

3-Months Report 2005



Girindus®

Letter to the Shareholders

Ladies and Gentlemen,

In the past years Girindus has consistently and successfully pursued its objective of establishing itself as one of the leading producers of active ingredients and intermediates in the pharmaceutical and cosmetics industry. It is with some pride that Girindus looks back over its performance. Girindus, celebrating its 30th company anniversary this year, is on a promising path into the future. The facts below vouch for this promise:

In its core business of small molecules manufacture alone Girindus has over 15 projects in phases II and III in its project portfolio, in other words the phases shortly prior to approval and market launch of a drug. The Company has thus created enormous potential for earnings and sales growth.

Girindus' investment in trend-setting oligonucleotide technology and its successful development of new business fields, have proven to be the right business decisions.

Girindus has gained a leading position in the global market as confirmed on the occasion of an Oligonukleotid-symposium in March of this year that took place at the site of Girindus America Inc. in Cincinnati, USA.

We were able to do this largely due to two key steps:

On the one hand the construction and start-up of the newest large-scale facility for cGMP production of oligonucleotides using solid-phase processes at the Cincinnati site, thereby creating an additional competitive advantage in this field for Girindus. Increasing orders and project requests from the pharmaceutical industry, as well as developing projects for the use of oligonucleotides in cosmetics provide evidence for a bright future for Girindus in this field. Girindus has emphatically pushed ahead the development of its solution phase production methods for oligonucleotides at its Kuensebeck / Westphalia site. This will allow Girindus to offer production of oligonucleotides in very large and up to now unachievable quantities at very competitive prices. This process is protected by patents and patent applications.

Girindus has entered the market in an additional and new business area, its own active cosmetic ingredients line, as announced during the past few months. The line includes the patent-protected products GirLite™-dA 100, a skin lightening compound and GirSkin™ Vernix Caseosa.

Both products have attracted a high level of interest from leading international cosmetics companies. Inquiries for GirLite™-dA 100 have already been received.

Girindus is thus outstandingly positioned for the future.

Girindus has managed to achieve and assure this starting position in the last years by means of focused investments choices as well as a concentration of highly qualified resources.

The resulting potential will have effect during the rest of this year and beyond.

The Management Board

Explanatory Notes to the 3-Months Report of Girindus Group

Sales

The Girindus Group achieved total worldwide sales of EUR 5.6 million in the first three months of this year. Compared EUR 4.3 millions in the same period of the previous year, this is a respectable growth figure, but its effects did not fully flow through to earnings. In addition to low-margin projects, a number of new projects were started in the development laboratories, which will later go into production. The latter will impact earnings only in the following production stages.

In a positive development, sales increases were achieved both by Girindus AG and the U.S. Girindus America Inc.. The U.S. subsidiary in particular is on the right track with a clear rise in sales since the expiration, as planned, of the contract with Aventis, in the beginning of 2004. The absence of Aventis projects has been more than compensated by third-party orders.

No or little sales revenues are being derived in the first three months of the current year from the new business areas – the own active cosmetic ingredients line and the large-scale oligonucleotide production facility recently started up in Cincinnati, Ohio. According to plan, however, these two areas will already contribute noticeably to sales during the course of this year. This is confirmed by continuing discussions with international cosmetic companies and the growing range of oligonucleotide activities. Until all three business

three business areas materialize, individual quarters will be subject to sharp fluctuations and, regarded in isolation, will not allow any conclusion on the total annual performance of the Girindus Group.

Sales by segment

Despite continued weakness of the US dollar, the first three months of the current year brought a shift towards sales in North America. 25% of sales stemmed from North American customers (first quarter 2004: 16%). European customers generated the remaining 75%.

Consolidated earnings

In the first three months of this year, earnings before taxes, interest and depreciation (EBITDA) for the Girindus Group were minus EUR 2.1 million (first quarter 2004: minus EUR 0.7 million). The operating result amounted to minus EUR 2.4 million (2004: minus EUR 1.4 million).

In addition to lower-margin projects, a number of new projects in laboratory development, preliminary to production, were also launched. The latter are likely to impact earnings only in the following production stages.

The positive trend of incoming orders for the core business of custom manufacturing of active

pharmaceutical ingredients on the basis of commissioned orders has not yet been reflected in corporate earnings of the first three months. Pressure on earnings is also due to the development and start-up costs incurred in the solution phase production process for oligonucleotides and the first patented own active cosmetic ingredients. Both areas are important elements in future development. Both gross margin and earnings are expected to improve considerably in the course of 2005 based on the current level of premium orders on hand.

Order status and development in costs and prices

The first three months of the year have been characterized by a sharp increase in order status. A total of EUR 15.1 million booked orders form a solid platform for 2005 (March 31, 2004: EUR 17.6 million). On an absolute basis, this may not show an increase over the same period in the previous year, but an analysis of the orders shows that these are premium production orders. They include several projects, postponed and in some cases considered lost, that were responsible for last year's failure to meet plan. Moreover, Girindus received additional large orders in the weeks that followed the end of the quarter; one of these, with a value of

around EUR 3.5 million, contributed further to the rise in orders on hand.

Furthermore, preliminary negotiations are currently underway for a large number of additional projects with high potential and these should be concluded in the weeks to come.

The new business areas consisting of the active cosmetic ingredients line and oligonucleotide production have had no or little impact so far on the orders on hand. Larger orders are expected for the upcoming quarters of the current year.

Despite the continued competitive pressures within the pharmaceutical industry and the weak US dollar, the Company has noticed a clear rise in demand for its high-quality development and production services.

Costs during the year have developed according to expectations and have not been subject to significant changes.

Capital expenditure

Capital investment activities for the Girindus Group totaled EUR 0.6 million in the first three months of the year (first quarter 2004: EUR 0.4 million). These investments amounted to EUR 0.4 million in Kuensebeck and to EUR 0.2 million in Cincinnati. Investments made and still pending are almost exclusively connected with projects in late clinical phases, i.e. prior to market approval.

R&D expense

Research and development expense remained at the previous year's level at EUR 0.6 million (first quarter 2004: EUR 0.5 million). The major research and development project at Girindus has been, and still is, the alternative production process for therapeutic oligonucleotides. Additional patents in this area were submitted during the beginning of 2005.

Expense related to development and to optimization of newly patented active cosmetic ingredients are not recorded in this account, but are reflected directly in production costs, since the first sales are expected to be realized by this year.

Research and development expense incurred while developing processes for customers are also not recorded in this account, since it is billed directly to the customer.

Liquidity

The increased order level primarily includes projects with lengthy production times. Start-up work linked to the new active cosmetic ingredients has resulted in a greater capital commitment during the first three months of the year. Cash and cash equivalents, including treasury stock, were reduced to EUR 6.3 million in order

to pre-finance growth. Cash and cash equivalents, generally in the form of freely disposable term deposits, amounted to EUR 5.1 million as at March 31 of this year (first quarter 2004: EUR 13.3 million). The cash ratio was EUR 6.2 million as at March 31, 2005, and was at EUR 8.5 million on December 31, 2004.

Number of employees

The number of Girindus Group employees stayed steady at 142 in the first three months of the year.

The number of employees grew due to expansion of the business model compared to 2004 (first quarter 2004: 131 employees). The personnel expansion completed in 2004 was concentrated on the areas of Production and R&D. The business areas of oligonucleotides and the own active cosmetic ingredients line were strengthened by the addition of employees as well.

Earnings per share

Earnings per share decreased in comparison to the same period of the previous year to minus EUR 0.45 per share, due to the reduction in earnings by start-up costs. Earnings per share

were minus EUR 0.24 during the first three months of the previous year.

Prospects for the current financial year

In its core business of producing innovative active pharmaceuticals ingredients and their intermediates for the researching pharmaceuticals industry, Girindus can report more than 15 projects that are in the late clinical phases II and III, i.e., that are shortly before market launch. The growth opportunities for Girindus resulting from this product portfolio are enormous. The Company's progress is reflected in the extremely high quality of the orders on hand.

The new solution-phase manufacturing process for oligonucleotides is being propelled by a goal-oriented research group, and is secured by a number of patents that have already been granted or filed. It is precisely the blockbuster drugs based on oligonucleotides that will, in future, require large production capacities and competitive prices. Girindus will be able to provide both with its solution-phase process.

The new, active cosmetic ingredients line is growing, with its own, patent-protected products GirLite™-dA 100 and GirSkin™ Vernix Caseosa – and the outlook is excellent. International cosmetic companies that are famous around the world are interested in including these products in their portfolio. Girindus is expecting the first positive contributions to earn-

ings from GirLite™-dA 100 as early as 2005, from production revenues as well as licensing fees.

As a result of this positive development in all three divisions, company management has confirmed the forecast for 2005 published as part of the financial press conference, namely sales of min. EUR 30 million and slightly positive EBITDA.

In order to retain and boost its liquidity, Girindus will pursue consistent cost management based on the company's strategic orientation, and will acquire additional financing or new financial partners. Negotiations that have already been initiated in this regard are making progress.

The market environment for active ingredient producers has become more difficult over the past few years. Girindus has reacted to this by focusing and expanding its business model. Core business shows an excellently structured order book. The increased number of requests for oligonucleotides is most promising. The cosmetics line is picking up. We are convinced that our partners – our shareholders, suppliers and banks – will support us as we move along this growth-oriented, targeted-driven course. In terms of future prospects, Girindus has never been in a better position than it is today.

Accounting principles and methods

Girindus AG has changed its accounting approach from US GAAP to IFRS. An opening IFRS balance sheet was prepared on January 1, 2004, for this purpose. No significant differences arose compared to US GAAP accounting principles during the conversion.

In connection with the conversion to IFRS, the Company revised the technical methodology for currency conversion in the Group and adjusted it slightly. Exchange differences that have previously been accumulated according to US GAAP have now been reclassified under earnings carry forward as elected under IFRS 1.22. The reclassification amount in reference to January 1, 2004, was EUR 2,232 thousand (see also in this connection the Statement of Changes in Equity for 2004). The total amount of equity reported was not affected as a result. Other effects arising from the change in currency conversion were immaterial with respect to the Company's net assets, financial position, results and cash flow.

The consolidated financial statements below were prepared in EUR in accordance with IFRS. The assets, liabilities, income and expenses of companies in which Girindus is the majority stockholder were consolidated. Compared to previous financial statements, the consolidated

companies were unchanged. The fiscal year for all consolidated companies is the calendar year.

Significant events before and after March 31, 2005 that may influence the future course of business progress

In the weeks following the end of the quarter, Girindus received additional large orders; one of these, with a value of around EUR 3.5 million, contributed substantially to the rise in orders on hand.

Explanations concerning own shares and subscription rights of board members and employees in accordance with Section 160.I No. 2 and No. 5 of the German Stock Corporation Act

No use was made during the first quarter of 2005 of the authorization by the Annual Shareholders' Meeting to repurchase own shares.

The number of shares held by the Company thus remained constant at 347,862 shares. The number of share options issued under the employee stock option plan was 215,633 as at March 31, 2005. The precise distribution of share and option ownership by Board members is summarized in the table below:

Management Board	Shares	Options	Convertible Bonds
Fritz Link	422,000	33,334	0
Robert F. Link	950,000	26,668	0
Klaus R. Leineweber	7,500	11,667	0
Supervisory Board			
Prof. Dr. Axel Kleemann	5,000	0	0
Dr. Volker Stoltz	0	0	0
Dr. Helmut Waldmann	0	0	0
Ulrich Brockmann	4,000	0	0
Dr. Karl-Heinz Köppinger	0	0	0
Prof. Dr. Alfred Pühler	0	0	0

Consolidated Balance Sheet acc. to IFRS

Assets

	March 31, 2005	Dec 31, 2004
	EUR'000	EUR'000
Land	1,452	1,427
Buildings	6,857	6,782
Operation and office equipment	9,738	9,009
Assets under construction	747	1,320
Property, plant and equipment	18,794	18,538
Intangible assets	209	227
Deferred tax assets	2,005	1,980
Prepaid expenses and other current assets	744	893
Inventories	2,483	3,485
Trade account receivables	5,285	1,915
Cash	5,069	10,556
Current assets	13,581	16,849
Total assets	34,589	37,594

Consolidated Balance Sheet

Liabilities and Stockholders' equity

	March 31, 2005	Dec 31, 2004
	EUR'000	EUR'000
Subscribed capital	6,500	6,500
Less own shares	-1,760	-1,760
Capital reserve	45,734	45,734
Retained loss	-29,602	-26,815
Other comprehensive income	-671	-268
Stockholders' equity	20,201	23,391
Subsidies for fixed assets	813	901
Noncurrent liabilities and lease liabilities	5,526	5,563
Pension accruals	889	889
Long-term debts	6,415	6,452
Current loans and current installments of long-term debt and lease liabilities	1,336	1,321
Trade accounts payable	4,156	3,994
Accrued expenses	1,092	916
Other current liabilities	576	619
Current liabilities	7,160	6,850
Total liabilities and stockholders' equity	34,589	37,594

Consolidated Income Statement

	01.01. - 31.03.2005	01.01. - 31.03.2004
	EUR'000	EUR'000
Net sales	5,618	4,304
Cost of sales	-5,944	-3,859
Gross profit	-326	445
Sales expenses	-429	-414
General administrative expense	-1,233	-1,224
Research and development expense	-587	-512
Other operating income / expense	133	265
Operating income / loss	-2,442	-1,440
Interest income / expense	-82	-60
Exchange gain / loss	-212	-21
Other income / expense, net	-34	103
Earnings before taxes	-2,770	-1,418
Income taxes	-17	-3
Net loss for the year	-2,787	-1,421

Consolidated Cash Flow Statement

	01.01.-31.03 2005	01.01.-31.03 2004
	EUR'000	EUR'000
Net loss for the Year	-2,787	-1,421
Adjustment for reconciliation		
Depreciation	621	644
Income from the sale of securities	0	-91
Other income/expenditure without liquidity effect	-110	0
Change in receivables	-2,182	3,803
Change in inventories, including work in progress not invoiced and finished goods	1,007	1,641
Change in prepaid expense and other operating assets	-1,194	-1,083
Change in trade accounts payable	-37	-5,373
Change in provisions	151	374
Change in other current liabilities	-301	-42
Cash Flow from operating activities	-4,832	-1,548

Consolidated Cash Flow Statement

	01.01.-31.03 2005	01.01.-31.03 2004
	EUR'000	EUR'000
Net investment in intangible assets	-1	-10
Net investment in property, plant and equipment	-552	-380
Investment subsidies granted	0	737
Cash flow from investment activities	-553	347
Change in current financial liabilities	-45	-397
Repurchase of shares	0	-5
Sale of shares	0	982
Cash flow financing activities	-45	580
Effect of exchange rate changes on cash equivalents	-57	21
Change in Cash	-5,487	-600
Cash and cash equivalents at start of year	10,556	13,902
Cash and cash equivalents at quarter end	5,609	13,302

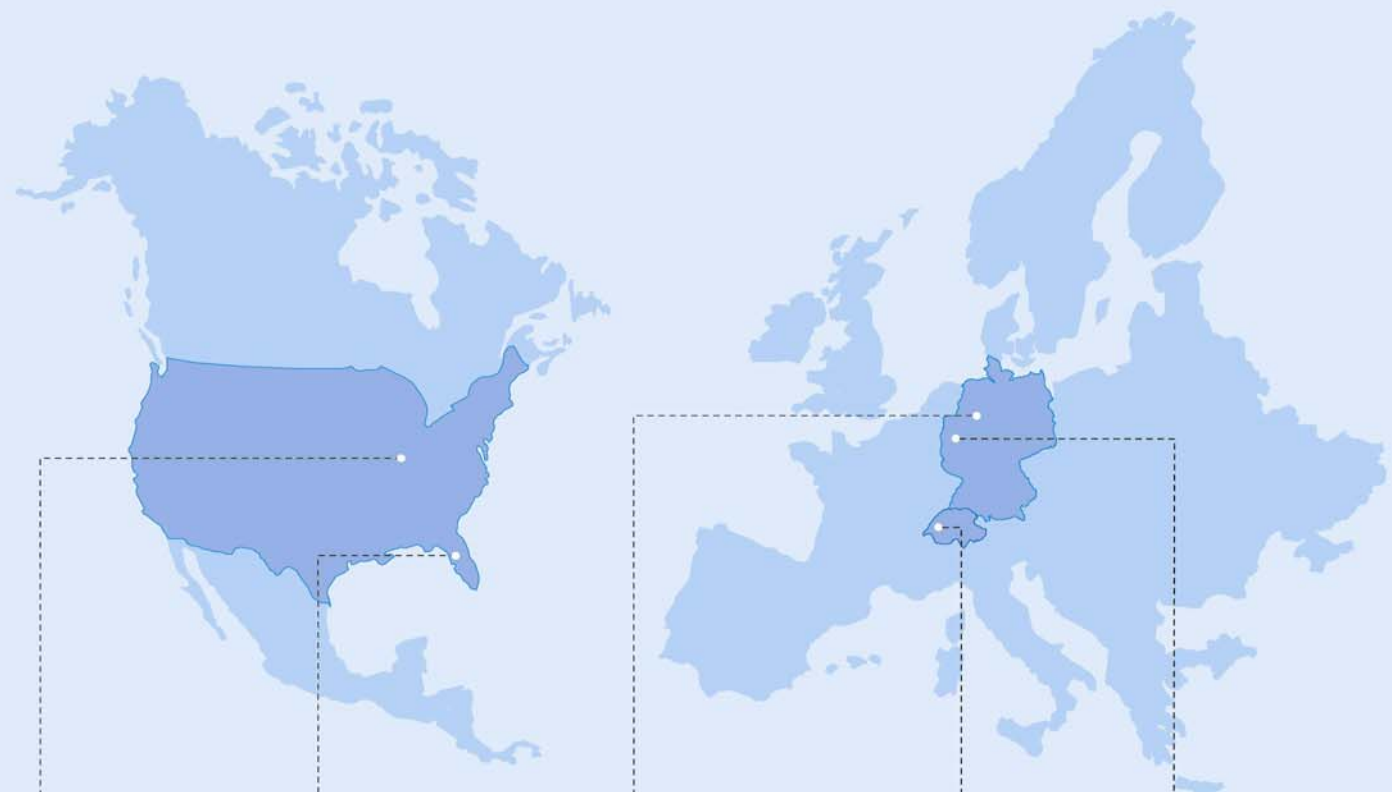
Consolidated Statement of Stockholders' Equity

	Total	Retained Earnings	Other Comprehensive Income	Subscribed capital	Capital reserve	Own shares
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
December 31, 2003	30,045	-16,849	-2,232	6,500	45,734	-3,108
Net loss January 01 to December 31, 2004	-7,734	-7,734				
Reclassification of other comprehensive Income	0	-2,232	2,232			
Translation differences	-268		-268			
Comprehensive Income	-8,002					
Sale of shares	1,399					1,399
Repurchase of shares	-51					-51
December 31, 2004	23,391	-26,815	-268	6,500	45,734	-1,760
Net loss January 01 to March 31, 2005	-2,787	-2,787				
Translation differences	-403		-403			
Comprehensive income	-3,190					
March 31, 2005	20,201	-29,602	-671	6,500	45,734	-1,760
Growth January 01 to March 31, 2004						
January 01, 2004	30,045	-16,849	-2,232	6,500	45,734	-3,108
Net loss January 01 to March 31, 2004	-1,421	-1,421				
Translation differences	125		125			
Comprehensive Income	-1,296					
Sale of shares	891					891
Repurchase of shares	-5					-5
March 31, 2004	29,635	-20,502	125	6,500	45,734	-2,222

Headquarters

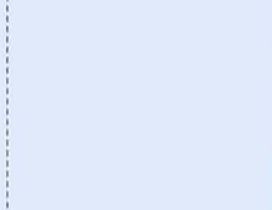
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