



Quarterly report  
as of September 30, 2003



The Biotest group continued its scheduled restructuring process and strategic reorientation in the third quarter. The situation continued to be characterized by a very difficult situation on the market and a sales downturn, as well as high start-up cost for the ongoing major investment program.

Our strategic measures and investments to complete the new plasma fractionation line with its state-of-the-art technology continued right on schedule.

Despite the continued significant price pressure on the market and the high start-up cost for the new production technology, we were able to stabilize our earnings position, which crashed in Q4, 2002. This was possible thanks to significant successes in optimizing our cost structures and extensive reduction of current assets.

In addition, we concluded a series of disinvestments, in order to further drive the intended optimization of the Biotest group's portfolio.

### **Sales growth still reserved**

To date, 2003 has been characterized by sliding sales. Sales in the Pharmaceutical and Diagnostic divisions totaled € 164.3 million, or € 21.9 million down on the figure from the same period of the previous year (€ 186.2 million, or € 187.6 million including the now sold company, Diadone SAS).

This difference was almost completely recorded in the Pharmaceutical division (€ -20.8 million) and is primarily due to falling prices. In addition to the insecurities felt in the German healthcare sector due to political discussions on cutting costs, the downturn in the Pharmaceutical division was mainly sparked off by significant pressure from competitors on the international plasma derivatives market.

Several markets in the **Diagnostic** division are stabilizing, with sales down slightly on the previous year.

Sales in the individual divisions developed as follows:

Division	Q3	Q3	Q1-Q3	Q1-Q3
	2003	2002	2003	2002
	€ million	€ million	€ million	€ million
Pharmaceutical	32.6	41.3	107.6	128.4
Diagnostic	18.5	19.3	56.7	57.8
Holding	-	0.5	-	1.4
<b>Continued divisions</b>	<b>51.1</b>	<b>61.1</b>	<b>164.3</b>	<b>187.6</b>
Division to be discontinued	-	3.5	-	10.6
<b>Group</b>	<b>51.1</b>	<b>64.6</b>	<b>164.3</b>	<b>198.2</b>

The differences shown in the **Pharmaceutical** division were due to the generally strong pressure on prices and occurred primarily in the regions of North/South America and the Near East. These mostly concerned as yet unattained or delayed tender transactions for blood clotting products.

We continued our work on the new production lines in the **Pharmaceutical** division to increase our capacity and improve yields. The heart of our investments, plasma fractionation, was successfully completed and approved by the authorities in August 2003. Production of batches to verify product consistency ("consistency batches") has started. This is needed for product approval. We believe that we will receive the first product approvals for this new line – one of the most state-of-the-art lines of its kind in the world – in early 2004.

Stabilization of sales is continuing in the **Diagnostic** division. Sales are still slightly down on the corresponding figure from the previous year. Growth on some European markets, such as Germany with microbiology products and France with transfusion diagnostic products were offset by sales downturns, in particular in the US.

Clinical studies in the US to obtain FDA approval for our fully-automated TANGO blood group equipment have been successfully concluded; the approval application is currently being worked on. We expect TANGO to be registered in the US from the start of 2005, which will open up significant marketing opportunities.

### **Operating profit totals € 7.6 million after € 9.2 million last year**

Despite sales being down by € 21.9 million and a corresponding decrease in gross profits from € 87.1 million to € 74.1 million in the period under review, our operating profit in our continued divisions was down only slightly on the previous year to € 7.6 million. This was boosted by our decision to continue our far-reaching rationalization program as well as the renunciation of sales with low margins and high sales cost. The savings in our sales cost were particularly significant during the third quarter.

## **Financial position**

The company's total assets fell again during the third quarter. Despite the continuation of our comprehensive investment program, these totaled € 351.7 million compared to € 372.0 million on December 31, 2002.

In addition to the divestiture of Enitec-Wismar GmbH and Diaclone SAS mentioned in the last report, successes can also be seen in other balance sheet items.

Fixed assets totaled € 147.4 million – almost unchanged against the end of 2002 (€ 147.0 million). This is a result of the balance from the disposal of the divested companies' assets and the continuation of investments in Biotest Pharma GmbH's production lines (€ 11.6 million).

We also continued our program to reduce the Biotest group's inventory level. Inventories fell by € 6.2 million.

The reduction in receivables is due to active credit control as well as deconsolidation effects (€ 2.8 million), in particular by Biotest Pharma GmbH. We were able to reduce the group's receivables by almost 14% or nearly € 8 million.

Financial debt fell by € 13.1 million compared to the end of 2002. Of this total, the majority was due to the main companies Biotest AG and Biotest Pharma GmbH, and € 4 million was due to the exit of Envitec-Wismar GmbH.

The cash inflow from operating activities increased significantly as a result of the restructuring program and totaled € 21.7 million compared to a cash outflow of € 10.6 million in the same period of the previous year. The continuation of our far-reaching program means that our cash flow from investing activities shows a further, albeit a significantly reduced, cash outflow. This totaled € 8.6 million compared to € 21.9 million in the first three quarters of the previous year.

The cash outflow from financing activities shows the impact from the divested group companies and also very clearly shows the downturn in financial debt.

## **Managing and Supervisory Boards**

Prof. Gregor Schulz took over from Dr. Dieter Merz as Chairman of the Managing Board on July 10, 2003 following the 2003 General Meeting. Dr. Merz retired from the company in September 2003 after working for Biotest for nearly 35 years. In addition, Dr. Hans Schleussner resigned his post as Chairman of the Supervisory Board with effect from September 30, 2003. Werner Spinner was appointed as a new member of the Supervisory Board on October 1, 2003 and was elected as its new Chairman on October 17.

The election for a new employee representative on the Supervisory Board, which was necessary due to the exit from the group of Envitec-Wismar GmbH and its representative Dr. Klaus Hübner, was held on September 24, 2003. Kerstin Birkhahn, a Biotest Pharma GmbH employee, was elected as the new employee representative.

## **Human Resources**

The number of group employees fell again as of September 30, 2003. The Biotest Group had 1,077 full-time employees as of September 30, 2003, compared to 1,263 full-time employees on December 31, 2002. The downturn of 186 employees is due to both the disposal of two companies already mentioned, as well as the restructuring program at our Dreieich location.

## **Outlook**

The situation on the international plasma derivatives market – which is characterized by a substantial overcapacity and major price wars – increased during the period under review and is continuing (mainly immunoglobulins and albumins).

The German healthcare sector continues to be subject to major uncertainties concerning the anticipated reforms and cost cuts, which is leading to reserved purchasing behavior.

The weak US dollar is also impacting our business. This applies mainly to international tender business, where the US-dollar exchange rate is proving to be a disadvantage when competing with suppliers from this currency zone.

Unfortunately, the positive impact on earnings from our successfully implemented cost-cutting program, in particular at our Dreieich location, are currently being consumed by increased financing cost and the associated significant expenditure on external consulting services.

We do not believe that there will be a fundamental shift in the sales and earnings growth pattern in the remainder of 2003. In view of the world wide market consolidation of the plasma derivatives in connection with price decrease, we are thus forecasting a slight net loss for 2003 as a whole.

In the meantime we installed an additional program for cost reduction and to reduce the current assets in order to stabilise earnings in 2004.

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

All figures in € million

### Balance sheet

	Sept. 30, 2003	Dec. 31, 2002
<b>Assets</b>		
Intangible assets	2.9	4.8
Property, plant and equipment	143.5	141.2
Financial assets	1.0	1.0
<b>Total fixed assets</b>	<b>147.4</b>	<b>147.0</b>
Inventories	123.7	129.9
Receivables	55.8	63.6
Other assets	10.7	19.1
Cash and cash equivalents	7.5	8.1
<b>Total current assets</b>	<b>197.7</b>	<b>220.7</b>
<b>Deferred tax assets</b>	<b>6.6</b>	<b>4.3</b>
<b>Total assets</b>	<b>351.7</b>	<b>372.0</b>
<b>Liabilities</b>		
Biotest AG shareholders' equity	106.5	108.5
Minority interests	1.4	2.3
Provisions	64.3	60.6
Financial debt	154.3	167.4
Trade payables	14.3	22.0
Other liabilities	10.9	11.2
<b>Total equity and shareholders' liabilities</b>	<b>351.7</b>	<b>372.0</b>

### Income statement

(continued divisions)

	Q3 2003	Q3 2002	Q1-Q3 2003	Q1-Q3 2002
Revenue	51.1	61.1	164.3	187.6
Cost of goods sold	-28.4	-35.5	-90.2	-100.5
<b>Gross profit</b>	<b>22.7</b>	<b>25.6</b>	<b>74.1</b>	<b>87.1</b>
Distribution expense	-12.0	-13.9	-39.4	-46.3
Administrative expense	-4.1	-5.6	-13.0	-14.2
Research and development expense	-4.4	-3.7	-12.9	-13.1
Other operating expense	-0.1	-0.3	-1.2	-4.3
<b>Operating profit</b>	<b>2.3</b>	<b>2.1</b>	<b>7.6</b>	<b>9.2</b>
Financial result	-4.2	-2.5	-9.7	-6.6
<b>Profit before tax</b>	<b>-1.9</b>	<b>-0.4</b>	<b>-2.1</b>	<b>2.6</b>
Income tax	0.3	-0.8	0.5	-1.9
<b>Profit after tax</b>	<b>-1.6</b>	<b>1.2</b>	<b>-1.6</b>	<b>0.7</b>
Minority interests	-0.1	0.0	-0.3	0.0
<b>Net profit for the period</b>	<b>-1.7</b>	<b>1.2</b>	<b>-1.9</b>	<b>0.7</b>
<b>Earnings per share (in euros)</b>	<b>-0.22</b>	<b>0.15</b>	<b>-0.24</b>	<b>0.09</b>

### Statement of changes in shareholders' equity

	Q1-Q3 2003	Q1-Q3 2002
Biotest AG shareholders' equity (Jan. 1)	108.5	131.5
Dividends for previous year	-	-2.2
Net profit for the period	-1.9	0.9
Currency impact during period	-0.1	-0.4
<b>Biotest AG shareholders' equity (September 30)</b>	<b>106.5</b>	<b>128.0</b>

### Cash flow statement

	Q1-Q3 2003	Q1-Q3 2002
Cash flow from operating activities	21.7	-10.6
Cash flow from investing activities	-8.6	-21.9
Cash flow from financing activities	-13.6	30.4
<b>Net change in cash and cash equivalents</b>	<b>-0.5</b>	<b>-2.1</b>
Changes in cash and cash equivalents due to currency translation	-0.1	-0.1
Cash and cash equivalents as of January 1	8.1	10.1
<b>Cash and cash equivalents as of September 30</b>	<b>7.5</b>	<b>7.9</b>

### Notes

- The above report of the Biotest group for the first to third quarters 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	Q1-Q3 2003	Q1-Q3 2002
Pharmaceutical	107.6	128.4
Diagnostic	56.7	57.8
Holding	-	1.4
<b>Continued divisions</b>	<b>164.3</b>	<b>187.6</b>
Division to be discontinued	-	10.6
<b>Group</b>	<b>164.3</b>	<b>198.2</b>

#### 4.2 Operating profit

Division	Q1-Q3 2003	Q1-Q3 2002
Pharmaceutical	+2.7	+6.6
Diagnostic	+4.6	+2.7
Holding	+0.3	-0.1
<b>Continued divisions</b>	<b>+7.6</b>	<b>+9.2</b>
Division to be discontinued	-	-0.5
<b>Group</b>	<b>+7.6</b>	<b>+8.7</b>

#### 5. Employees

	30.9.2003	31.12.2002
Sales	324	373
Administration	131	140
Production	515	635
Research and development	107	115
<b>Group</b>	<b>1,077</b>	<b>1,263</b>

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