

EVOTEC BioSystems AG

Third Quarter Report 1999



To our shareholders

December 6, 1999

To date, the 1999 fiscal year has progressed well for EVOTEC. During the third quarter of 1999, attention was predominantly focused on preparations for our initial public offering, which we are pleased to report has been a great success. Around 4.9 million EVOTEC shares were placed internationally at 13.00 euro per share in a heavily oversubscribed transaction. The shares have been traded on the Neuer Markt of the Frankfurt Stock Exchange since November 10, 1999. The opening price for the shares at 24.00 euro was 85% above the initial offering price.

IPO creates the foundations for international growth

EVOTEC has attained a high level of maturity for such a young fast-growing biotech company. We are well-positioned to draw on our innovative and patented technologies and on our competence in the fields of biology, chemistry, optics, and information technology as a basis for establishing a professional services business and developing our own in-house pharmaceutical drug discovery programs. The IPO is intended to further accelerate EVOTEC's progress in asserting a leading international position in the attractive market of pharmaceutical drug discovery. It has created the necessary financial foundations to enable the Company to expand further internationally. The development of an operating facility in the US will establish our services business in the American market. We also plan to further consolidate our technology position, invest in our own pre-clinical drug discovery programs, and strengthen our market position through alliances with renowned biotech companies in Europe and the US.

Cooperation with our pharmaceutical partners is on schedule

In October, we delivered our natural compound fractionation module for high-throughput screening to our collaboration partner Novartis. The fractionation module is part of the EVOscreen[®] system, an integrated system that significantly enhances data quality and can considerably reduce the time and costs involved in the search for new drug candidates. We have also incorporated this module into our own service unit, thereby broadening our portfolio of drug discovery services. Full-scale delivery of the entire EVOscreen[®] system is scheduled to take place within the next three months. This delivery will represent one of the most important milestones in EVOTEC's technological development.

Services business launched

EVOTEC's drug discovery services business was launched according to plan during the third quarter of 1999. This business unit offers pharmaceutical and biotechnology companies the benefits of EVOTEC's cutting-edge technology and extensive expertise in the development of miniaturized biological assay systems. Within this same sphere of its business, EVOTEC also offers access to specific targets and to a compound library, which is currently under development.

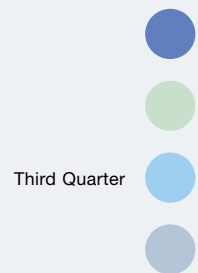
We are optimistic that our business will continue to experience strong growth. We extend our thanks to our shareholders for the trust they have placed in us.



Dr. Karsten Henco
Chief Executive Officer

EVOTEC Key Figures

in Million DM	1-9/1998	1-9/1999	+/- %
Revenues	7,4	9,3	26.8
R&D expenses	11,9	19,6	64.9
Loss from operations	(11,2)	(18,5)	64.9
Employees at the end of September	144	215	49.3



Revenues

During the first nine months, EVOTEC BioSystems AG's revenues rose to DM 9.3 million, representing a 26.8% increase over the previous year. In the third quarter alone, the Company recorded revenues of DM 4.9 million. This included sales of DM 4.0 million from technology development and transfer agreements with EVOTEC's pharmaceutical partners SmithKline Beecham and Pfizer, with DM 0.4 million being contributed by the services business. The remaining DM 0.9 million was accounted for by income from licenses (DM 0.4 million) and instrument sales (DM 0.5 million).

Financial structure of technology development and transfer agreements (in million DM)

Partner	Contract Period	Volume	Revenues achieved
Novartis	4/96 - 12/99	20	16.5
SmithKline Beecham	12/96 - 12/00	30	18.0
Pfizer	6/99 - 6/02	30	1.5

Personnel developments

As at the end of September, the number of people employed by the EVOTEC Group had risen from 144 in 1998 to 215 in 1999. This sharp increase in the number of employees (+49.3%) reflects the development of the services division and the Company's own in-house pre-clinical drug discovery business as key strategic areas for the Company. In addition, we increased personnel in order to expand and complete our technology platform. Following its formation in May 1999, the Company's subsidiary EVOTEC NeuroSciences GmbH, which specializes in neurodegenerative diseases (including in particular Alzheimer's disease), had expanded to employ 14 members of staff by the end of September 1999. EVOTEC Analytical Systems GmbH had a total of 23 employees.

Research and development expenses

Research and development expenses increased according to plan during the first nine months, rising from DM 11.9 million in 1998 to DM 19.6 million in 1999. This represents an increase of 64.9%. In addition to the increase in personnel, this rise is accounted for by the resulting increased cost of materials and depreciation in the field of research and development.

Operating result

At DM 18.5 million, the operating loss for the first nine months of 1999 was 64.9% higher than the loss recorded over the same period in the previous year. This is largely due to the significant scheduled increase in research and development expenses.

Investments

During the first nine months of 1999, investments by the Company totaled DM 6.8 million. Of this, around DM 6.3 million was invested in tangible and intangible fixed assets, with around DM 0.5 million being invested in financial assets.

Cash flow and liquidity

For the first nine months of 1999, the cash flow from operations was DM -10.0 million. The negative cash flow is largely accounted for by the losses recorded for the period and by the counter effects of the increase in deferred income from sales that could not yet be realized under the technology contract concluded with Pfizer. The net cash used in investing activities for the period under report which amounted to DM 3.9 million is largely due to investments in fixed assets (DM 6.8 million) and to a decrease in investment securities totaling DM 2.7 million. The cash flow from financing activities of DM 4.2 million during the first nine months of 1999 is primarily due to the repayment of DM 4.8 million in staff loans. The Company's liquidity amounted to DM 21.4 million as of September 30, 1999.

Outlook

The implementation of EVOTEC's strategic projects is continuing apace, with intensification of work to develop the infrastructure for the services business and of research projects specific to the pharmaceuticals sector. The resultant scheduled increase in the number of employees and the associated increased research and development expenses mean that the Company will this year record a larger loss than in the previous fiscal year. However, the Company believes that this strategic expenditure will increase the value of the Company and lead to positive results over the medium term.

Condensed Consolidated Balance Sheets according to US GAAP

(unaudited)

EVOTEC BioSystems AG and Subsidiaries

Deutsche Mark in thousands

ASSETS			
9 months ended September 30,	1998	1999	+/- %
Current assets			
Cash and cash equivalents	23,256	21,412	-7.93
Investment securities	4,480	1,663	-62.88
Trade accounts receivable	79	3,887	-
Inventories	271	4,002	-
Other current assets	3,505	6,091	73.78
Total current assets	31,591	37,055	17.30
Fixed assets, net	8,540	13,072	53.07
Other non-current assets, net	513	555	8.19
Total assets	40,644	50,682	24.70
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable	1,348	3,592	166.47
Accrued liabilities	1,156	3,685	218.77
Current maturities of long-term loan	1,250	1,250	0.00
Deferred revenues	2,346	6,597	181.20
Other current liabilities	2,416	3,655	51.28
Total current liabilities	8,516	18,779	120.51
Liabilities to silent partners'	12,400	-	-
Long-term loan	3,750	8,125	116.67
Deferred revenues	900	1,167	29.67
Other non-current liabilities	7	11	57.14
Total non current liabilities	17,057	9,303	-45.46
Total liabilities	25,573	28,082	9.81
Total stockholders' equity	15,071	22,600	49.96
Total liabilities and stockholders' equity	40,644	50,682	24.70

Condensed Consolidated Statements of Operations according to US GAAP

(unaudited)

EVOTEC BioSystems AG and Subsidiaries

Deutsche Mark in thousands

	3 months ended September 30,			9 months ended September 30,		
	1998	1999	+/- %	1998	1999	+/- %
Revenues						
–Research and development revenues	1,923	3,998	107.90	6,983	7,646	9.49
–Product sale revenues	79	944	–	374	1,679	348.93
Total revenues	2,002	4,942	146.85	7,357	9,325	26.75
Operating costs and expenses						
–Research and development expenses	4,047	8,138	101.09	11,878	19,587	64.90
–Cost of product sales	–	64	–	–	286	–
–Selling, general and administrative expenses	2,314	2,895	25.11	6,688	7,932	18.60
Total operating costs and expenses	6,361	11,097	74.45	18,566	27,805	49.76
Loss from operations	(4,359)	(6,155)	41.20	(11,209)	(18,480)	64.87
Other non-operating income (expense)						
–Interest (expense) income	298	74	-75.17	748	449	-39.97
–Equity in net loss of affiliate	–	(210)	–	–	(530)	–
–Other non-operating (expense) income	(104)	477	-558.65	(47)	1,566	–
Total non-operating income	194	341	75.77	701	1,485	111.84
Loss before income taxes and minority interest	(4,165)	(5,814)	39.59	(10,508)	(16,995)	61.73
–Income tax benefit	–	–	–	–	–	–
Loss before minority interest	(4,165)	(5,814)	39.59	(10,508)	(16,995)	61.73
–Minority interest	–	–	–	–	18	–
Net loss	(4,165)	(5,814)	39.59	(10,508)	(16,977)	61.56

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