significantly more stable and is break even after the first six months. Considering the lower revenue, this evidences the successful implementation of the cost-cutting program (launched by the company). However exchange rate fluctuations towards the end of the period have also played a part.

The consolidated income statement shows that the group's costs have fallen significantly – in particular selling expenses, administrative expenses and other operating expenses.

The increased financial result is due to the higher financing and related costs.

## **Financial position**

The group's total assets fell to € 360.3 million as of June 30, a drop of around € 12.0 million compared to December 31, 2002. This reflects the disposal of Envitec-Wismar GmbH and Diaclone SAS.

The company's total assets figure was marked by two opposing trends in the first six months of 2003. On the one hand, the group invested in completing the new fractionation plant and other major projects, such as a new clotting factor production plant and a renewed clean room structure. On the other hand, the disposal of the companies mentioned above reduced the total assets. The investments already mentioned constituted the key expenses during the first half of the year, totaling around € 10 million.

The heart and soul of the increase in Biotest Pharma GmbH's capacity, the new fractionation plant, is nearing completion. The authorities will inspect the plant for technical acceptance in August 2003, the final steps for pharmaceutical approval can then follow right on schedule.

The drop in inventories is due to deconsolidation. The continued companies' inventories remain constant due to factors including time-based revenue shifts.

We were able to decrease our receivables by around € 5 million compared to the end of 2002 thanks to our active accounts receivable management (€ 2.2 million) and deconsolidation (€ 2.8 million). Receivables have even fallen by around € 14 million compared to the increased level as of March 31, 2003 (€ 72.4 million).

The financial debt fell by around 5 % or € 8.5 million compared to the end of 2002. Of this total, € 4 million was due to Envitec-Wismar GmbH exiting the group.

The cash flow from operating activities increased substantially to € 6 million. The positive cash flow from investing activities is the balance of investments and the disposal of assets from the companies sold. The cash outflow from financing activities includes both the reduction in financial liabilities as well as the disposal of the companies named above.

## **Supervisory Board**

The Supervisory Board mandate of the employee representative Dr. Klaus Hübner, Rostock, ended automatically with the exit of Envitec-Wismar GmbH from the group of consolidated companies. A new member of the board has not yet been appointed.

## **Human Resources**

The group had a total of 1,113 full-time employees as of June 30, 2003, compared to 1,263 as of December 31, 2002. This downturn mainly reflects the disposal of two group companies. As a result of the legal notice periods involved in the terminations of employment contracts for operational reasons concluded during the first quarter, which mainly affect the companies Biotest AG and Biotest Pharma GmbH, these terminations are only partially reflected in the figures as of June 30, and will become more apparent in the coming quarters.

## **Outlook**

The difficult situation on the plasma products market, especially the price wars for albumin and immune globulins, the debate surrounding the German health-care market and the unfavorable developments in the US dollar exchange rate mean that, for 2003 as a whole, we are forecasting sales in our continued divisions at a level slightly down on last year.

Clinical studies in the US to obtain FDA approval for the fully-automated TANGO blood grouping system are expected to be concluded in the third quarter. Approval is not expected before 2004.

Still increased consultancy and financing cost stand opposite the action plan successfully introduced to slash costs. In addition, earnings are depressed by increased start up cost for validation and production of batches to verify conformity to obtain registration for the new pharma products in 2004.

From today's perspective, we believe that earnings in the current fiscal year will be break even.

## **Key events after the balance sheet date**

As of Biotest AG's General Meeting on July 10, 2003, Professor Dr. Gregor Schulz succeeded Dr. Dieter Merz as Chairman of the Managing Board. Dr. Merz will retire at the end of September 2003.

## Quarterly financial statements of the Biotest group as of June 30, 2003

All figures in € million

### Biotest consolidated balance sheet

	June 30, 2003	Dec. 31, 2002
<b>Assets</b>		
Intangible assets	3.0	4.8
Property, plant and equipment	140.9	141.2
Financial assets	1.3	1.0
<b>Total fixed assets</b>	<b>145.2</b>	<b>147.0</b>
Inventories	126.4	129.9
Receivables	58.5	63.6
Other assets	15.0	19.1
Cash and cash equivalents	9.5	8.1
<b>Total current assets</b>	<b>209.4</b>	<b>220.7</b>
<b>Deferred tax assets</b>	<b>5.7</b>	<b>4.3</b>
<b>Total assets</b>	<b>360.3</b>	<b>372.0</b>
<b>Liabilities</b>		
Biotest AG shareholders' equity	107.7	108.5
Minority interests	1.3	2.3
Provisions	63.9	60.6
Financial debt	158.8	167.4
Trade payables	16.7	22.0
Other liabilities	11.9	11.2
<b>Total equity and shareholders' liabilities</b>	<b>360.3</b>	<b>372.0</b>

### Biotest consolidated income statement (continued divisions)

	Q2 2003	Q2 2002	H1 2003	H1 2002
Revenue	53.7	62.0	113.2	126.5
Costs of services rendered	-30.1	-30.4	-61.8	-65.0
<b>Gross profit</b>	<b>23.6</b>	<b>31.6</b>	<b>51.4</b>	<b>61.5</b>
Selling expenses	-13.7	-17.1	-27.4	-32.4
Research and development costs	-4.7	-4.6	-8.9	-8.6
Administrative costs	-4.1	-4.5	-8.5	-9.4
Other operating expenses	-0.9	-2.8	-1.3	-4.0
<b>Operating result</b>	<b>0.2</b>	<b>2.6</b>	<b>5.3</b>	<b>7.1</b>
Financial result	-1.9	-2.0	-5.5	-4.1
<b>Earnings before taxes</b>	<b>-1.7</b>	<b>0.6</b>	<b>-0.2</b>	<b>3.0</b>
Income taxes	1.1	-0.2	0.2	-1.1
<b>Earnings after taxes</b>	<b>-0.6</b>	<b>0.4</b>	<b>0.0</b>	<b>1.9</b>
Minority interests	-0.1	0.0	-0.2	0.0
<b>Net income for the period</b>	<b>-0.7</b>	<b>0.4</b>	<b>-0.2</b>	<b>1.9</b>
<b>Earnings per share (in euros)</b>	<b>-0.09</b>	<b>0.05</b>	<b>-0.02</b>	<b>0.24</b>

### Biotest consolidated statement of changes in shareholders' equity

	H1 2003	H1 2002
Biotest AG shareholders' equity (Jan. 1)	108.5	131.5
Consolidated profits H1	-0.2	+0.7
Currency impact during period	-0.6	-0.6
<b>Biotest AG shareholders' equity (June 30)</b>	<b>107.7</b>	<b>131.6</b>

### Biotest consolidated cash flow statement

	H1 2003	H1 2002
Cash flow from operating activities	+6.0	-3.5
Cash flow from investing activities	+3.1	-15.5
Cash flow from financing activities	-7.5	+24.1
<b>Net change in cash and cash equivalents</b>	<b>+1.0</b>	<b>-5.1</b>
Changes in cash and cash equivalents due to currency translation	-0.2	-0.1
Cash and cash equivalents as of January 1	8.1	10.1
<b>Cash and cash equivalents as of June 30</b>	<b>9.5</b>	<b>15.1</b>

### Notes

- The above report of the Biotest group for the first six months of 2003 is in line with International Accounting Standard No. 34.
- The same accounting and valuation methods were applied as for the preparation of the IAS consolidated financial statements for fiscal year 2002.
- This report is unaudited.
- Segment reporting

#### 4.1 Revenue

Division	H1/2003	H1/2002
Pharmaceuticals	75.0	87.1
Diagnostics	38.2	38.5
Holding	-	0.9
<b>Continued divisions</b>	<b>113.2</b>	<b>126.5</b>
Division to be discontinued	-	7.1
<b>Group</b>	<b>113.2</b>	<b>133.6</b>

#### 4.2 Operating result

Division	H1/2003	H1/2002
Pharmaceuticals	+1.8	+6.6
Diagnostics	+2.6	+0.9
Holding	+0.9	-0.4
<b>Continued divisions</b>	<b>+5.3</b>	<b>+7.1</b>
Division to be discontinued	-	-0.4
<b>Group</b>	<b>+5.3</b>	<b>+6.7</b>

#### 5. Employees

	June 30, 2003	Dec. 31, 2002
Sales	341	373
Administration	131	140
Production	534	635
Research and development	107	115
<b>Group</b>	<b>1,113</b>	<b>1,263</b>

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