

Interim Report
FOR THE THIRD QUARTER
OF THE FINANCIAL YEAR 2003

(2003-07-01 to 2003-09-30)

and

9-MONTHS-REPORT 2003
(2003-01-01 to 2003-09-30)

Letter to shareholders

Dear shareholders.

The third quarter was a very successful period for november in which the **revenues** have been **increased by 30 percent** compared to the second quarter. In comparison to previous year's period, the consolidated revenues within the first nine months were improved by 16 percent amounting to 2.93 million EUR. Total selling and marketing expenses remained unchanged compared to last year's figures, despite strengthening the sales force. In the same time, total R&D costs were significantly lowered by 48 percent, mostly due to the spinning-off of the strongly R&D focused therapeutic division at the beginning of the year. On a quarterly basis, R&D costs are down by 11.4 percent. Overall, **costs** have been **reduced significantly**. The consumption of liquid funds within the last quarter amounting to 1.363 million EUR was 17.5 percent lower than in the second quarter. An enforced cost consciousness is also shown by the distinctive reduction of the general administration costs. They were lowered by 44 percent. The **operating result (EBIT) strongly improved**, again, amounting to -3.512 million EUR for the first nine months. This is an improvement of 46 percent compared to previous year's figures.

One highlight of the third quarter is the conclusion of a licensing and marketing agreement in the business unit **identif Technologies**. The sales relevant contract covers innovative so-called "color switch" security features for banknotes that were developed on the basis of *brandsealing*. They will be able to replace hologram solutions, which are more and more regarded unsafe. Contractual partner is Hueck Folien GmbH (Austria) which is one of the market leaders in the field of banknote security. Within the scope of the **licensing agreement**, november AG will receive upfront and milestone payments as well as licensing fees.

Although this report basically concentrates on the third quarter of 2003, it should not be forgotten that one of this year's most important events has happened after the end of the period. In the beginning of the fourth quarter, we have succeeded in concluding a **strategic partnership** with **Siemens Medical Solutions**. From now on, joint development and future marketing of these groundbreaking systems for fast on-site diagnosis of viruses, cancer cells and other genetically determined risk factors will be carried out even faster, more structured, and more efficient than before. The contract expands the existing research and development cooperation and is a convincing expression of confidence towards the potential of our LabChip systems.

Business unit development and report on important relations

At the end of the third quarter 2003, november AG has two business units: *identif Technologies* for the development of innovative industrial security solutions and *directif Diagnostic Solutions* which focuses on the development of near-patient nucleic acid testing.

identif Technologies

november AG develops new methods for **authentication** purposes and for the **surveillance of the supply or distribution chain** of branded products as well as security relevant investment and consumer goods of all kind. In this field, *Siemens Automation and Drives* is one of our co-development and sales partners.

An especially attractive market for our products is the pharmaceutical industry. In industrialized countries, too, there is a significant increase in reports about pharma fraud since the beginning of the year. Especially in the United States, more and more cases become evident after mandatory reporting has been implemented. Patients are worried by large-scale recall actions initiated by healthcare officials. In May 2003, for example, the US Food and Drug Administration (FDA), published an alert regarding counterfeit pills of a cholesterol-lowering drug. But the European Union is far away from being a safe-haven: At the end of 2002, illegal re-imports of a discounted anti-HIV drug that was intended for use in South Africa were confiscated in the Netherlands.

In the business unit *identif Technologies*, two different labeling and authentication applications have been developed: *brandprotection*, that is based on DNA coding principles and *brandsealing* on the basis of surface reflexion by metal clusters.

brandprotection (DNA)

brandprotection is the brand name under which november AG is commercializing DNA based product security solutions. november AG has developed forgery-proof product security labels on the basis of synthetic nucleic acids in combination with easy-to-use scanners. The patented system takes advantage of the high information storage capacity of DNA. Authenticity of goods can be verified within seconds. As the marking can not be detected with the bare eye, it is called a "covert" feature in security business terms.

DNA codes can be applied as a sticky label - a very efficient way to protect against fraudulent substitution - or be printed directly on the packaging using current industrial printing solutions.

Bristol-Myers Squibb GmbH is one of the first customers to evaluate our DNA security systems. The pharma company is currently conducting a larger scale field study for maintaining **supply chain integrity** of one of their best-selling drugs.

Another very promising application for our DNA codes was developed for our project partner *Siemens A&D*. It uses DNA printing for the labeling of warranty vouchers that are issued for industrial CAM systems. Unjustified warranty claims can thus be easily turned down. This is a very good example for the broad range of application for *brandprotection*.

brandsealing (Cluster)

For the labeling of high-use surfaces, for instance industrial spare parts, chip cards, or banknotes, november offers the *brandsealing* cluster technology. It is based on extremely

stable ultra-thin layers, which show a highly specific color switch effect depending on the viewing angle. Due to its fast and easy machine readability, the generated spectral code guarantees high security against forgery. Holograms or comparable features can not compete with the machine readability and counterfeit protection that is offered by *brandsealing*. Displaying bright colors, this is called an "overt" feature in technical terms. Like for *brandprotection*, an extensive products pipeline has been established on the basis of these patented spectral codes, too.

Together with *Infineon Technologies AG*, we had been evaluating the direct labeling of SmartCard chip modules. Such "intelligent" cards can be identified by the integrated golden chip. The chip module area can be labeled with the company logo of the issuer, for example, be it a bank or insurance company. This is not only a marketing tool but also adds a new security feature whose code can be read in the split of a second. Similarly, original spare parts can be labeled in order to protect consumers from poor quality goods as well as protect the manufacturer from diversion or against dishonest distribution partners. Conformity to technical specifications was convincingly shown during the evaluation period as well as long term stability and readout reproducibility.

Moreover, *brandsealing* has a broad range of application as a machine-readable and optically attractive feature in the fields of technical foils or labeling. Most recent example for this are **security threads for banknotes** that have been developed together with Hueck Folien GmbH. Multi-stage anti-counterfeiting and tamper-proof solutions are also being developed. For complex packaging we offer combined *brandsealing* / *brandprotection* solutions. Safe drug packaging, for example, could be achieved by cluster coated blister packs plus DNA codes on the outer box.

After the end of the third quarter, the German Federal Ministry for Education and Research (BMBF) has announced that it will support november AG with a six digit EUR **grant** for the development of innovative **nanostructured surfaces** based on *brandsealing*. The supported project has a three year timeframe and will be carried out by eight companies and three research institutes plus november AG. The positive judgment of the BMBF once again underlines the potential of our technology.

directif Diagnostic Solutions

Together with Siemens Medical Solutions november AG develops the world's first fully automated system for **near-patient nucleic acid testing**. In a highly effective manner, pathogens are selectively identified by specific fragments of their genes. Compared to standard analytic techniques, this allows a much earlier and more accurate diagnosis. Apart from viral and bacterial pathogens, gene sequences that are crucial for drug action may be detected as well. If they are present, a drug may fail to help. This knowledge will help to avoid strenuous medication attempts that are certain to fail due to the patient's genetic variation. This kind of personalized medicine will become more and more important in the future. Besides helping to choose the right therapy, nucleic acid testing can also be used for therapeutic monitoring.

Using november's diagnostic device, patient samples can be analyzed right on site. Because the analysis itself is fully automated, this requires neither costly laboratory infrastructure nor specifically trained medical personnel (except for legal reasons). Net operating time is reduced to a few minutes. Instead of waiting 24 hours, the results are now obtained after only two hours. Moreover, this leads to a significant cost reduction per analysis. The two components of the highly integrated device are one analyzer unit that has the size of a desktop laser printer

and conveniently sized compact disposable cartridges. The actual test is carried out within the cartridges which includes all necessary reagents. By choosing the appropriate cartridge, a broad range of illnesses can be diagnosed.

Currently, interoperation of analyzer and cartridge is being optimized using a clinically relevant testing system: a factor V gene variant which is a well-known thrombosis risk factor. In preparation for world-wide marketing of the device, negotiations with several national and international sales partners are being conducted, too. The **strategic partnership** that was signed with *Siemens Medical Solutions* in the beginning of november is a major milestone for the continuing development and commercialization of our innovative diagnostic system and an important step towards a possible future **joint venture**.

PEQLAB Biotechnologie GmbH

Our subsidiary *PEQLAB Biotechnologie GmbH* has experienced a successful third quarter. Since December 2000, november AG has held a 51 percent stake in the company. As a **one stop shop for molecular biology**, the company markets reagents and laboratory equipment, some of which are developed and produced by itself, and - working in association with partner companies - provides services in the field of basic research in molecular biology. Customers are, among others, academic research institutions and biotech companies.

Compared to the second quarter, *PEQLAB* has achieved a **revenue growth** of about 28 percent. On a nine months scale, too, the revenue developed particularly well with more than 15 percent growth.

The company plans to expand its range of products to digital image documentation, a market segment where it expects extraordinary growth opportunities. First products have already been presented on *Biotechnica*, Germany's most important biotech industrial fair that was held in the beginning of October.

responsif GmbH

Effective as of the beginning of the year, the therapy division of november AG was spun off and is now operated through the independent *responsif GmbH*. Based on participation rights and a special profit share, the economic interests of november AG's shareholders will remain fully protected. *responsif GmbH* will voluntarily report on its progress.

A highly specific **individualized stimulation of the immune system** is the basis for the **cancer therapy** that was formerly developed by november AG and is now being continued at *responsif GmbH*. A first indication will be renal cell cancer. According to the German Cancer Research Center Heidelberg, more than 11,000 incidences have to be expected every year in Germany alone - with numbers increasing each year.

In late July, after legal and ethical evaluation, the Ethic Commission Erlangen-Nuremberg has approved *responsif's* application for a clinical feasibility study regarding the immunotherapeutic approach. Now the **way is clear for entering clinical testing**. The feasibility study will start when marker substance is available in appropriate quality from the GMP manufacturer. As technology transfer proceeds well, this will be possible as early as in the beginning of next year.

In the past quarter, *responsif GmbH* also intensified its service activities and pushed technology marketing. In support to that, the company participated at *Biotechnica*, Germany's

most important biotech trade fair. First visible positive result is the two-year licensing agreement on synthetic polyoma virus capsoids that was signed with the renowned Swedish *Karolinska Institute* at the beginning of the fourth quarter. This very positive out-licensing contract is an important milestone to establish alternative ways for the clinical application of promising new immunotherapeutics in cancer therapy.

november AG shares

The price for november AG's shares has been improving with a stable upward trend. At the end of the quarter, the Xetra closing price was 5.12 EUR, which is a 73 percent growth in the third quarter alone. This has continued in the current quarter, too. With a share price as high as 9.31 EUR at the printing date of this report, the market capitalization amounted to more than 63 million EUR, thus moving november AG shares back into the focus of institutional investors, too.

Outlook

After the first nine months of the current financial year, the earnings per share (EPS) amounted to -0.33 EUR (previous year's period: -0.57 EUR). Although this significant improvement can be mostly attributed to the spinning off of *responsif GmbH*, it also reflects the increased cost efficiency of november AG. Total liquidity at the end of the third quarter was 10.1 million EUR. This continues to be a convenient basis to accomplish break-even.

The course is set for a continuing positive development of november AG. In order to support the upward trend that has been remaining intact since the first quarter, we have defined clear priorities for the quarters to come: Conclusion of large scale contracts for **identif Technologies** which will lead to a significant revenue increase in the products from our core business, too, further improvement of cost efficiency, and the expansion of present and initialization of new partnerships also for the fast commercialization of our systems developed by **directif Diagnostic Solutions**. In the latter field, we have already made an important step forward through the strategic partnership with *Siemens Medical Solutions*.

Good news may also lie ahead for our therapy spin-off **responsif GmbH**. Currently, the company is in negotiations about the regulatory assessment of the marker substance. Depending on the result, costs, duration and scale of the regulatory process might be significantly reduced.

Our subsidiary **PEQLAB Biotechnologie GmbH** anticipates a successful final quarter again as orders from academic customers usually peak at the end of the year. Like in 2002, **PEQLAB** will be profitable in 2003, again.

november AG needs not to hide its successful history: With a cumulated revenue growth of more than 1.700 percent over the last five years, november was ranked seventh place on the *Technology Fast 50* list of Germany's fastest growing companies compiled at the beginning of October by the international business and tax consulting firm Deloitte&Touche. We take this award as an encouragement to achieve a two-digit annual revenue growth again.

The management

Important figures of november AG

figures in TEUR	2003-01-01 to 2003-09-30	2002-01-01 to 2002-09-30 ¹⁾
Revenues	2,930	2,523
Research and development	2,492	4,788
Operating income (EBIT)	-3,512	-6,527
Balance sheet total	25,805	30,538
Overall liquidity	10,074	17,443
Average number of employees (adjusted to FTE) ²⁾	64	88

¹⁾ Previous year's figures include the *responsif Therapeutic Solutions* division, which has been spun-off into the *responsif GmbH* in first quarter of 2003

²⁾ In deviation from previous year, part time employees were converted to full time employees to calculate the average number of employees. Previous year's figures were adjusted accordingly. The reduction in the number of employees compared to the previous year mainly resulted from the spin-off of our *responsif Therapeutic Solutions* division in the first quarter of the fiscal year 2003.

november AG is operating in very fast and newly evolving markets. For this reason, the company decided not to publish any biotech industry figures due to a lack of comparability and reliability.

Consolidated balance sheet on September 30, 2003 (IAS)
 november AG, Erlangen
 Gesellschaft für Molekulare Medizin

Assets

	Quarterly Report 2003-09-30 EUR	Annual Report 2002-12-31 TEUR	Change in %
<i>Current Assets</i>			
Cash and cash equivalents	4,535,118	6,859	-34
Short-term investments / marketable securities	39,052		
Trade accounts receivable	996,385	462	116
Inventories	788,612	760	4
Other current assets	5,819,542	8,277	-30
Prepaid expenses	49,438	100	-51
Total current assets	12,228,147	16,458	-26
<i>Non-current assets</i>			
Property, plant and equipment	1,222,211	1,833	-33
Intangible assets	110,911	113	-2
Goodwill	1,343,732	1,486	-10
Investments	991,861	1,064	-7
Investments (<i>at equity</i>)	1	.	
Deferred taxes	9,908,318	8,629	15
Total non-current assets	13,577,034	13,125	3
Total assets	25,805,181	29,583	-13

Consolidated balance sheet on September 30, 2003 (IAS)
 november AG, Erlangen
 Gesellschaft für Molekulare Medizin

Liabilities and shareholders' equity

	Quarterly Report 2003-09-30 EUR	Annual Report 2002-12-31 TEUR	Change in %
<i>Current liabilities</i>			
Trade accounts payable	228,799	739	-69
Advance payments received		15	-100
Accrued expenses	663,164	1,473	-55
Current portion of amounts owed to banks	129,347	129	0
Other current liabilities	254,866	279	-9
Total current liabilities	1,276,176	2,635	-52
<i>Non-current liabilities</i>			
Bonds	74,129	124	-40
Long-term loans	447,599	566	-21
Total non-current liabilities	521,728	690	-24
Minority interest	150,446	136	11
<i>Shareholders' equity</i>			
Share capital	6,811,200	6,811	
Additional paid-in capital	40,690,060	40,690	
Accumulated deficit	-23,644,429	-21,379	11
Total shareholders' equity	23,856,831	26,122	-9
Total liabilities and shareholders' equity	25,805,181	29,583	-13

Consolidated statement of income (IAS)
from January 1 until September 30, 2003
november AG, Erlangen
Gesellschaft für Molekulare Medizin

	9 Months Report 01-01 - 2003-09-30	9 Months Report 01-01 - 2002-09-30	Change in %	Quarterly Report 07-01 - 2003-09-30	Quarterly Report 07-01 - 2002-09-30	Change in %
	EUR	TEUR		EUR	TEUR	
Revenues	2,929,569	2,523	16	1,116,988	920	21
Cost of revenues	1,650,749	1,348	22	638,700	448	43
Gross profit	1,278,820	1,175	9	478,288	472	1
Selling and marketing expenses	1,532,356	1,531	0	531,150	610	-13
Research and development expenses	2,491,941	4,788	-48	756,323	1,725	-56
General and administrative expenses	907,501	1,635	-44	231,144	500	-54
Other operating expenses	462,327	132	250	70,896	2	3,445
Other operating income	745,389	526	42	113,523	180	-37
Amortization of goodwill	142,277	142	0	47,425	47	
Operating income / loss	-3,512,193	-6,527	-46	-1,045,127	-2,232	-53
Interest income and expenses	100,624	225	-55	25,600	72	-64
Other income / expenses	-107,804	-132	-18	-17,288	-56	-69
Financial result	-7,180	93	-108	8,312	16	-48
Result before income tax (and minority interest)	-3,519,373	-6,434	-45	-1,036,815	-2,216	-53
Income tax						
a.) Tax expenses	10,312			6,742		
b.) Income from deferred tax	1,279,184	2,534	-50	376,626	824	-54
Result before minority interest	-2,250,501	-3,900	-42	-666,931	-1,392	-52
Minority interest	-14,508	-15	-3	-7,948	-11	-28
Consolidated net loss	-2,265,009	-3,915	-42	-674,879	-1,403	-52
Net income per share in EUR						
Undiluted net income per share (EPS)	-0.33	-0.57		-0.10	-0.21	
Undiluted net DVFA/SG income per share	-0.33	-0.57		-0.10	-0.21	
Weighted average shares outstanding (undiluted)	6,811,200	6,811,200		6,811,200	6,811,200	

Previous year's figures include our *responsif Therapeutic Solutions* division, which has been spun-off effective as of January 1, 2003.

Cash flow statement (IAS)
from January 1 until September 30, 2003
november AG, Erlangen
Gesellschaft für Molekulare Medizin

	01-01- 2003-09-30 EUR	01-01- 2002-09-30 TEUR
Cash flow from operating activities:		
Consolidated net loss	-2,265,009	-3,915
<i>Adjustments for:</i>		
Minority interests	14,508	16
Depreciation and amortization	438,221	920
Income from change in deferred taxes	-1,279,184	-2,534
<i>Change in net working capital:</i>		
Increase in inventories, trade accounts receivable and other assets	1,945,357	34
Decrease in trade accounts payable and other liabilities	-1,359,176	-450
Net cash used in operating activities	-2,505,283	-5,929
Cash flow from investing activities:		
Purchase of property, plant and equipment	-146,224	-560
Proceeds from disposal of a subsidiary, net of cash transferred	462,664	1
Proceeds from investments	72,410	3,974
Net cash from investing activities	388,850	3,415
Cash flow from financing activities:		
Cash repayments of amounts borrowed	-118,735	-119
Repayments for decrease in bonds	-49,355	-3
Net cash used in financing activities	-168,090	-122
Decrease in cash and cash equivalents	-2,284,523	-2,636
Cash and cash equivalents at the beginning of period	6,858,693	8,079
Cash and cash equivalents at the end of period *)	4,574,170	5,443

*) The overall liquidity per 2003-09-30 amounts to TEUR 10,074 (2002-12-31: TEUR 15,859). It is composed of the balance sheet positions "Cash and cash equivalents" (TEUR 4,574) and a borrower's note (TEUR 5,500). The borrower's note, which is due for repayment within the next year, is shown under the position "Other current assets".

*Statement of changes in equity
for the period January 1, 2003 until September 30, 2003*

The changes in equity are shown in the following table
(figures in TEUR)

	Subscribed capital	Additional paid-in capital	Accumulated deficit	Total shareholders' equity
December 31, 2002	6,811	40,690	-21,379	26,122
Result-affecting changes in equity:				
-Consolidated net loss from January 1 to Sept. 30, 2003			-2,265	-2,265
Sept. 30, 2003	6,811	40,690	-23,644	23,857

*Statement of changes in equity
for the corresponding period of the previous year from
January 1, 2002 until September 30, 2002*

	Subscribed capital	Additional paid-in capital	Accumulated deficit	Total shareholders' equity
December 31, 2001	6,811	40,690	-15,455	32,046
Result-affecting changes in equity:				
-Consolidated net loss from January 1 to Sept. 30, 2002			-3,915	-3,915
Sept. 30, 2002	6,811	40,690	-19,370	28,131

Explanatory notes

General explanations / changes in consolidated companies

The accounting and valuation methods were continued in accordance to the IAS consolidated financial statements per 2002-12-31. There were no relevant changes compared to the notes of the consolidated financial statements mentioned above. As part of a management-buy-out our *responsif Therapeutic Solutions* division has been spun-off into the *responsif GmbH* effective as of January 1, 2003. The *responsif GmbH* is not to be consolidated according to IAS 27 and SIC 12.

The statement of income for the previous year includes research and development cost (TEUR 2,407) and other income (TEUR 175), pertaining to the previous *responsif Therapeutic Solutions* division.

Balance sheet development and overall liquidity

The balance sheet total per 2003-09-30 amounted to TEUR 25,805 and was reduced by TEUR 3,778 in comparison to 2002-12-31.

In the reporting period of January 1 through September 30, 2003, the november group invested about TEUR 118 (previous year's period: TEUR 545) into property, plant and equipment. Moreover, in the reporting period non-current assets at a book value of TEUR 459 have been sold, TEUR 440 of which to the *responsif GmbH*.

The overall liquidity of the november group amounted to EUR 10.1 million at the end of the third quarter of 2003 (2002-12-31: EUR 15.9 million). This is equivalent to 39 percent of the balance sheet total. It consists of the balance sheet position "Cash and cash equivalents", "Short-term investments/marketable securities" and a borrower's note, which is included in the positions "Other current assets" and is due within the next year. In the current financial year, there has already been a scheduled partial repayment of this borrower's note.

According to the board of directors, the financial funds are a convenient basis to develop our divisions *identif Technologies* and *directif Therapeutic Solutions* until break-even.

The balance sheet position "investments" includes a loan of TEUR 925 issued to *responsif GmbH* as start-up financing.

The position "Trade accounts receivable" increased by TEUR 534 to TEUR 996 in the reporting period. In addition to receivables of the *PEQLAB Biotechnologie GmbH*, this position includes receivables from the *responsif GmbH*, which are not yet due, for services provided by november.

In accordance to the relevant IAS standards, the deferred tax assets were increased to TEUR 9,908 (2002-12-31: TEUR 8,629). The calculation is based on a corporate tax rate of 38 percent, as well as the assumption that the deferred tax loss carried-forward will be utilized as planned in the future. A change in corporate taxation might require an adjustment of this position at a later point in time.

During the first nine months of the year 2003, the total amount of current and financial liabilities was reduced by TEUR 1,527 to TEUR 1,798.

The shareholders' equity per 2003-09-30 was reduced to TEUR 23,857 by the full amount of the net loss of the reporting period of TEUR 2,265 in comparison to 2002-12-31. The equity ratio of the november group remains unchanged at 92 percent of the balance sheet total.

Based on the XETRA closing price on 2003-09-30 (EUR 5.12), the company's market cap totaled EUR 34.87 million.

Research and development expenses, other operating expenses

In the first nine months of 2003, research and development expenses amounted to TEUR 2,492 (previous year's period: 4,788 TEUR). Last year's figures include R&D expenditures amounting to TEUR 2,807 for business activities that were later spun off to *responsif GmbH*. Adjusted R&D costs increased by 26% to TEUR 2,492 from last year. R&D expenditures for each division are as follows:

Figures in TEUR	identif Technologies	directif Diagnostic Solutions	Others	Total
01/01 – 09/30/03	980	1,512		2,492
01/01 – 09/30/02	846	1,135	2,807	4,788

The research and development expenses of the reporting period are essentially made up of personnel expenses, expenses for outside services, cost of materials, expenses for patents and premises, apportionment of overhead and management cost, as well as depreciation on R&D equipment.

Selling and marketing expenses pertain to the *PEQLAB* operations and the costs associated with the market launch of *identif Technologies*. With TEUR 1,532 they are on the same level as in last year's reporting period (TEUR 1,531).

The measures that have been taken to lower general and administrative costs already show significant results. Compared to last year (TEUR 1,635), administrative costs were cut by 44% down to TEUR 907.

In the reporting period, other operating expenses total TEUR 462 (previous year: TEUR 132). Apart from corrections for restructuring expenditures (TEUR 72) and other expenses, costs of TEUR 340, which incurred in association with services provided to *responsif GmbH* by november AG, are included herein.

Other operating income includes grants received from public bodies (TEUR 240), services provided to *responsif GmbH* (TEUR 345), and the liquidation of accrued expenses (TEUR 79). The position amounts to TEUR 745 (previous year: TEUR 526).

Outside the scope of the operational income, costs for stock market listing and Designated Sponsoring (equity related costs) of TEUR 65 are displayed under the position of "Other expenses" within the financial result.

Operating result and net income for the reporting period

As a result of a rigorous cost cutting program, but also by spinning off the *responsif Therapeutic Solutions* division, the operating result could be substantially improved from last year. For the period of 01/01/03 through 09/30/03, the consolidated loss amounts to TEUR -3,512 improving by TEUR 3,015 from last year (TEUR -6,527). The consolidated net result, including financial and tax result as well as minority interests, for the first nine months of the financial year 2003 totals TEUR -2,265, and has improved by 42% from last year's corresponding period (TEUR -3,915). The change in the accumulated deficit per 2003-09-30 to TEUR -23,644 (2002-12-31: TEUR -21,379) is completely accounted for by the consolidated net loss. Thus the undiluted earnings per share (EPS and DVFA/SG) are EUR -0.33 (previous year: EUR -0.57).

Business segment information

figures in TEUR	business segments				
	identif Technologies	directif Diagnostic Solutions	PEQLAB Biotechn. GmbH	Administration / Other	Group
Earnings					
2003-09-30	72	198	2,893	511	3,674
2002-09-30	14	202	2,577	257	3,050
Operating result					
2003-09-30	-1,405	-1,358	93	-842	-3,512
2002-09-30	-1,353	-934	85	-4,325	-6,527

Overhead costs, which cannot be assigned to any of the divisions, as well as expenses associated with the consolidation, are summarized in the segment "Administration/Other". However, administrative costs for our subsidiary are included in the *PEQLAB* column. The figures for the previous year in this column also include the operational income (TEUR 175) and the operational result (TEUR -2,237) of the previous *responsif Therapeutic Solutions* division.

The group revenues within the first nine months were for the most part generated by the subsidiary *PEQLAB Biotechnologie GmbH*. They are subdivided by region in the following table:

figures in TEUR	01-01 – 2003-09-30	01-01 – 2002-09-30
Domestic	2,675	2,287
EU	109	57
Rest of World	146	179
Total	2,930	2,523

Number of shares and rights on shares of november AG, that are held by members of the executive or supervisory board of the company as well as changes concerning related parties

Board member	Shares held on 2003-09-30	Shares held on 2002-12-31
1. Executive Board		
Dr. Wolf M. Bertling	599,657	888,292
(Dr. Thomas Schulze (until 2003-06-30))		4,554)
(Hans-Dieter Tresser (until 2003-02-28))		-)
2. Supervisory Board		
Prof. Dr. Dr. h.c. Karl Wilhelm Pohl (Chairman)	-	-
Dr. Leo Steib (Dep. chairman)	113,748	113,748
Günter Frankenne	90	90
Horst Linn	6,000	6,000
Dr. Werner J. Schönfeld	200	-
Walter Schurmann	1,641	1,641

The executive board members hold a total of 599,657, the members of the supervisory board hold a total of 121,679 of the company's shares. Already in the first quarter, Dr. Bertling donated 288,635 of his shares as part of an endowment into the Nobis Foundation for the promotion of ethics and acceptance of biotechnology, which was founded by himself.

Some members of the executive board were entitled to participate in the company's employee participation program based on convertible bonds. Mr. Hans-Dieter Tresser and Dr. Thomas Schulze have left the managing board of november AG on 2003-02-28 and on 2003-06-30, respectively. They have returned their 16,000 bonds at face value (EUR 1.00 per bond).

The company itself does not hold own shares.

Our employees

On average, 64 employees worked within the group in full-time terms throughout the reporting period from January 1 to September 30, 2003 (corresponding period 2002 on average: 88). 69 percent of them were employed in research and development (previous year: 74 percent). Besides regular turnover, the significant reduction in the number of employees resulted for the most part from the spin-off of the *responsif Therapeutic Solutions* division at the beginning of the year 2003.

At the end of the quarter, a total of 74,129 convertible bonds at a face value of 1.00 EUR each had been issued to the employees. After a holding period of two years, but not later than five years after the issuance, the bonds can be converted into november AG stock. However, conversion is possible only if the price of november stock has increased by 25% per year from the base price at the time of issuance. In the first three quarters of 2003 the number of outstanding bonds nominally decreased by TEUR 50.

Business development during the first nine months of the year 2003

Accelerated marketing activities in the business unit **identif Technologies** generate first results: The successful closing of a licensing and marketing agreement with Hueck Folien GmbH shows that the commercialization of our *brandsealing* technology continues according to plan. Together with *brandprotection* DNA codes, two products have been launched so far. Our product development covers the whole range of product security and brand protection, from counterfeit protection to parallel trade or diversion. Since the beginning of the year, the Munich based pharma company *Bristol Myers Squibb* is successfully using *brandprotection* for maintaining supply chain integrity. The evaluation of additional applications, like *brandsealing* markings für *Infineon* SmartCard chip modules has been successfully accomplished.

Within the business unit **directif Diagnostic Solutions**, the optimization and validation of the system using clinical samples was continued as planned during the third quarter. At the same time, we started negotiations with possible sales partners. After the end of the quarter, the two partners november AG and *Siemens Medical Solutions* have established a strategic partnership, thus expressing their firm intention to continue their joint development of the device for the attractive point of care diagnostics market.

The spin-off of the therapeutic division has resulted in special expenses such as the agreed-upon start-up financing of the **responsif GmbH** in the first nine months. In the last quarter, the Ethic Commission Erlangen-Nuremberg has approved *responsif's* application for a clinical feasibility study regarding the immunotherapeutic approach. For november's former therapeutic division, the way is now clear for entering clinical testing. Another success was accomplished in the field of technology marketing: After the end of the reporting period, the Swedish *Karolinska Institute* obtained a technology license to use synthetic polyoma virus capsoids for drug delivery.

The group revenues of TEUR 2,930 in the reporting period from 2003-01-01 until 2003-09-30 were generated for the most part by the subsidiary **PEQLAB Biotechnologie GmbH**. Therefore, as in the past the subsidiary again substantially contributed to the positive development of the group in the third quarter. In 2002, *PEQLAB* already showed positive net

earnings. In a difficult market environment the company was able to increase revenues by 15% in the course of this financial year. Since most of the sales of the *PEQLAB* operations are usually generated in the second half of the year, especially in the fourth quarter, we expect a two digit revenue growth by the end of 2003 to be on the level shown in the course of this year compared to 2002. The gross margin for the first nine months was 44 percent.

Group liquidity decreased by TEUR 5,785 totaling TEUR 10,074 at the end of the reporting period. In the previous year's period, liquidity was reduced by TEUR 6,636, TEUR 852 more than this year. Furthermore, it has to be noted that accrued expenses and accounts payable from last year were due in the reporting period

In the future, the careful management of the financial resources available to us will always be given a high priority at november AG. Therefore, we will continue to consequently cut costs and increase efficiency. In this context, first results can be seen in the 44% reduction of general administrative costs.

During the first nine months of the current financial year net earnings per share (EPS and DVFA/SG) amounted to EUR -0.33 and thus remains pleasingly below previous year's net earnings per share (EUR -0.57). We don't expect any extraordinary risks for the ongoing fiscal year.

Auditor's Report

For november AG, Gesellschaft für Molekulare Medizin

Having been so engaged, we have conducted a review of the consolidated report for the period of 1 January to 30 September 2003 (consisting of the consolidated balance sheet, the consolidated profit and loss statement, the consolidated equity capital development, the consolidated cash flow statement and explanatory comments in the notes to the consolidated financial statements). The preparation of the consolidated interim report in accordance with International Accounting Standards (IAS) and the German provisions of the law concerning stock exchange activities is the responsibility of the company's legal representatives. Our responsibility is to render an opinion on the consolidated interim report on the basis of our review.

We have conducted our review of the consolidated interim report in accordance with those principles applicable to the auditing of financial statements which are prepared by the Institute of Public Accountants ("IDW"). According to these principles, the audit is to be planned and conducted in a manner which enables us to rule out, with a certain degree of assurance, the possibility that the consolidated interim report has not, in material aspects, been prepared in conformity with the International Accounting Standard (IAS) and the supplementary German provisions of the law concerning stock exchange activities, or that it does not present a true and fair view of the company's assets, liabilities, financial position and profit or loss position.

A review of this type is primarily limited to interviewing employees and to analytical assessments, and thus does not ensure the level of certainty attained in the context of an audit of the company's annual financial statements. As we have not been engaged to conduct an official audit of the company's financial statements, we are not in a position to issue an official auditor's certificate.

During our audit we have not found any indication or events which might lead to the assumption that the consolidated interim report are in material aspects - not in compliance with the International Accounting Standards (IAS) and the supplementary German provisions of the law concerning stock exchange activities, or that it does not present a true and fair view of the company's assets, liabilities, financial position and profit or loss position.

Nuremberg, this 10th day in November, 2003

Rödl & Partner GmbH
Chartered Accountants
Tax Consultants

Dr. Bömelburg
Chartered Accountant

Morgenroth
Chartered Accountant

Glossary

identif Technologies	Business unit of november AG in which solutions for product security and brand protection are developed
directif Diagnostic Solutions	Business unit of november AG in which integrated systems are developed for nucleic acid testing at the →Point of care
responsif GmbH	Former business unit of november AG in which novel approaches for immunotherapeutic cancer therapy have been developed. Spun off to a separate company in January 2003.
brandprotection	System for machine-readable labeling and on-site identification of goods or packaging based on →DNA as a biotechnological code (→identif Technologies)
brandsealing	Cluster-based system for optical and machine-readable marking of surfaces, either directly or via labels (→identif Technologies)
Cluster	Signal-enhancing metal particles on a submicroscopical scale. Show strong color switch effect when incorporated into thin films. Basis for → <i>brandsealing</i>
DNA	Deoxyribonucleic acid. Chain-like molecule on the basis of four different building blocks. In nature carrier of genetic information with high storage capacity. Synthetic DNA molecules are the basis of the → <i>brandprotection</i> product code
Nucleic acid	Carrier of the genetic information. Diseases can be related to changes on the nucleic acid level (→directif Diagnostic Solutions)
Point of care (POC)	E.g. hospitals, surgeries. One example: near-patient diagnostic systems from →directif Diagnostic Solutions

Your Notes

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