



## Evotec OAI AG, Second Quarter Report 2004

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Dear shareholders,

The second quarter saw a significant improvement over the first quarter, with sales up 18%. Revenues in our core business, Discovery and Development Services (DDS), recovered including chemical and pharmaceutical development which experienced a particularly weak Q1 2004. Overall, Q2 revenues are back to the level seen in the same period last year. Lower sales volumes in the first six months and the impact of a weak US-Dollar and strong GBP-Sterling led to a decline in gross margin in DDS, but this is expected to improve during the rest of the year with higher capacity utilisation.

Revenue visibility also improved, with new order intake for 2004 of EUR 15 million from May to July compared to EUR 6 million in the comparable period of 2003. New contracts were spread across all product lines, including a strategic discovery chemistry contract with Roche and several new customers signing up for biology services.

Although the market environment remains challenging, we are on a good path towards achieving our full year guidance. We expect the higher flow of new orders to translate into stronger sales for the rest of the year, with the majority generated in Q4. In particular, revenues in our Tools and Technology Division will be heavily year-end loaded with an EVOscreen® system expected to pass acceptance testing with a customer in December. In July, we issued 2.5 million new Evotec OAI shares through a public offering, raising EUR 7.5 million to support funding the growth in our core business, Discovery and Development Services, and to further support research in our Discovery Programs Division.

## Highlights

As expected, we experienced a modest recovery in the drug discovery and development markets in the first half of 2004. This was particularly evident in the US, where several biotechnology companies successfully secured funding for their research and development programmes. As a result, new order intake in our Discovery and Development Services Division accelerated.

### **Strategic discovery chemistry partnership with Roche; Curis contract extended**

In May, Evotec OAI entered into a strategic worldwide chemistry agreement with Roche. Evotec OAI and Roche have a long-standing relationship that includes three separate chemistry alliances agreed since 2001. This latest expansion sees Evotec OAI begin supporting the four Roche R&D sites in the design and synthesis of high quality chemical compounds to support their ongoing medicinal chemistry programmes. This expansion is an illustration of our innovation and ability to meet the needs of major clients in different aspects of their research and development. In addition to this we were also pleased to extend our medicinal chemistry collaboration with Curis for a further 12 months.

### **Strong new order intake in biology services: deals signed with Guilford, Nuvios, Neuronova**

Evotec OAI also experienced a strong order flow in assay development and screening in the second quarter, signing new contracts with Guilford, Neuronova and Nuvios. Our integrated biology solution, including fast assay development, validated, highly sensitive high-throughput screening solutions and a high quality screening library, is an ideal complement to our customers' internal expertise in identifying chemical structures to progress towards the clinic.

### **New offerings launched to enhance knowledge-driven drug discovery**

In the second quarter we launched integrated platforms around ADMET (EVOprofile™) and Structural Biology (EVOrationale™) which enable us to further enhance our knowledge-driven drug discovery efforts and to offer both random and rational approaches. Since launch, we see strong interest from pharma and biotech companies which led to several contracts being signed.

### **Development chemistry business picking up**

The chemical and pharmaceutical development business improved significantly from the first quarter. Several pilot plant projects were completed and invoiced in June for customers including GSK, Anormed and Celgene. New order intake is promising, with higher capacity utilisation expected in the second half of 2004 as a result. In July, we have signed a significant contract with Morphochem to support them in the development of their dual-action antibiotic Oxaquin® through pre-clinical development and into Phase I trials.

The successful general GMP audit and FDA pre-approval inspection of our cGMP manufacturing facilities in June once again validated our high quality process development, manufacturing, analytical and quality assurance capabilities and confirmed the position of Evotec OAI as a world leader in the supply of customer's development needs through its EVOdevelop™ platform.

**Metabolic Disease projects progress as planned**

In our Discovery Programs Division we have continued to rapidly and successfully develop our internal projects in Metabolic Disease within our DeveloGen joint venture. Compounds for the first project have moved in to lead optimisation having shown positive effects in appropriate animal models.

**Evotec Technologies: EVOscreen® sold for delivery in Q4 2004**

Evotec Technologies (ET) continued to build its order book for the year, selling an EVOscreen® system to major global academic organisation which is expected to be installed and customer accepted in Q4 2004.

**Important events after the end of the second quarter**

**Capital increased by EUR 7.5 million**

On 14 July 2004, Evotec OAI increased its share capital with the issue of 2.5 million new shares to institutional investors in Europe by means of a public, accelerated book building. Evotec OAI received issue proceeds amounting to EUR 7.5 million.

The placement of these shares will help fund the growth of Evotec OAI in its core business, Discovery and Development Services, and will further support research in our Discovery Programs Division.

## Financial Report

### Revenue

Evotec OAI revenues for the first six months of 2004 were EUR 31.3 million (2003: EUR 34.8 million), reflecting the slow down in Q1 sales. The Company achieved Q2 revenues of EUR 17.0 million, in line with the same period of 2003 (at constant 2003 currencies 2% growth). As expected, the second quarter saw a significant improvement from Q1 lows, with sales up 18% quarter-on-quarter.

Our **Discovery and Development Services Division (DDS)** achieved revenues of EUR 27.1 million (2003: EUR 28.8 million) in the first six months of 2004. All product lines recorded significant improvements over Q1, particularly chemical and pharmaceutical development where a number of projects were delivered to customers in June. Revenues excluding third parties amounted to EUR 2.5 million, including EUR 2.4 million of delivery of services to the DeveloGen joint venture.

Revenues in our **Discovery Programs Division (DPD)** amounted to EUR 0.9 million (2003: nil) for the first six months, unchanged from the end of the first quarter. First quarter revenues resulted from the collaboration between Evotec Neurosciences (ENS) and Takeda. From the second quarter, these are no longer recognised in the Group accounts following Evotec OAI's reduction in its shareholding in ENS as a result of the successful venture capital round in March.

For the first six months of 2004, our **Tools and Technologies Division** achieved revenues of EUR 6.8 million (2003: EUR 7.2 million). This slight decline was due to the timing of EVOscreen® revenues. 2003 sales figures included an EVOscreen® instrument delivered to Pfizer with a revenue impact of approximately EUR 3 million in the first quarter of the year. As discussed above, a similar positive EVOscreen® revenue effect is anticipated in the fourth quarter of this year. Excluding this impact, growth in bench-top instrumentation and in consumables remained strong.

Some 47% of total revenues were generated in Europe, 44% in the United States and 9% in Japan and the Rest of the World.

### Operating cost structure

**Cost of revenue** for the first six months amounted to EUR 20.2 million (2003: EUR 20.7 million). Gross margins declined to 35.6% (2003: 40.5%), mainly as a result of two specific effects in our Discovery and Development Services Division:

1. Relatively low sales volumes in discovery and development chemistry in the first six months of the year, particularly in Q1, and the resulting capacity under utilisation. Capacity utilisation is expected to improve with increased sales during the rest of the year.

2. The continued unfavourable exchange rate from a weak US-Dollar and a strong Pound Sterling. If last year's exchange rates were applied, the gross margin for the first six months would have amounted to 36.7% for DDS and 39.0% for the Group.

The Tools and Technologies Division reported a strong gross margin of 56.6% thanks to a favourable sales mix, including milestone payments from Pfizer.

**R&D expenses** declined by 11% year-on-year to EUR 7.1 million in the first six months (2003: EUR 8.0 million). This decline can be primarily attributed to ENS, which from the second quarter is no longer fully consolidated following the successful VC financing in March. ENS' research expenses had already fallen in the first quarter following the conversion of its Alzheimer's programme into contract research for Takeda.

Research activities directed towards our Metabolic Disease discovery programme with DeveloGen proceeded as planned. The corresponding EUR 1.4 million of expenses are booked as a net loss from equity investments under non-operating expenses.

With a lower rate of customer projects in the first half of the year, we intensified R&D during that period. With revenues expected to increase in the second half of the year, we anticipate R&D costs will gradually decline as more staff are assigned to customer projects and classified under cost of goods sold.

**SG&A** costs for the first six months were EUR 10.4 million (2003: EUR 9.4 million). The increase in SG&A over last year resulted from further strengthening our marketing and sales team in Discovery and Development Services as well as from the enhanced marketing and sales activities of Evotec Technologies in the US.

## Financial results

The shortfall in revenues and margins resulted in an **operating loss** of EUR 13.4 million (2003: EUR 10.3 million) for the first six months of 2004. The majority of this was incurred in Q1. Excluding amortisation charges, losses from operations amounted to EUR 8.3 million (2003: EUR 4.9 million).

**The net loss** increased to EUR 11.8 million (2003: EUR 8.2 million) due to the decline in operating results and to research activities for the DeveloGen joint venture, which began in the second half of 2003. It was positively impacted by total tax income increasing to EUR 2.7 million, mainly due to the new tax regime in the UK.

Deferred tax benefits in the UK (EUR 1.3 million) and current taxes worldwide (EUR (0.1) million) added to deferred tax benefits from the amortisation of merger-related non-goodwill intangible assets (EUR 1.5 million).

**Net income per share** in H1 was EUR (0.33) (2003: EUR (0.23)).

Earnings before interest and taxes, depreciation and amortisation (**EBITDA**) amounted to EUR (4.1) million (2003: EUR 0.6 million).

## Segment reporting

### Discovery and Development Services

Euro in thousands	01-06/2004	01-06/2003	Δ in %
Total revenues	27,056	28,818	(6.1)
– Thereof 3rd party	24,521	27,951	(12.3)
Gross profit	8,837	11,292	(21.7)
Gross margin	32.7%	39.2%	
- Research and development expense	4,079	3,787	7.7
- Selling, general and administrative expenses	7,901	6,949	13.7
- Other operating expenses	1,922	1,672	15.0
- Amortisation of goodwill amongst other things	4,966	5,244	(5.3)
Operating income (loss)	(10,031)	(6,360)	(57.7)
Operating income (loss) before amortisation and impairment	(5,065)	(1,116)	(353.9)

Euro in thousands	04-06/2004	04-06/2003	Δ in %
Total revenues	15,971	14,972	6.7
– Thereof 3rd party	14,525	14,602	(0.5)
Gross profit	5,101	5,775	(11.7)
Gross margin	31.9%	38.6%	
- Research and development expense	1,690	1,903	(11.2)
- Selling, general and administrative expenses	4,437	3,965	11.9
- Other operating expenses	976	823	18.6
- Amortisation of goodwill amongst other things	2,508	2,563	(2.2)
Operating income (loss)	(4,510)	(3,479)	(29.6)
Operating income (loss) before amortisation and impairment	(2,002)	(916)	(118.6)

### Discovery Programs Division

Euro in thousands	01-06/2004	01-06/2003	Δ in %
Total revenues	927	10	-
– Thereof 3rd party	925	-	100.0
Gross profit	348	4	-
Gross margin	37.6%	40.0%	
- Research and development expense	1,298	2,570	(49.5)
- Selling, general and administrative expenses	679	932	(27.2)
- Other operating expenses	-	-	-
- Amortisation of goodwill amongst other things	70	34	105.9
Operating income (loss)	(1,699)	(3,532)	51.9
Operating income (loss) before amortisation and impairment	(1,629)	(3,498)	53.4

Euro in thousands	04-06/2004	04-06/2003	Δ in %
Total revenues	-	7	(100.0)
– Thereof 3rd party	-	-	-
Gross profit	-	3	(100.0)
Gross margin	-	42.9%	
- Research and development expense	585	1,280	(54.3)
- Selling, general and administrative expenses	120	499	(76.0)
- Other operating expenses	-	-	-
- Amortisation of goodwill amongst other things	11	17	(35.3)
Operating income (loss)	(716)	(1,793)	60.1
Operating income (loss) before amortisation and impairment	(705)	(1,776)	60.3

### Tools and Technologies

Euro in thousands	01-06/2004	01-06/2003	Δ in %
Total revenues	6,836	7,234	(5.5)
– Thereof 3rd party	5,895	6,900	(14.6)
Gross profit	3,870	3,582	8.0
Gross margin	56.6%	49.5%	
- Research and development expense	3,044	2,453	24.1
- Selling, general and administrative expenses	1,922	1,482	29.7
- Other operating expenses	-	-	-
- Amortisation of goodwill amongst other things	404	507	(20.3)
Operating income (loss)	(1,500)	(860)	(74.4)
Operating income (loss) before amortisation and impairment	(1,096)	(353)	(210.5)

Euro in thousands	04-06/2004	04-06/2003	Δ in %
Total revenues	3,234	2,715	19.1
– Thereof 3rd party	2,455	2,431	1.0
Gross profit	1,932	1,829	5.6
Gross margin	59.7	67.4%	
- Research and development expense	1,475	780	89.1
- Selling, general and administrative expenses	883	807	9.4
- Other operating expenses	-	-	-
- Amortisation of goodwill amongst other things	203	253	(19.8)
Operating income (loss)	(629)	(11)	-
Operating income (loss) before amortisation and impairment	(426)	242	(276.0)

### Capital expenditure

In the first six months we invested EUR 1.3 million in fixed assets which mainly comprised laboratory equipment. For the full year 2004 we expect the Company's capital expenditure to be significantly lower than in the previous year. This is a result of our careful cost control and the unusually high level of investment in 2003 as we fitted out our new laboratory building in the UK.

### Cash flow and cash equivalents

Cash flow from operating activities for the first six months amounted to EUR (4.8) million (2003: EUR (2.2) million). The increased negative operating cash flow was mainly a result of the increased operating loss and growth in working capital (EUR 6.4 million; thereof EUR 2.0 million ENS deconsolidation). The build up of inventories (EUR 3.1 million) is mainly a short-term effect in Discovery and Development Services and our instrumentation business, which is expected to be reversed by sales in the second half of the year.

Cash flow from investing activities amounted to EUR (2.4) million (2003: EUR (8.1) million), which in addition to the purchase of fixed assets mainly included research expenses related to the DeveloGen joint venture, which are not included in operating cash flow, and the acquisition of further shares in ProPharma.

Net cash flow from financing activities totalled EUR 1.3 million (2003: EUR 3.1 million). We have drawn down bank loans for the financing of capital expenditure.

Cash and cash equivalents at the end of the June amounted to EUR 13.0 million.

### Employees and management

At the end of June, Evotec OAI employed 629 people, virtually unchanged with respect to the end of Q1 2004. The reported reduction compared to the end of 2003 (644) was due to the deconsolidation of ENS, effective 31 March 2004.



The Company's Annual Shareholders Meeting (AGM) on 1 June 2004 re-elected all members of the Company's Supervisory Board for an additional five years with effect from the conclusion of the AGM.

**Stock options programme**

In Q1 2004 Evotec OAI issued 34,200 stock options to management. No options were either issued or exercised in the second quarter. As of 30 June 2004, the total number of options available for future exercise amounted to 2,389,659 (approximately 7% of shares in issue). Options are accounted for under the APB 25 pricing model.

**Sales and order book, outlook**

The sales and order book for 2004 has increased to EUR 62 million as of July, further improving revenue visibility for the year. With this deal flow and promising discussions with pharma and biotech companies, we are on a good path towards achieving our guidance for the full year 2004, despite a continued challenging market environment. We plan revenues to grow by around 3% if current exchange rates are maintained for the rest of the year.

The Company expects revenues in its core business, the Discovery and Development Services Division, to continue to improve in the second half of the year. As in previous years, revenue recognition in the Tools and Technologies Division is subject to significant variations from quarter to quarter depending on the timing of deliveries of instruments. As the majority of revenues from Evotec Technologies will be recognised in Q4 2004, the third quarter is expected to be relatively weak compared with a very strong Q3 2003, while Q4 is expected to deliver significant revenue growth.

### Shareholdings of the Boards of Evotec OAI AG

	Number of shares	Share options
<b>Management Board</b>		
Joern Aldag	286,556	172,600
Dr Dirk H. Ehlers	0	81,500
Prof Dr Ian M. Hunneyball	0	61,500
Dr Timm-H. Jessen	136,172	104,732
Bernard Questier	0	40,000
<b>Supervisory Board</b>		
Prof Dr Heinz Riesenhuber	110,400	0
Peer Schatz	3,892	0
Dr Pol Bamelis	1,500	0
Dr Karsten Henco	1,306,356	26,732
Dr Edwin Moses	313,058	15,000
Michael Redmond	1,000	0

30 June 2004

Pursuant to §15a of the German Securities Trading Act (Wertpapierhandelsgesetz), the above table lists separately for each member of our Management and Supervisory Board, the number of Company shares held, and rights for such shares granted to each board member as of 30 June 2004.

### Segment reporting according to US GAAP

#### Evotec OAI AG and Subsidiaries

Euro in thousands	Discovery and Development Services	Discovery Programs Division	Tools and Technologies	Consolidation
Revenue:				
– Drug discovery products & development of technologies	67	-	6,836	(941)
– Drug discovery services	26,989	927	-	(2,537)
<b>Total revenue</b>	<b>27,056</b>	<b>927</b>	<b>6,836</b>	<b>(3,478)</b>
– Cost of revenue	18,219	579	2,966	(1,565)
<b>Gross Profit</b>	<b>8,837</b>	<b>348</b>	<b>3,870</b>	<b>(1,913)</b>
– Research and development expenses	4,079	1,298	3,044	(1,316)
– Selling, general and administrative expenses	7,901	679	1,922	(78)
– Amortisation of goodwill amongst other things	4,966	70	404	(397)
– Other operating expenses	1,922	-	-	-
<b>Operating income (loss)</b>	<b>(10,031)</b>	<b>(1,699)</b>	<b>(1,500)</b>	<b>(122)</b>

## Condensed consolidated statements of operations according to US GAAP

### Evotec OAI AG and Subsidiaries

Euro in thousands except share data and per share data

	01-06/2004	01-06/2003	Δ in %	04-06/2004	04-06/2003	Δ in %
<b>Revenue:</b>						
– Drug discovery products & development of technologies	5,962	6,909	(13.7)	2,506	2,439	2.8
– Drug discovery services	25,379	27,928	(9.1)	14,474	14,578	(0.7)
<b>Total revenue</b>	<b>31,341</b>	<b>34,837</b>	<b>(10.0)</b>	<b>16,980</b>	<b>17,017</b>	<b>(0.2)</b>
– Cost of revenue	20,199	20,711	(2.5)	11,198	9,715	15.3
<b>Gross profit</b>	<b>11,142</b>	<b>14,126</b>	<b>(21.1)</b>	<b>5,782</b>	<b>7,302</b>	<b>(20.8)</b>
– Research and development expenses	7,105	7,977	(10.9)	3,194	3,548	(10.0)
– Selling, general and administrative expenses	10,424	9,351	11.5	5,389	4,769	13.0
– Amortisation of goodwill amongst other things	5,043	5,388	(6.4)	2,523	2,634	(4.2)
– Other operating expenses, net	1,922	1,672	15.0	976	823	18.6
<b>Operating income (loss)</b>	<b>(13,352)</b>	<b>(10,262)</b>	<b>(30.1)</b>	<b>(6,300)</b>	<b>(4,472)</b>	<b>(40.9)</b>
– Interest income (expense)	(89)	3	-	(92)	(43)	(114.0)
– Income from investments and participations	-	-	-	-	-	-
– Net loss from equity investments <sup>1</sup>	(1,770)	(51)	-	(698)	(15)	-
– Foreign currency exchange gain (loss), net	107	(3)	-	62	93	(33.3)
– Other non-operating income, net	508	374	35.8	256	64	300.0
<b>Result before income taxes and minority interests</b>	<b>(14,596)</b>	<b>(9,939)</b>	<b>(46.9)</b>	<b>(6,772)</b>	<b>(4,373)</b>	<b>(54.9)</b>
Income tax benefit	2,745	1,749	57.0	1,162	1,135	2.4
Extraordinary income (expenses)	-	-	-	-	-	-
<b>Result before minority interests</b>	<b>(11,851)</b>	<b>(8,190)</b>	<b>(44.7)</b>	<b>(5,610)</b>	<b>(3,238)</b>	<b>(73.3)</b>
Minority interests	98	3	-	36	49	(26.5)
<b>Net income / loss</b>	<b>(11,753)</b>	<b>(8,187)</b>	<b>(43.6)</b>	<b>(5,574)</b>	<b>(3,189)</b>	<b>(74.8)</b>
Net loss per share (basic)	(0.33)	(0.23)		(0.16)	(0.09)	
Net loss per share (diluted) <sup>2</sup>	-	-		-	-	
Weighted average common share outstanding (basic)	35,510,130	35,510,130		35,510,130	35,510,130	
Weighted average common share outstanding (diluted)	-	-		-	-	
Depreciation of property, plant and equipment included in total operating expense	5,277	5,127	2.9	2,744	2,571	6.7

<sup>1</sup> In 2003: Income (expense) from associated companies

<sup>2</sup> According to US GAAP the definition of net income per share does not allow to report diluted net income per share as long as the Company shows a net loss.

## Condensed consolidated balance sheets according to US GAAP Evotec OAI AG and Subsidiaries

Euro in thousands	30/06/2004	31/12/2003	Δ in %
<b>Assets</b>			
<b>Current assets:</b>			
– Cash and cash equivalents	13,003	18,763	(30.7)
– Marketable securities, at fair value	-	708	(100.0)
– Trade accounts receivable, net	10,131	7,714	31.3
– Accounts receivable due from associated companies	380	-	100.0
– Accounts receivable due from related parties	215	506	(57.5)
– Inventories	13,340	10,225	30.5
– Deferred tax assets	79	76	4.0
– Current tax receivables	693	2,754	(74.8)
– Prepaid expenses and other current assets	3,635	2,246	61.8
<b>Total current assets</b>	<b>41,476</b>	<b>42,992</b>	<b>(3.5)</b>
Long-term investments	3,648	677	438.9
Property, plant and equipment, net	61,145	62,051	(1.5)
Intangible assets, excluding goodwill, net	12,966	18,731	(30.8)
Notes receivable / loans	-	-	-
Goodwill, net	101,821	96,418	5.6
Deferred taxes	-	-	-
Other non-current assets	50	50	-
<b>Total assets</b>	<b>221,106</b>	<b>220,919</b>	<b>0.1</b>
<b>Liabilities and stockholders' equity</b>			
<b>Current liabilities:</b>			
– Current portion of capital lease obligations	767	615	24.7
– Current maturities of long-term loans	1,114	1,590	(29.9)
– Trade accounts payable	5,541	5,510	0.6
– Accounts payable to related parties	30	18	66.7
– Advanced payments received	1,938	917	111.3
– Accrued expenses	7,037	7,794	(9.7)
– Deferred revenues	2,836	4,545	(37.6)
– Current tax payables	46	62	(25.8)
– Deferred taxes	-	-	-
– Other current liabilities	1,762	1,479	19.1
<b>Total current liabilities</b>	<b>21,071</b>	<b>22,530</b>	<b>(6.5)</b>
Long-term loans	12,367	10,758	15.0
Long-term capital lease obligations	2,250	1,777	26.6
Deferred tax liabilities	9,130	11,329	(19.4)
Deferred revenues	910	1,661	(45.2)
Other non-current liabilities	101	98	3.1
Minority interests	567	665	(14.7)

<b>Stockholders' equity:</b>			
– Share capital	35,510	35,510	-
– Additional paid-in capital	545,515	540,035	1.0
– Treasury stock	-	-	-
– Retained earning/accumulated deficit	(375,001)	(363,248)	3.2
– Accumulated other comprehensive loss	(31,314)	(40,196)	(22.1)
<b>Total liabilities and stockholders' equity</b>	<b>221,106</b>	<b>220,919</b>	<b>0.1</b>

**Condensed consolidated  
statements of cash flows according to US GAAP**  
Evotec OAI AG and Subsidiary

Euro in thousands	30/06/2004	30/06/2003
<b>Cash flows from operating activities:</b>		
Net loss	(11,753)	(8,187)
Adjustments to reconcile net loss to net cash used in operating activities	9,200	8,912
Change in assets and liabilities	(2,266)	(2,957)
<b>Net cash (used in) provided by operating activities</b>	<b>(4,819)</b>	<b>(2,232)</b>
<b>Cash flows from investing activities:</b>		
Purchase of marketable securities	-	(2,805)
Purchase of long-term investments	(1,861)	-
Purchase of property, plant and equipment	(1,318)	(5,302)
Purchase of intangible assets	(1)	(1)
Proceeds from sale of property, plant and equipment	58	15
Proceeds from sale of shares in long-term investments	-	-
Proceeds from sale of marketable securities	732	-
<b>Net cash (used in) provided by investing activities</b>	<b>(2,390)</b>	<b>(8,093)</b>
<b>Cash flows from financing activities:</b>		
Net proceeds from capital increase	-	-
Net proceeds from increase of bank loan	3,725	3,552
Repayment of bank loan	(2,423)	(425)
<b>Net cash (used in) provided by financing activities</b>	<b>1,302</b>	<b>3,127</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(5,907)</b>	<b>(7,198)</b>
Exchange rate difference	147	(704)
Cash and cash equivalents at beginning of year	18,763	21,308
<b>Cash and cash equivalents at end of the second quarter</b>	<b>13,003</b>	<b>13,406</b>
<b>Cash, cash equivalents and marketable securities at end of the second quarter</b>	<b>13,003</b>	<b>16,293</b>

## Consolidated statements of changes in stockholders' equity according to US GAAP

### Evotec OAI AG and Subsidiaries

Euro in thousands except share data

	Share capital Shares	Share capital Amount	Additional paid-in capital	Unearned compen- sation	Other comprehen- sive loss	Unrealised gains (losses) on securities	Retained deficit	Total stock- holders' equity
<b>Balance at December 31, 2002</b>	<b>35,510,130</b>	<b>35,510</b>	<b>536,908</b>	<b>(345)</b>	<b>(27,660)</b>	<b>-</b>	<b>(349,006)</b>	<b>195,407</b>
Share capital increase	-	-	-	-	-	-	-	-
Stock option plan	-	-	3	147	-	-	-	150
<b>Comprehensive loss:</b>								
- Foreign currency translation	-	-	-	-	(8,889)	-	-	(8,889)
- Net unrealised holding losses on available-for-sale securities	-	-	-	-	-	-	-	-
- Net loss	-	-	-	-	-	-	(8,186)	(8,186)
<b>Total comprehensive loss</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(17,075)</b>
<b>Balance at June 30, 2003</b>	<b>35,510,130</b>	<b>35,510</b>	<b>536,911</b>	<b>(198)</b>	<b>(36,549)</b>	<b>-</b>	<b>(357,192)</b>	<b>178,482</b>
<b>Balance at January 1, 2004</b>	<b>35,510,130</b>	<b>35,510</b>	<b>540,035</b>	<b>(150)</b>	<b>(40,046)</b>	<b>-</b>	<b>(363,248)</b>	<b>172,101</b>
Share capital increase	-	-	-	-	-	-	-	-
Stock option plan	-	-	5	53	-	-	-	58
Share capital in ENS	-	-	5,475	-	-	-	-	5,475
<b>Comprehensive loss:</b>								
- Foreign currency translation	-	-	-	-	8,829	-	-	8,829
- Net unrealised holding losses on available-for-sale securities	-	-	-	-	-	-	-	-
- Net loss	-	-	-	-	-	-	(11,753)	(11,753)
<b>Total comprehensive loss</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,924)</b>
<b>Balance at June 30, 2004</b>	<b>35,510,130</b>	<b>35,510</b>	<b>545,515</b>	<b>(97)</b>	<b>(31,217)</b>	<b>-</b>	<b>(375,001)</b>	<b>174,710</b>

**Basis of presentation**

The accompanying unaudited consolidated financial statements of Evotec OAI AG have been prepared in accordance with United States generally accepted accounting principles (USGAAP) for interim financial information. The accounting policies used to prepare interim information are the same as those used to prepare the audited consolidated financial statements for the year ended 31 December 2003. The basis of consolidation changed as of 31 March 2004. The Evotec NeuroSciences GmbH is since then consolidated at equity. Therefore the financial statements are not fully comparable to the ones published in the previous year. In the opinion of management, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation have been included.

The consolidated financial statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. As a result, these financial statements should be read along with the audited consolidated financial statements and notes thereto for the year ended 31 December 2003.

**Forward looking statements**

This press release contains forward-looking statements that involve risks and uncertainties. The forward-looking statements contained herein represent the judgement of Evotec OAI as of the date of this release. These forward-looking statements are no guarantees for future performance, and the forward-looking events discussed in this press release may not occur. Evotec OAI disclaims any intent or obligation to update any of these forward-looking statements.