evotec OAI

EVOTEC BioSystems AG Annual Report 2000

## Key Figures

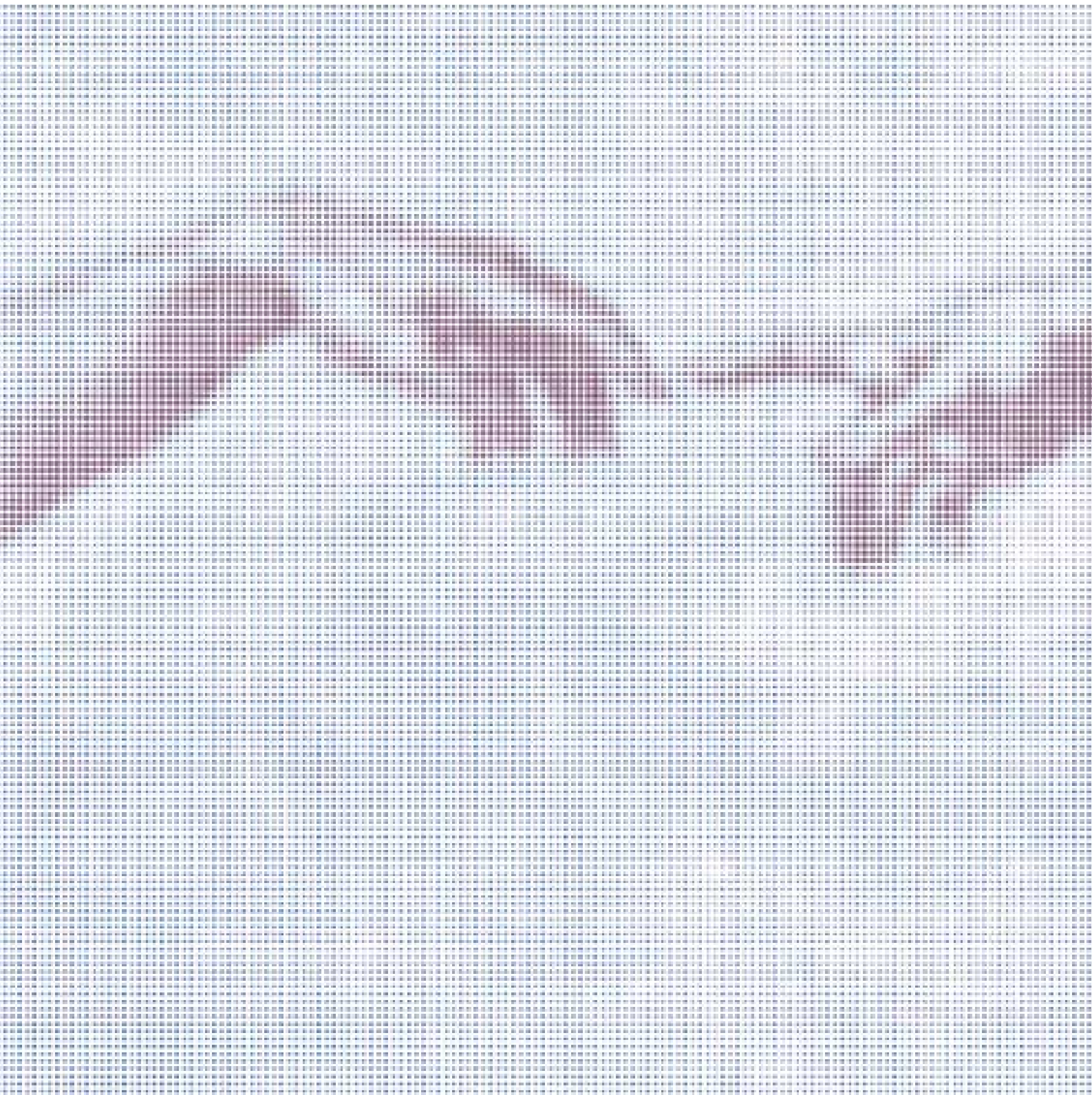
| EVOTEC BioSystems AG | | 1997 | 1998 | 1999 | 2000 | Δ 99/00 in % |
|---|---|---|---|---|---|---|
| Results | | | | | | |
| Revenue | TEUR | 7,061 | 7,308 | 9,786 | 28,276 | 188.94 |
| R&D expense | TEUR | 5,829 | 8,283 | 12,952 | 18,480 | 42.68 |
| Operating loss | TEUR | 1,100 | 6,071 | 10,154 | 48,926 | 381.84 |
| Operating loss adjusted for goodwill amongst other things | TEUR | 1,100 | 6,071 | 10,154 | 14,361 | 41.43 |
| Net loss | TEUR | 1,368 | 5,589 | 9,482 | 47,074 | 396.46 |
| Net loss adjusted for goodwill amongst other things | TEUR | 1,368 | 5,589 | 9,482 | 12,509 | 31.92 |
| Cash flow | TEUR | 283 | 12,875 | 41,549 | (24,760) | (159.59) |
| Balance sheet data | | | | | | |
| Subscribed capital* | TEUR | 10,000 | 14,196 | 24,156 | 35,452 | 46.76 |
| Number of shares* | thousands | 10,000 | 14,196 | 24,156 | 35,452 | 46.76 |
| Shareholders' equity | TEUR | (6,713) | 13,829 | 60,299 | 502,495 | 733.34 |
| Equity ratio | % | – | 51.98 | 81.70 | 94.33 | – |
| Investments** | TEUR | 1,416 | 4,870 | 5,059 | 493,757 | – |
| – Intangible assets | TEUR | 51 | 195 | 337 | 433,819 | – |
| – Tangible fixed assets | TEUR | 1,354 | 4,663 | 4,715 | 56,626 | – |
| – Financial assets | TEUR | 11 | 11 | 7 | 3,312 | – |
| Cash including investment securities | TEUR | 3,064 | 18,176 | 57,488 | 48,924 | (14.90) |
| Balance sheet total | TEUR | 5,345 | 26,605 | 73,806 | 532,706 | 621.77 |
| Personnel data | | | | | | |
| Employees as of December, 31 | | 96 | 141 | 228 | 505 | 121.49 |
| Total corporate personnel expenditures | TEUR | 4,142 | 6,812 | 10,519 | 17,997 | 71.09 |
| Revenue per employee | TEUR | 74 | 52 | 43 | 56 | 30.23 |
| Per share | | | | | | |
| Result | EUR | (0.14) | (0.41) | (0.60) | (1,75) | (191.67) |
| Result adjusted for goodwill amongst other things | EUR | (0.14) | (0.41) | (0.60) | (0,46) | 23.33 |
| EBITDA | EUR | (0.02) | (0.33) | (0.50) | (0,35) | 30.00 |
| Dividends | EUR | – | – | – | – | – |
| Security identification number 566480 | | | | | | |

| Exchange rate | 1997 | 1998 | 1999 | 2000 | |
|---|---|---|---|---|---|
| DM/EUR | 1.95583 | 1.95583 | 1.95583 | 1.95583 | |
| EUR/GBP | – | – | 1.51912 | 1.66598 | *** |

* refers to 1 Euro share (retrospectively adopted to stock split)
** including additions from acquisition of OAI and GENION
*** average 4th quarter 2000

# Content

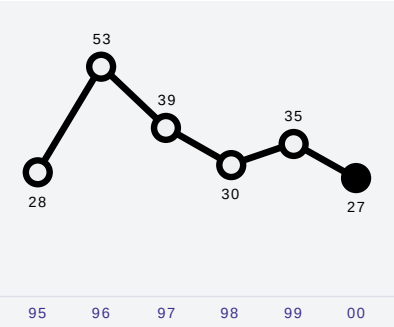
Despite spectacular results from genomic research to date, there are still large unmet needs in the drug discovery process. The industry's demand for high quality drug candidates is currently served by a large portfolio of individual technologies which, at present however, do not enhance the overall efficiency of the development process. The combined offering from Evotec OAI fulfils this demand through the provision of a "one-stop shop" of comprehensive pre-clinical research and development services for the biotech and pharmaceutical industry.



# The Challenge

## The current situation in drug discovery

Number of New Molecular Entities (NMEs) approved by the FDA per year



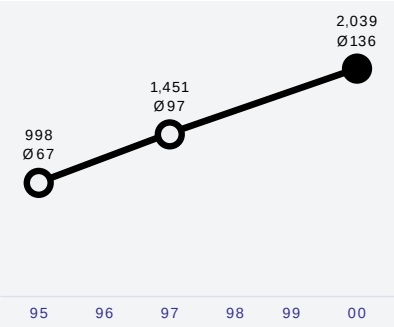

Source: US Food and Drug Administration, Center for Drug Evaluation and Research

**A paradoxical situation.** The overall environment for the pharmaceutical industry is currently more promising than ever. The “golden age” of biotechnology has produced a whole range of innovative products and processes which look set to revolutionise the identification of new drugs. However, in 2000, the number of new pharmaceutical drugs launched fell yet again year-on-year from 35 to 27. This is important since the approval of new drugs is crucial for meeting the market demand for growth in sales and profits. Neither increased investment in research and development nor large-scale mergers have been able to increase the number of drugs being discovered so far. As a result, the pharmaceutical industry continues to be under growing pressure to increase efficiency and productivity in developing potential new medicines.

In addition, companies are faced with the formidable challenge of keeping pace with numerous, complex technological developments and rapidly integrating the results of these within their research effort. For a number of years, companies have therefore been outsourcing discovery and development work and entering into alliances with biotechnology firms in order to strengthen their innovation and productivity.

Innovative biotechnology pioneers have laid the foundations for the industrialisation of the drug discovery process in many fields. The decoding of the human genome, partial automation of protein analysis in proteome research, high-speed parallel synthesis of new chemical entities as well as ultra-high-throughput screening (uHTS) are good examples of this. Until now, however, the majority of these technologies have been developed and offered as individual solutions by specialist companies. These solutions are therefore suitable for eliminating individual bottlenecks, but are not able to drive forward the entire drug discovery process with maximum efficiency. This can only be achieved by combining several or even all of these technologies.

Number of alliances of the top 15 pharmaceutical firms with biotech companies

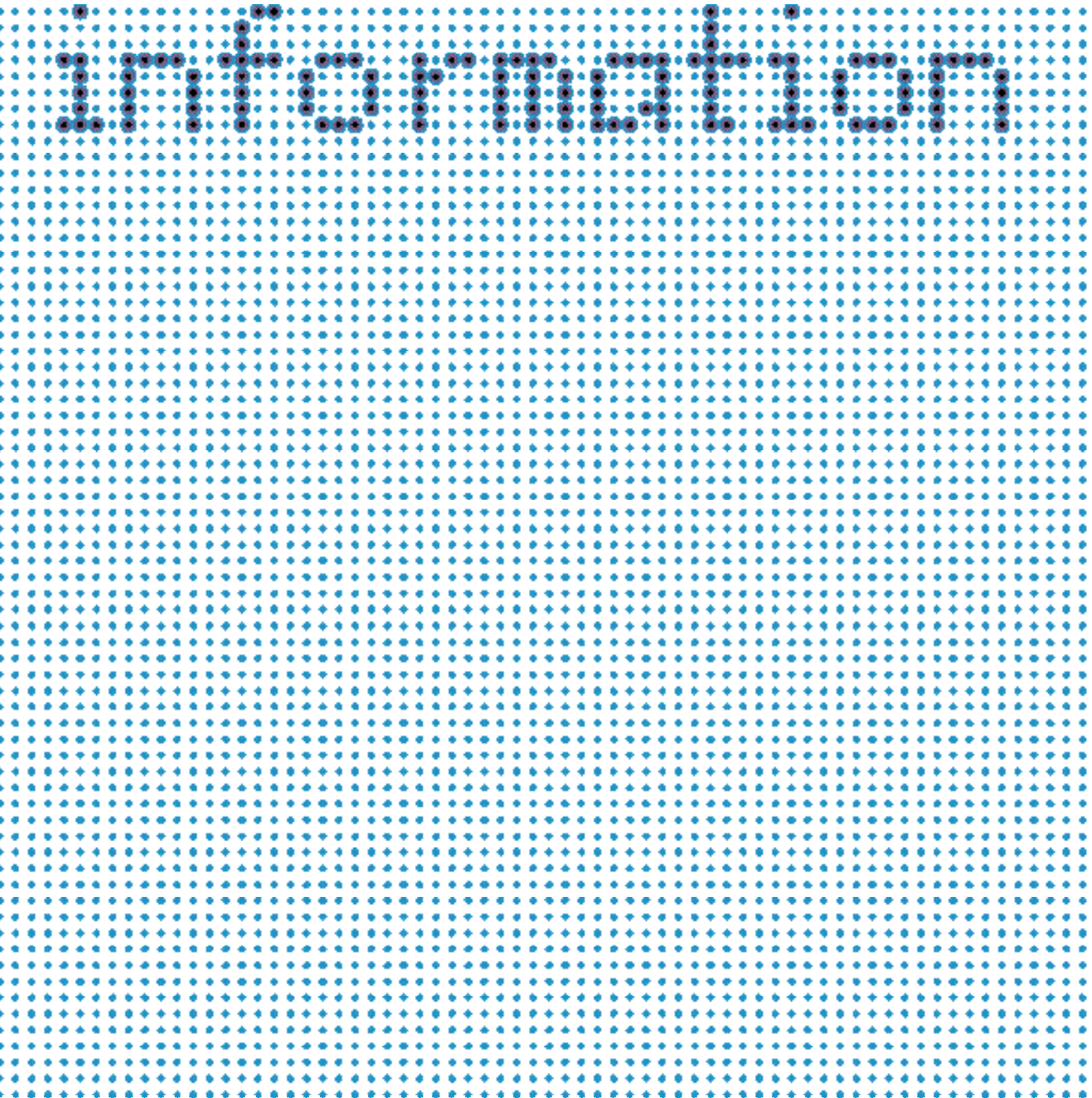



Source: "Recombinant Capital", Lehman Brothers

**More complexity.** The increasing tendency of pharmaceutical companies to outsource research work is complemented by the growth in the wide range of individual solutions offered by biotechnology companies. This situation represents a new challenge because pharmaceutical manufacturers are currently having to collaborate with a large number of biotechnology companies in order to meet all their requirements. In 1999, the number of alliances announced in the pharmaceutical sector rose by approximately 70% compared to the previous year, and many of the major companies are currently involved in more than 100 partnerships each. This has created a large amount of complexity and therefore requires considerable additional administration and project management. Furthermore, the technologies licensed or acquired from these partners must be integrated into internal processes, an often difficult and time-consuming task.
The number of potential targets (the possible point of attack for a pharmaceutical drug) will increase substantially as a result of the latest findings in genome and proteome research. Coping with this quantity efficiently and cost-effectively requires intelligent planning and close co-ordination of the entire process. Throughout the process, time and costs need to be saved and the clinical probability of success increased in early stages of development using "smart" strategies. We therefore believe that fundamental changes are likely to occur in the coming years. If the trend up to now has been to form biotech alliances based on particularly innovative niche products or technologies, in future the pharmaceutical industry will look to partner with companies that cover the entire drug discovery process and offer integrated solutions as technology platforms or services. Firms whose range of services is not broadly based run the risk of being replaced or even becoming superfluous.

**A logical answer.** The rapidly growing need to optimise the entire drug discovery process will lead to an ongoing consolidation in the biotechnology industry in the medium term. The crucial factor will be controlling the interfaces between individual processes. The key to industrialising drug discovery is not simply automation and miniaturisation. Increasingly, it is also the process-oriented integration of technologies. This has a clearly defined goal: the production of high-quality information on the interaction between targets and molecules at the earliest possible stage.
We have recognised this urgent requirement and taken action: EVOTEC BioSystems AG (EVOTEC) and Oxford Asymmetry International plc (OAI) merged.

Today the data we generate provides the basic information required to start clinical trial programmes. In the future we expect to use increasingly sophisticated computer intelligence and our comprehensive database information to design smart novel drugs.



# The Answer

## The first integrated supplier

**The “dream team for drug discovery”.** The merger of EVOTEC and OAI has created a company that we believe is unique. Our cutting-edge technologies, as well as our flexible, innovative and service-oriented approach, places us in an excellent position to be a “one-stop shop”. Our offering covers the majority of products and services that are crucial for more efficient drug discovery and development, from initial identification of compounds that react with a biological target to the production of an advanced drug ready for clinical studies. By integrating more efficient biological and chemical methods, we are able to substantially speed up the development of drug candidates.

EVOTEC has gained a leading international reputation in the field of biological testing systems (assays) as well as in automated and miniaturised testing using its EVOscreen® technology. These systems are a critical factor for the success of our pharmaceutical and biotechnology customers. Ultimately, though, our job is to help develop and provide our customers and collaborators with small molecules which will later be used effectively in curing diseases. A key component in the drug discovery process is therefore the high-quality, rapid and cost-effective synthesis and optimisation of these compounds in quantities ranging from milligrams to hundreds of kilograms. This is precisely where the expertise of OAI lies, since it is one of the world’s leading suppliers of completely integrated chemistry solutions. The merger of EVOTEC and OAI means that two leading technology platforms—one biological and one chemical—will be integrated thereby securing long-term competitive advantages.

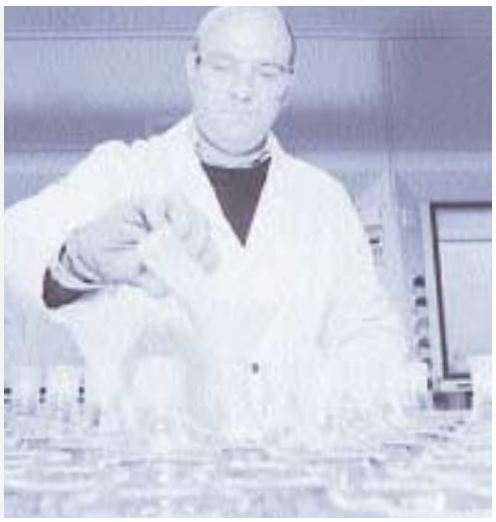
Dr Mario Polywka,
Chief Operating Officer

Dr Karsten Henco,
Chief Executive Officer

Jörn Aldag,
Chief Financial Officer

Dr Edwin Moses,
President

Dr Timm-H. Jessen,
Chief Scientific Officer



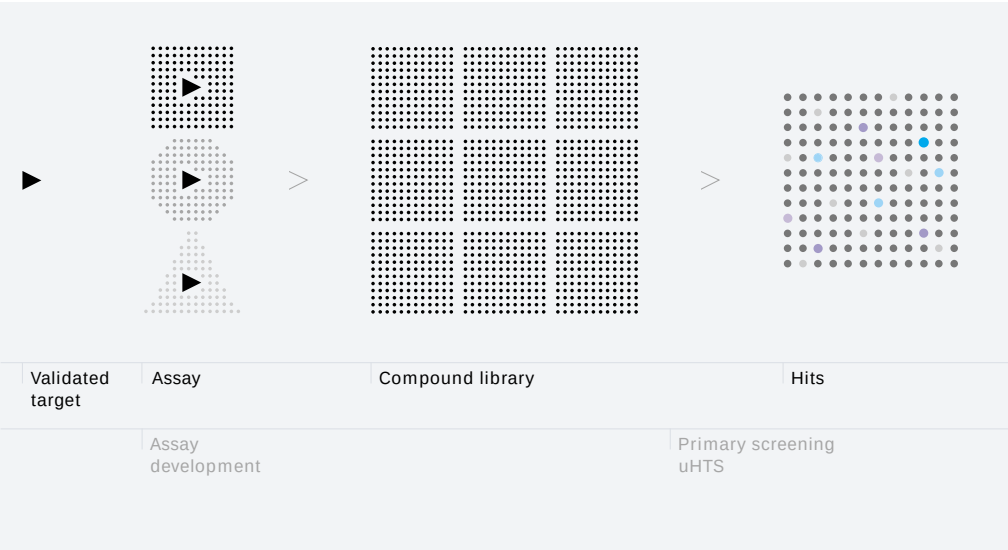
Drug discovery chemistry

**From biological targets to clinical trials.** Today, there are a wide range of approaches and technologies in target validation, i.e. establishing the role which certain genes and proteins play in the development and the progression of disease. This variety and complexity of methods mean that opportunities for large-scale industrialisation of target validation are limited today. As a result, the joint service offering of Evotec OAI focuses on the post-validation stages, where it is primarily a matter of identifying compounds which may interact with a target and therefore influence the progression of the disease in question.

To this end, we can screen compound libraries, which consist of several tens to hundreds of thousands of structurally diverse drug-like compounds, in micro- and milligramme amounts. Starting with a comprehensive range of chemical templates and scaffolds, Evotec OAI rapidly and efficiently designs and synthesises chemical compound libraries using a variety of automated and high-speed parallel solid or liquid phase chemistries. Each chemical collection (library) consists of single, individually characterised compounds.

Targets and substances are then brought together in a testing system (assay) under physiological conditions that most closely simulate the human body. Evotec OAI develops such assays for use in the EVOscreen® system in house. We employ established methods and also devise innovative approaches, and have already produced miniaturised assays for the majority of the important target families. A key advantage of developing assays for use in the EVOscreen® system is that only a small amount of each chemical compound and target is required for screening, thus reducing production time and costs. EVOscreen®, the fully integrated ultra-high-throughput screening (uHTS) system developed by Evotec OAI, is used to rapidly measure interactions between biological targets and potential drugs at the individual molecular level, on a large scale and cost-effectively. One single system allows more than 20 million substances to be screened each year using our proprietary single molecule

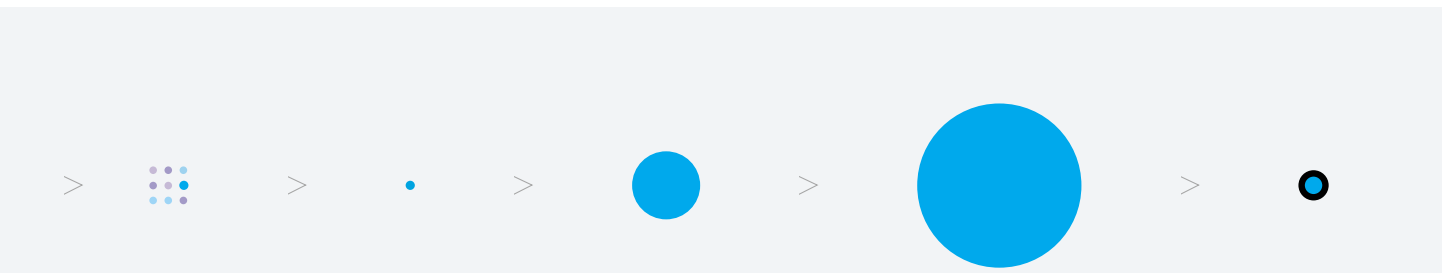
Drug discovery and development



Assay development

measurement method known as “Fluorescence Correlation Spectroscopy” (FCS+plus) on miniaturised sample formats. EVOscreen® generates data of high information content by the analysis of multiple read-out parameters in parallel. These additional data give our scientists a better understanding of the interaction between the target and molecule. It is therefore of prime importance for predicting whether a compound selected in this way (hit) can be developed into a potentially successful drug candidate.

Nevertheless, hits must undergo considerable further development before they can be clinically tested as new drugs. Following the primary screening process described above, we design and synthesise relatively small, focused compound libraries. These are based on selected, partially modified hit structures. The newly obtained “sister” structures are examined for improved qualities in the next round of screening. The biologically active substances or “lead structures” identified during this process are then pharmacologically optimised. This process entails using medicinal chemistry methods, which are also part of Evotec OAI’s portfolio, and examining side effect profiles in the laboratory, using in vitro ADME assays. Our range of services in pre-clinical drug discovery is supported by state-of-the-art high-speed analytical methods and highly specialised information management systems, which ensure capture, storage and easy access to the enormous volumes of data that are generated during the process.

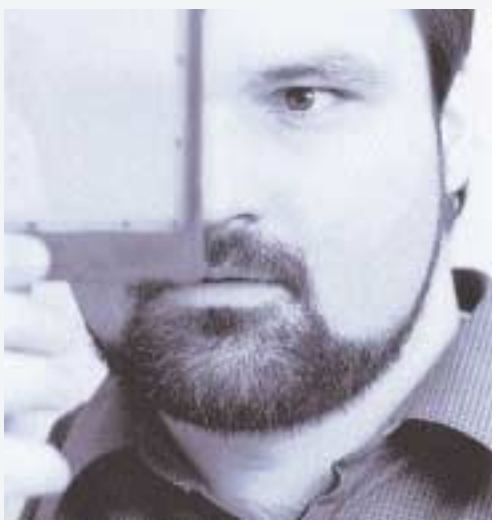


Central services

However, Evotec OAI's activities extend beyond just discovery. We offer an integrated range of chemistry services which covers not only synthesis and optimisation, but also the development of efficient chemical processes and the supply of high-quality, intermediate products and clinical grade final actives. We can deliver quantities ranging from one gram to hundreds of kilograms produced to good manufacturing practice (GMP) guidelines. All compounds are accompanied by the relevant analytical and regulatory data. In addition, we offer pharmaceutical formulation services (the format in which a drug is administered) and secondary production on a small scale via our subsidiary ProPharma. For tonne scale production, Evotec OAI works with designated partners.

**A different class.** As well as creating a unique, one-stop shop for drug discovery and development by integrating the company's strong biology and chemistry platforms, the merger also has other benefits: together we generated a pro-forma sales volume of EUR 55.7 million in the past year, and jointly held cash and cash equivalents amounting to EUR 48.9 million at the end of 2000. In addition, Evotec OAI now employs more than 500 staff. We consider that this critical mass and financial stability will be important competitive advantages. Our combined business model enables us to deliver profitable services, and at the same time, create substantial upside potential for the future. As an integrated provider we will considerably improve the likelihood of concluding service agreements that are linked to milestone payments and royalties on marketed products. We have already secured a number of such agreements. We also have the opportunity to exchange licenses in our technology for equity interests. This will be particularly attractive to young biotechnology companies which possess validated targets and the associated patho-physiological disease model. In this case, the entire machinery of Evotec OAI will be available to develop suitable drug candidates and therefore increase the value of these companies' targets. In exchange for giving technologies and licenses, we will receive equity interests without any financial investment. This business model has been demonstrated by the venture with our associate company DIREVO.

Screening operations



**The future has only just begun.** After many years of development work, our screening technology EVOscreen® is not only used internally at Evotec OAI but also by our partners Novartis, Glaxo SmithKline and Pfizer. We have already achieved outstanding results in site acceptance tests, as well as in ongoing screening for our service customers. Our partners are already seeing the benefits of the high quality data generated from our systems. Initial comparisons with other systems on the market clearly reveal the superiority of our technology including reports of high confirmation rates for the primary hits from our screenings in their own secondary assays.

Through EVOscreen® we are starting to generate large volumes of high-quality biological data on an ongoing basis. Today, these data are used to identify new drugs—in the future, this data platform will provide the basis for developing *in silico* predictive methods for drug design.

We have proven our expertise in technology development with the launch and operation of our EVOscreen® systems. The service agreements with leading pharmaceutical and biotechnology companies demonstrate our ability to implement our biological and chemical platforms. We intend to maintain and expand our position as a preferred supplier of drug discovery services by developing additional innovative technological solutions. Evotec OAI will focus on eliminating further bottlenecks in the drug discovery process by providing new miniaturised testing systems. We have already made significant progress in developing high-throughput ADME assays.

Evotec OAI is laying the foundations for the industrialisation of pre-clinical drug discovery. We have created a unique toolkit by combining our automated platforms for biological and chemical technologies. Today, we offer solutions for the known bottlenecks in drug discovery, and are ready to play a key role in developing new strategies to help identify the new drugs of the future. We are the ideal partner to help accelerate and improve the efficiency of drug development. We are also generating enormous potential in the form of data, information and expertise for years to come. This knowledge of the interaction between targets and chemical compounds is the key which will enable Evotec OAI to be a pioneer in drug discovery services in the coming years.

The actual number of EVOTEC shares reflects the strength of our shareholder base to whom we are dedicated as a company. The enlarged stock position reflects the dynamism and power of the newly merged Evotec OAI.

# EVOTEC Shares

Share price,
structure, Investor Relations

## Share price

**The end of unreal expectations.** 2000 was a disappointing year for the world's stock markets. Despite an encouraging bull market in the spring, most shares had fallen by the end of the year. According to a study by Merrill Lynch, only six of the 38 leading markets recorded price increases for the year as a whole. Germany finished the year in 16th place with a loss of 10.2 %, followed by the USA at (10.5 %). The American technology index NASDAQ slumped by 38.7 % —the biggest decline in the 28-year history of this key stock exchange barometer. The "Neuer Markt" was another exchange which fell substantially during the year. In the first eleven weeks, the Nemax 50 Index doubled to reach a sensational high of 9632 points. However, the overheating of this market segment was then followed by disappointment. The index ended the year on 2869 points, 44 % lower than at the beginning of 2000.

The EVOTEC shares 2000*

| | | | |
|---|---|---|---|
| 1st quarter | March 01, 2000 | High | 102.50 |
| | January 05, 2000 | Low | 14.50 |
| 2nd quarter | April 10, 2000 | High | 71.50 |
| | May 24, 2000 | Low | 35.50 |
| 3rd quarter | September 04, 2000 | High | 75.50 |
| | August 03, 2000 | Low | 35.75 |
| 4th quarter | October 16, 2000 | High | 52.00 |
| | November 22, 2000 | Low | 22.10 |

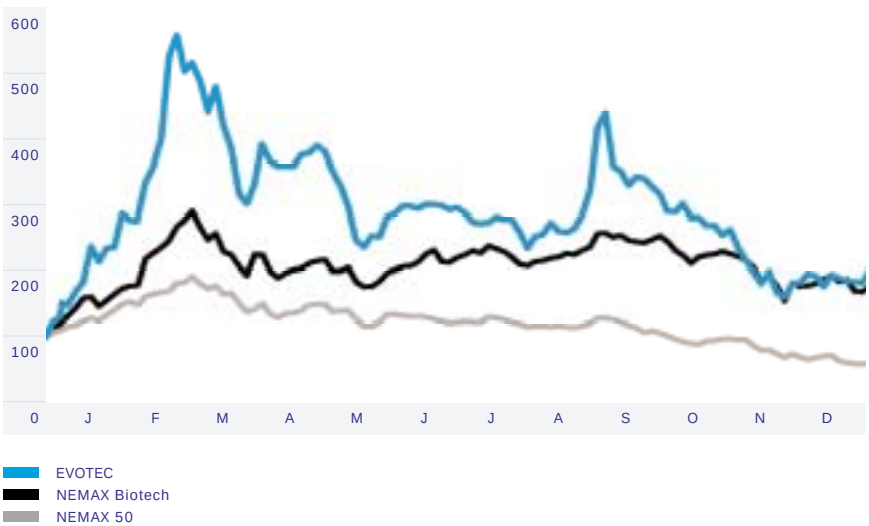
| | | |
|---|---|---|
| 2000 | High (variable) | 102.50 |
| | Low (variable) | 14.50 |
| | Average share price | 46.66 |
| | Average daily trading volume | 163,523 |
| | Price increase | 85.35 % |
| | Closing price as of December 31, 2000 | 32.90 |
| | Market capitalisation as of December 31, 2000 | |
| | in EUR million | 1,165.8 |
| | Number of shares as of December 31, 2000 | 35,452,148 |
| Key share data | | |
| | Earnings | (1.75) |
| | Earnings, | |
| | adjusted for goodwill amongst other things | (0.46) |
| | EBITDA | (0.35) |
| | Dividend | 0 |
| German securities code number | | 566 480 |

* share price adjusted for stock split (August 18, 2000)

**Bucking the trend.** Amidst these generally poor stock market conditions, biotechnology shares generated the highest gains for their holders. Together with pharmaceutical shares, they were the category favoured by investors in European shares in 2000. The industry index increased by 71.15 % as against the previous year and led the Nemax rankings as a result. EVOTEC, QIAGEN and BB Biotech are three biotechnology companies whose shares are in the Nemax 50's top ten for 2000.

EVOTEC shares increased in value by 85 % in 2000. This corresponds to a 406 % increase in relation to their issuing price of EUR 13 on 10 November 1999 (or EUR 6.50 after stock split). They therefore outperformed both the Nemax 50 and the Nemax Biotech Index. At the beginning of March, our share price climbed to over EUR 90 amid overall market euphoria in the spring. Although biotechnology shares generally fared better than the "Neuer Markt" over the entire year, they were unable to completely escape the disappointing trend in the overall market, which began in March. By May, EVOTEC's share price had fallen to a temporary low of just under EUR 40. In the following months, it remained more or less at this level despite the rapid and ongoing decline of the "NEMAX 50" (an increase at the end of August was primarily due to forward transactions and did not have a sustained effect on the share price). EVOTEC's shares only fell considerably below the EUR 40 mark when the "Neuer Markt" index again almost halved in value in the period from October to December.

Development of EVOTEC share price, indexed



Finance

## Corporate actions

A series of corporate actions in 2000 led to several increases in the number of EVOTEC's shares. Following the conversion of the company's stock exchange listing on August 18, the capital increase from company funds against the issue of new shares resolved by the Ordinary General Meeting on June 26, 2000 was implemented. Similar to a 2-for-1 stock split, this increased the number of EVOTEC shares from 12,078,000 to 24,156,000; each shareholder received one additional new share free of charge for every old EVOTEC share. We acquired GENION Forschungsgesellschaft mbH, Hamburg on June 30. The take-over was performed by increasing our share capital by EUR 52,913, excluding the subscription rights of existing shareholders, and by issuing 52,913 new EVOTEC shares to current GENION shareholders in exchange for their shares. This capital increase was entered in the commercial register on Sept. 15.
A total of 11,225,744 EVOTEC shares were issued as part of the company's merger with Oxford Asymmetry International plc (OAI). The equivalent value per OAI share amounted to 0.2574 EVOTEC shares. 5,326,176 of new EVOTEC shares issued because of the merger were created by a capital increase

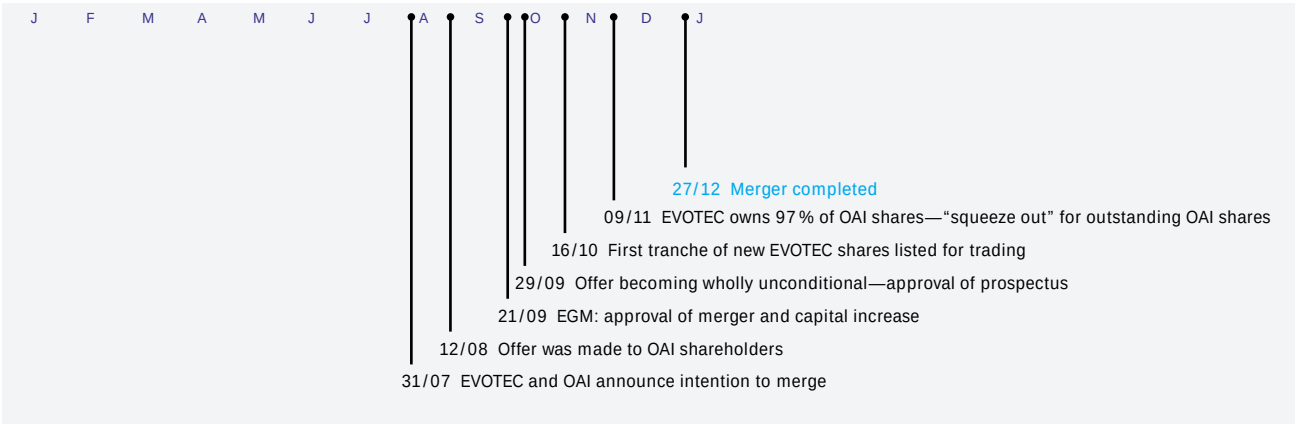
EVOTEC BioSystems AG: Development of the number of shares during 2000

| Capital increase | | | | |
|---|---|---|---|---|
| | Date | | | |
| Corporate action | Fed. Register registration | Listed for trading | Number of new shares | Total number of shares |
| | | | | |
| Number of shares as of January 1, 2000: | | | | 12,078,000 |
| Stock split | 18/07/2000 | 18/08/2000 | 12,078,000 | 24,156,000 |
| Acquisition of GENION Forschungsges. mbH | 15/09/2000 | 02/11/2000 | 52,913 | 24,208,913 |
| Acquisition of Oxford Asymmetry Int. plc: | | | | |
| – 01st tranche | 22/09/2000 | 16/10/2000 | 5,326,176 | 29,535,089 |
| – 02nd tranche | 04/10/2000 | 16/10/2000 | 3,456,615 | 32,991,704 |
| – 03rd tranche | 11/10/2000 | 16/10/2000 | 921,139 | 33,912,843 |
| – 04th tranche | 18/10/2000 | 24/10/2000 | 351,591 | 34,264,434 |
| – 05th tranche | 25/10/2000 | 30/10/2000 | 731,311 | 34,995,745 |
| – 06th tranche | 01/11/2000 | 13/11/2000 | 62,382 | 35,058,127 |
| – 07th tranche | 08/11/2000 | 13/11/2000 | 38,687 | 35,096,814 |
| – 08th tranche | 15/11/2000 | 21/11/2000 | 42,998 | 35,139,812 |
| – 09th tranche | 22/11/2000 | 28/11/2000 | 127,749 | 35,267,561 |
| – 10th tranche (squeeze out) | 27/12/2000 | 17/01/2001 | 167,096 | 35,434,657 |
| Pfizer equity stake | 03/01/2001 | | 17,491 | 35,452,148 |

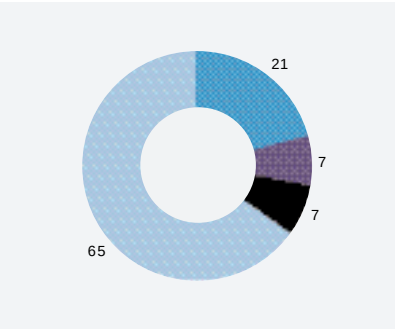
against non-cash contributions resolved by the Extraordinary General Meeting on September 21. This corresponded to the value of 50 % of all outstanding OAI shares plus one. All the other EVOTEC shares required for the exchange were created by a capital increase utilising EVOTEC's existing authorised capital. After the first deadline (September 28), the offer remained open until further notice. As according to English law the new shares had to be issued within 14 days of the offer being accepted, we initiated the process of the capital increase on a weekly basis. The first of the increases was entered in the commercial register on September 22. After EVOTEC had acquired 97 % of OAI's shares by November 9, the remaining shares were obtained on the basis of a "squeeze out" in accordance with the UK Companies Act. The transaction was fully completed on December 27.

A further capital increase was entered in the commercial register on January 3, 2001. Following the successful implementation of the EVOscreen® technology at Pfizer's locations in Sandwich (UK) and Groton (USA), this pharmaceutical company acquired 17,491 EVOTEC shares. This corresponds to an investment of around EUR 0.9 million against the issue of new EVOTEC shares from authorised capital.

Merger timetable 2000



Shareholder structure
November 2000 (in %)




## Shareholder structure

Of the 35.5 million bearer shares, roughly 65 % were held in free float in October 2000. The company's management holds 7 % of the shares. The remaining shares in EVOTEC are in the hands of investors that already took part in a private placement before the IPO in November 1999: Founders, Supervisory Board members and consultants hold around 21% of the shares, and institutional investors the remaining 7 %.

## Stock option programmes

We offer all our employees the opportunity to become shareholders in EVOTEC OAI through stock option programmes. The number of options to be issued under this additional programme totals 949,000. Shortly after our IPO we launched the first programme which provided for 1,466,600 stock options to be granted to management and employees.
On June 26, 2000, the Ordinary General Meeting resolved the launch of the second stock option programme. The number of options to be issued under this additional programme totals 949,000. This move clearly demonstrates our goal of using these programmes to provide an incentive for our specialist staff, since this is crucial for attracting and retaining highly qualified employees amid intense international competition.
Up to now, we have granted options to our employees on two occasions: in November 1999, we issued 356,538 options at an exercise price of EUR 13.00, and in November 2000 672,165 options at an exercise price of EUR 24.30. The launch of the second programme laid the foundations for expanding the existing scheme to all of OAI's employees; we therefore granted options to OAI's staff immediately after the merger became effective.

Financial institutions
that regularly report on EVOTEC

| |
|---|
| Bankgesellschaft Berlin AG |
| Bankhaus Julius Bär |
| Bankhaus Merck Finck & Co. |
| Bankhaus Metzler & Co. KGaA |
| Conrad Hinrich Donner Bank AG |
| Crédit Agricole Indosuez Cheuvreux GmbH |
| Delbrück & Co. Privatbankiers |
| Deutsche Bank AG |
| DG Bank |
| Goldman Sachs International |
| Hamburger Sparkasse |
| HSBC Trinkaus & Burkhardt |
| HypoVereinsbank AG |
| Landesbank Baden-Württemberg |
| Lehman Brothers |
| Sal. Oppenheim jr & Cie. |
| SES Research GmbH |
| SG Cowen |
| UBS Warburg |
| Vereins- und Westbank AG |
| Vontobel Securities AG |
| West LB Panmure Ltd. |

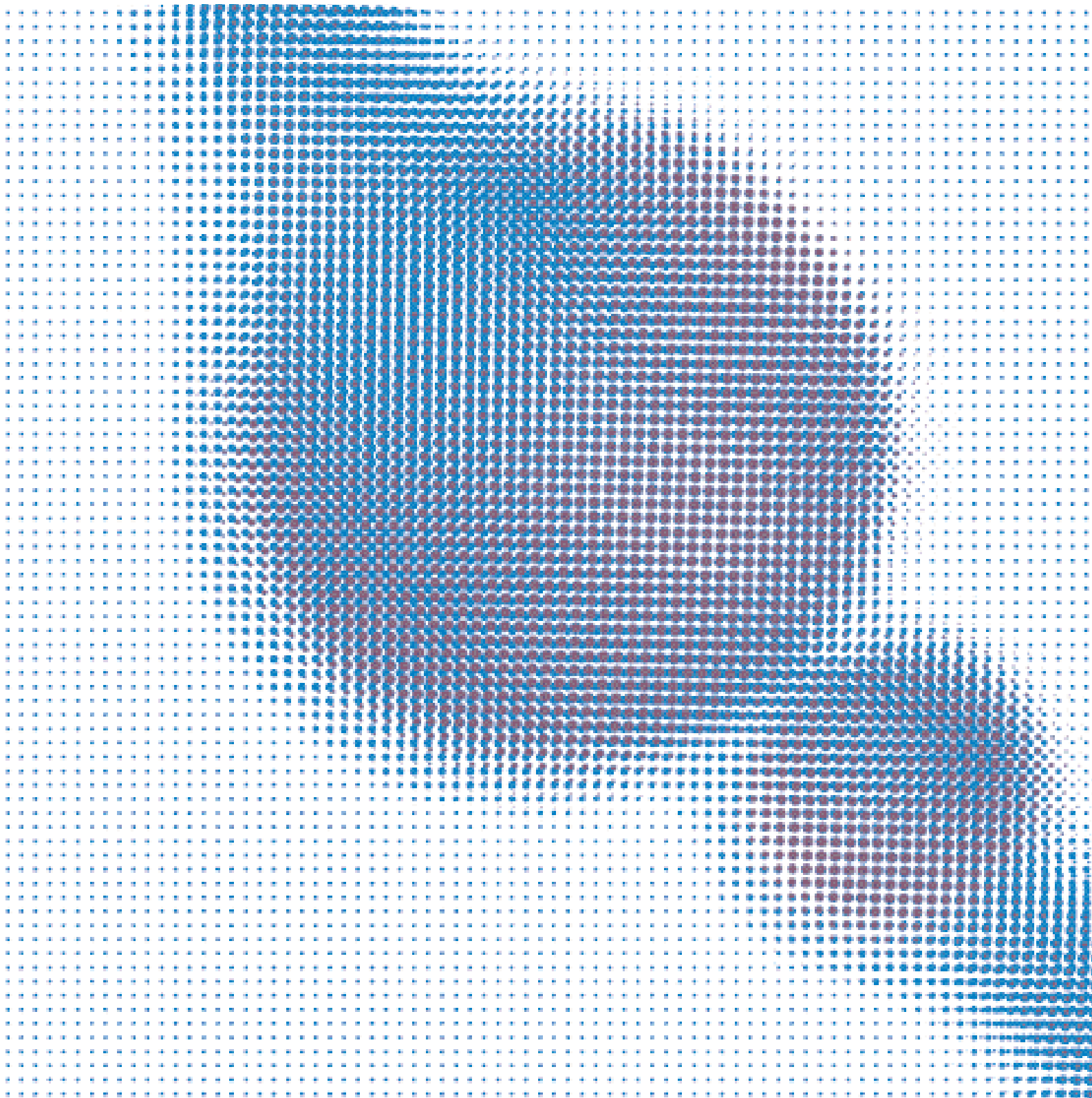
## Investor Relations

Our Investor Relations (IR) activities are focused on building a close relationship with investors and analysts. Above all, regular personal discussions are what creates confidence—we are convinced that open and honest communication is a key factor for retaining investors in the longer term. In 2000, we presented Evotec OAI in over 150 one-on-one meetings and made contact with our investors at roadshows in Frankfurt, London, Amsterdam, Vienna, Zurich, Paris, Brussels, Edinburgh, Madrid, New York, Boston, Singapore and Tokyo. We intensified these activities in particular after announcing the merger between EVOTEC and OAI. Our primary aim was to communicate the considerations and prospects which motivated the merger, as well as the future strategy of the new company to EVOTEC and OAI's investors.
Along with regular financial reporting, activities relating to the merger with OAI dominated IR activities in 2000. These included providing the relevant documents—including issuing the prospectus for the new EVOTEC shares and the offering document to OAI's shareholders – as well as preparing for the Extraordinary General Meeting to approve the merger and the associated capital increase.
In addition, we ensured that our company had the strongest possible presence at events which are crucial in shaping opinion within our sector. We presented Evotec OAI at 17 prominent international investor conferences for the healthcare industry, among other events. More than 20 analysts from leading financial institutions now regularly report on Evotec OAI and thus play an important role in communicating our story to the investment community. They include renowned biotech specialists as well as cross-sector market observers who focus on growth shares from a variety of industries.

Marketing Communications

Investor Relations and
Corporate Communications

Our understanding of the biological interactions of active compounds is at the very heart of Evotec OAI, our ‘energy’, something almost intangible. When applied this knowledge develops into something tangible, the drug product. Our logo, derived in part from the depiction of energy in Michelangelo’s creation of Adam, symbolises this.



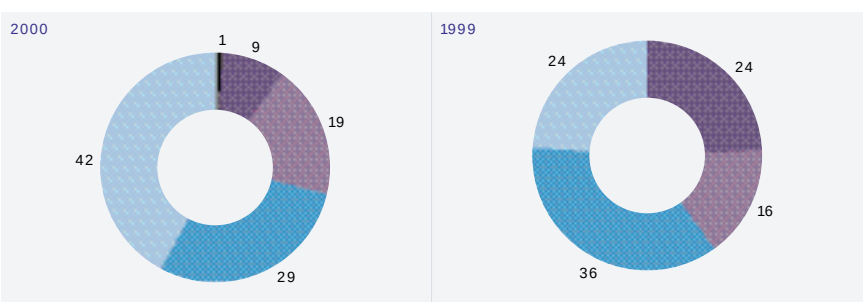
# The Company
## Current position and prospects

## Management report

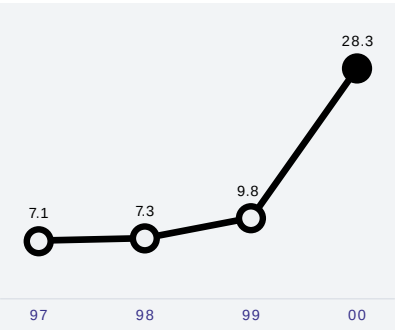
**Industry situation and outlook.** In 2000, the market for service companies like EVOTEC—the pharmaceutical and biotechnology research markets—continued their fast growth pace. Looming patent expirations and increasing competition are putting significant pressure on the pharmaceutical industry. Increasing numbers of biological disease targets from advances in the decoding of the human genome and proteomic sciences as well as the ever growing capacity to synthesise new chemical structures lead to a growing need to dramatically increase research productivity. Maintaining historically high growth rates while continuing to ensure high profit margins is today's challenge. Despite dramatic increases in research and development spend, the proportion of new drugs in the pipeline is generally not meeting corporate objectives – the number of new active pharmaceutical ingredients launched in 2000 even fell year-on-year from 35 to 27. Merger and acquisition activity in the industry is not increasing efficiency. Big pharmaceutical companies will have to produce 3 NCEs per year if they are to survive. The reality today is 1. In this context, the decoding of the human genome offers considerable potential as it will provide important new targets for drug discovery. The number of new targets will, however, be large and so there are considerable challenges involved in industrialising the drug discovery process to ensure that throughput is sufficient. This is providing significant opportunities as both pharmaceutical and biotechnology companies are outsourcing more of the process to specialist technology platform service providers such as EVOTEC.

**Sales.** In 2000, the EVOTEC Group's sales rose to EUR 28.3 million, EUR 18.5 million (+189 %) higher than the previous year. The "Drug Discovery Tools and Technologies" business unit contributed EUR 12.8 million (+75 %) to total sales, slightly exceeding the company's expectations. With the successful installation of four EVOscreen® Mark II systems at Novartis, Glaxo SmithKline and Pfizer (two systems), we reached key milestones which were clearly reflected in instrument sales (EUR 7.4 million). Other sales in this business unit were generated by research activities and milestones achieved by co-operating with our technology partners Novartis, Glaxo SmithKline and Pfizer (EUR 5.4 million).

Revenue by regions (in %)

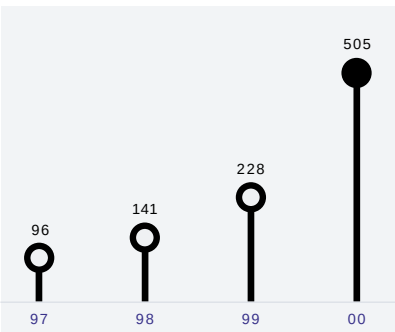


Revenue (in EUR million)



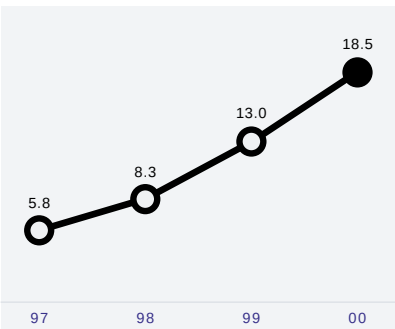

Our “Drug Discovery Products and Services” business unit generated sales of EUR 15.5 million, an increase of 529 % on the previous year. The consolidation of our new subsidiary Oxford Asymmetry International plc (OAI) as of October 1 made a substantial contribution of EUR 12.4 million of revenue in the last quarter. Total annual sales for OAI amounted to EUR 39.4 million, 18 % growth over the previous year. EUR 21.8 million (+8 %) are accounted for by chemical drug discovery and EUR 17.6 million (+35 %) by chemical development. Revenue from biology and screening activities increased by 26 % over the previous year to EUR 3.1 million. This was less than anticipated and is primarily due to late installation of EVOscreen® systems at Evotec OAI as priority was given to installation at customer sites.
57 % of sales were in Europe, 42 % in the USA and 1 % from the rest of the world.

Employees
as of December 31, 2001




**Human resources.** Headcount rose during the year from 228 to 505 (as of December 31). This increase is largely due to the integration of OAI (+261). Within EVOTEC, the number of staff rose by 16 to a total of 244.
The Group’s permanent staff are distributed among the following companies: EVOTEC BioSystems AG 207, Oxford Asymmetry International plc 253, other subsidiaries 45.

R&D expense (in EUR million)



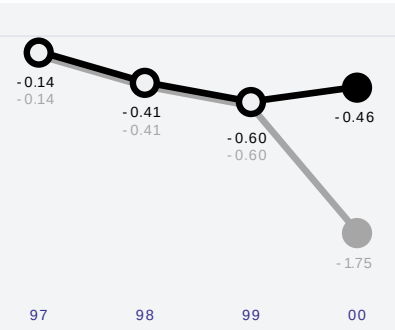

**Research and development.** R&D expenses rose from EUR 13.0 million to EUR 18.5 million. This figure includes EUR 0.4 million from the consolidation of OAI. Our development activities have continued to focus on supporting and further developing the EVOscreen® technology platform as part of our collaborations with Novartis, Glaxo SmithKline and Pfizer. Also, our “Drug Discovery Tools and Technologies” business unit has driven forward work on Cytocon®, a device for handling and examining individual cells for use in drug screening.
In the “Drug Discovery Products and Services” business unit, we further expanded our assay portfolio. We also invested in establishing our proprietary VLiP™ technology for screening cell-based assays as well as developing lead target systems as part of a pilot project subsidised by grant income. With regard to our chemical services, R&D has lead to the development of a robotic resin dispenser and a chemical synthesiser. These instruments guarantee a significantly higher degree of safety when handling a wide range of chemicals. At the beginning of the year, we completed installation of the MUX LC/MS system for analytical use; this instrument has an annual throughput potential of several million compounds. It gives us the capability to analyse every chemical produced by high-speed parallel synthesis. We have currently a series of external collaborations with university research groups in the field of novel chemistries and solid-supported reagents, as well as a number of partnerships with other companies aimed at developing simulation software.

Chemical analysis

**Operating results.** The operating loss amounted to EUR 48.9 million in the year under review including EUR 34.6 million relating to the amortisation of goodwill from the acquisitions of OAI and GENION. The operating loss, excluding the goodwill charge, amounted to EUR 14.3 million corresponding to an increase of EUR 4.2 million over the previous year. This increase was mainly due to the continuing development of our technology platform as well as the further development of innovative assay technology. This loss includes the positive contribution from OAI of EUR 2.2 million for the fourth quarter.
Cost of sales were EUR 12.6 million, up EUR 11.5 million over 1999 (EUR 1.1 million). This increase is in line with expectations and is mainly due to an increase in the delivery of instruments to our technology partners, particularly of EVOscreen® Mark II systems and laboratory equipment, together with EUR 6.8 million from the consolidation of OAI.
Sales and administration expenses rose from EUR 5.9 million to EUR 11.5 million. This figure contains EUR 3.0 million from the consolidation of OAI. Excluding the consolidation, this increase amounts to EUR 2.6 million or 45% and is thus in line with the company's overall growth.

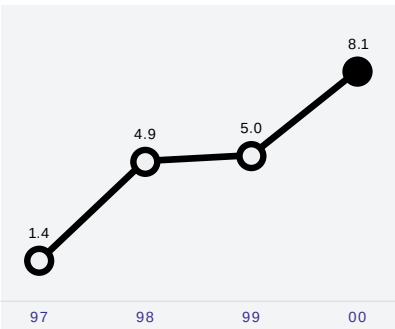
**Goodwill.** On September 21, 2000, an Extraordinary General Meeting of shareholders approved the resolution that the company should acquire all of OAI's shares solely against the issue of new EVOTEC shares. This equity interest was valued in accordance with U.S. GAAP at the average rate for the new shares on the day of the announcement of the offering (July 31, 2000) as well as two days before and after this date. The price of the new shares totalled EUR 477 million. This price in addition to the costs associated with the acquisition exceeded the book value of OAI's assets by EUR 431 million. This figure (goodwill amongst other things) must be disclosed separately in EVOTEC BioSystems AG's balance sheet. At the same time, equity is increased by the appropriate amount.
In accordance with current accounting principles, goodwill must be amortised over a defined period. According to U.S. GAAP this period can extend from 3 to 20 years. We have taken the rather conservative position to amortise the majority of this goodwill amount over a period of 3 years. Amortisation must be disclosed in the operating result and has no impact whatsoever on the company's liquidity position which continues to be strong. In order to present our results transparently, we will disclose goodwill amortisation separately and show a comparison of the results including and excluding this effect.
The acquisition of GENION Forschungsgesellschaft mbH was accounted for in the same way as OAI. Goodwill from this transaction amounts to EUR 2 million.

Earnings per share (in EUR)

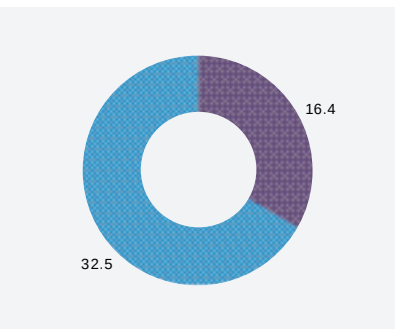



adjusted for acquisition related costs
unadjusted for acquisition related costs

Capital expenditure (in EUR million)




Liquidity at year end
(in EUR million)




Cash
Securities

**Loss for the year.** The loss for the year in accordance with U.S. GAAP including amortisation of non-cash goodwill amounted to EUR 47.1 million (1999: EUR 9.5 million). The loss amounted to EUR 12.4 million excluding the amortisation of "goodwill amongst other things" from the acquisitions of OAI and GENION. This figure includes OAI's net profit from the last quarter of EUR 2.2 million. At Group level, it takes into account income taxes totalling EUR 0.6 million which essentially result from OAI's deferred tax assets. Earnings per share amount to EUR (1.75) or to EUR (0.46) adjusted for "goodwill, enough other things" adjusted for costs associated with the acquisitions. This correspond to an increas of EUR 0.14 per share (plus 23%) over the previous year.

**Capital expenditure.** In 2000, the company invested a total of EUR 8.1 million, the majority of which was accounted for by fixed assets. The total amount includes EUR 3.1 million of investments by OAI which relate to the fourth quarter of the year under review.
In 2000, all major investments were focused on further strengthening our service business. One area of our investing activities was the development of two EVOscreen® Mark II systems in Hamburg and the purchase of additional laboratory equipment for screening and assay development. A further EUR 2.6 million was spent on the completion of the new pilot plant which was achieved on schedule and to budget. In addition, we invested EUR 1.1 million in furnitures and fixtures.
EVOTEC established its associate DIREVO Biotech AG together with three other founders by making a non-cash contribution of intangible assets (licenses for EVOTEC patents), which were not disclosed in EVOTEC's balance sheet.

**Cash flow/cash and cash equivalents.** Cash flow from operating activities amounted to EUR (14.6) million.Net cash used in investing activities amounted to EUR 18.1 million and also includes investments by OAI of EUR 3.1 million in the fourth quarter of the year. The majority (EUR 7.7 million) of our cash flow from financing activities totalling EUR 8.0 million comes from the inflow of additional paid-in capital from the overallotment option granted as part of our IPO.
Cash and cash equivalents at the end of the year amounted to EUR 48.9 million including security holdings. These funds are held in time deposits and other prime-rated interest-bearing investments (A to AAA according to Standard & Poor's ratings).

**Financing.** We believe that this large amount of cash and cash equivalents is necessary to secure the further development of the company. Our business plan does not anticipate further financing requirements to support our normal operational business.

**Production and procurement.** Our "Drug Discovery Tools and Technologies" business unit focuses on developing and installing prototypes. We work together with suppliers to produce everything from components through to complete mechanical assemblies, however, such collaborations exclude our core technology areas and the development of programmes for process engineering workflows. When selecting our suppliers, we seek long-term partnerships with leading companies whose own expertise will add value to our instruments.
In our "Drug Discovery Products and Services" business unit procurement is limited to buying in standard products and services. The criteria we use here to select our partners are delivery time and flexibility combined with high product quality.

**US location.** We are continuing to develop our base in the USA and were able to dispense with the first step of renting business premises, since our new subsidiary OAI already has sales offices in the USA. We now have offices on the East and West coasts and are in the process of recruiting additional staff in order to grow our business in America.

**Legal structure of the company.** EVOTEC did not make any changes to its legal structure in the year under review. The merger with OAI was implemented by way of a capital increase resulting from the issue of new EVOTEC shares excluding the subscription rights of existing shareholders. OAI was delisted from the London Stock Exchange as of December 1. In addition, the company acquired GENION Forschungsgesellschaft mbH in June 2000 by means of a capital increase excluding the subscription rights of existing shareholders. In both cases, the legal structure of EVOTEC remained unaffected.

**Risks and future development.** Our focus includes areas of business in which we have only limited experience, in particular the identification and further pre-clinical development of drugs for third parties. Up to now, EVOTEC has generated the majority of its sales from technology development and transfer agreements. It is only in recent months that we have begun to record sales from screening services. We are therefore exposed to the risks which are typically associated with a new strategy, such as difficulties in developing sales, marketing and distribution channels for new products or a lack of market acceptance. These risks could have a material adverse effect on the company's business activities, financial position and results in the long-term.

We have constructed EVOTEC's technology platform on the basis of co-operation and development agreements. As a result of these agreements, EVOTEC is subject to certain restrictions relating to the commercial use of these technologies.
As planned, we commissioned our new pilot plant in Oxford in 2001. We are now faced with the challenge of winning sufficient orders to properly utilise this additional capacity.
Our merger with OAI has substantially improved the risk profile of our company. OAI has been profit generating for a number of years. The integration of both companies in key areas is already well advanced. However, the expected synergies will not be fully demonstrated until we secure joint orders and projects.
In addition, the pharmaceutical and biotechnology markets are currently undergoing dynamic technological change, which is characterised by short technology lifecycles. EVOTEC's success will depend on whether the company is able to continually improve its products and services as well as to develop and launch new products and services which meet changing customer requirements.

Development chemistry

**Risk management.** For each R&D programme, whether sponsored internally or by customers, we establish project management procedures which form part of an extensive control system that enables us to identify deviations from the defined project goals and thereby rapidly take corrective action. Comprehensive information systems ensure that the Management Board receives data from all areas of the company so that it can immediately take appropriate action where it considers necessary. The Managing Board meets fortnightly to discuss the company's situation. Four times a year it holds in-depth discussions with the Supervisory Board. The Supervisory Board receives written reports each month on the company's performance including analyses of deviations in the actual development of business objectives.
The company produces financial forecasts on a six monthly rolling basis.

Pilot plant

**Occupational safety and environmental protection.** Over and above official regulations, EVOTEC believes that it has an obligation to contribute to the protection of its employees and the environment.
At our Hamburg facility we have established systems which are continually maintained and extended in close collaboration with Hamburg authorities, the “Berufsgenossenschaft Chemie” (Occupational Health and Safety Agency for the Chemical Industry) and the “TÜV-Nord” (North Germany branch of the “Technischer Überwachungsverein”—Technical Control Association) and as part of a project commissioned by the “Institut für Arbeitsschutz und Medizin” (IAS—Institute for Occupational Safety and Medicine). With regard to occupational safety, these measures include hazard analyses by a safety engineer in order to protect employees as well as preventative examinations and vaccinations of all laboratory staff. In addition to separating waste for recycling, we give particular priority to optimising energy consumption by using heat recovery as part of our building control technology.
At our Oxford facility we have established systems which are continually maintained and extended in close collaboration with the HSE (Health and Safety Executive). We have set ourselves the goal of recycling as much waste material as possible. Furthermore, all hazardous materials are catalogued and disposed of by licensed companies. We have installed a variety of devices to measure and continually reduce emissions. We operate a pilot plant at 150 Milton Park and 117 Milton Park. Both plants are subject to the Company Environmental Policy and authorisations issued by the Environment Agency, relating to volatile air emissions and liquid discharges. The company maintains a high level of compliance and enjoys a good relationship with the Environment Agency. Disposal of liquid and solid waste is carried out by a licensed contractor and documented.

**Specific events after the end of the fiscal year.** The Group has already achieved key milestones in the integration of EVOTEC and OAI by introducing an international organisational structure, with the focus on promoting the rapid development of the Group. For example: we have integrated the business development units, started the integration of our discovery chemistry and biology activities, instigated the first steps in establishing a company-wide IT network, expanded our stock option programme to include all OAI employees (see chapter “EVOTEC Shares”, page 16 following), transferred OAI’s compound libraries from Oxford to our screening location in Hamburg, harmonised accounting methods, and established a joint Investor Relations department. Our Managing Board member Dr Helmut Schühsler, Managing Director of TVM Techno Venture Management GmbH, Munich, resigned his position with effect from December 2000 because he has been elected to the Supervisory Board of our associate DIREVO Biotech AG. We would like to thank Dr Schühsler for his commitment and contribution to the company’s development.

## Outlook

**Sales development.** We continue to expect significant growth in sales for 2001. We project considerable organic growth in our service business, to which OAI will make a major contribution.
In our "Drug Discovery Tools and Technologies" business unit, we are expecting a further substantial contribution to sales from existing technology transfer agreements. Following successful acceptance tests involving four EVOscreen® Mark II systems in 2000, we anticipate reaching key milestones in the development of the Mark III system and plan to supply it to a partner towards the end of 2001.
In our "Drug Discovery Products and Services" business unit, our merger with OAI means that we gained the expertise necessary for a complete offering in the chemistry field. Together, we now cover almost all the stages which are crucial for success in identifying and developing new drugs. As a result of our acquisition of GENION Forschungsgesellschaft mbH, we have added a key target group known as "ion channels" to our existing assay portfolio in the increasingly important area of cell-based assays. EVOTEC now has a broad customer base among large and medium-sized pharmaceuticals firms as well as biotechnology companies. Our customers have already shown considerable interest in a complete biology and chemistry offering and we look forward to converting this interest into orders.
In addition to a significant increase in sales, we anticipate substantial improvements in our operating results for 2001.

**Human resources.** The increase in headcount in 2001 is primarily aimed at supporting our service business and we expect to have about 600 employees by year end with the major growth being in technical and commercial staff numbers.

**Capital expenditure.** In 2001, our investment will focus on creating a firm foundation on which to build our service business. A new laboratory floor with approximately 1600 $m^2$ will allow us to consolidate all screening activities in one location in Hamburg. A further 3 laboratories are being fitted within our UK facility. In addition to laboratory and IT equipment, completion of the new generation of our EVOscreen® Mark III high-throughput screening system will be another investment priority.

**Products, production and procurement.** With our investment programme we are laying the foundations for substantial growth in our "Drug Discovery Services and Products" business unit.
In 2001, we expect a new Mark III system to increase capacity in our screening services. As of 2002, we will then be able to offer our customers a greater

number of cell-based assays for high-throughput screening. Our development work will also focus on miniaturised ADME tests.
We will use the capacity of the new pilot plant in Oxford to supply our customers material for Phase I–III clinical trials. This state-of-the-art facility is designed to comply with good manufacturing practice (GMP) guidelines.
As well as high-throughput screening systems, our "Drug Discovery Tools and Technologies" business unit will increasingly provide laboratories with our medium throughput assay development stations. In doing so, we intend to develop our detection technology into an industry standard. The major order we received from a Japanese customer in December 2000 is an excellent reflection on our expertise in micro-system technology and diagnostics. We will supply this customer with biological assays and equipment as well as providing the necessary training.

**R&D activities.** By the end of 2000, we successfully installed a total of six EVOscreen® Mark II systems at our partners' facilities and within EVOTEC. Our technology development work will focus on supporting the Mark II system, and developing the Mark III system, which is characterised by a higher test throughput and improved processing of cellular assays. This system's open architecture allows the integration of a large number of third party devices. Mark III is expected to become the centrepiece of most of our partners' screening platforms.
In addition, one of our main priorities will be completing our assay portfolio in order to provide test systems for all key target classes. This will enable us to offer receptors, kinases and phosphatases as assays in a biochemical as well as a cellular context, with reporter and translocation screens completing our range. We will break new ground in simultaneous screening of several representatives of the same target class and in ADME assays to facilitate faster profiling of hits once they have been identified.
On the chemistry side, our priorities will be new on-bead and solution synthesis processes, innovative methods in medicinal chemistry as well as improving chemical processes. Our R&D activities will also focus on predicting interactions between chemical compounds and protein surfaces.

Customer support

**Results.** In 2001, we will continue to invest in R&D, while at the same time significantly growing in our services business. We expect to generate a loss for 2001; nevertheless, it is anticipated that this will prove substantially lower than in 2000. We anticipate that the company will break even, before merger accounting, in 2002—sooner than previously expected.
The initial interest shown by our customers in our newly integrated biological and chemical services, together with the positive start to our joint business development activities, has convinced us that our combined company is in a unique strategic position to use its critical mass to become the partner of choice for the pharmaceutical and biotechnology industries. We expect that in the coming years successful service companies in this industry will be those which are not only able to provide validated targets and the suitable biology but also develop high-throughput assays and possess the required chemical expertise to generate potential new drug candidates for use in clinical development. EVOTEC and OAI now offer the majority of the key services required for the research and development process.

**Legal structure of the company.** The Managing Board of EVOTEC BioSystems AG has devised an extensive re-branding strategy as part of the integration process. The re-design of our corporate logo symbolises the company's complete offering in the areas of biology and chemistry. A potential change in the company's name in keeping with this new image is subject to approval at the next General Meeting. However, the company is not currently planning to alter its legal structure.

**Dividends.** The payment of dividends in the future is dependent on the results of EVOTEC BioSystems AG, its financial situation and liquidity requirements, on general market conditions as well as on statutory, tax and regulatory requirements. We currently intend to retain all profits generated from the development of our business and use them to generate further development and growth. Our ability to distribute any profits is determined by EVOTEC BioSystems AG's annual financial statements drawn up in accordance with the "HGB" ("Handelsgesetzbuch"—German Commercial Code).

Chemical analysis

## Expansion of capacity

During 2000 advances were made across the business at Evotec OAI. We are continually reviewing our procedures and ensure that, where appropriate, the latest advances in technology are adopted to best serve clients' needs.

**EVOscreen® Mark II.** The year marked the full launch of the EVOscreen® Mark II uHTS system. After the delivery of the first system to Novartis at the end of 1999 five more clones went "on-line" during the year 2000. A Mark II system consists of two separate modules, a compound reformatting unit to prepare test compounds for screening and the screening unit itself where the test assay takes place utilising Evotec OAI's proprietary detection technology. Two of these Mark II systems have been used to form the basis of Evotec OAI's screening service business since October 2000. With the addition of these systems Evotec OAI's screening capacity went from ten to twenty thousand wells per month into true production mode: if both systems are in full operation they can together deliver up to three million data points per month. When required, further capacity can be provided by adding another Mark II clone or a Mark III system—Evotec OAI's next generation screening platform (see "Outlook", page 31 and "Drug Discovery Tools and Technologies", page 38).

**VLiPs™.** More than 50% of all drugs on the market act on so-called GPCRs (G-protein-coupled receptors), hence this represents a very important target class for treating diseases. Evotec OAI has developed a robust generic assay system to screen GPCRs in ultra-high throughput format. The principle of the technology was based on a natural event—the export of viruses from cells. Manipulation of such natural export mechanisms led to the development of vesicle like particles (VLiPs) which carry the receptor of interest at high concentration in its normal physiological environment—an ideal screening tool. This new innovative method eliminates many conventional problems that now occur when cellular systems are used in drug discovery, such as inaccuracy or a lack of reproducibility. This assay system can be extended to other important target classes such as intracellular protein-protein interactions. We will use this technology to increase the efficiency of our in-house screening and at the same time license the technology to interested parties.

GENION Forschungsgesellschaft mbH

Screening

**Electrophysiology and ion channel screening.** Evotec OAI acquired GENION Forschungsgesellschaft mbH (Hamburg, Germany) in June 2000. GENION had proven expertise in electrophysiology and potassium ion channel screening and owns a portfolio of well characterised cell lines carrying specific ion channel genes. GENION's expertise in this field combined with Evotec OAI's capabilities in miniaturisation will allow ion channels to be screened in a HTS manner.

**ADME/T-Assays.** We have also started to miniaturise a number of ADME/T assays in order to improve the throughput and so begin to remove this as a bottleneck in hit profiling. ADME/T (Administration, Distribution, Metabolism, Excretion/Toxicity) comprises a series of target-independent assays which provide information on the pharmacokinetic characteristics of a drug candidate. Our first assays in this field focus on metabolising liver enzymes (cytochrome P450s) but we are already investigating cellular absorption assays (CaCo-2, MDCKs).

**Corporate library management.** Corporate chemical library management has become an important new target market for our discovery chemistry and analytical departments. Over the last five years, pharmaceutical companies have invested many millions of Euros building up their corporate chemical collections for use in high throughput screening. These collections have typically been generated using the prevailing quality standards and it has become apparent that there is significant cost and effort wasted each year by these companies as a result of screening poor quality compounds. Recent reports, and our in-house stability testing, have indicated that often approximately 10–30% of library compounds degrade each year. It is therefore vital that companies, who produce or buy combinatorial or traditional libraries for high throughput screening, have suitable systems in place to monitor their quality, as well as a means of replacing or purifying those compounds that have degraded.
Evotec OAI has now added a new service to our impressive array of Chemistry Services in the area of Library Management. Existing corporate libraries are analysed by our high throughput LC/MS systems, ensuring only well characterised compounds are used in HTS, thus generating the maximum amount of high quality screening data. Furthermore, we can offer a re-synthesis or purification service for those compounds that have failed the stringent quality criteria.

Pilot plant

Data registration

**New pilot plant.** Demand for rapidly scaling-up the synthesis of development drug candidates as well as for supply of material for clinical trials has continued to increase. We have responded to this market demand by expanding our capacity and building an additional pilot plant. This new, state-of-the-art pilot plant was completed at the end of 2000, on schedule and on budget (EUR 19.7 million). It adds a further 4 reactors to our current capacity and ensures that we can support our customers through Phase II/III clinical trials and even further depending on the volume requirements of the drug in question. This facility is now undergoing stringent operational and performance qualification tests. It is anticipated that the plant will become fully operational by March/April 2001.

**Knowledge Management.** We are expanding our IT activities to turn the vast amount of information our platform provides into knowledge. Knowledge Management continues to be a major focus for Evotec OAI. A series of projects to collect, mine and disseminate technical and commercial information continues to improve productivity and enhance the services we offer our customers. The same successful approach is now being focused on further exploitation of the information generated from the chemistry and screening processes. The objective is to develop a database which will radically improve the quality and time for discovery of novel lead compounds using information from activity, ADME and toxicology screens. Based on a model which visualizes and rationalizes the interaction of chemical space (compounds) with biology space (targets) we aim to extract and test predictive algorithms, laying the basis for more rational drug design, thereby increasing the speed of drug development and reducing failure rates.

## Business units

### Drug Discovery Tools and Technologies

In this business unit, Evotec OAI develops innovative technologies for identifying new drugs. We not only provide our customers with the results of our work, we also use these results to improve the efficiency of our own service business.

Encouragingly, we slightly exceeded our target figures for fiscal year 2000 as a result of the considerable demand for instruments. Four complete EVOscreen® Mark II ultra-high-throughput screening (uHTS) platforms successfully passed site acceptance testing at our technology partners Novartis, Glaxo SmithKline and Pfizer. Two more systems were installed at Evotec OAI itself. In addition to these uHTS platforms, we supplied a series of benchtop systems which are used for assay development and hit profiling.

In our technology partnerships, we not only supply the hardware, we also carry out extensive scientific programs. All the milestones agreed for these programs for 2000 were achieved, underlining the quality and efficiency of Evotec OAI's research and development capability. Our major achievements include: the development of a 1536 formatted sample carrier, optimised for use with our detection system; more effective read-out parameters to further increase data quality; and further advances in our detection system which will facilitate improved throughput rates on our uHTS platform.

A large proportion of these ongoing research activities are contributing to the completion of our first EVOscreen® Mark III system, which is scheduled for the end of 2001. This uHTS platform will perform both cellular and biochemical assays, allow screening of over 100,000 compounds per day per system and provide users with a high degree of flexibility. Its open system architecture will enable third-party suppliers to integrate their screening hardware as well.

In addition to the EVOscreen® platform, this business unit develops and markets instruments to be used in functional genome analysis. For example, the successful implementation of on-bead screening using our PICKOscreen® system at Novartis, Vienna, resulted in follow-up equipment orders. We have also begun a partnership with Olympus to develop a new generation of diagnostic analysers for use in research and diagnostics (e.g. in genome analysis). Olympus will be responsible for selling and servicing these systems world-wide. This agreement represents an important strategic milestone for the development and future growth of Evotec OAI's instrument business.

Our developments are not restricted to hardware: there have also been successes in the field of process technology. We have developed and applied for patents for innovative assays for the key target classes of membrane-bound receptors and phosphatases. The VLiP™ technology (see chapter "Expansion of capacity", page 34) enables the cellular environment of receptors to be preserved and is sufficiently robust to be used in screening, and therefore substantially increases efficiency when testing these target classes. We developed

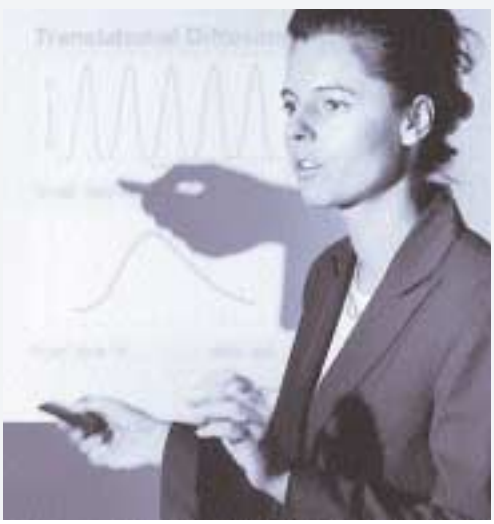
Assay adaption

generic substrates for Ser/Thr/Tyr phosphatases; these substrates allow us to determine the specific qualities of a drug candidate more rapidly. Finally, we have also driven forward development of proprietary fluorescent dyes which are a key component of our assay development capability.
The ongoing development of technology is a key to maintaining our competitive advantage.

**Drug Discovery Services and Products**

The goal of Evotec OAI is to become the premier supplier of integrated high-value added services to the pharmaceutical and biotechnology industries. We provide a unique engine which is available to power the industrialisation of drug discovery (see chapter “The Answer”, page 7 following). By combining the full range of leading-edge drug discovery technologies together with a fast-moving and innovative culture dedicated to service provision, we are able to move rapidly from a validated target to a pre-clinical candidate and beyond.
Our offering covers assay development, screening services and the “complete chemical solution”—an integrated range of chemical services from discovery through development, including the synthesis of chemical libraries, process development and scale-up as well as analytical and regulatory services. Whether customers and partners wish to take advantage of the whole set of integrated services or just one particular part, the same high level of attention and dedication to quality will be provided.

Business Development



**Achievements in biology and screening.** In the first year of offering our screening services, Evotec OAI has made substantial progress. We have entered into research partnerships with major and medium-sized pharmaceuticals companies, with the goal of developing assays and using them in ultra-high throughput screening (uHTS). The biotechnology companies with which we co-operate also use our expertise in characterising targets. For a single partner, we developed five assays for use in uHTS in the space of only six months. In total, during the course of 2000, nearly 40 new assay systems compatible with our FCS$^{+}$plus detection technology were developed and several patent submissions were made as a consequence. Novel assay systems for our partners Pfizer, Sugen, BASF Pharma|Knoll and GPC were developed. Initial screening using our EVOscreen® Mark II system focused on key target classes such as membrane-bound receptors and phosphatases. The millions of data points generated are characterised by a high degree of statistical robustness and a high confirmation rate. A new hit profiling group has been successfully established and it has already concluded a research and development program in collaboration with Trega BioSciences.

## Drug Discovery Services and Products

**Achievements in chemistry.** During the year many existing and new clients took advantage of Ecotec OAI's wide skill base in chemical discovery and development services. In Discovery Services, we successfully completed the Bayer collaboration in which OAI supplied over 200,000 individually characterised, novel compounds in quantities of 50 mgs each for use for testing in Bayer's Pharmaceutical, Crop Protection and Animal Health business.
The 2 year chemical library programme with Serono ended in 2000 with 92,000 compounds synthesised and from which Serono has already filed five patent applications. The successful outcome of this programme was rewarded with a new one year contract to supply libraries for lead optimisation.
Extensions of optimisation programmes were also achieved with Vertex and Curis where we have doubled resources to provide optimisation services in their agonist and antagonist programmes. We supplied Immunex with our complete small molecule "Discovery Library". Through our various optimisation and medicinal chemistry programmes, we have synthesised almost 1,000,000 individually characterised compounds.
Within Development Services, we continue to work closely with PharmaMar and their development of ET-743 for cancer. We continued to provide compounds for Parke Davis under our 1999 contract.
Clinical grade material has been supplied to Biogen for one of their small molecule programmes, and we were successful in providing compounds for clinical testing for a number of pharmaceutical companies, e. g. Glaxo SmithKline and biotechnology companies, e. g. Serono.
We have collaborated with Bristol-Myers Squibb in the process research and development and scale-up of some of their key drug candidates. At the beginning of 2001, we announced a major, FTE based, process development collaboration with Eli Lilly.
Evotec OAI intends to perform profitable fee-for service contracts and deals that reflect our strong contribution to the research and development of our customers. Typically our discovery deals will often allow us to capture mid-term and long-term revenues linked to successes in finding drugs through milestone and royalty components in addition to the fees for service. We have already achieved a first milestone payment from our collaboration with Curis.
The scientists of EVOTEC NeuroSiences GmbH, a subsidiary of Evotec OAI, together with leading scientific collaborators in the area of neurodegenerative diseases, have concentrated on carefully identifying all genes in Alzheimer's disease affected brain tissues which show an expression based disease association. Our scientists have developed a sensitive and precise technology allowing the isolation of these potential target genes from very small samples of well characterised brain tissues. In addition to genes which have been described before we were able to identify novel genes. Patents have been and will be applied for each of these target genes and their products. The portfolio of target candidates is expected to be completed by mid 2001 and to be highly attractive for inlicensing by a pharmaceutical partner.

Business Development

IT Support

## Intellectual property

Obtaining strong and wide-ranging patent protection for our technologies reinforces our competitive position. We systematically track all the activities and results of our internal research with the aim of rapidly identifying patentable technology. In addition, by acquiring licences to third-party patents and cooperating with external scientists, academic institutions and companies, we have gained access to a wide variety of important intellectual property rights. Our recent acquisition of GENION enabled us to obtain extensive specialist knowledge in the field of ion channels for our drug discovery work. Its patent portfolio includes new, voltage-gated potassium channels as well as highly sensitive assays to analyse the way they function.

In Evotec OAI's chemistry business, it is usually the customers who own the industrial property rights to the drug candidates. Evotec OAI may apply for process chemistry patents but in general these processes are protected as trade secrets.

In 2000 Evotec OAI has submitted patents regarding 40 inventions and holds altogether 103 patent-right families each protecting one invention in different countries. Of these patent applications already 2 German utility models have been registered and 24 German, 9 European, 12 American as well as 1 Japanese patent have been awarded. We have chosen these countries for patent application because competition is currently focused in precisely these geographical areas and we can therefore ensure sufficient protection. Even if a significant level of competition were to emerge in other regions in future, our existing industrial property rights would prevent a potential competitor from operating globally. By obtaining several patents in the past year, we considerably strengthened our coverage in the fields of detection and assay processes, particularly in the USA.

In addition to the protection of our screening technology, patents covering the

Detection technologies

development of biological assay systems are becoming increasingly important. International patent applications to protect our VLiP™ technology (see chapter “Expansion of capacity”, page 34) are pending.
We have also submitted several patent applications for our latest high-throughput assay systems in relation to certain enzyme classes. One of the most important mechanisms for regulating cellular processes is reversible protein phosphorylation using protein kinases and protein phosphatases. These enzymes play a key role in the pathogenesis of Parkinson’s disease, cancer, diabetes mellitus and other metabolic disorders. Assay systems to identify substances which influence the activity of such enzymes are extremely valuable for high-throughput screening of chemical libraries, since these compounds could form the basis for new drugs.
Our strategy is also to issue licences for our patented technologies in return for up-front payments, milestones and royalties in subsequent products as well as receiving equity in companies in return for technology licenses—our interest in DIREVO represents the first stage in the implementation of this approach.

Evotec OAI’s patented technologies (December 31, 2000)

| Technology | Number of patent-right families |
|---|---|
| FCS and FCS’plus detection technology | 26 |
| Assay development including cell handling technologies | 37 |
| Microfluidics | 8 |
| Labelling strategies | 3 |
| Sample carriers | 11 |
| Molecule optimisation | 4 |
| Target gene (Alzheimer, anti-infective, etc.) | 11 |
| Others | 3 |

Alliance partners for technology development

## Business relationships

### Technology development

**Glaxo SmithKline** (GSK). All technical and biology milestones for 2000 were met under this Technology Development and Transfer Agreement. The highlight came in the last quarter when an EVOscreen® Mark II system was successfully transferred and site accepted by GSK. GSK presented an excellent overview of the benefits of Evotec OAI's technology in the drug discovery process at the highly rated 6th Annual SBS (the Society for Biomolecular Screening) Conference in Vancouver in September 2000, where there were more than 2,300 participants.

**Novartis.** The integration of the EVOscreen® Mark II system into the Novartis screening environment was supported by Evotec OAI alongside a series of assay development activities. Evotec OAI received milestone payments as a result of specified assay performance on the EVOscreen® platform. In addition, the use of the PICKOscreen® device in Vienna in drug discovery programs led to the identification of new hit structures which are currently being pursued in pre-clinical studies. A second PICKOscreen® device was ordered and delivered to Novartis in 2000.

**Pfizer.** Pfizer received two EVOscreen® Mark II systems and three Assay Development Stations in 2000. All agreed assays were developed on time and all the hardware delivery milestones for the collaboration were met. While Pfizer is integrating the screening platforms into their drug discovery process Evotec OAI is supporting this effort by providing labelling services, assay development and technical support. Pfizer described its use of EVOscreen® technology in a presentation to the Drug Discovery Technology 2000 conference in Boston in August.

Alliance partners for biology


## Biology

**BASF Pharma|Knoll.** Working with BASF Pharma|Knoll, we generated more than one million screening data points for the first time with a single service partner. New and interesting hit structures were identified and are currently being tested by our partner in secondary assays.

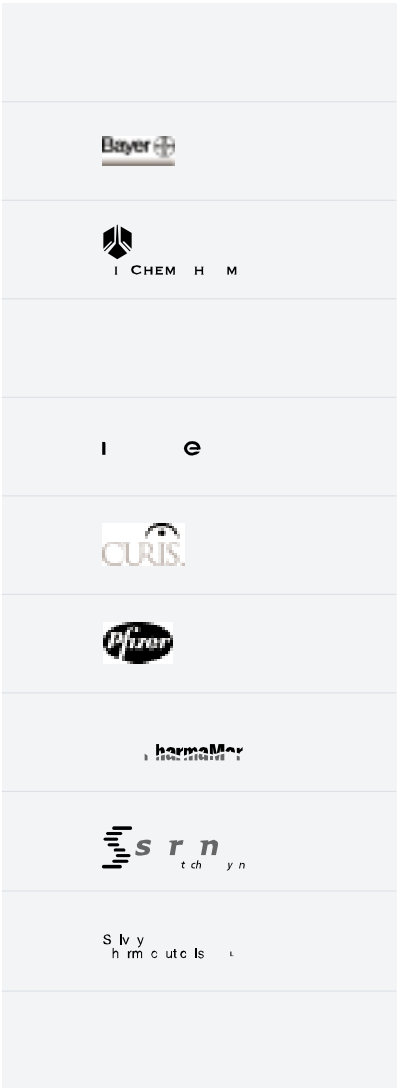
**GPC.** GPC used Evotec OAI technology to identify a peptide for a target. This peptide has interesting binding properties and is currently being evaluated. In the course of the year, Evotec OAI's agreement with GPC was extended with a number of targets which are also undergoing validation in preparation for potential screening.

**Roche.** We completed our uHTS screening activities for Roche in 2000 and the rest of our work is currently focused on extensively characterising the hits we have obtained from the Roche library.

**Sugen|Pharmacia.** In 2000, we successfully developed the agreed number of assays and began screening on schedule. This achievement was rewarded by an appropriate milestone payment. In the course of 2001, we are expecting the selected targets to yield interesting structure activity relationship data. Our original agreement was extended in the course of the year: natural product extracts identified as active during the initial screening were fractionated by Evotec OAI and their activity was then tested once again. In this way, we can pinpoint the active components contained in the natural product mixtures.

**LION bioscience** (formerly Trega Biosciences). The first miniaturised sample carriers for CaCo-2-cells were standardised in order to assess the extent to which this system can be used to predict the bioavailability of drug candidates. In addition, Evotec OAI supported the expansion of LION's IDEA™ database by providing CYP450 metabolism data for developing computer models capable of assessing drug interactions in humans. Following the acquisition of Trega by LION, we will continue to drive forward this collaboration.

Alliance partners for chemistry



## Chemistry

**Amgen.** Under the terms of this one-year collaboration (which can be expanded and extended) Evotec OAI will provide Amgen with chemical libraries for pharmaceutical screening against one or more of Amgen's proprietary targets. In addition to fees for services of EUR 3.0 million, Evotec OAI will receive future milestone payments, if products resulting from the collaboration are developed and commercialised.

**Bayer.** A highly successful two-year contract with Bayer worth in excess of EUR 16.4 million was completed during 2000. During this technically demanding programme, Evotec OAI generated over 230,000 compounds for use in Bayer's discovery programmes. Further payments will be due if any compound supplied is developed into a product, together with royalties on the commercial sales of such products.

**Biochem Pharma.** During 2000, Evotec OAI delivered a large discovery library comprising 50,000 compounds to Biochem Pharma. Milestones will be payable if any compound completes Phase I clinical trials or gains marketing approval. This programme represented a follow on deal from an earlier successful collaboration during which Evotec OAI produced a 75,000 compound lead discovery library for this client.

**Biogen.** This contract comprises a chemical development programme of a drug candidate consisting of a custom preparation, process research and development scale-up through to plant production.

**Bristol-Myers Squibb.** Under the terms of this new EUR 4.3 million agreement, Evotec OAI will provide Bristol-Myers Squibb with both discovery and development services. This will include the production of high quality libraries for screening and lead optimisation together with process research and development and scale-up of some of Bristol-Myers Squibb's key drug candidates.

**Eli Lilly and company.** Two major one-year projects were initiated (with options to expand and extend) to provide Lilly with support for both their drug discovery and development programmes. Evotec OAI will design and synthesise compounds for lead generation and validation as well as undertaking lead optimisation. The development programme with Lilly involves process research and development support for various projects with subsequent scale-up of several of Lilly's drug candidates for use in clinical trials.

**Immunex.** Evotec OAI supplied a 60,000 compound library for screening to Immunex in the first half of 2000. Immunex is screening this library against a variety of targets.

**Ontogeny** (today part of Curis). This is a renewal and expansion of a contract to provide lead optimisation services to Ontogeny. Under the new contract OAI has initially doubled the number of full-time equivalent chemists undertaking lead optimisation on compounds involved in Ontogeny's research programmes. This and other agreements also reflect Ontogeny's widening use of Evotec OAI's services to fulfil their requirement for the supply of larger quantities of material for pre-clinical studies.

**Parke-Davis.** We announced a EUR 3.3 million extension renewal of this contract in 1999, that will extend the term of the contract until year end 2001. From June 1, 2000, due to the successful performance of the team and the increasing needs of Parke-Davis, we were asked to increase the group size by 30 % to the end of 2000. The Parke-Davis, Europe Research Group became part of Pfizer Global Research and Development on June 20, 2000.

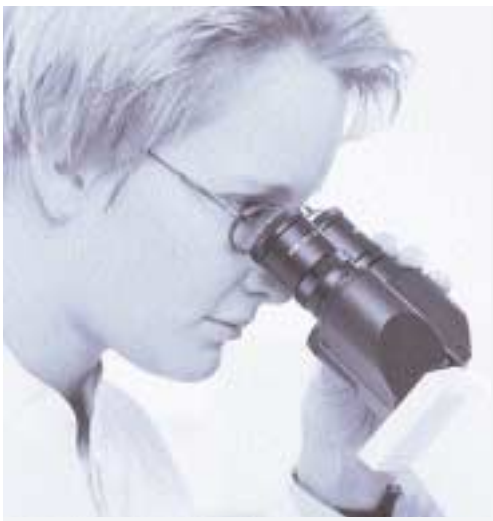
**PharmaMar.** We have received additional multi-hundred gram orders for the complex key intermediate to PharmaMar's lead anti-cancer drug candidate, which is currently being investigated in Phase II clinical trials.

**Serono.** This EUR 2.3 million contract represents an extension of an original two-year agreement announced in October 1998. Under this agreement Evotec OAI will supply chemical libraries primarily for lead optimisation. In addition to the fees for service, Evotec OAI will receive milestone and royalty payments for each product which enters clinical development and/or is commercialised.
Evotec OAI is undertaking process development and production of a 5 alpha-reductase inhibitor for Serono for use in pre-clinical and potential future clinical trials.

**Solvay.** Focused libraries will be synthesised for Solvay over a period of two years. Solvay will use these compounds in screens against targets in their drug discovery programmes. Milestones will be payable to Evotec OAI if any compound supplied enters advanced clinical trials and/or is commercialised.

**Vertex Pharmaceuticals.** This is an extension of an existing contract to provide combinatorial chemistry services to aid Vertex's drug discovery programmes. Under the terms of the contract OAI will provide Vertex with small, focused libraries.

**Vivus.** During the first half of 2000 we reached a settlement of the dispute with Vivus concerning a supply agreement for Prostaglandin E1. Under the terms of the settlement, Evotec OAI and Vivus agreed to terminate the supply agreement for Prostaglandin E1 executed in 1997 and Evotec OAI received a payment of 500.000 US-Dollar for the non-exclusive license to use analytical and stability data related to Prostaglandin E1, that was provided by Evotec OAI to Vivus.



Microfluidics

## Human resources

**An outstanding combination of people.** The merger of EVOTEC and OAI as well as the acquisition of GENION Forschungsgesellschaft mbH considerably expands the opportunities for personal development for all our employees. Up to now, their activities have been focused on specific phases of drug discovery. In future, however, they will have the opportunity to become involved in many other aspects of the pre-clinical and clinical development of new drugs. In addition, the international nature of the new company's operations will also offer individuals new career development options.
In recent years, numerous large-scale mergers have taken place in many industries. Most were primarily motivated by rationalisation, which led to dramatic structural changes and job losses. However, the driving force behind our merger is that both companies are able to strategically complement each other. The scientific and technological expertise jointly contributed by the employees of EVOTEC, OAI and GENION represents an outstanding combination. In the coming years we will continue to drive forward the expansion of our sites in Hamburg and Oxford and create additional attractive jobs.
As of December 31, 2000 Evotec OAI has 505 employees, with 173 of these having scientific doctorates. The innovative and committed attitude of our employees is a critical component of our corporate culture and is key to our ability to delivery superior scientific solutions.

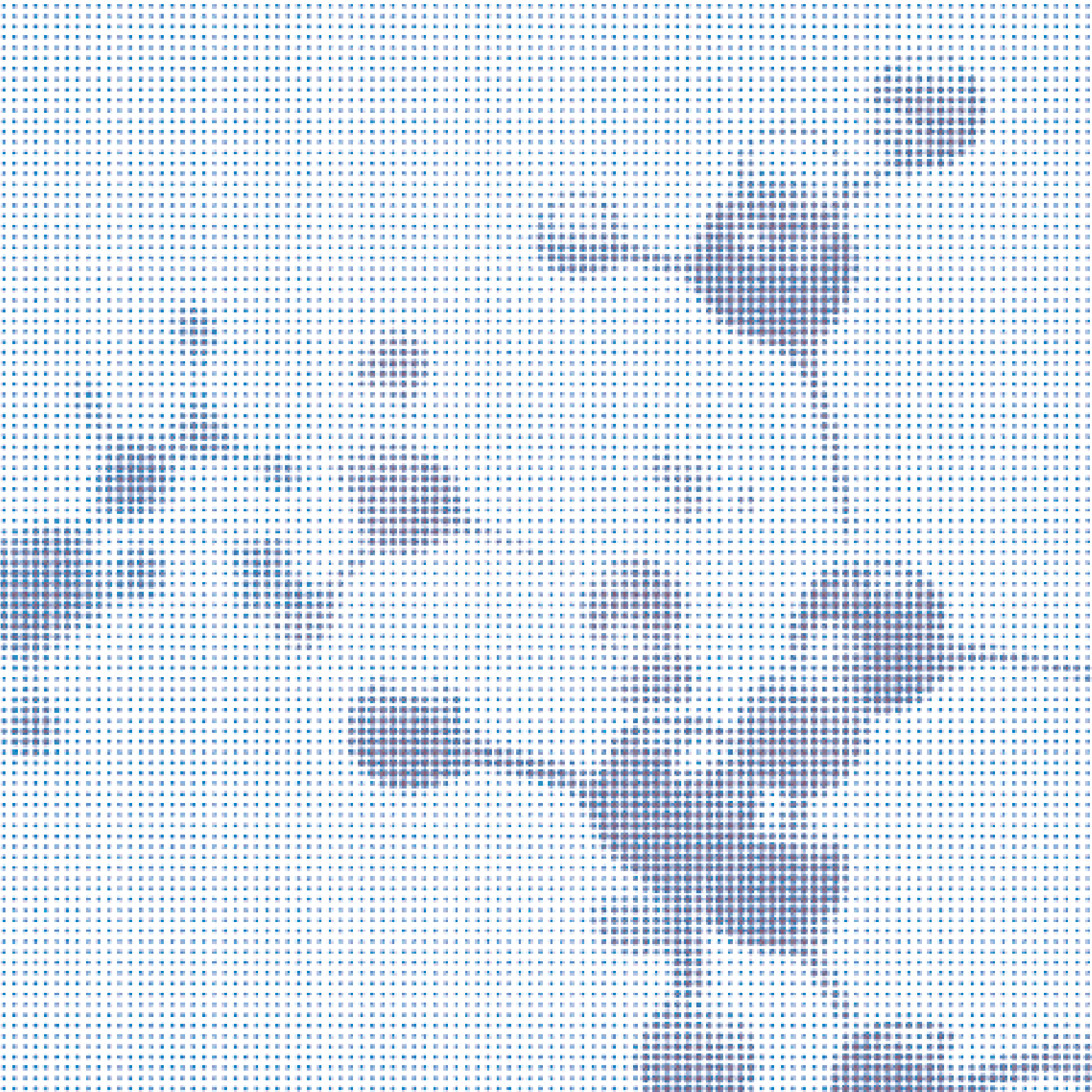
**An ideal starting point.** We are currently in the process of completing the integration of our various sites and activities. We are in a very strong position to do this, since Evotec OAI's employees have been successfully working in interdisciplinary teams for many years. In the future, biologists, chemists, physicists, IT specialists and engineers from both former companies will jointly develop solutions to significantly improve and accelerate the drug discovery process. The fact that EVOTEC and OAI are geographically separated does not represent an obstacle in today's world of easy international communication. Telephone and video conferences are thus as much a part of our everyday life as the rapid exchange of information via e-mail. Of course, these technical resources cannot replace personal interaction and regular meetings of the relevant team members are therefore held.

Life science technology

Labelling chemistry

**A community of valued staff.** To keep Evotec OAI at the forefront of its field we need to employ the best scientists in the various disciplines that make up the company. We have attracted a talented and well educated workforce that can take the company forward. However, we are not complacent and understand that we need to provide a stimulating and rewarding career for our employees if we are to retain them in an ever increasingly competitive market place that is now truly international. Realistic remuneration systems designed to reward achievement are in themselves essential but not enough, we also provide training and development opportunities where people can grow their skills. We will continue to develop Human Resource strategies that will enable us to attract the best talent to make Evotec OAI the place where scientists want to be to develop their careers.

Evotec OAI offers a unique set of technologies for efficient drug discovery. Our automated screening systems generate up to 3 million data points per month. This data comprise the experimental facts reflecting the biological interactions of potential drugs. We translate this data efficiently to transform the results from genomic research into therapeutic success for our clients.



# The Facts

## Consolidated financial statements according to U.S. GAAP

## Translation of independent auditors' report

We have audited the consolidated financial statements, comprising the balance sheet, the statement of operations and the statements of changes in shareholders' equity and cash flows as well as the notes to the consolidated financial statements prepared by the EVOTEC BioSystems AG for the business year from January 1 to December 31, 2000. The preparation and the content of the consolidated financial statements in accordance with United States Generally Accepted Accounting Principles (U.S. GAAP) are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group for the business year in accordance with United States Generally Accepted Accounting Principles.

Our audit, which also extends to the group management report prepared by the Company's management for the business year from January 1 to December 31, 2000, has not led to any reservations. In our opinion on the whole the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the business year from January 1 to December 31, 2000 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German law.

Hamburg, March 22, 2001

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Papenberg
German public auditor

Schadeck
German public auditor

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

TEUR except share data

| **Assets** | footnote reference | 2000 | 1999 | Δ 99/00 in %* |
|---|---|---|---|---|
| Current assets | | | | |
| – Cash and cash equivalents | | 32,484 | 57,488 | (43.49) |
| – Investment securities | (4) | 16,440 | – | – |
| – Trade accounts receivable | | | | |
| (net of allowance of TEUR 76 at December 31, 2000) | | 10,732 | 2,797 | 283.70 |
| – Inventories | (5) | 5,434 | 3,898 | 39.40 |
| – Deferred tax assets | (12) | 229 | – | 100.00 |
| – Prepaid expenses and other current assets | | 4,536 | 1,231 | 268.48 |
| Total current assets | | 69,855 | 65,414 | 6.79 |
| Investments | (6) | 3,319 | 293 | 1,032.76 |
| Fixed assets, net | (7) | 59,800 | 7,560 | 691.01 |
| Intangible assets, net | (8) | 399,693 | 509 | – |
| Other non-current assets | | 39 | 30 | 30.00 |
| Total assets | | 532,706 | 73,806 | 621.77 |

| **Liabilities and stockholders' equity** | footnote reference | 2000 | 1999 | Δ 99/00 in %* |
|---|---|---|---|---|
| Current liabilities | | | | |
| – Current maturities of long-term loan | (13) | 718 | 639 | 12.36 |
| – Trade accounts payable | | 3,752 | 2,987 | 25.61 |
| – Accrued liabilities | (14) | 8,901 | 1,856 | 379.58 |
| – Accrued vacation | | 688 | 394 | 74.62 |
| – Deferred revenues | | 3,762 | 2,884 | 30.44 |
| – Income taxes payable | | 449 | – | – |
| – Other current liabilities | | 1,584 | 494 | 220.65 |
| Total current liabilities | | 19,854 | 9,254 | 114.55 |
| Long-term loan | (13) | 3,527 | 3,835 | (8.03) |
| Deferred revenues | | 373 | 373 | – |
| Deferred tax liabilities | (12) | 5,820 | – | 100.00 |
| Other non-current liabilities | | 7 | 6 | 16.67 |
| Commitments and contingencies | (17) | | | |
| Minority Interests | | 630 | 39 | 1,515.38 |
| Stockholders' equity | | | | |
| – Share capital** | (16) | 35,452 | 24,156 | 46.76 |
| – Additional paid-in capital | | 539,179 | 58,746 | 817.81 |
| – Unearned compensation | (15) | (703) | (51) | 1,278.43 |
| – Other comprehensive income | | (1,807) | – | – |
| – Retained deficit | | (69,626) | (22,552) | 208.74 |
| Total stockholders' equity | | 502,495 | 60,299 | 733.34 |
| Total liabilities and stockholders' equity | | 532,706 | 73,806 | 621.77 |

* unaudited
** 41,482,176 shares, 1 EUR nominal amount, authorized at Dec. 31, 2000;
35,452,148 and 24,156,000 shares issued and outstanding in 2000 and 1999

See accompanying notes to consolidated financial statements.

## Consolidated statements of operations according to U.S. GAAP for the years ended December 31

TEUR except share data

| | footnote reference | 2000 | 1999 | Δ 99/00 in %* |
|---|---|---|---|---|
| Revenue | | | | |
| – Drug discovery products and development of technologies | | 13,149 | 7,324 | 79.53 |
| – Drug discovery services | | 15,127 | 2,462 | 514.42 |
| Total revenue | (10) | 28,276 | 9,786 | 188.94 |
| Operating costs and expenses | | | | |
| – Research and development expense | | 18,480 | 12,952 | 42.68 |
| – Cost of product sales | | 12,606 | 1,079 | 1,068.30 |
| – Selling, general and administrative expense | | 11,481 | 5,861 | 95.89 |
| – Amortization expense | (8) | 34,635 | 48 | – |
| Total operating costs and expenses | | 77,202 | 19,940 | 287.17 |
| Loss from operations | | (48,926) | (10,154) | 381.84 |
| Other non-operating income (expense) | | | | |
| – Interest income | | 2,102 | 659 | 218.97 |
| – Interest expense | | (258) | (245) | 5.31 |
| – Foreign exchange transaction gain | | 289 | 213 | 35.68 |
| – Other non-operating (expense) income | | 576 | 161 | 257.76 |
| Total non-operating income | | 2,709 | 788 | 243.78 |
| Loss before income taxes, minority interests and equity in net loss of investees | | (46,217) | (9,366) | 393.46 |
| Income tax (expense) benefit | (12) | (599) | 11 | – |
| Minority interests | | 19 | 225 | (91.56) |
| Equity in net loss of investees | | (277) | (352) | (21.31) |
| Net loss | | (47,074) | (9,482) | 396.46 |
| | | | | |
| Weighted average common share outstanding | | 26,934,830 | 15,770,438 | |
| Loss per share | | (1.75) | (0.60) | |

* unaudited

See accompanying notes to consolidated financial statements.

## Consolidated statements of cash flows for the years ended December 31

| TEUR | 2000 | 1999 |
|---|---|---|
| Cash flows from operating activities | | |
| Net loss | (47,074) | (9,482) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| – Depreciation of fixed assets | 4,225 | 1,906 |
| – Amortization of intangible assets | 34,635 | 48 |
| – Equity in loss of investment | 277 | 352 |
| – Compensation expense | 61 | – |
| – Foreign exchange income (loss) of investment securities | – | (104) |
| – Gain on sale of interests in subsidiary | – | (76) |
| – Gain on investments | (33) | – |
| – Loss on sale of fixed assets | 142 | 4 |
| – Deferred tax expense | 273 | – |
| – Minority interests | (19) | (225) |
| Change in assets and liabilities | | |
| – Decrease (increase) in | | |
| – Accounts receivable | (5,500) | (851) |
| – Inventories | 1,212 | (3,348) |
| – Other assets | (1,854) | (616) |
| – Increase (decrease) in | | |
| – Accounts payable | (1,388) | 1,884 |
| – Deferred revenues | (475) | 1,500 |
| – Accrued liabilities | 838 | 1,726 |
| – Income taxes payable | 294 | – |
| – Other liabilities | (220) | 175 |
| Net cash used in operating activities | (14,606) | (7,107) |
| | | |
| Cash flows from investing activities | | |
| – Acquisition costs | (3,964) | – |
| – Purchase of investment securities | (52,359) | – |
| – Investment in equity of joint venture | – | (243) |
| – Purchase of fixed assets | (8,088) | (5,052) |
| – Purchase of intangible assets | (40) | – |
| – Cash acquired | 10,382 | – |
| – Proceeds from sale of shares in consolidated subsidiary | – | 77 |
| – Proceeds from sale of equipment | 6 | 15 |
| – Proceeds from sale of investment securities | 35,919 | 2,237 |
| Net cash used in investing activities | (18,144) | (2,966) |

| TEUR | 2000 | 1999 |
|---|---|---|
| Cash flows from financing activities | | |
| – Net proceeds from capital increase | 8,650 | 49,543 |
| – Increase in payables from shareholders | – | 2,454 |
| – Repayment of bank loan | (660) | (639) |
| – Capital contributed by minority shareholders | – | 264 |
| Net cash flow provided by financing activities | 7,990 | 51,622 |
| | | |
| **Net increase in cash and cash equivalents** | (24,760) | 41,549 |
| Exchange rate difference | (244) | – |
| Cash and cash equivalents at beginning of year | 57,488 | 15,939 |
| | | |
| Cash and cash equivalents at end of year | 32,484 | 57,488 |

See accompanying notes to consolidated financial statements.

## Supplemental consolidated disclosures of cash flow information for the years ended December 31

| TEUR | 2000 | 1999 |
|---|---|---|
| Cash paid during the year for: | | |
| – Interest | 494 | 240 |
| – Taxes | 32 | – |
| | | |
| Supplemental schedule of non-cash financing activities: | | |
| – Acquisition of GENION Forschungsgesellschaft mbH | 2,556 | – |
| – Acquisition of Oxford Asymmetry International plc | 476,982 | – |
| – Capital increase in DIREVO Biotech AG | 2,828 | – |
| – Conversion of liabilities due to shareholders to additional paid-in capital | – | 3,953 |
| – Patent acquired in exchange of equity in subsidiary | – | 255 |

See accompanying notes to consolidated financial statements.

## Fixed assets movement schedule according to U.S. GAAP

| TEUR | Acquisition and manufacturing costs | | |
|---|---|---|---|
| | 31/12/1999 | Additions | Disposals |
| I. Intangible assets | | | |
| 1. Patents and licences | 1,281 | 323 | – |
| 2. Goodwill | – | 376,523 | – |
| 3. Developed technology | – | 33,799 | – |
| 4. Customer list | – | 23,174 | – |
| | 1,281 | 433,819 | – |
| II. Tangible fixed assets | | | |
| 1. Land, land rights and buildings, including buildings on land owned by others | 868 | 10,725 | 44 |
| 2. Plant and machinery | 5,599 | 14,711 | 125 |
| 3. Furniture and fixtures | 3,009 | 5,465 | 106 |
| 4. Software | 682 | 120 | 1 |
| 5. Assets under construction | 1,517 | 25,605 | 14 |
| | 11,675 | 56,626 | 290 |
| III. Financial assets | | | |
| 1. Investments | 293 | 3,303 | 277 |
| 2. Other financial assets | 30 | 9 | – |
| | 323 | 3,312 | 277 |
| Total fixed assets | 13,279 | 493,757 | 567 |

## Fixed assets movement schedule

| | | | Depreciation, amortization and writedowns | | | | Net book value | |
|---|---|---|---|---|---|---|---|---|
| Reclass | 31/12/2000 | 31/12/1999 | Additions | Disposals | Reclass | 31/12/2000 | 31/12/2000 | 31/12/1999 |
| | | | | | | | | |
| – | 1,604 | 772 | 84 | – | – | 856 | 748 | 509 |
| – | 376,523 | – | 31,515 | – | – | 31,515 | 345,008 | – |
| – | 33,799 | – | 1,877 | – | – | 1,877 | 31,922 | – |
| – | 23,174 | – | 1,159 | – | – | 1,159 | 22,015 | – |
| – | 435,100 | 772 | 34,635 | – | – | 35,407 | 399,693 | 509 |
| | | | | | | | | |
| 1,930 | 13,479 | 112 | 319 | – | – | 431 | 13,048 | 756 |
| 3,616 | 23,801 | 2,505 | 2,437 | 22 | – | 4,920 | 18,881 | 3,095 |
| 32 | 8,400 | 1,212 | 1,275 | 106 | – | 2,381 | 6,019 | 1,796 |
| – | 801 | 286 | 194 | 1 | – | 479 | 322 | 396 |
| (5,578) | 21,530 | – | – | – | – | – | 21,530 | 1,517 |
| – | 68,011 | 4,115 | 4,225 | 129 | – | 8,211 | 59,800 | 7,560 |
| | | | | | | | | |
| – | 3,319 | – | – | – | – | – | 3,319 | 293 |
| – | 39 | – | – | – | – | – | 39 | 30 |
| – | 3,358 | – | – | – | – | – | 3,358 | 323 |
| – | 506,469 | 4,887 | 38,860 | 129 | – | 43,618 | 462,851 | 8,392 |

## Consolidated statements of changes in shareholders' equity

| TEUR except share data | Share capital | | Additional paid-in capital |
|---|---|---|---|
| | Shares | Amount | |
| Balance at December 31, 1998 (as previously reported) | 7,098,000 | 7,098 | 22,255 |
| Two for one common stock split | 7,098,000 | 7,098 | (7,098) |
| Balance at December 31, 1998 | 14,196,000 | 14,196 | 15,157 |
| Receipt of share capital subscription | – | – | – |
| Share capital increase on March 18, 1999 | 470,000 | 470 | 3,483 |
| Share capital increase due to IPO | 9,490,000 | 9,490 | 40,053 |
| Stock option plan | – | – | 53 |
| Net loss | – | – | – |
| Balance at December 31, 1999 | 24,156,000 | 24,156 | 58,746 |
| Receipt of share capital subscription | – | – | 7,740 |
| Acquisition of GENION | 52,913 | 53 | 2,503 |
| Acquisition of OAI | 11,225,744 | 11,226 | 465,756 |
| Share capital in DIREVO | – | – | 2.828 |
| Share capital increase | 17,491 | 17 | 893 |
| Stock option plan | – | – | 713 |
| Comprehensive loss | | | |
| – Net loss | – | – | – |
| – Foreign currency translation | – | – | – |
| – Unrealized holding gains on available-for-sale securities | – | – | – |
| Total comprehensive loss | – | – | – |
| Balance at December 31, 2000 | 35,452,148 | 35,452 | 539,179 |

See accompanying notes to consolidated financial statements.

| Unearned compensation | Accumulated other comprehensive income | Subscription rights receivable | Accumulated deficit | Total stockholders' equity |
|---|---|---|---|---|
| – | – | (2,454) | (13,070) | 13,829 |
| – | – | – | – | – |
| – | – | (2,454) | (13,070) | 13,829 |
| – | – | 2,454 | – | 2,454 |
| – | – | – | – | 3,953 |
| – | – | – | – | 49,543 |
| (51) | – | – | – | 2 |
| – | – | – | (9,482) | (9,482) |
| (51) | – | – | (22,552) | 60,299 |
| – | – | – | – | 7,740 |
| – | – | – | – | 2,556 |
| – | – | – | – | 476,982 |
| – | – | – | – | 2,828 |
| – | – | – | – | 910 |
| (652) | – | – | – | 61 |
| | | | | |
| – | – | – | *(47,074)* | *(47,074)* |
| – | *(2,443)* | – | – | *(2,443)* |
| – | *636* | – | – | *636* |
| – | (1,807) | – | (47,074) | (48,881) |
| (703) | (1,807) | – | (69,626) | 502,495 |

## Notes to the consolidated financial statements

### (1) Business description and basis of presentation

EVOTEC BioSystems AG ("EVOTEC" or the "Company") is a biotechnology company serving the life science industry by designing and applying technologies for highly effective drug discovery. EVOTEC designs and develops systems for the efficient screening of a large number of chemical compounds (ultra-high-throughput screening) and offers products and services which are designed to increase the speed, accuracy and efficiency of the drug discovery process. The Company was founded on December 8, 1993 as EVOTEC BioSystems GmbH. In 1998, EVOTEC changed its name to EVOTEC BioSystems AG. EVOTEC had an initial public offering on November 10, 1999. The Company acquired with effective date October 4, 2000 Oxford Asymmetry International plc, Abingdon, UK ("OAI"). The acquisition was made on a stock-for-stock basis. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP) and include the accounts of EVOTEC BioSystems AG and all companies which are under its control. All intercompany transactions and balances have been eliminated in consolidation.
Investments where EVOTEC does not have a controlling interest but is in a position to influence the operating or capital decisions of the investee are carried at equity.
All amounts in these notes are in thousands of Euro (TEUR) unless indicated otherwise.

### (2) Summary of significant accounting policies

**Cash and cash equivalents.** The Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

**Investment securities.** The Company follows Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities". According to SFAS 115, the Company classified all of its debt and equity securities as available-for-sale and records them at fair value. Unrealized gains and losses are excluded from earnings and are reported as a separate component of shareholders' equity until realized. Unrealized losses deemed to be other than temporary are recognized in income.
Realized gains and losses from the sale of available-for-sale securities are determined on a transaction-by-transaction basis.

**Inventories.** Inventories are valued at the lower of cost (using the average costing method) or market.

**Fixed Assets.** Fixed asset acquisitions, including leasehold improvements, are recorded at cost less any vendor rebates. Amortization of leasehold improvements is calculated using the straight-line method over the shorter of the related lease term or the estimated useful life. Depreciation of fixed assets is calculated using the straight-line method over the estimated useful lives of the assets as follows:

| | |
|---|---|
| Plant, machinery and equipment | 5–20 years |
| Office equipment | 3–10 years |
| Computer equipment and software | 3 years |

The amounts included in fixed assets related to assets under construction are not depreciated until the assets are placed into service by the Company. Upon sale or retirement, the costs and the related accumulated depreciation are removed from the respective accounts, and any gain or loss is included in income. Maintenance and repairs are expensed as incurred.

**Intangible Assets.** Intangible assets consist of goodwill and separately identified intangible assets including developed technologies, customer lists and patents acquired in business combinations as well as purchased licenses and patents. Goodwill is the excess of the fair value of the consideration exchanged in a business combination accounted for as a purchase over the value of the net assets acquired.
Intangible assets are recorded at cost and are amortized using the straight-line method over the estimated useful lives of the assets:

| | |
|---|---|
| Goodwill | 3 years |
| Developed technologies | 3–5 years |
| Customer list | 5 years |
| Patents | 10 years or shorter life |

The Company assesses recoverability of goodwill when there are indicators of an impairment. Such indicators include but are not limited to a material adverse change in one of the Company's businesses, adverse changes in the regulatory environment in which the Company operates or declines in the market capitalization which are not expected to be temporary. If there is an indication of an impairment, the recoverability is assessed on the basis of market-comparable prices for the related business. Management believes that a market-comparable price approach is consistent with the basis used for evaluating and making the investment decisions. The amount of an impairment, if any, is determined by comparing the market-comparable price of a business less the value of the net assets of that business to the carrying amount of goodwill. If the carrying amount of goodwill exceeds the estimated fair value, an impairment charge equal to the amount by which the carrying amount exceeds the fair value is recorded.

The Company believes that goodwill has not been impaired at December 31, 2000.

**Revenue recognition.** Revenue under collaborative long-term research and development agreements is recognized when earned based upon the performance requirements of the respective agreements. Advance payments received in excess of amounts earned are recorded as deferred income. Revenue under these long-term collaborative agreements typically consist of the following:

1. Technology Access Fees—Lump-sum up-front fees are typically made to finance the Company's ongoing research and development activities. Revenue from technology access fees associated with collaborative research and development efforts is recognized ratably over the related forecasted research period.
2. Research Payments—Revenue from research payments finances direct costs incurred in connection with the Company's ongoing research and development activities and an allocation of certain other administrative costs incurred. Revenue from research payments is recognized ratably over the related forecasted research period as services are provided.
3. Success Payments—Revenue contingent upon the attainment of certain R&D milestones is recognized in the period the milestone was successfully achieved, which is determined when the funding party agrees the required results stipulated in the agreement have been met.

Product and compound sales are recorded as revenue upon delivery if the Company has a customer order, the price is determined and collectibility is reasonably assured.
Service revenues generated from screening services or contract services are recognized as the services are rendered.
In addition, EVOTEC receives royalties under the terms of various contractual arrangements which are incremental to product sales. Royalty income of TEUR 44 and TEUR 195 is included in product sales for 2000 and 1999.

**Income taxes.** The Company applies the SFAS No. 109, "Accounting for Income Taxes". Under the asset and liability method of SFAS 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. In assessing the recoverability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized.

**Research and development.** Research and development costs expensed as incurred to develop software internally which is used as integral part of a product or process is capitalized when both the technological feasibility of the software component is established and the research and development activities relating to the hardware component have been successfully completed. These conditions are usually met shortly before the product or process is launched and as a result no development costs have been capitalized.
The Company receives grants from government authorities for the support of specific research and development projects. The grants are recognized as a reduction of R&D expense to the extent they are earned, the related expenses qualify and have been incurred. Most governmental research grants are not refundable. The amounts recognized as a reduction of the Company's research and development expense were TEUR 1,097 and TEUR 1,192 in 2000 and 1999, respectively. Under the terms of the grants, the governmental agencies generally have the right to audit the use of the payments received by the Company.

**Use of estimates.** The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Reclassifications.** Certain balances in the prior fiscal year have been reclassified to conform to the presentation adopted in the current fiscal year.

**Foreign currency denominated transactions.** In accordance with SFAS No. 52, "Foreign Currency Translation", the assets and liabilities of the Company's operations outside Germany are translated into Euro at exchange rates in effect on the balance sheet date, and revenues and expenses are translated using a weighted average exchange rate during the period. Gains or losses resulting from translating foreign currency financial statements are recorded as a separate component of stockholders' equity. Gains or losses resulting from foreign currency transactions are included in non-operating income.

**Long-lived assets.** In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", the Company's long-lived assets and certain identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of

the assets exceed the discounted net cash flow. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

**Comprehensive loss.** Comprehensive loss consists of net loss, unrealized holding gains and losses on marketable securities classified as available-for-sale and foreign currency translation adjustments and is presented in the consolidated statements of stockholders‘ equity.

**Stock compensation.** The Company has elected to apply the provisions of Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (APB 25) in accounting for options granted under the stock option plan. Compensation cost from the issuance of employee stock options is recognized up through the first possible exercise date. Pro forma information required by the SFAS No. 123 are provided in the notes.

**Recent Pronouncements.** As of January 1, 2000, EVOTEC has adopted the provisions of SEC Staff Accounting Bulletin No. 101, “Revenue Recognition in Financial Statements” (“SAB 101”). SAB 101 clarifies certain existing accounting principles for the recognition and classification of revenues in financial statements. The adoption of SAB 101 had no impact on the Company’s operations or financial position.
In June 1998, the Financial Accounting Standards Board (“FASB”) issued SFAS 133 “Accounting for Derivative Instruments and Hedging Activities”, which establishes accounting and reporting standards for derivative instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet, and measure those instruments at fair value. In June 1999, the FASB issued SFAS 137 “Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement 133” and in June 2000, the FASB issued SFAS No. 138, “Accounting for Certain Derivative Instruments—an Amendment of FASB Statement No. 133“. As a result of SFAS 137, SFAS 133 and SFAS 138 will be effective for all fiscal quarters of all fiscal years beginning after June 15, 2000. The Company adopted this standard as of January 1, 2001, with no material impact on its financial position and results of operations.

## (3) Acquisitions

**Oxford Asymmetry International plc. ("OAI").** In 2000, EVOTEC acquired all shares of OAI, a publicly traded company based in Abingdon, UK. OAI provides sophisticated chemical services to the pharmaceutical and biotechnology industries. OAI's range of products and services comprises fully-integrated chemistries from discovery to final manufacture of the active ingredient. These products and services, particularly in combination, present significant opportunities for customers to reduce time and risks associated with bringing new drugs to market.

On July 31, 2000, EVOTEC announced the terms of a public exchange offer which was made to the shareholders of OAI on August 12, 2000. Based on the terms of the offer which was subject to certain conditions including acceptance of the exchange offer by at least 90 % of OAI's shareholders and approval of the offer by EVOTEC's shareholders, EVOTEC offered to issue 0.2574 shares of EVOTEC for each share of OAI.

EVOTEC had received irrevocable undertakings to accept the offer from certain OAI shareholders representing 32.5 % of OAI's share capital before the offer was publicly announced.

The shareholders of EVOTEC approved the acquisition on September 21, 2000 and EVOTEC issued its shares in exchange for the OAI shares tendered as of that date representing 78 % of OAI's share capital. The transaction is accounted as a purchase business combination and the operations of OAI are included in EVOTEC's accounts starting at that date. As of November 17, 2000 EVOTEC had received approximately 98 % of all OAI shares outstanding; the remaining shareholders were "squeezed out" under the terms of the applicable law. As of December 27, 2000, EVOTEC had acquired all of the shares of OAI. EVOTEC issued 11,225,744 shares, as adjusted for the stock split (see note 16), to acquire OAI. The cost of TEUR 485,956 comprises the fair value of the shares issued of EUR 42.49 per share which has been determined based on the average price of EVOTEC's stock a few days before and after the announcement of the exchange offer and direct incremental cost of TEUR 8,974.

The net assets acquired include the following intangible assets which are amortized over estimated useful lives ranging from three to five years:

| TEUR | 31/12/2000 |
|---|---|
| Goodwill | 376,523 |
| Developed technology | 31,782 |
| Customer list | 23,174 |
| Total | 431,479 |

The acquisition of OAI is a material change of the group of consolidated subsidiaries.Therefore the financial statements for 2000 including balance sheet, profit and loss statement and cash flow are not comparable to the financial statements of 1999. Some changes will be discussed in the notes. Additionally, we disclose the following main impacts of the OAI acquisition on the financial statements as of December 31, 2000:

| TEUR | 31/12/2000 |
|---|---|
| Cash and cash equivalents | 8,766 |
| Trade accounts receivable | 5,594 |
| Inventories | 2,412 |
| Other current assets | 1,978 |
| Trade accounts payable | 1,559 |
| Deferred income | 2,399 |
| Accrued liabilities | 2,175 |
| Deferred tax liabilities | 6,089 |
| Other current liabilities | 897 |
| Revenues | 12,375 |
| Cost of product sales | 6,791 |
| Selling, general & administrative | 2,976 |
| Income tax expense | 273 |

**GENION Forschungsgesellschaft mbH ("GENION").** As of June 30, 2000, EVOTEC acquired all shares of GENION, a closely held company based in Hamburg, Germany. The purchase price for this acquisition was TEUR 2,556 and paid in 52,913 shares of EVOTEC stock. The acquisition is accounted as a purchase and GENION's operations are included as of that date. The excess of the purchase price over the net tangible assets acquired relates to developed technologies (TEUR 2,017) and patents (TEUR 283).
Due to the acquisition of OAI with effective date of October 4, 2000 and of GENION with effective date June 30, 2000 on a stock-for-stock basis, the financial statements for 2000 are not comparable to the financial statements of 1999. The following unaudited pro forma information is based on the assumption that the acquisitions of OAI and GENION had occurred as of January 1 of 2000 and 1999, respectively.

| TEUR | 2000 | 1999 |
|---|---|---|
| Pro-forma revenues | 55,659 | 41,177 |
| Pro-forma net loss | 148,836 | 142,501 |
| Pro-forma loss per share | 4.20 | 5.27 |

## (4) Investment securities

Investment securities, considered available-for-sale securities, are comprised of the following:

| TEUR | 31/12/2000 | 31/12/1999 |
|---|---|---|
| Money market mutual funds | 12,297 | – |
| Foreign government bonds | 1,793 | – |
| Corporate bonds | 2,350 | – |
| Total | 16,440 | – |

All of the bonds are publicly traded and are due within one year. They are denominated Euro except for a total balance of TEUR 1,793 which is denominated in US dollars.
The unrealized gain on these securities amounts to TEUR 636 as of December 31, 2000 and is included in other comprehensive loss.
Realized gains in 2000 on the sale of securities amounted to TEUR 10, TEUR 216 and TEUR 178 for money market mutual funds, foreign government bonds and corporate bonds, respectively.

## (5) Inventories

Inventories consist of the following:

| TEUR | 31/12/2000 | 31/12/1999 |
|---|---|---|
| Raw materials | 3,133 | 1,808 |
| Work-in-progress | 759 | 2,090 |
| Finished goods | 1,542 | – |
| Total | 5,434 | 3,898 |

Raw materials consist of biological materials and substances, chemicals, and components of instruments. Work-in-progress primarily consists of costs incurred on customer projects and laboratory equipment which were not completed at the year end. Finished goods primarily consists of finished laboratory equipment and customer projects which are ready for shipment.

## (6) Investments

EVOTEC Analytical Systems GmbH has a 50% investment in QE-Diagnostiksysteme GmbH ("QED"), which is accounted for under the equity method of accounting. Through December 31, 2000, QE-Diagnostiksysteme had not generated any revenue. The Company's accumulated equity contributions and advances to QED amount to TEUR 1,129 and TEUR 654 at December 31, 2000 and 1999, respectively. The Company's share of the net loss of QED amounted to TEUR 264 and TEUR 352 for 2000 and 1999, respectively. The amount by which EVOTEC's share of the loss of the investee exceeded the equity investment was set off against the advances. The remaining carrying amount of advances is TEUR 504 as of December 31, 2000.
On July 5, 2000 EVOTEC, together with three individuals, formed DIREVO

Biotech AG (“DIREVO”). EVOTEC received 32,500 shares of common stock at EUR 1 par value representing a 65% interest in exchange for patents contributed; the other shareholders received 17,500 shares (35% interest) for cash contributions of TEUR 18. DIREVO operates in the field of directed evolution, a technique to optimize and develop new bio-molecules for specific biological and industrial uses. The Company will initially focus on the fields of technical and pharmaceutical enzymes, with further product development planned for the research, diagnostic, nutrition and agriculture markets. DIREVO therefore combines parts of EVOTEC’s screening technology with novel mutation and recombination methods for the optimization of biomolecules. On December 12, DIREVO issued 50,000 shares of preference stock with a liquidation preference at EUR 175 per share to new investors for TEUR 8,750 in cash. The preferred stock has a conversion feature into common stock whereby one share of preferred can be exchanged for one share of common at the request of the holder at any time. Due to the participating rights held by the preferred stockholders and the resulting decrease in EVOTEC’s proportionate ownership interest of DIREVO to 32.5%, an increase to additional paid-in capital of TEUR 2,828 was recorded. EVOTEC accounts for its investment under the equity method of accounting.

## (7) Fixed assets, net

Fixed assets are comprised of the following:

| TEUR | 31/12/2000 | 31/12/1999 |
|---|---|---|
| Machinery and equipment | 23,801 | 5,599 |
| Leasehold improvements | 13,479 | 869 |
| Assets under construction | 21,530 | 1,517 |
| Office equipment | 8,400 | 3,008 |
| Computer software | 801 | 682 |
| Fixed assets, at cost | 68,011 | 11,675 |
| Less accumulated depreciation without software | 7,732 | 3,829 |
| Less accumulated amortization of software | 479 | 286 |
| Total | 59,800 | 7,560 |

The main additions in 2000 relate to the acquisition of OAI which account for TEUR 50,676 thereof TEUR 21,380 relating mainly to the new plant in Abingdon included in assets under construction. Upon completion, these costs will be transferred into machinery and equipment and leasehold improvements. Depreciation expense amounted to TEUR 4,225 and TEUR 1,906 in 2000 and 1999, respectively.

## (8) Intangible assets, net

Intangible assets consist of the following:

| TEUR | 31/12/2000 | 31/12/1999 |
|---|---|---|
| Goodwill | 376,523 | – |
| Developed technologies | 33,799 | – |
| Customer list | 23,174 | – |
| Other intangible assets | 1,604 | 1,281 |
| Intangible assets, at costs | 435,100 | 1,281 |
| Less accumulated amortization | 35,407 | 772 |
| Total | 399,693 | 509 |

Amortization expense amounted to TEUR 34,635 and TEUR 48 in 2000 and 1999, respectively. A balance of TEUR 34,551 included in total amortization expense in 2000, represents amortization expense for goodwill and acquisition related developed technologies and customer list.

## (9) Fair value of financial instruments

The fair value of cash and cash equivalents, trade accounts receivable and trade accounts payable is their present value which is reflected by the carrying amount in the consolidated financial statements due to the short-term maturity of these financial instruments. The fair value of the long-term loan and other debt closely approximates their carrying values on December 31, 2000 and 1999. The fair value of debt is determined on the basis of discounted cash flows using an appropriate discount rate. Marketable securities are carried at their quoted price which represents the fair value.
The Company enters into foreign exchange contracts to hedge sales transactions denominated in foreign currencies. EVOTEC does not enter into derivatives for trading purposes. At December 31, 2000, the Company held US dollar options with notional amounts of 800 US dollars in thousands and a fair value of TEUR (5). Additionally, the Company held US dollar forward contracts with a notional amount of 2,825 US dollars in thousands. The fair value of the forward contracts was approximately TEUR (53) at December 31, 2000, included in “Other current liabilities”. The estimated fair value of foreign exchange contracts is based primarily on quoted market prices for the same or similar instruments.

## (10) Segment information

The Company has adopted SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information”, which requires disclosure of certain financial information about operating segments, products, services and geographic areas in which they operate.

The Company has two core business segments: (i) Drug Discovery Tools and Technologies and (ii) Drug Discovery Services and Products. The Drug Discovery Tools and Technologies segment collaborates with pharmaceutical companies to develop its platform technology and to design, manufacture, assemble and deliver instruments and disposables for its drug discovery systems. The Drug Discovery Services and Products segment enters into service contracts with third parties to provide screening, assay development and offer chemical compounds and disease targets. OAI is included in this second segment since its acquisition in 2000.

Drug Discovery Tools and Technologies consisted primarily of research and development activities with collaborative and strategic partners in the pharmaceutical industry to develop new technologies and enhance the screening systems resulting from those contracts. Beginning in the third quarter of 1999, the Company increasingly used its technology to provide screening services.

Revenues from continuing operations for the years ended December 31, 2000 and 1999, were as follows:

| TEUR | 2000 | 1999 |
|---|---|---|
| Drug discovery tools and technologies | 12,800 | 7,324 |
| Drug discovery services | 15,476 | 2,462 |
| Total | 28,276 | 9,786 |

The financial information available that is evaluated regularly by the management group in deciding how to allocate resources and in assessing performance is based on the above segment revenues. Management is in the process of implementing a system to capture additional segmental information.

With the acquisition of OAI, long-lived assets of TEUR 100,062 are located in UK, the remainder in Germany as of December 31, 2000.

Revenues can be split, based on customer locations, in the following geographical segments:

| | 2000 | 1999 |
|---|---|---|
| Germany | 9% | 24% |
| United Kingdom | 29% | 36% |
| Rest of Europe | 19% | 16% |
| United States | 42% | 24% |
| Rest of the world | 1% | 0% |

## (11) Collaborative agreements

A significant portion of the Company's revenue has been generated from collaboration agreements with a limited number of partners in the pharmaceutical industry. The Company's collaborative agreements generally extend one to three years and have accounted for 42.4 % and 72.5 % of revenues in 2000 and 1999, respectively:

| | 2000 | 1999 |
|---|---|---|
| Pfizer (USA, UK) | 21.1 % | 24.4 % |
| Glaxo SmithKline (USA, UK) | 15.7 % | 32.2 % |
| Novartis (Switzerland) | 5.6 % | 15.9 % |

Related receivables from these customers were approximately 30 % and 18 % of trade accounts receivable at December 31, 2000 and 1999, respectively.
As part of the long-term agreements, the collaborating partners acquire the right to purchase for internal use the screening machines which are developed as a result of research and development activities. The Company retains the entire and exclusive right to commercialize these screening machines.
Under the terms of the contract with Glaxo SmithKline (GSK) the total permitted volume of all research and development contracts with GSK and other third parties is limited to TEUR 35,790. EVOTEC may use the results of the collaboration agreements for projects not related to pharmaceutical drug discovery, for internal projects in pharmaceutical drug discovery, including projects which may lead to a marketable product or pre-product, or in "external target collaborations", provided that the number of molecular targets does not exceed 50 per year and does not exceed 5 per year with any one third party (increasing to 10 in the second year after delivery of the EVOscreen® system to GSK and to 15 in the third year after delivery). These restrictions apply only until the end of the third year following completion of the Company's obligations under the agreement. EVOTEC completed its obligations under this agreement in January of 2000.
With regard to other so-called "external target collaborations", i. e. cooperations which the Company enters into with third parties with respect to the screening of chemical or biological substances on a pharmaceutical target, the Company must pay royalties equal to 5 % of qualifying revenue to Novartis for a period of ten years beginning on March 17, 1998. The Company paid royalties of TEUR 31 and TEUR 16 in 2000 and 1999, respectively.
EVOTEC is not subject to any restrictions concerning technologies arising in the course of its cooperation with Pfizer. In 2000, Pfizer subscribed to 17,491 shares of the Company for proceeds of TEUR 910.

## (12) Income taxes

Income (loss) before income taxes and minority interest and equity in net loss of investees is attributable to the following geographic regions:

| TEUR | 2000 | 1999 |
|---|---|---|
| Germany | (48,401) | (9,366) |
| United Kingdom | 2,184 | – |
| Total | (46,217) | (9,366) |

The provision for income tax expense is comprised of the following amounts:

| TEUR | 2000 | 1999 |
|---|---|---|
| Current | | |
| – Germany | (326) | 11 |
| – Foreign | – | – |
| Total Current | (326) | 11 |
| Deferred | | |
| – Germany | – | – |
| – Foreign | (273) | – |
| Total Deferred | (273) | – |
| Total income tax benefit (expense) | (599) | 11 |

Statutory tax rates in the United Kingdom are 30 %. In the fourth quarter of 2000, the German government enacted new tax legislation which, among other changes, abolished the split tax rate system and will reduce the Company's statutory corporate tax rate for the German operations to a uniform 25 %, effective for the year beginning January 1, 2001. In addition, capital gains on the sale of certain qualifying investments by corporate sellers will be tax free starting on January 1, 2002.

In general, prior to 2001 retained (undistributed) German corporate income was initially subject to a federal corporation income tax currently at a rate of 40 % plus a solidarity surcharge of 5.5 % for each year on federal corporate taxes payable. Giving effect to the surcharge, the federal corporate tax rate was 42.2 %. Upon distribution of certain retained earnings generated in Germany to stockholders, the corporate income tax rate on the earnings was adjusted to 30 %, plus a solidarity surcharge of 5.5 % for a total of 31.65 % for each year, by means of a refund for taxes previously paid. In addition, the Company is subject to local trade taxes on income (Gewerbesteuer).

For the years ended December 31, 2000 and 1999 income tax expense differed from the amounts computed by applying the German federal corporation income tax rate of 42.2 % (1999: 53.2 %) to income before income taxes, minority interest and equity in losses of investees as a result of the following:

| TEUR | 2000 | 1999 |
|---|---|---|
| Expected income tax benefit (expense) | 19,504 | 4,983 |
| Non-deductible goodwill | (14,610) | – |
| Other permanent differences | 4,057 | – |
| Foreign tax differential | 168 | – |
| Effect of tax rate change | (2,901) | (553) |
| Change in valuation allowance | (6,822) | (4,430) |
| Other | 5 | 11 |
| Effective income tax benefit (expense) | (599) | 11 |

Deferred income tax assets and liabilities as of December 31, 2000 and 1999 consist of the following:

| TEUR | 2000 | 1999 |
|---|---|---|
| Deferred tax assets | | |
| Losses carried forward | 29,720 | 12,757 |
| – Deferred revenue | 1,043 | 1,273 |
| – Other | 196 | 119 |
| Total | 30,959 | 14,149 |
| Valuation allowances on deferred tax assets | (21,260) | (14,030) |
| Total deferred tax assets | 9,699 | 119 |
| Deferred tax liabilities | | |
| Fixed assets | 14,564 | – |
| Inventory | 371 | – |
| Investment securities | 268 | – |
| Accrued liabilities | 70 | – |
| Other | 17 | 119 |
| Total deferred tax liabilities | 15,209 | 119 |
| Deferred tax liability, net | 5,591 | – |

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities and projected future taxable income in making this assessment. EVOTEC has not generated taxable income in Germany since it started operations and does not expect to generate taxable income for another few years. Recoverability of the German loss carry forwards will depend on the Company's ability to generate sufficient rev-

enue and income from the commercial use of its technology in the long run. The Company has therefore provided for the deferred tax assets in Germany which are generally not subject to expiration because the benefit associated with these deductible temporary difference is contingent upon reaching those goals. In addition, management is in the process of assessing the availability of those loss carry forwards generated prior to the completion of the initial public offering.
EVOTEC did not provide income taxes or foreign withholding taxes on cumulative earnings of OAI because these earnings are intended to be indefinitely reinvested in that operation.

## (13) Debt

In February 1998, the Company entered into a TEUR 5,113 loan agreement with a bank. This loan carries an interest rate of 5% per annum and is repayable in semi-annual installments ending at September 30, 2006. This loan is secured by certain patents, receivables and equipment.
A subsidiary of OAI has debt of TEUR 410. It is repayable in installments through 2007 and secured by all of that subsidiary‘s assets. The annual maturities of these loans are as follows:

| TEUR | |
|---|---|
| 2001 | 718 |
| 2002 | 753 |
| 2003 | 692 |
| 2004 | 692 |
| 2005 | 692 |
| Thereafter | 698 |
| Total | 4,245 |

The Company maintains lines of credit totaling TEUR 127 to finance its short-term capital requirements, of which the entire balance was available at December 31, 2000. These lines of credit provide for borrowing at various interest rates and have no stated expiration date. Additionally the Company has a working capital overdraft facility in UK of up to TEUR 7,927. Borrowings are subject to interest of 1% above the bank’s base rate.

## (14) Accrued liabilities

The accrued liabilities consist of the following:

| TEUR | 2000 | 1999 |
|---|---|---|
| Accrued costs for the OAI acquisition | 4,364 | – |
| Bonus accruals | 2,086 | 486 |
| Outstanding invoices | 1,353 | 648 |
| Other accrued liabilities | 1,098 | 722 |
| Total | 8,901 | 1,856 |

The accrued costs for the OAI acquisition include an amount of TEUR 4,323 due to the underwriters who acted as advisors.

## (15) Stock compensation

The shareholders' meeting on June 7, 1999 established a stock option plan and authorized the issuance of stock options for up to 1,466,600 shares. The plan is subject to certain restrictions regarding the number of stock awards that may be issued in a year and the allocation of the awards to members of the Management Board, other key management personnel and all other employees. In connection with the acquisitions in 2000 and the increased number of employees, the shareholders approved of an additional 949,000 shares which may be issued in connection with the exercise of stock options. The first issuance of stock options was in connection with the initial public offering. The terms of the stock option plans provide that the price of the stock increase by at least 30 % compared to the average closing price of the stock during the last quarter of the year preceding the year of the date of any subsequent grant. The Supervisory Board can nevertheless authorize the granting of options to employees if it is considered necessary for the interests of the Company.

Each of the options entitles the holder to purchase one share of the Company's stock within ten years of grant date at a set strike price. For all options granted in 1999, the strike price was the price of the initial public offering of EUR 13. Options granted in 2000 and thereafter can be exercised at a strike price equal to the closing price of the shares on the trading day before the option was granted. Options have a graded vesting: a maximum of one-third of which can be exercised after two years at the earliest, a maximum of two-thirds after three years and all remaining awarded options after four years. Options can only be exercised within certain specified two week periods starting on the third day after one of the following events: (i) release of the quarterly results, (ii) annual press conference on the financial statements, or (iii) annual shareholders' meeting of the Company.

The options can only be exercised if the stock price exceeds the strike price by at least 5 % on the date of exercise.

| | 2000 | Weighted average price in EUR | 1999 | Weighted average price in EUR |
|---|---|---|---|---|
| Outstanding at beginning of the year | 356,538 | 13.00 | – | – |
| Options granted | 672,165 | 24.30 | 356,538 | 13.00 |
| Options exercised | – | – | – | – |
| Options forfeited | 27,300 | 13.00 | – | – |
| Outstanding at end of the year | 1,001,403 | 20.58 | 356,538 | 13.00 |
| Thereof exercisable | – | – | – | – |

EVOTEC's stock option plan is a variable plan and results in compensation expense if EVOTEC's stock price actually does increase subsequent to the issuance of option awards. Total compensation cost of TEUR 713 and TEUR 53 was determined at the measurement dates in 2000 and 1999, respectively; of that amount TEUR 61 and TEUR 2 was recognized as compensation expense in 2000 and 1999, respectively.
If the fair value of the options at the date of the grant had been applied to measure compensation cost, the unaudited pro forma loss and pro forma loss per share for the Company would have been TEUR 47,216 and EUR 1.75 in 2000 (1999: TEUR 9,494 and EUR 0.60). The fair value of the options granted for the fiscal years ending December 31, 2000 and 1999 reported above has been estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

| | 2000 | 1999 |
|---|---|---|
| Risk-free interest rate | 4.5 % | 4.4 % |
| Volatility | 150 % | 80 % |
| Dividend yield | – | – |
| Options expected to be exercised | 90 % | 95 % |

## (16) Shareholders' equity

On December 31, 2000 a conditional capital (bedingtes Kapital) of 2,415,600 shares and an approved capital (genehmigtes Kapital) of 6,030,028 shares exist. 35,452,148 shares are issued and outstanding on December 31, 2000. On November 14, 2000, the Company decided to issue 17,491 new shares to Pfizer under the terms of the collaborative agreement at a price equal to the average share price between the date of the initial public offering and the date of issuance. The shares were issued on January 3, 2001. The price per share paid was in excess of the quoted price at the date of issuance (see note 11). The annual shareholders' meeting on June 26, 2000 approved a two-to-one stock split which was retroactively considered for all periods presented in these financial statements.

The Management Board of the Company was authorized by way of a shareholders' resolution to issue up to 12,000,000 new shares for cash or contributions in kind. On December 31, 2000, after the acquisition of OAI up to 6,030,028 shares are authorized but not issued. Under German law, the shareholders of a stock corporation may empower the Management Board to issue shares in a specified aggregate nominal value not exceeding 50 % of the issued share capital at the time of the shareholder vote, in the form of conditional capital (bedingtes Kapital) or approved capital (genehmigtes Kapital). The authorization expires five years after the date of the shareholders' resolution.

In connection with the initial public offering in November 1999 and giving the effect to the subsequent stock split, the Company issued 8,200,000 shares with a par value of Euro 1.00 and an additional 1,290,000 shares upon exercise of the overallotment option by the underwriter. Offering costs of TEUR 4,402 were offset against the proceeds from the offering. Shareholders' equity at December 31, 1999 does not include the amount of TEUR 7,740 by which the price exceeded the par value of the shares issued in connection with the exercise of the overallotment option which was paid after December 31, 1999 and therefore not at the Company's disposition at that date.

In the general shareholders' meeting on May 14, 1999 the shareholders resolved to convert the share capital to Euro. In addition, the share capital was increased by TEUR 6,958 from company funds. The capital was redivided into individual shares on the basis of EUR 1 per share so that the shareholders now have 50 shares at a nominal value of EUR 1 for every previously held share with a par value of DEM 5. The effect of this conversion was reflected retroactively for all reported periods in the financial statements.

In November 1998, EVOTEC issued 470,000 shares of capital stock to an institutional investor for TEUR 3,953. As the capital increase was not recorded in the trade register until March 18, 1999 a liability to shareholders was recorded for this amount as of December 31, 1998.

## (17) Commitments and contingencies

**(a) Operating Leases.** The Company leases certain office space and other equipment under operating leases. The future minimum lease payments under non-cancelable operating leases are approximately as follows at December 31, 2000:

| TEUR | |
|---|---|
| 2001 | 3,411 |
| 2002 | 2,849 |
| 2003 | 2,751 |
| 2004 | 2,509 |
| 2005 | 2,391 |
| Thereafter | 8,239 |
| Total | 22,150 |

The rent expense for operating leases amounted to TEUR 1,454 and TEUR 881 for the years ended December 31, 2000 and 1999, respectively.

**(b) Other Commitments.** The Company has entered into long-term consultant contracts, some of which are with shareholders of the Company. During 2000 and 1999, payments under consultant contracts totaled TEUR 300 and TEUR 312, respectively. The future minimum payments associated with long-term consultant and other miscellaneous long-term commitments total approximately TEUR 653 and TEUR 318 at December 31, 2000 and 1999, respectively.
The Company has entered into a development contract with GPC Biotech AG, Munich (GPC). Payments under this agreement resulted into TEUR 350 in 2000. Future payments of TEUR 175 are committed for 2001.

## (18) Related party transactions

In the ordinary course of business, the Company has entered into a cooperation agreement with GPC regarding the development and screening of specific targets (see Note 17). A supervisory board member of the Company is also acting chairman of the supervisory board of GPC.
The chairman of the Company is a member of the supervisory board of another company from which the Company obtained licences in 2000. Licence expenses in 2000 amount to TEUR 24.
In the ordinary course of business, the Company bought raw materials of TEUR 47 from another company of which a member of the supervisory board is the CFO.
Further transactions with companies in which members of the board and/or supervisory board have ownership interests or management influence are considered insignificant.

## (19) Other disclosures

The following additional disclosures are required by German law in accordance with the European Directives on Accounting:

**(a) Number of employees.** The average number of persons employed by the Company in 2000 was 308 (1999: 198).

**(b) Personnel expenses and cost of material.** The personnel expenses in the group amount to TEUR 17,997 of which TEUR 3,809 relates to personnel expenses of OAI.
Cost of material amount to TEUR 6,409, thereof TEUR 1,229 are cost of material of OAI.

**(c) Consolidated subsidiaries and equity investees.** Information on the results for the year is as of the statutory financial statements set up in accordance with the respective local generally accepted accounting principles.

| Company's ownership | interest | 2000 Net profit/(loss) in TEUR |
|---|---|---|
| Subsidiaries (verbundene Unternehmen) | | |
| – Oxford Asymmetry International plc, Abingdon, UK | 100.0 % | (2,477) |
| – EVOTEC Analytical Systems GmbH, Erkrath, Germany | 97.0 % | 0 |
| – EVOTEC NeuroSciences GmbH, Hamburg, Germany | 66.0 % | 0 |
| – GENION Forschungsgesellschaft mbH, Hamburg, Germany | 100.0 % | 408 |
| – ProPharma Ltd, Glasgow, UK | 58.0 % | (336) |
| – Oxford Asymmetry International Inc., New York, USA | 100.0 % | 12 |
| – Oxford Diversity Ltd., Abingdon, UK | 100.0 % | 0 |
| – Oxford Asymmetry Employee Shares Trust Ltd., Abingdon, UK | 100.0 % | 0 |
| Investees (assoziierte Unternehmen) | | |
| – QE-Diagnostiksysteme GmbH, Erkrath, Germany | 50.0 % | (529) |
| – DIREVO Biotech AG, Göttingen, Germany | 32.5 % | (101) |

**(d) Management Board.** The members of the management board are listed at the end of this report.
The remuneration paid to the members of the management board in the financial year totaled TEUR 708 (1999: TEUR 463). Under the employee stock option scheme, the members of the management board received 75,000 (1999: 41,064) options of which one-third may be exercised after two years.

**(e) Supervisory Board.** The members of the supervisory board are listed at the end of this report.
The remuneration paid to the members of the supervisory board in the financial year amounted to TEUR 34 (1999: TEUR 25).

**(f) Scientific advisory committee.** Prof Dr Manfred Eigen, Göttingen; Prof Dr Günther Fuhr, Berlin; Prof Dr Roger Nitsch, Zurich, Switzerland; Prof Dr Norbert Riedel, Glendale, U.S.; Prof Dr Detlev Riesner, Düsseldorf; Prof Dr Rudolf Riegler, Stockholm, Sweden; Prof Dr Heinrich Schulte, Hamburg; Prof Dr Charles Weissmann, London, UK

**(g) Summary of significant differences between U.S. GAAP and HGB accounting requirements.** The consolidated financial statements of the Company are prepared in accordance with United States Generally Accepted Accounting Principles ("U.S. GAAP"), which differ in certain respects from German accounting requirements as prescribed by the HGB. The following is a summary of the significant differences between applied U.S. GAAP and HGB requirements that may affect the Company's operations and stockholders' equity for the periods presented.
**Deferred tax assets.** Under U.S. GAAP, deferred tax assets arising from a tax loss carry forward and deductible temporary differences are recorded and must be analysed in light of whether realization of the assets is "more likely than not". This means a level of likelihood that is greater than 50 %. As a result of this analysis, a deferred tax asset may be subject to a valuation allowance. Under the HGB, deferred tax assets generally may not be recognized with respect to a tax loss carryforward because expected future tax savings are not recognizable before the realization of such profits.
**Revenue recognition.** Under U.S. GAAP, more stringent revenue recognition criteria exist which result in differences in the periods in which revenue is recognized under the HGB.
**Offering costs.** Under U.S. GAAP, certain costs in connection with a private placement or an initial public offering of equity are recorded as a reduction of equity. Under the HGB, such costs are expensed as incurred.
**Unrealized holding gains and losses on available-for-sale securities.** Under U.S. GAAP, unrealized holding gains and losses on available-for-sale securities are generally recorded as a component of equity. If unrealized holding losses are deemed to be other than temporary, such losses will be charged to income, however.

Under the HGB, unrealized losses are recorded in the statement of operations. Unrealized gains may not be recorded until realized.

**Measurement of purchase price in acquisitions.** Under U.S. GAAP, the purchase price of the acquisition is determined using the fair value of the shares issued. The fair value of each share issued is determined by averaging the share price for a reasonable period before and after the date at which the terms of the acquisition are agreed to and the agreement is announced. Under the HGB, the purchase price is determined using the share stated or inferred in the purchase agreement.

**Application of the equity method.** U.S. GAAP requires that an investor considers equity investments and debt instruments such as advances made to an investee in determining the investor's share of losses of an investee. Under German GAAP, there are no specific rules regarding the application of the equity method and there is no common practice to absorb the share of losses of an investee in excess of the equity investment made unless there is an impairment in loan granted or advances made.

**Consolidation of subsidiaries and determination of control.** Under U.S. GAAP, a parent consolidates subsidiaries if it has a controlling interest. There is a rebuttable presumption that control exists when the parent holds a majority of the voting rights of an investee. However, if control is likely to be temporary or does not rest with the majority owner, consolidation is not appropriate. If minority investors hold substantive participating rights in an investee which put them in a position to block or veto operating and capital decisions that are expected to be made in the ordinary course of business of that investee, control does not rest with the majority owner. Under HGB, ownership of a majority of the voting rights is generally an irrebuttable condition for consolidation.

**Content and presentation of financial statements.** Under U.S. GAAP, assets and liabilities are classified as either "current" or "noncurrent" based on the expected period of time to recover the asset or pay the liability. The balance sheet in accordance with German GAAP observes § 266 HGB which is an unclassified balance sheet. The statement of operations in accordance with U.S. GAAP presents expenses according to their function and provides a separation of operating expenses from nonoperating income and expense items. A German GAAP income statement in accordance with § 275 HGB does not provide all of the information required by U.S. GAAP.

## Report of the Supervisory Board

In fiscal year 2000, the Supervisory Board was provided with in-depth information on the business development and the condition of the company in five meetings with the Managing Board of EVOTEC BioSystems AG. In addition, the Managing Board regularly informed the Supervisory Board on the status of the company in oral and written reports.

The Supervisory Board paid particular attention to the strategic development of the company. It received detailed reports on the company's portfolio of research and development projects, their current status, the chances of successfully concluding them and the prospects for new products entering the market.

The Supervisory Board meetings in 2000 focused on the following subjects: in March, as well as the 1999 annual financial statements, the agenda dealt with the concept behind and foundation of DIREVO Biotech AG, the remuneration system at EVOTEC and the formation of a Financial Reporting Committee and a Human Resources Committee.
In June, the Supervisory Board discussed the General Meeting and the acquisitions of Oxford Asymmetry International plc (OAI) and GENION Forschungsgesellschaft mbH.
The main topics at September's meeting were the Extraordinary General Meeting held to discuss the acquisition of Oxford Asymmetry International plc as well as the procedure for and the organizational consequences of the acquisition.
The October meeting resolved the expansion of the Managing Board as a result of the acquisition of OAI and addressed the company's future strategy with regard to the EVOTEC Group's own research projects.
The topics of the meeting in December were the strategic focus of the expanded Group, corporate planning for our instrument and product business, the budget for fiscal year 2001 as well as the revision of the bye-laws caused by the new composition of the Managing Board.

The accounting, the annual financial statements and the management report of EVOTEC BioSystems AG for 2000 were audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hamburg, and issued with an unqualified audit opinion.

The annual financial statements were submitted in good time to the Supervisory Board for examination. The Supervisory Board approved the results of the audit by the auditor, who was present at the Supervisory Board meeting of March 26, 2001 and gave a comprehensive explanation of the results of the audit. The Supervisory Board also examined the annual financial statements itself and raised no objections upon completion of its examination. The annual financial statements for fiscal year 2000 submitted by the Managing Board were approved by the Supervisory Board and are therefore adopted.

The Supervisory Board concurs with the proposal of the Managing Board to carry forward the retained deficit to new account.

The Supervisory Board would like to thank the Managing Board and the company's employees for their work and wishes them continued success for fiscal year 2001.

Hamburg, March 26, 2001

Prof Dr Heinz Riesenhuber
Chairman of the Supervisory Board

## Supervisory Board and Management Board

### Supervisory Board

| | |
|---|---|
| Prof Dr Heinz Riesenhuber | Chemist, Frankfurt am Main<br>Chairman of the Supervisory Board<br>Member of the Supervisory Board: Altana AG, Bad Homburg; Frankfurter Allgemeine Zeitung, Frankfurt am Main; Henkel KGaA, Düsseldorf; Mannesmann AG, Düsseldorf; Messer Griesheim GmbH, Frankfurt am Main; OSRAM GmbH, Munich; Portum AG, Frankfurt am Main |
| Peer Schatz | Business Executive, Düsseldorf<br>Vice Chairman of the Supervisory Board<br>Member of the Supervisory Board of Mulligan BioCapital AG, Hamburg<br>Member of the Beirat: ACS Moschner & Co Ges.m.b.H.;<br>Venture Capital Partners KEG, Vienna/A |
| Roland Oetker | Business Executive, Düsseldorf<br>Member of the Supervisory Board<br>Chairman of the Supervisory Board: Mulligan BioCapital AG, Hamburg (from October 13, 2000)<br>Member of the Supervisory Board: Volkswagen AG, Wolfsburg;<br>Degussa AG, Düsseldorf (from February 9, 2001);<br>Falke Bank AG, Düsseldorf (from February 8, 2000);<br>IKB Deutsche Industriebank AG, Düsseldorf (from September 8, 2000)<br>Member of the Verwaltungsrat: Gamma Holding N.V., Helmond/NL;<br>Scottish Widows Pan-European Smaller Companies OEIC, London/UK<br>Member of the Beirat: Dr. August-Oetker-Gruppe, Bielefeld<br>President, DSW Deutsche Schutzvereinigung für Wertpapierbesitz e.V., Düsseldorf |
| Dr Helmut Schuehsler | Business Executive, Munich<br>Member of the Supervisory Board (until December 11, 2000)<br>Chairman of the Supervisory Board: MorphoChem AG, Munich;<br>Ingenium Pharmaceuticals AG, Munich; VitaResc Biotech AG, Martinsried<br>Member of the Supervisory Board: MediGene AG, Munich;<br>GPC Biotech AG, Munich<br>Member of the Supervisory Board and other honorary appointments which are not according to § 125 (1) third sentence of the AktG:<br>Peptor Ltd., Rehovot/Israel (Director);<br>Sequenom Inc., San Diego/US (Chairman); Intercell Biomedical Research and Development AG, Vienna/A; Atomik Instruments GmbH, Oberschleißheim (Beirat); ITN GmbH, Neuherberg (Beirat);<br>Garching Innovation GmbH, Munich (Beirat) |

| | |
|---|---|
| Michael Redmond | Business Executive, Bury St. Edmunds, UK<br>Member of the Supervisory Board (from September 21, 2000)<br>Member of the Supervisory Board: Cantab Pharmaceuticals plc, Cambridge/UK; Biovation Ltd., Aberdeen/UK (until October 2000); Scotia Holdings Ltd., Stirling/UK; TerragenDiversity Inc., Vancouver/Canada (until October 2000); Microscience Ltd., Reading/UK; CeNeS (former: Core) plc, Cambridge/UK; Biocompatibles International plc, Farnham/UK; Oxford Asymmetry International plc, Abingdon/UK (until September 2000) |
| Dr Axel Schmidt-Hern | Lawyer, Düsseldorf<br>Member of the Supervisory Board (until May 25, 2000) |
| Prof Dr Hans-Jürgen Quadbeck-Seeger | Chemist, Bad Dürkheim<br>Member of the Supervisory Board<br>Member of the Verwaltungsrat of Chemspeed Ltd., Augst/CH |

**Management Board**

| | |
|---|---|
| Dr Karsten Henco | Biochemist, Erkrath<br>Chief Executive Officer<br>Member of the Supervisory Board: Garching Innovation GmbH, Munich; QE Diagnostiksysteme GmbH, Erkrath; DIREVO Biotech AG, Göttingen; NewLab BioQuality AG, Erkrath |
| Dr Edwin Moses | Chemist, Goring, Berkshire, UK<br>President |
| Joern Aldag | Business Executive, Hamburg<br>Chief Financial Officer<br>Member of the Supervisory Board: LION bioscience AG, Heidelberg |
| Dr Timm-H. Jessen | Chemist, Hamburg<br>Chief Scientific Officer |
| Dr Mario Polywka | Chemist, Abingdon, Oxfordshire, UK<br>Chief Operating Officer |

Evotec OAI's financial calendar

| | |
|---|---|
| March 29, 2001 | Annual report 2000 |
| | Press Conference, Analyst Meeting |
| May 16, 2001 | First Quarter Report 2001 |
| June 18, 2001 | Annual General Meeting |
| August 21, 2001 | Second Quarter Report 2001 |
| November 8, 2001 | Third Quarter Report 2001 |

Editor

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This annual report is also available in German.

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**Evotec OAI. Taking the Lead**

- Construction of cGMP pilot plant completed
- Synthesis and analysis of more than 1 million compounds
- Numerous new collaboration agreements in both research and development
- Complete integration of an enterprise-wide knowledge management system
- Successful introduction of EVOscreen® Mark II, already 6 systems in operation
- Technology development—all milestones achieved on schedule
- Development of VLiP™ assay system
- Acquisistion and integration of GENION Forschungsgesellschaft mbH
- Co-foundation of DIREVO Biotech AG
- Merger of EVOTEC and OAI

# Glossary

**ADME/T-assay.** Acronym for Absorption, Distribution, Metabolism, Excretion and Toxicity of a substance reflecting the physiological processes in vivo. ADME studies are used to determine how drugs are taken up by the body, where they go in the body, the chemical changes they undergo in the body and how they are eliminated from the body.

**Assay.** Any combination of targets and compounds which is exposed to a detection device to measure chemical or biological activity.

**Biochemical assay.** Assay run on targets previously purified from cells.

**Bioavailability.** The degree and rate at which a substance (as a drug) is absorbed into a living system or is made available at the site of physiological activity.

**CaCo-2-cells.** CaCo-2-cells are derived from a human colon carcinoma and retain certain physiological characteristics typical for the epithelial lining of the colon. These cells are used to analyse the absorption and metabolism of substances entering the body via the intestinal tract.

**Cell line.** Cells with an unlimited replication capacity, which maintain specific and usefull characteristics identical between the parent and the daughter cells.

**Cellular assay.** Assay performed using whole living cells.

**Clinical trials.** Drug research studies that involve patients.

**Combinatorial chemistry.** Chemical synthesis whereby a very large number of organic compounds are created by putting chemical "building blocks" together in every possible combination.

**Compound library.** Collection of a multitude of different molecules; used for screening.

**Eletrophysiology.** Electrical phenomena associated with a physiological process (as the function of a body or bodily part).

**Enzymes.** Proteins that act as catalysts, speeding the rate at which biochemical reactions proceed but not altering the direction or nature of the reactions.

**Epithelium (Epithelial).** The covering of an organism or an organ. The layer(s) of cells between the organism or its tissues or organs and the environment. Examples include the skin cells, the inner linings of the lungs and the digestive tract, etc.

**Fluorescent dye.** Dye molecule that emits fluorescence light upon excitation from a light source.

**Fluorescence Correlation Spectroscopie (FCS$^+$plus).** Evotec OAI's single molecule detection technology. A laser beam is concentrated on a very small focal point using a special confocal lens. Biological substances, marked with a fluorescent dye, show up brightly at the focal point of the laser. Their light—individual photons—is picked up by a highly sensitive detector as a function of time.

**Genome.** All the genetic material contained in the chromosomes of a particular organism.

**cGMP or GMP** (Current Good Manufacturing Practice). That part of quality assurance which ensures that medical products are consistently produced and controlled to the quality standards appropriate to their intended use and as required by the marketing authorisation or product specification.

**GPCRs** (G-Protein Coupled Receptors). Large family of related receptors which play a very important role in drug therapy. These receptors stimulate and convey signals within cells harbouring these proteins through interactions with a conserved family of proteins known as G-proteins.

**Hit (compound).** Compound found by screening to have a desired biological effect.

**Ion channels.** Receptors which, when activated, allow the passage of ions across cell membranes.

**Kinases.** Any of several enzymes that catalyze the transfer of a phosphate group from one molecule to another.

**Lead (compound).** Substance that is chosen for experimental evaluation on the basis of its predicted qualities and its likelihood of becoming a drug.

**Lead-target system.** The combination of a target and a respective chemical entity which interacts with the target.

**Lead optimisation.** The synthetic modification of a biologically active compound, to fulfill all stereoelectronic, physicochemical, pharmacokinetic and toxilogic requirements for clinical usefulness.

**MUX LC/MS system.** 8-way parallel coupled LC-MS. Trademark of Micromass, UK. Analytical method combining high pressure liquid chromatography (separation of mixtures in liquids) with coupled mass spectroscopy (special method of measurement) in order to characterise compounds regarding their molecular weight, polarity, etc. and regarding their purity. The system is capable of generating a much greater throughput than traditional stand-alone, non-parallel systems.

**On-bead screening.** Screening of compounds bound to the surface of tiny polymer beads. Beads facilitate solid phase synthesis and handling of compounds.

**Parallel synthesis.** Synthesis of large sets of organic compounds in parallel using combinatorial chemistry and automated technologies.

**Phosphatases.** Enzymes that remove phosphate residues from proteins.

**PICKOscreen®.** A technology developed by Evotec OAI which enables one to screen for compounds coupled to beads.

**Preclinical phase.** The phase of drug discovery research extending from target identification, the search for chemical compounds with desired properties, through to the end of efficacy studies in animal models.

**Primary screening.** The initial screening of a new target.

**Profiling.** A detailed analysis and characterisation of substances detected in screening with respect to their dose-response activities and to their interaction with other members of the same target family.

**Proteome research.** The identification, characterisation and quantification of protein repertoires found in healthy and pathological material. The presence of these proteins with a defined function give information concerning the biological processes occurring in these cells.

**Receptor.** Protein in a cell or on its surface that selectively binds a specific substance (ligand). Upon binding its ligand, the receptor triggers a specific response in the cell.

**SAR** (Structure Activity Relationships). Information collectively describing the structure and the interaction of a specific chemical compound with a target molecule.

**Scale up.** An increase according to a fixed ratio in which substances are produced in larger quantities as compared to normal laboratory syntheses.

**Screening.** Mass testing of a compound libraries using an established assay format.

**Secondary screening.** This is the process whereby hits detected in the primary screen are further screened using a methodology different from that used in the primary screen and in which different concentrations of the compounds or related targets can be utilised.

**Small molecules.** Small organic molecules with a molecular weight < 700 g/mol. They are preferred as drug candidates as they tend to be orally available.

**Target.** Specific biological molecule, such as an enzyme, receptor or ion channel, assumed to be relevant to a certain disease. Most drugs work by binding to a target, thereby affecting its biological function.

**Target validation.** A key part of drug discovery research: verification of the action of a target on the course of a specific illness; validated targets are preferentially screened.

**uHTS** (ultra-High-Throughput Screening). Technique of rapidly searching for molecules with desired biological effects from very large compound libraries.

**VLiP™** (Vesicle Like Particles). Stable spherical membranous particles homogeneous in size (approximately 100 nanometer which are composed of and carry defined protein components.