

Evotec OAI AG and Subsidiaries

Consolidated balance sheets according to U.S. GAAP as of 31 December

T€ except share data	Footnote reference	2003	2002	Δ 03 02 in %*
Assets				
Current assets:				
– Cash and cash equivalents		18,763	21,308	(11.94)
– Marketable securities	(4)	708	–	100.00
– Trade accounts receivable, net	(5)	7,714	10,166	(24.12)
– Accounts receivable due from related parties		506	244	107.38
– Inventories	(6)	10,225	8,408	21.61
– Deferred tax assets	(13)	76	45	68.89
– Current tax receivables		2,754	2,665	3.34
– Prepaid expenses and other current assets		2,246	3,196	(29.72)
Total current assets		42,992	46,032	(6.60)
Long-term investments	(7)	677	560	20.89
Property, plant and equipment, net	(8)	62,051	61,951	0.16
Intangible assets, excluding goodwill, net	(9)	18,731	29,601	(36.72)
Goodwill, net	(9)	96,418	102,851	(6.25)
Other non-current assets		50	47	6.38
Total assets		220,919	241,042	(8.35)
Liabilities and stockholders' equity				
Current liabilities:				
– Current maturities of long-term loans	(10)	1,590	1,067	49.02
– Current portion of capital lease obligations	(11)	615	386	59.33
– Trade accounts payable		5,510	4,565	20.70
– Accounts payable to related parties		18	8	125.00
– Advanced payments received		917	5,703	(83.92)
– Accrued liabilities	(12)	6,869	4,726	45.34
– Accrued vacation		925	826	11.99
– Deferred revenues		4,545	2,695	68.65
– Current tax payables		62	80	(22.50)
– Other current liabilities		1,479	1,404	5.34
Total current liabilities		22,530	21,460	4.99
Long-term loans	(10)	10,758	6,820	57.74
Long-term capital lease obligations	(11)	1,777	1,113	59.66
Deferred tax liabilities	(13)	11,329	15,544	(27.12)
Deferred revenues		1,661	–	100.00
Other non-current liabilities		98	53	84.91
Minority interests		665	645	3.10
Stockholders' equity:				
– Share capital**	(15)	35,510	35,510	0.00
– Additional paid-in capital		540,035	536,908	0.58
– Unearned compensation		(150)	(345)	(56.45)
– Other comprehensive loss		(40,046)	(27,660)	44.78
– Retained deficit		(363,248)	(349,006)	4.08
Total stockholders' equity		172,101	195,407	(11.93)
Total liabilities and stockholders' equity		220,919	241,042	(8.35)

* unaudited

** 53,210,130 and 53,210,130 shares, 1 € nominal amount, authorised at 31 December 2003 and 2002, respectively
35,510,130 and 35,510,130 shares issued and outstanding in 2003 and 2002, respectively

See accompanying notes to consolidated financial statements.

Evotec OAI AG and Subsidiaries**Consolidated statements of operations according to U.S. GAAP for the years ended December**

T€ except share data and per share data	Footnote reference	2003	2002	Δ 03 02 in %*
Revenue:				
– Drug discovery products & development of technologies		17,223	11,825	45.65
– Drug discovery services		60,005	58,170	3.15
Total revenue		77,228	69,995	10.33
Costs of revenue:				
– Drug discovery products & development of technologies		9,952	3,768	164.12
– Drug discovery services		36,241	34,763	4.25
Total costs of revenue		46,193	38,531	19.89
Gross profit		31,035	31,464	(1.36)
Operating costs and expenses:				
– Research and development expenses		15,466	23,012	(32.79)
– Selling, general and administrative expenses		17,924	20,467	(12.42)
– Amortisation of intangible assets	(9)	10,671	12,018	(11.21)
– Impairment of goodwill		–	109,389	(100.00)
– Other operating expenses		2,751	2,090	31.63
Total operating costs and expenses		46,812	166,976	(71.96)
Operating loss		(15,777)	(135,512)	(88.36)
Other non-operating income (expense)				
– Interest income		540	681	(20.70)
– Interest expense		(714)	(331)	115.71
– Net loss from equity investments	(7)	(1,568)	(62)	–
– Foreign currency exchange gain (loss), net		(327)	210	(255.71)
– Other non-operating income, net		713	615	15.93
Total non-operating income		(1,356)	1,113	(221.83)
Loss before taxes and minority interests		(17,133)	(134,399)	(87.25)
– Income tax benefit	(13)	2,825	2,755	2.54
– Minority interests		66	14	371.43
Net loss		(14,242)	(131,630)	(89.18)
Weighted average shares outstanding		35,510,130	35,509,285	
Net loss per share		(0.40)	(3.71)	

* unaudited

See accompanying notes to consolidated financial statements.

Evotec OAI AG and Subsidiaries**Consolidated statements of cash flows according to U.S. GAAP for the years ended 31 December**

T€	2003	2002
Cash flows from operating activities:		
Net loss	(14,242)	(131,630)
Adjustments to reconcile net loss to net cash used in operating activities:		
– Depreciation of property, plant and equipment	9,835	11,105
– Amortisation of intangible assets	10,671	12,018
– Depreciation of current assets	473	–
– Impairment of goodwill	–	109,389
– Net loss from equity investments	1,568	62
– Stock compensation expense	271	324
– Gain on sale of marketable securities, net	–	(55)
– Loss on sale of long-term investments	–	20
– Loss on sale of property, plant and equipment, net	63	68
– Deferred tax benefit	(3,186)	(2,928)
– Minority interests	(66)	(14)
– Decrease (increase) in:		
– Accounts receivable	1,727	1,602
– Inventories	(2,339)	(2,072)
– Other assets from sale of shares in subsidiaries	–	(5)
– Other assets	481	57
– Increase (decrease) in:		
– Accounts payable	1,144	(912)
– Advanced payments received	(4,786)	4,113
– Deferred revenues	3,691	423
– Accrued liabilities	2,392	(1,603)
– Current taxes payable	(13)	80
– Other liabilities	128	(1,012)
Net cash provided by (used in) operating activities	7,812	(970)
Cash flows from investing activities:		
– Purchase of marketable securities	(4,230)	(1,923)
– Purchase of long-term investments	(1,524)	(11)
– Purchase of property, plant and equipment	(12,515)	(7,299)
– Purchase of intangible assets	(1,689)	(28)
– Proceeds from sale of property, plant and equipment	15	11
– Proceeds from sale of shares in long-term investments	–	443
– Proceeds from sale of shares in subsidiaries	–	1
– Proceeds from sale of marketable securities	3,572	10,978
Net cash provided by (used in) investing activities	(16,371)	2,172
Cash flows from financing activities:		
– Proceeds from capital increase	–	20
– Capital contributed by minorities	3,065	–
– Net proceeds from increase of loans	5,496	4,914
– Repayment of loans	(1,335)	(823)
Net cash provided by financing activities	7,226	4,111
Net increase (decrease) in cash and cash equivalents	(1,333)	5,313
Exchange rate difference	(1,212)	(2,656)
Cash and cash equivalents at beginning of year	21,308	18,651
Cash and cash equivalents at end of year	18,763	21,308

See accompanying notes to consolidated financial statements.

Evotec OAI AG and Subsidiaries**Supplemental disclosures of cash flow information for the years ended 31 December**

T€	2003	2002
Cash paid during the year for:		
– Interest	690	331
– Taxes	401	1,018
Supplemental schedule of non-cash activities:		
– Acquisition of long-term investments	198	611
– Additions to capital leases	1,352	1,335
– Removal of embargo	–	(942)
– Change in embargo intangibles	–	(658)
– Acquisition adjustment of Evotec OAI Ltd	–	(1,432)

See accompanying notes to consolidated financial statements.

Evotec OAI AG and Subsidiaries

Consolidated fixed asset movement schedule according to U.S. GAAP

T€	Acquisition and manufacturing costs					31 12 2003
	01 01 2003	Foreign exchange	Additions	Disposals	Reclass	
I. Intangible assets						
1. Patents and licences	3,106	–	1,689	–	–	4,795
2. Goodwill	102,851***	(6,433)	–	–	–	96,418
3. Developed technology	31,662	(2,193)	–	–	–	29,469
4. Customer list	21,433	(1,599)	–	–	–	19,834
	159,052	(10,225)	1,689	–	–	150,516
II. Tangible fixed assets						
1. Buildings and leasehold improvements	24,781	(1,823)	74	–	3,924	26,956
2. Plant, machinery and equipment	47,306	(2,900)	2,370	621	7,116	53,271
3. Furniture and fixtures	10,471	(624)	1,528	117	6	11,264
4. Purchased software	1,196	–	24	1	–	1,219
5. Capital leases	2,148	(161)	1,476	–	(221)	3,242
6. Assets under construction	2,966	(171)	8,141	7	(10,825)	104
	88,868	(5,679)	13,613	746	–	96,056
III. Financial assets						
1. Long-term investments	560	(29)	1,722	1,568	–	685
2. Other financial assets	47	–	3	–	–	50
	607	(29)	1,725	1,568	–	735
	248,527	(15,933)	17,027	2,314	–	247,307

* calculated at the yearly average foreign exchange rate results in an increase of T€ 198

** calculated at the yearly average foreign exchange rate results in an increase of T€ 128

*** net of accumulated amortisation as of 31 December 2001 of T€ 162,195 and impairment as of 2002 of T€ 109,389

See accompanying notes to consolidated financial statements.

Evotec OAI AG and Subsidiaries

Consolidated statements of changes in stockholders' equity and comprehensive loss according to U.S. GAAP

T€ except share data	Share capital		Additional paid-in capital	Unearned compensation
	Shares	Amount		
Balance at 31 December 2001	35,507,047	35,507	536,857	(635)
Share capital increase	3,083	3	17	–
Stock option plan	–	–	34	290
Comprehensive loss:				
– Foreign currency translation	–	–	–	–
– Net unrealised holding losses on available-for-sale securities	–	–	–	–
– Net loss	–	–	–	–
Total comprehensive loss				
Balance at 31 December 2002	35,510,130	35,510	536,908	(345)
Stock option plan	–	–	76	195
Capital contributed by minorities	–	–	3,051	–
Comprehensive loss:				
– Foreign currency translation	–	–	–	–
– Net unrealised holding losses on available-for-sale securities	–	–	–	–
– Net loss	–	–	–	–
Total comprehensive loss				
Balance at 31 December 2003	35,510,130	35,510	540,035	(150)

See accompanying notes to consolidated financial statements.

Depreciation, amortisation and writedowns					Net book value	
01 01 2003	Foreign exchange	Additions	Disposals	31 12 2003	31 12 2003	31 12 2002
2,120	-	406	-	2,526	2,269	986
-	-	-	-	-	96,418	102,851
14,835	(986)	6,100	-	19,949	9,520	16,827
9,645	(720)	3,967	-	12,892	6,942	11,788
26,600	(1,706)	10,473*	-	35,367	115,149	132,452
3,299	(336)	1,621	-	4,584	22,372	21,482
15,995	(1,150)	5,628	549	19,924	33,347	31,311
6,530	(448)	1,804	113	7,773	3,491	3,941
813	-	146	1	958	261	383
280	(21)	507	-	766	2,476	1,868
-	-	-	-	-	104	2,966
26,917	(1,955)	9,706**	663	34,005	62,051	61,951
-	-	8	-	8	677	560
-	-	-	-	-	50	47
-	-	8	-	8	727	607
53,517	(3,661)	20,187	663	69,380	177,927	195,010

Other comprehensive loss	Unrealised gains (losses) on securities	Retained deficit	Total stockholders' equity
(6,914)	152	(217,376)	347,591
-	-	-	20
-	-	-	324
(20,746)	-	-	(20,746)
-	(152)	-	(152)
-	-	(131,630)	(131,630)
			(152,528)
(27,660)	-	(349,006)	195,407
-	-	-	271
-	-	-	3,051
(12,386)	-	-	(12,386)
-	-	-	-
-	-	(14,242)	(14,242)
			(26,628)
(40,046)	-	(363,248)	172,101