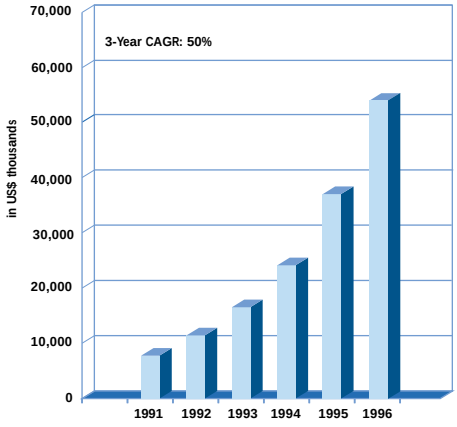
QIAGEN N.V.

Annual Report 1996

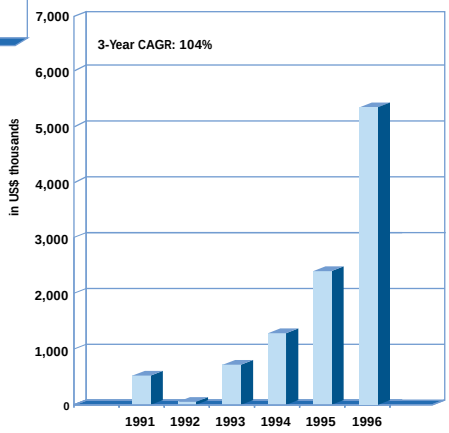
QIAGEN believes that it is the world's leading provider of innovative enabling technologies and products for separating and purifying DNA and RNA — the genetic blueprints of life. Since 1986, QIAGEN has developed and marketed a broad range of proprietary products for academic, industrial, and clinical research. The rapidly increasing understanding of the structure and function of DNA and RNA continues to expand the use of DNA and RNA in developing commercial markets such as DNA sequencing for genomics and drug development, DNA-based clinical diagnostics, and gene therapy and genetic vaccination. These exciting new markets share a crucial need — the need for purified DNA and RNA. With its expertise in DNA and RNA purification, broad technology portfolio, and leading position in the research market, QIAGEN is developing specialized new products for the numerous participants in each of these developing markets, further diversifying its opportunities for continued growth and success.

Financial Highlights

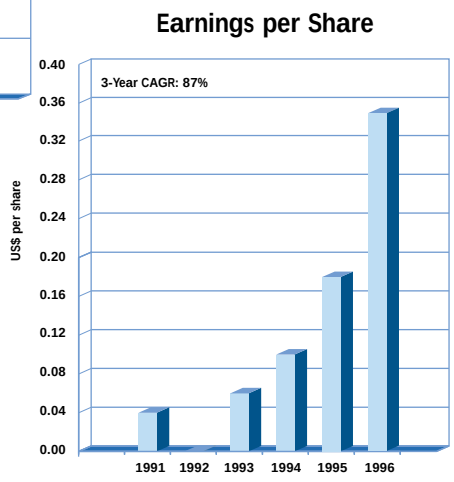
Net Sales



Net Income



Earnings per Share



Dr. Metin Colpan

To Our Shareholders

"We love your products" are words that every Chairman and CEO love to hear. At QIAGEN we hear them many times a day.

When QIAGEN was founded 11 years ago, our goal was to use a simple new technology to replace the slow, toxic, traditional methods used for plasmid DNA purification — the first step in almost all molecular biology applications. QIAGEN was at the forefront of recognizing and responding to the need for kit-based systems for DNA and RNA purification. By developing a broad range of technologies from which to generate innovative products to satisfy these under-served needs, QIAGEN was in the vanguard of a new market segment that now forms a major part of the growing molecular biology marketplace. Today, QIAGEN offers scientists a comprehensive portfolio of over 250 products and services for DNA, RNA, and protein purification, DNA amplification, DNA sequencing, transfection, and laboratory automation.

QIAGEN has built a leading position in the molecular biology research market and enjoys excellent brand recognition, a strong reputation for quality, and enthusiastic customer acceptance and loyalty. Our products are backed by first-class customer service and support through frequent contact with an international network of product managers, highly trained technical support specialists, and knowledgeable sales personnel, most of whom have a Ph.D. in one of the life sciences. Maintaining this close relationship with our customers is one of QIAGEN's highest priorities and one of our greatest strengths.

QIAGEN is not a one product – one technology – one hit company. Our strategy is to provide customers with complete solutions by offering them a broad and growing range of products. For example, recently introduced products for PCR and transfection are targeted at both new and existing DNA and RNA purification customers in the research market. In addition, our close relationship with customers helps QIAGEN stay abreast of new technology developments, and provides a wealth of information about new market needs and opportunities. Using this information and our broad range of technologies to rapidly develop well-suited products for the market is key to QIAGEN's continued growth and success.

QIAGEN believes its core biotechnology research market is growing rapidly and financial support for basic research in the life sciences is increasing. Additionally, we believe many biotech and pharmaceutical companies are shifting their focus towards genetic research to develop new diagnostics and therapeutics, meaning that money invested in these companies is increasingly being spent on DNA and RNA purification. While we continue to focus on QIAGEN's core business and customers in the research market, our strategy is to leverage our leading position in this market in order to become a leader in the developing commercial

markets for DNA and RNA purification — genomics and drug development, clinical diagnostics, and gene therapy and genetic vaccination. QIAGEN will strive to expand in these new markets in the same step-by-step way that we have grown in the research market — by closely monitoring our customer's requirements and developing the products and tools they need to be successful. Continually creating innovative new products and technologies is, and will continue to be, QIAGEN's main goal.

By successfully completing an initial public offering on June 28, 1996, we responded to another frequent customer comment — "When will QIAGEN go public?" QIAGEN shares are traded on The Nasdaq Stock Market in the United States under the symbol QGENF, and additionally on the German OTC markets. The $31 million in proceeds from our IPO will primarily be used to; establish a new production and research and development facility in the United States, our largest marketplace; to invest in new technologies to develop additional innovative products; to expand our sales and marketing efforts; and to further enhance our customer services.

QIAGEN reported $54.2 million in revenues and $5.3 million in net income for 1996, representing growth over 1995 of 46% and 123% respectively. Earnings per share in 1996 increased 94% to $0.35 on 15,410,000 weighted average shares outstanding. Cash and marketable securities at December 31, 1996 totaled $30.1 million, mainly resulting from our initial public offering. All financial statements in this annual report have been approved by the auditors and our Supervisory Board.

QIAGEN's success is a result of our commitment to continually provide innovative solutions to our customers and support them with the best quality products and service available. We would like to thank QIAGEN's more than 500 employees for their contribution to this achievement. Their commitment to QIAGEN's growth and their dedication to our customers means that we continue to capture market share as researchers convert from traditional methods to QIAGEN products. It is the experience and drive of this multinational team of bright and enthusiastic people that allows us to innovate, serve our customers, and rapidly expand our business.

QIAGEN will continually strive to optimize and diversify its opportunities for success by providing the tools for the genetic gold rush. When our customers succeed, so does QIAGEN.

Thank you for your interest in QIAGEN. We look forward to reporting our future successes.

(signature)
Dr. Metin Colpan
Chief Executive Officer

(signature)
Prof. Dr. jur. Carsten P. Claussen
Chairman of the Supervisory Board

What are DNA and RNA?

DNA and RNA are the fundamental regulatory molecules of life. They are the building blocks of a genetic blueprint which contains and conveys all the individual genetic information in a cell. Since DNA and RNA regulate every chemical and biological process in an organism, from protein synthesis to cell reproduction, defects or alterations in their structure can lead to disorders and disease.

The Need for

Purified DNA & RNA

QIAGEN's innovative technologies provide researchers with a wide range of rapid, reliable, user-friendly products for DNA and RNA purification. Each product is customized to target common customer applications and has the components necessary to enable users to quickly and easily acheive the results they need.

Recent major advances in understanding DNA and RNA structure and function and their critical role in the disease process are revolutionizing disease research, diagnosis, and treatment. Technologies such as rapid DNA sequencing and the polymerase chain reaction (PCR), which allows almost undetectable amounts of DNA and RNA to be rapidly amplified into significant quantities, have created new DNA- and RNA-based commercial markets in the areas of:

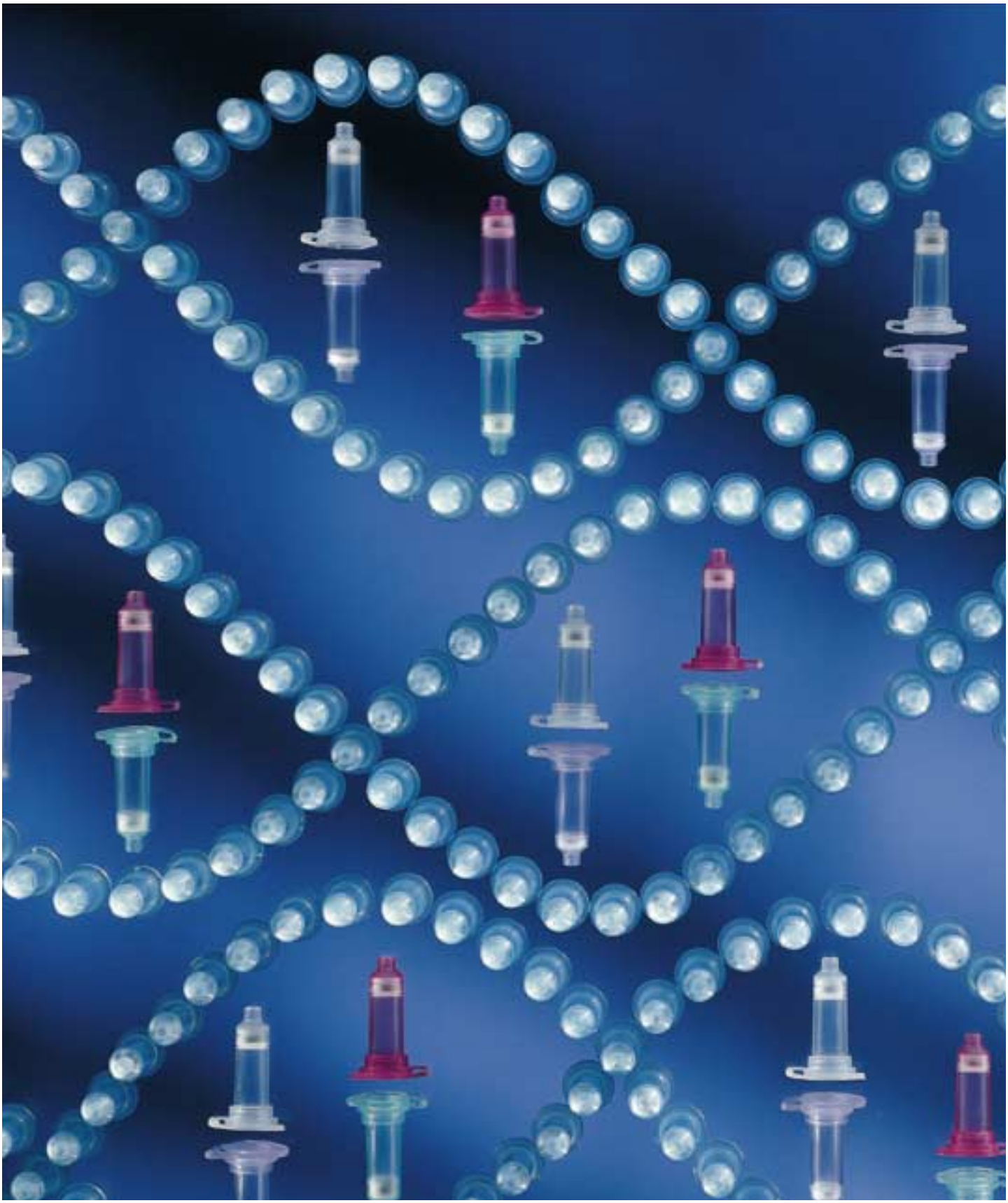
- DNA sequencing and genomics for drug development
- DNA- and RNA-based clinical diagnostics for infectious and genetic diseases
- Genetic vaccination and gene therapy

These emerging markets share a critical need for rapid and efficient purification of DNA and RNA to ensure reliable, reproducible results.

Academic, industrial, and clinical research customers need highly purified DNA and RNA on a daily basis. No matter what the application, DNA or RNA must be isolated from samples in the purity required for the next stage in the procedure, such as sequencing, PCR, or detection and analysis. Traditional methods for purifying DNA and RNA are time-consuming, labor-intensive, require hazardous reagents and expensive equipment, and cannot be guaranteed to produce reliable and reproducible results. They are generally unsuitable for high-speed processing or for large numbers of samples, and require considerable technical skill.

QIAGEN's proprietary technologies make it faster and easier to purify DNA and RNA than ever before and we are constantly striving to provide innovative new technologies and products to serve the evolving needs of our customers.

We believe that as scientific knowledge about DNA- and RNA-controlled processes increases, new applications and markets in medicine, agriculture, forensics, waste control, and food processing will develop and that the need for QIAGEN products, technologies, and services will grow with them.



QIAGEN — Experts in DNA and RNA Purification for

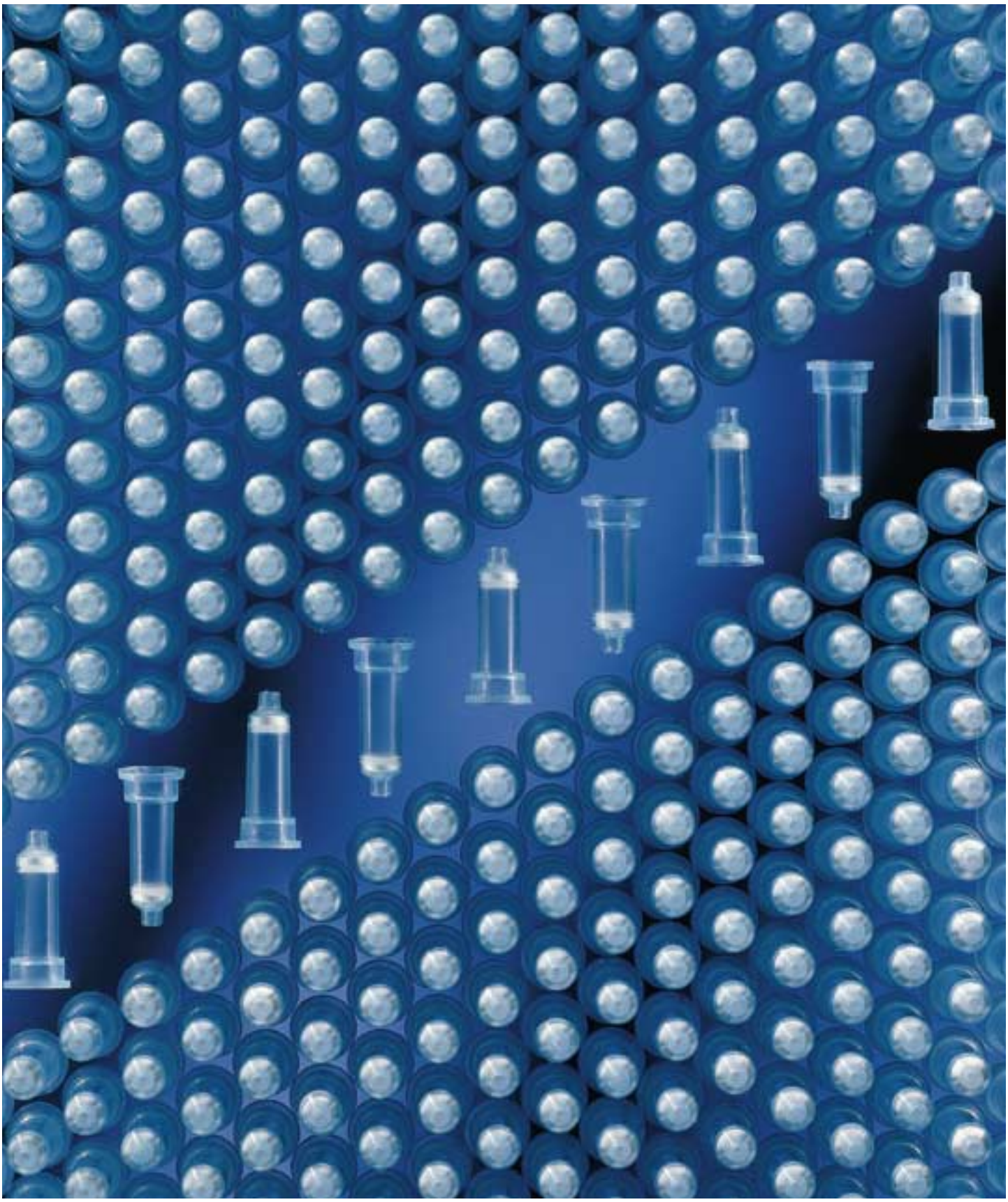
Research

QIAGEN's DNA and RNA purification technologies and products are widely used throughout the world. The introduction of the first QIAGEN Plasmid DNA Purification Kit 10 years ago revolutionized the molecular biology research market by providing researchers with an alternative to the slow, difficult, and hazardous traditional purification methods. QIAGEN's safe, user-friendly kits and expert technical service dramatically increased the speed, convenience, and reliability of DNA purification procedures. The resulting word-of-mouth recommendations from researchers about the benefits and quality of our products helped QIAGEN to build its leading position and excellent reputation.

Researchers need to purify DNA and RNA from a wide variety of sources for a growing variety of applications. They also need products to work with the purified DNA and RNA in the next step of their research — amplifying it, or transferring it into another cell, or turning it into a protein and then detecting and purifying that protein. A broad proprietary-technology platform has allowed QIAGEN to develop over 250 products for the specific needs of these researchers. Whether the need is purity, speed, yield, reliability, sample throughput, ease of use, or all of the above, QIAGEN's technology base allows us to develop well-suited products.

QIAGEN's strategy is to provide customers with complete solutions for their DNA- and RNA-related research needs by offering them an increasingly broad range of products. For example, in 1996 QIAGEN expanded its product portfolio by adding PCR reagents for DNA amplification to complement its existing products for purifying DNA before and after PCR amplification. Similarly, the recent addition of a novel QIAGEN transfection reagent — SuperFect™, a delivery system for gene transfer into cells — offers researchers already using QIAGEN Plasmid Kits an integrated solution for the next stage in their research.

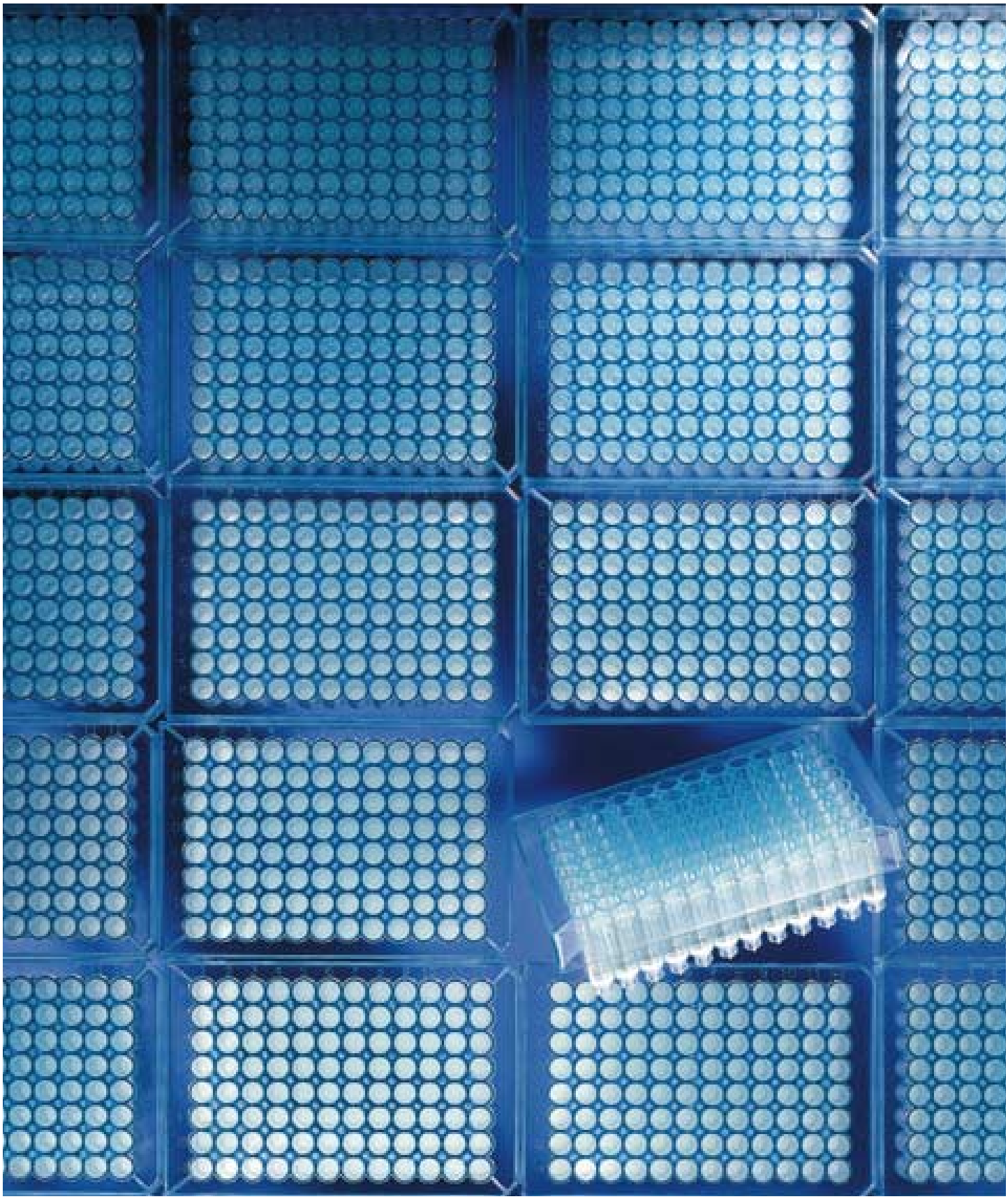
QIAGEN believes that it is the technology leader in this growing research market and that it is well-positioned for further market penetration. Based on estimates of the number of sample preparations being performed each year, QIAGEN believes that the current worldwide research market for its products exceeds $600 million annually. We believe that we are well positioned to increase sales and expand our share of the research market as laboratories convert from traditional methods to QIAGEN products.



Research

Our close relationship with researchcustomers is, and will continue to be, integral to our success. An international network of product managers, highly-trained technical support specialists, and knowledgeable sales representatives are in daily contact with our customer base, providing excellent service and support. This constant

interaction allows QIAGEN to keep abreast of the evolving needs of the market and react rapidly to new trends and technologies as they develop. As the research market is the breeding ground for new technologies and applications, our position in this fertile market provides us with the oppurtunity for early entry into the new markets developing out of it. Moreover, as researchers move their expertise into industry and establish new commercial markets, we believe they will take their close relationship with QIAGEN with them.



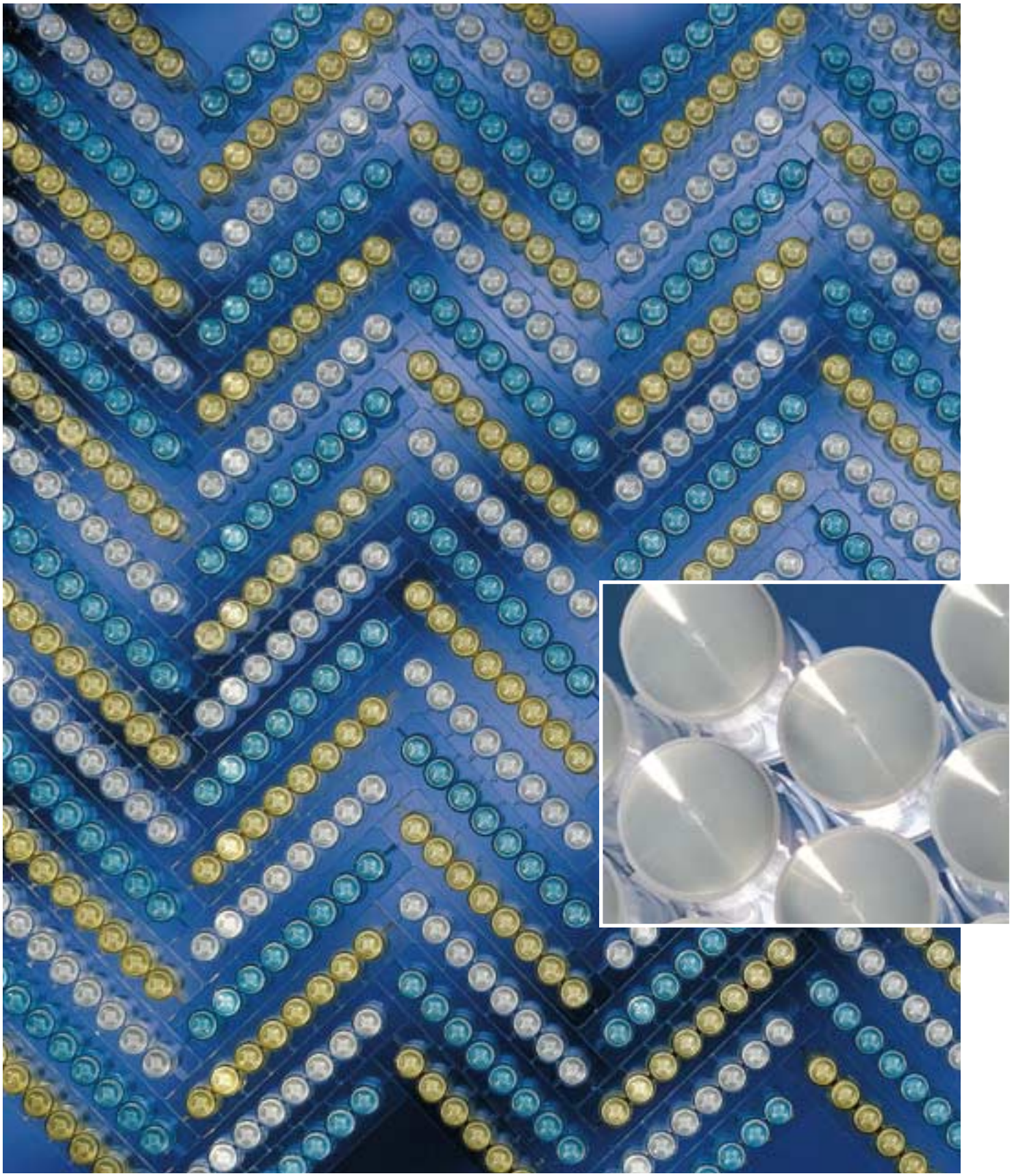
Genomics

QIAGEN believes it has successfully leveraged its leadership in the research market into a strong position in the emerging genomics market. Genomics is a revolutionary new science based on DNA sequencing that seeks to understand life at its fundamental genetic level. The world-wide cooperative attempt to sequence all 3 billion building blocks of DNA in a human cell — the Human Genome Project — will radically change our understanding of diseases and the practice of medicine. Unraveling the genetic mechanisms of disease opens the way for DNA-based drug screening to develop more specific drugs with reduced side effects, designed to target the cause of disease rather than the symptoms.

Genomics requires high-throughput DNA purification for DNA sequencing and functional analysis of genes. Reliable purification methods are essential, as DNA sequencing is a costly process that depends on DNA purity for high-quality, reproducible results. QIAGEN offers genomics customers a wide range of DNA purification products designed to suit their individual requirements for speed, purity, and throughput. QIAGEN works closely with its genomics partners, participates in the European Yeast Genome Project, and offers a custom sequencing service for large-scale genomics projects. This ongoing involvement allows QIAGEN to maintain a high level of sequencing expertise and stay at the forefront of new technology developments.

In response to customer requests for automated DNA purification, QIAGEN developed the BioRobot 96OO — a benchtop workstation which automates QIAGEN purification technologies. We believe this automated system provides us with a strong competitive position in the high-throughput genomics market. The adaptation of QIAGEN's RNA purification and post-PCR DNA purification products for use on the BioRobot 96OO will help customers towards a complete genomics solution, from DNA preparation for sequencing and functional analysis to RNA purification for drug screening and target validation.

QIAGEN genomics customers can be found in many of the hundreds of laboratories participating in the Human Genome Project, academic institutions, the National Institutes of Health, and pharmaceutical and genomics companies around the world.



Clinical Diagnostics

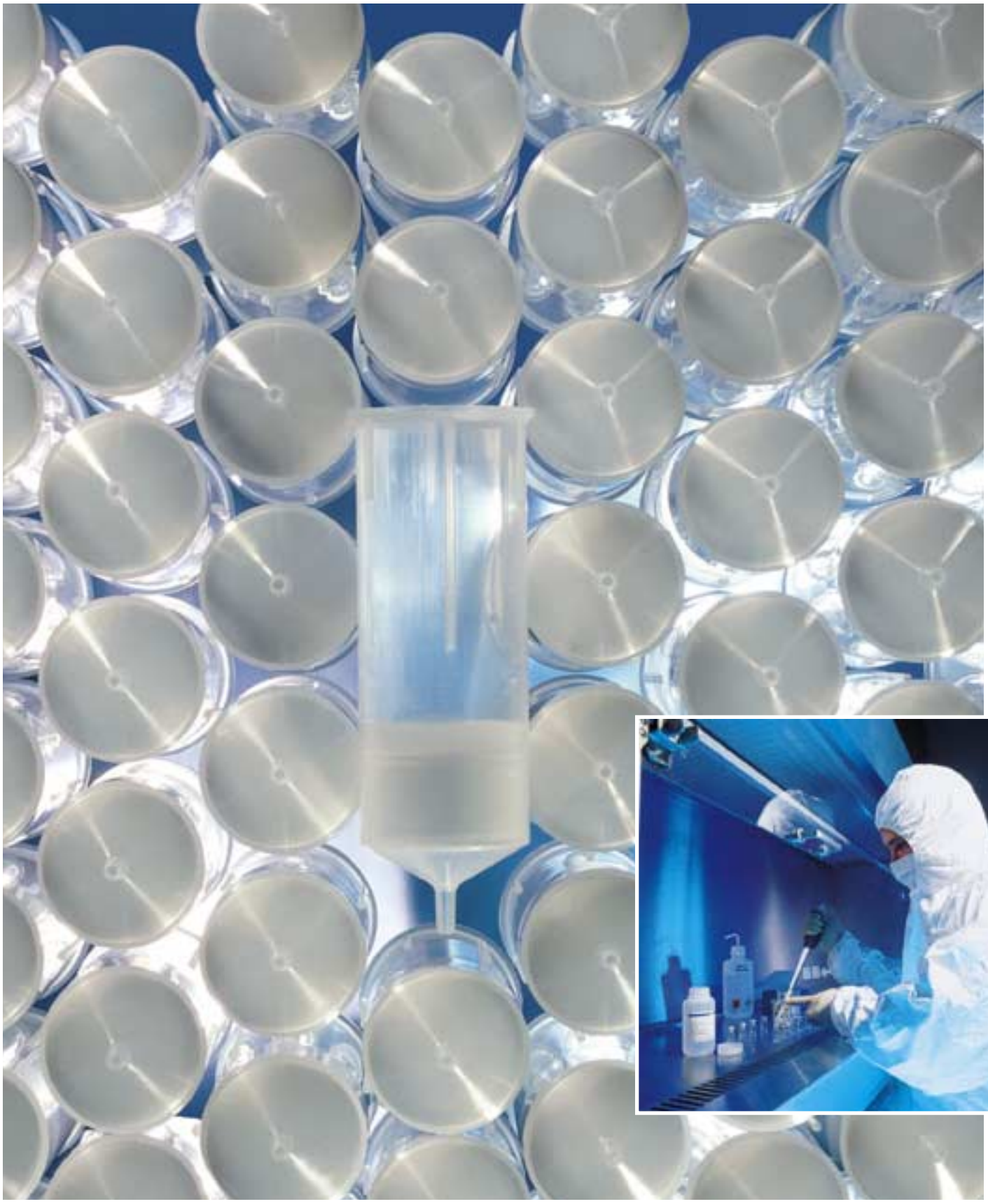
Since 1992, QIAGEN has focused its research and development and marketing efforts on DNA and RNA purification products for the developing clinical research and diagnostics markets. Today, QIAGEN's systems for DNA or RNA preparation are widely used in these growing markets.

DNA- and RNA-based clinical diagnostics for infectious and genetic diseases are far more specific and far more sensitive than traditional immunoassay diagnostics. By recognizing specific DNA or RNA segments, PCR and other techniques which amplify DNA and RNA, rapidly detect and identify even minute amounts of viruses, bacteria, or cancer cells. For example, while standard immunoassay tests to screen the blood supply for HIV and other infectious agents are effective only weeks after infection, and serological tests for tissue typing or identification of pathogens can take days or weeks, DNA- and RNA-based tests can detect infected blood, quantitate the level of infection, and identify specific pathogens in just hours.

The first step in DNA- and RNA-based testing is purification of the DNA or RNA. Establishment of these tests requires standardized, reliable DNA and RNA purification systems that stabilize clinical samples during collection, storage, and transport; inactivate infectious agents; quantitatively purify DNA and RNA from a wide variety of samples, free of components which inhibit amplification or detection; and provide cross-contamination-free automation and high-throughput processing.

QIAGEN's technology platform and purification expertise have created products to satisfy most of these needs. Several million QIAamp® and RNeasy® preparations have already been sold to clinical research and clinical diagnostics customers, establishing QIAGEN purification technologies in the emerging clinical diagnostics market. QIAGEN also has a pipeline of new technologies and products in development. For example, in 1996 QIAGEN acquired the rights to cationic detergent technology for stabilization and purification of DNA and RNA. This new technology can be used alone or in combination with QIAGEN's existing purification technologies to provide clinical customers with a system for DNA and RNA sample preparation — from collection and stabilization of samples to DNA and RNA purification.

QIAGEN's strategy is to leverage its leadership in the research market to become the major supplier of DNA and RNA purification products to clinical diagnostics labs and companies. QIAGEN seeks to combine its sample preparation systems with existing DNA- and RNA-based diagnostic tests, thereby providing truly comprehensive clinical diagnostic solutions. We believe once a complete solution is available — from sample collection to result analysis — the DNA- and RNA-based clinical diagnostics market will grow and develop rapidly. QIAGEN's goal is to take advantage of the increasing opportunities in this developing market.



Gene Therapy and Genetic Vaccination

Many scientists believe that identification of the genes and gene mutations responsible for many common diseases and disorders will lead to the development of DNA-based drugs and therapies. DNA-based drugs could be genes designed to prevent or cure disease or act as therapeutics by mimicking the biological function of healthy genes. Since DNA-based drugs would address the root cause of disease, they should be more specific and effective, cause fewer side effects, and offer hope for diseases that currently have no treatment.

QIAGEN offers pharmaceutical and biotechnology companies large-scale purification and process technologies for the developement of DNA-based genetic drugs and vaccines. We currently provide certified cGMP production of up to 25g of plasmid DNA to carry out phase I and II clinical trials, and are working with customers to obtain regulatory approval for the purification stage of the overall clinical procedure.

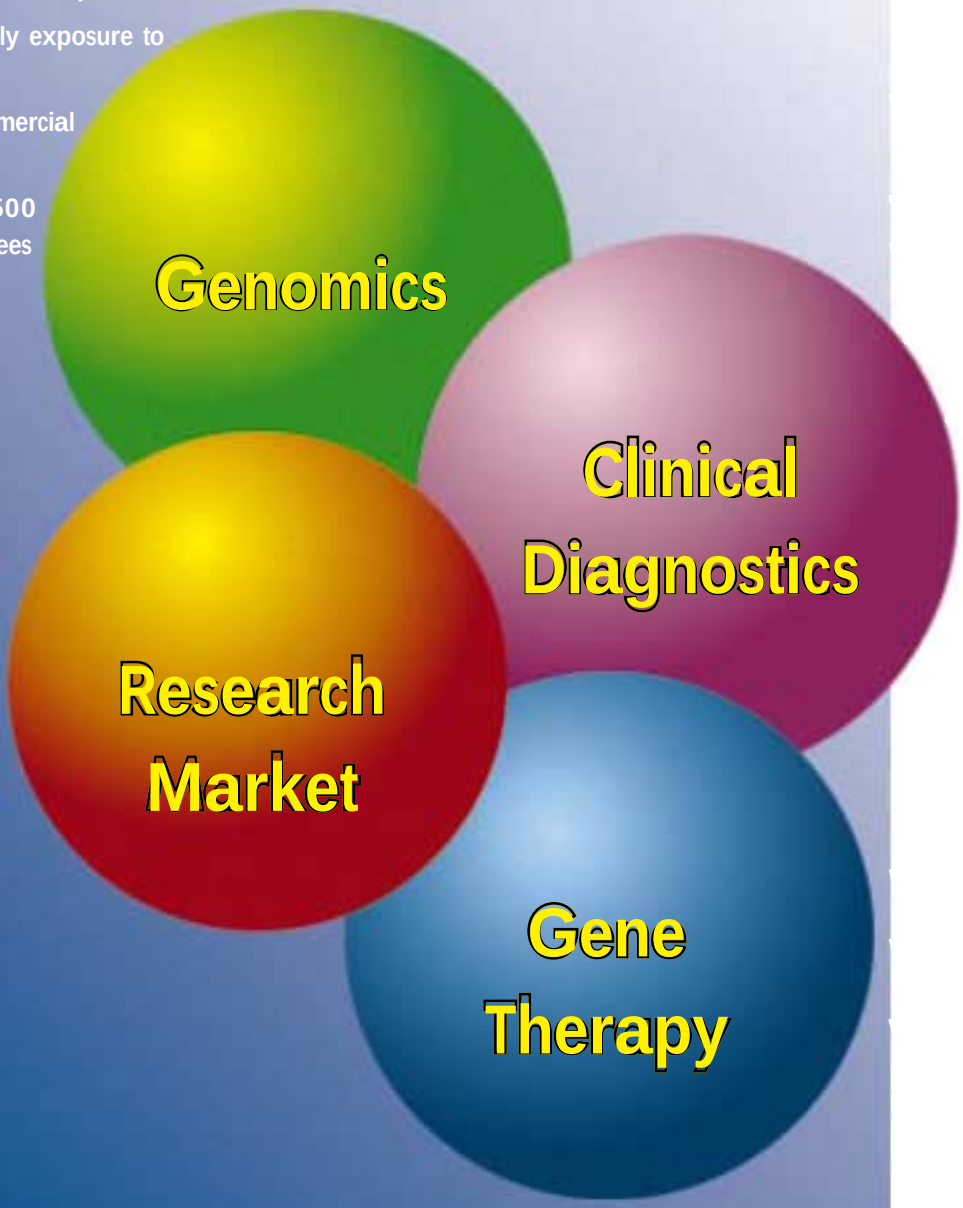
Genetic vaccines also offer the potential for an exciting new market. Recent studies indicate that vaccinations against disease using DNA or RNA fragments from a disease-causing organism may be more effective than conventional vaccines using recombinant proteins or inactivated infectious agents. In particular, DNA-based vaccines have been shown to induce immunity in subjects who typically show no immune response to traditional vaccines. Since DNA-based vaccines would also be less temperature-sensitive than traditional vaccines, they may be a useful tool for fighting disease in underdeveloped countries.

In both gene therapy and genetic vaccination, the DNA itself is the drug introduced into the body. Since even trace contaminants can cause toxic reactions, the purity of the DNA preparation is critical. Commercialization of DNA-based drugs and vaccines will depend largely on the availability of approved purification and process technologies that can consistently and reliably provide large amounts of ultrapure, endotoxin-free DNA.

QIAGEN's expertise and technology platform has allowed it to develop and provide purification and process technologies for numerous pharmaceutical and biotechnology companies, and to work with its customers to gain the required regulatory approvals. Once a company's DNA-based genetic vaccination or gene therapy procedure is approved by the licensing authorities, QIAGEN's goal is to transfer the approved process technology to the company and become a long-term supplier of technologies and consumables for their purification requirements.

QIAGEN's Key Strengths

- A broad range of technologies for DNA and RNA purification
- Worldwide leadership in the research market
- A reputation for high-quality products backed by superior service and support
- Strong brand recognition and customer acceptance
- Close customer relationships and early exposure to new trends and markets
- Significant opportunities in new commercial markets based on DNA and RNA
- A multinational team of over 500 highly-trained and motivated employees committed to growth and success



Broad Market Opportunities

QIAGEN continues to invest significant resources in research and development in order to maintain and enhance its technology leadership. We believe the competitive advantages offered by our innovative products and technologies for the separation and purification of DNA and RNA will allow us to continue to increase our share of our traditional research market and the markets emerging from it. We also continually strive to develop or acquire complementary technologies as a means to leverage the market potential of our existing technologies.

QIAGEN will strive to penetrate and grow in these new markets in the same way that we have grown in our core research market — by listening to our customers and drawing on our expertise and proprietary technologies to develop products for their needs. Our goal is to provide customers with complete solutions for their work with DNA and RNA. Since QIAGEN began providing innovative DNA and RNA purification products in 1986, our expertise and technology platform have expanded to cover many other applications for DNA and RNA, from clinical sample collection and stabilization to transfer of genes into new cells.

QIAGEN's success is due to the commitment of a multinational team of more than 500 highly-motivated employees, dedicated to providing customers with innovative, high-quality products and exceptional service by phone, fax, e-mail, and in person. QIAGEN provides this hands-on, direct customer support through an international team of over 80 sales representatives in the United States, Germany, France, the United Kingdom, Switzerland, and Australia. In addition, specialized distributors assist QIAGEN customers in more than 25 other countries around the world. This ongoing communication helps QIAGEN to identify customer needs and product requirements, promote customer satisfaction and loyalty, and gain insight into scientific research and related commercial opportunities. The high quality of the products and associated service allows QIAGEN to confidently offer its quality guarantee on, and to command a premium price for, its products.

The new DNA- and RNA-based markets developing out of the research market need enabling technologies for DNA and RNA purification and handling. We hope to seize the opportunities present in these emerging markets. Every time one of our many customers succeed, we succeed.

The future looks bright for QIAGEN.

Summary Consolidated Financial Data

(amounts in thousands, except per share data)

	Year ended December 31,				
	1992 (unaudited)	1993	1994	1995	1996
Consolidated Statement of Income Data:					
Net sales	$11,428	$16,524	$24,115	$36,992	$54,157
Cost of sales	4,067	5,336	7,288	9,550	14,669
Gross profit	7,361	11,188	16,827	27,442	39,488
Operating expenses					
Research and development	1,639	2,356	2,758	4,414	6,490
Sales and marketing	1,542	3,352	5,323	9,369	16,034
General and administrative	4,471	4,488	5,281	8,981	10,985
Total operating expenses	7,652	10,196	13,362	22,764	33,509
Income (loss) from operations	(291)	992	3,465	4,678	5,979
Other income (expense), net	427	625	(525)	(153)	2,682
Income before provision for income taxes	136	1,617	2,940	4,525	8,661
Provision for income taxes	81	897	1,656	2,130	3,331
Net income	$ 55	$ 720	$ 1,284	$ 2,395	$ 5,330
Net income per common and common equivalent share (1)	$ 0.00	$ 0.06	$ 0.10	$ 0.18	$ 0.35
Weighted average number of common and common equivalent shares outstanding	12,886	12,886	13,132	13,623	15,410

	December 31,				
	1992 (unaudited)	1993	1994	1995	1996
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 803	$ 446	$ 3,612	$ 5,305	$ 1,975
Working capital	4,083	4,725	8,303	9,920	35,829
Total assets	12,565	14,820	19,450	26,203	66,190
Total long-term liabilities, including current portion	4,614	6,791	7,279	7,800	7,108
Total shareholders' equity	5,504	5,685	9,120	12,208	47,696

(1) Computed on the basis described for net income per Common Share in Note 2 of the Notes to Consolidated Financial Statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This section contains a number of forward-looking statements. These statements are based on current expectation and actual results may differ materially. Among the factors which could cause actual results to vary are those described in "Business Factors" below.

Overview

QIAGEN believes that it is the world's leading provider of innovative enabling technologies and products for the separation and purification of nucleic acids. The Company was established to develop, manufacture and market a portfolio of proprietary technologies and products to address these needs, which include purity, speed, yield, reliability, throughput and ease of use. QIAGEN's products enable customers to reliably and rapidly produce high purity nucleic acids without using hazardous reagents or expensive equipment. QIAGEN offers over 250 products, including a broad range of consumables, as well as instruments and services, for a variety of applications in nucleic acid separation and purification.

The Company has experienced significant growth in the past, and since 1993 has had compound annual growth of approximately 49% in sales and 95% in net income. In 1996, the Company recorded $5.3 million of net income and $54.2 million of net sales, and has to date funded its growth through internally generated funds, debt, an aggregate of $9.5 million from the private sale of equity and through proceeds from the sale of securities to the public.

Results of Operations

The following table sets forth certain income and expense items as a percentage of net sales for the periods indicated:

	Year ended December 31,		
	1994	1995	1996
Net sales	100.0%	100.0%	100.0%
Cost of sales	30.2	25.8	27.1
Gross profit	69.8	74.2	72.9
Operating expenses:			
Research and development	11.4	11.9	12.0
Sales and marketing	22.1	25.3	29.6
General and administrative	21.9	24.3	20.3
Total operating expenses	55.4	61.5	61.9
Income from operations	14.4	12.7	11.0
Other income (expense):	(2.2)	(0.4)	5.0
Income before provision for income taxes	12.2	12.3	16.0
Provision for income taxes	6.9	5.8	6.2
Net income	5.3%	6.5%	9.8%

Net Sales. Net sales increased 46% (or $17.2 million) to $54.2 million in 1996 from $37.0 million in 1995. Net sales in the United States were $31.6 million in fiscal 1996 or 50% above the net sales in the United States in the comparable period of 1995 ($21.0 million). The overall increase in net sales was primarily attributable to increased market penetration of QIAGEN's existing and new products. Net sales outside the United States were $22.6 million in fiscal 1996 or 41% above the net sales outside the United States in the comparable period of 1995 ($16.0 million). A material portion of the Company's sales continue to be attributable to the Company's range of products designed for plasmid DNA applications.

Changes in exchange rates affected the growth rate of net sales from 1995 to 1996. Net sales outside the United States are exposed to currency fluctuations, since they are mainly denominated in German marks and to a lesser extent in British pounds, French francs, Swiss francs, Australian dollars as well as other currencies. Compared to 1995, in 1996 the US dollar as measured in the average exchange rate for the year, appreciated against the three most significant currencies affecting the Company's net sales. If the same rates would have been used for 1996 as had been applied for 1995, net sales for 1996 would have been higher and the growth of net sales would have exceeded the percentage calculated on reported net sales.

Gross Profit. The Company's gross profit increased from $27.4 million (74% of net sales) in 1995 to $39.5 million (73% of net sales) in 1996. The absolute dollar increase in gross profit was primarily due to increased unit sales. In 1996, the Company continued to increase its production capacity by adding personnel, automated equipment, and production and warehouse space, in order to accommodate its expanding sales. This expansion in production capacity resulted in an increased asset base in production and a decrease in gross profit margin. The Company believes that the expansion in its production capacity will increase its production efficiency in the future. In addition, during 1996 the Company experienced strong growth in net sales from its instrumentation products such as the QIAGEN BioRobot. These products carry a slightly lower gross margin than the Company's consumable products.

Research and Development. Research and development expenses increased 47% from $4.4 million (12% of net sales) in 1995 to $6.5 million (12% of net sales) in 1996. The increase resulted primarily from greater personnel expenses, as the Company continued the expansion of its new product development capabilities. The Company has a strong commitment to research and development and expects its expenses in this area to continue to increase significantly.

Sales and Marketing. Sales and marketing expenses increased 71% from $9.4 million (25% of net sales) in 1995 to $16.0 million (30% of net sales) in 1996. The increase was associated with increased volume in net sales, including expenditures for additional personnel, commissions, promotions, publications and advertising. A portion of these expenses were also associated with the establishment of marketing and sales subsidiaries in Australia and France. In 1996, the Company also launched a range of new products, including the PCR product line, that it supported with marketing efforts that increased expenses in marketing and sales.

General and Administrative. General and administrative expenses increased 22% from $9.0 million (24% of net sales) in 1995 to $11.0 million (20% of net sales) in 1996. The increase was due to the expansion of the Company's administrative infrastructure to accommodate sales growth. A significant portion of the increase, was incurred in connection with the addition of Australian and French sales subsidiaries.

Other Income (Expense). Other income (expense) increased from a net expense of $153,000 in 1995 to a net income of $2.7 million in 1996. The largest component of this increase was attributable to gain on foreign currency transactions of $1.0 million in 1996 compared to a loss of $0.6 million in 1995. Income from foreign currency transactions reflects net effects from conducting business in currencies other than the US dollar. QIAGEN N.V.'s functional currency is the U.S. dollar and its subsidiaries functional currencies are the German mark, the British pound, the Swiss franc, the French franc or the Australian dollar. In 1996, the value of the U.S. dollar increased against these currencies, including the German mark in which a significant amount of the Company's consolidated business is conducted. While this increase in value of the U.S. dollar had a negative effect on net sales translated from German marks into U.S. dollars,

the Company recorded income from foreign currency transactions and liabilities denominated in currencies other than the U.S. dollar, mainly the German mark.

This increase in other income in 1996 was also due to increases in interest income and research and development grant income, offset by an increase in other income (expense). Interest income in 1996 increased to $1.0 million from $76,000 in 1995. This increase reflects interest received during 1996 on the proceeds from the Company's initial public offering completed on June 27, 1996. Research and development grant income in 1996 increased 69% or $549,000 to $1.3 million from $790,000 in 1995. QIAGEN's research and development activities are currently principally carried out in Germany, and the Company expects to continue to apply for such research and development grants in the future. A significant portion of this increase in grant income is related to increases in the Company's research and development expenses. Other income (expense), net decreased from income of $247,000 in 1995 to an expense of $88,000 in 1996.

Provision for Income Taxes. The Company's effective tax rate decreased from 47% in 1995 to 38% in 1996. The decrease was primarily attributable to the Company's access to lower effective tax rates in the United Kingdom and Switzerland through its sales subsidiaries in those jurisdictions, as well as to effects following the Company's April 1996 reorganization in which QIAGEN N.V. was formed as a Dutch holding company, which contributed to a lower over all tax rate.

Fiscal Years Ended December 31, 1995 and 1994

Net Sales. Net sales increased 53% (or $12.9 million) to $37.0 million in 1995 from $24.1 million in 1994. Net sales in the United States increased 34% (or $5.3 million) to $21.0 million, and net sales outside the United States increased 90% (or $7.6 million) to $16.0 million. The overall increase in net sales was primarily attributable to increased market penetration of QIAGEN's existing products. All of the Company's major products experienced significant sales growth from 1994 to 1995. In addition, in 1995 the Company introduced several new consumable products, and in the second half of the year, the Company introduced the BioRobot 9600 instrument. A material portion of the Company's sales continue to be attributable to the Company's range of products designed for plasmid DNA applications.

Gross Profit. The Company's gross profit increased from $16.8 million (70% of net sales) in 1994 to $27.4 million (74% of net sales) in 1995. The increase was primarily due to production efficiencies that resulted from increased unit volume and the increased use of automated equipment. In 1995, the Company continued to invest in, and realize the benefits of, the increased level of production automation through the purchase and installation of custom-engineered, modular production equipment. Gross profit margin was also positively affected by the establishment of sales subsidiaries in the United Kingdom and Switzerland, which commenced operations in August 1994 and January 1995, respectively. This resulted in a shift to higher margin net sales by wholly owned subsidiaries from lower margin net sales to distributors.

Research and Development. Research and development expenses increased 60% from $2.8 million (11% of net sales) in 1994 to $4.4 million (12% of net sales) in 1995. The increase resulted primarily from greater personnel expenses, as the Company continued the expansion of its new product development capabilities. The Company has a strong commitment to research and development and expects its expenses in this area to continue to increase significantly.

Sales and Marketing. Sales and marketing expenses increased 76% from $5.3 million (22% of net sales) in 1994 to $9.4 million (25% of net sales) in 1995. The increase was associated with increased volume of net sales, including expenditures for additional personnel, commissions, promotions, publications and advertising and the introduction of the BioRobot 9600. A portion of these expenses were incurred as a result of the establishment of marketing and sales activities in the Company's United Kingdom and Swiss sales subsidiaries.

General and Administrative. General and administrative expenses increased 70% from $5.3 million (22% of net sales) in 1994 to $9.0 million (24% of net sales) in 1995. The increase was due to the expansion of the Company's administrative infrastructure to accommodate sales growth. A significant portion of the increase, totalling approximately $1.0 million, was incurred in connection with the addition of the United Kingdom and Swiss sales subsidiaries.

Other Income (Expense). Other income (expense) decreased from a net expense of $525,000 in 1994 to a net expense of $153,000 in 1995. The largest component of this decrease was attributable to research and development grants totaling $790,000 received from German federal and state authorities and the European Community in 1995. QIAGEN's research and development activities are currently principally carried out in Germany, and the Company expects to continue to apply for such research and development grants in the future. Other income (expense) also included $310,000 and $560,000 in expenses in 1994 and 1995, respectively, from foreign currency transactions. This net expense results from conducting business in a currency other than the functional currency of the entity. The Company's reporting currency is the U.S. dollar. See Note 2(l) to Consolidated Financial Statements.

Provision for Income Taxes. The Company's effective tax rate decreased from 56% in 1994 to 47% in 1995. The decrease was primarily attributable to the Company's access to lower effective tax rates in the United Kingdom and Switzerland through its sales subsidiaries in those jurisdictions.

Currency Hedging

In the normal course of business, the Company from time to time purchases exchange traded put options on U.S. dollars to mitigate foreign currency exposure.

Liquidity and Capital Resources

To date, the Company has funded its business primarily through debt and the private and public sales of equity and, since 1993, through cash generated from operations. The Company generated net cash from operating activities of approximately $4.1 million and $3.9 million in 1996 and 1995, respectively. The Company's investing and financing activities used $6.4 million during 1996 and used $2.8 million during 1995. Approximately $9.7 million of cash was used by investing activities in 1996 for the purchases of fixed assets such as machinery for the Company's production operations. In the same period, the Company generated cash from financing activities of approximately $31.9 million. This cash flow from financing is mainly due to the Company's initial public offering.

As of December 31, 1995 and 1996, the Company had cash and cash equivalents of approximately $5.3 million and $2.0 million, respectively, and working capital of approximately $9.9 million and $35.8 million, respectively. As of December 31, 1996, the Company had marketable securities of approximately $28.0 million, which includes the net proceeds from the Company's initial public offering. The Company has credit lines totaling approximately $3.6 million, none of which were utilized as of December 31, 1996. The Company also carries $1.3 million of long-term debt at an interest rate subsidized by a German government-related institution. The Company believes that its sources of liquidity, together with the proceeds from its public and private sales of equity and the anticipated funds provided by operations, will be sufficient to finance its planned operations for at least the next two years.

Currency Fluctuations

The Company operates on a multinational basis and a significant portion of its business is conducted in currencies other than the U.S. dollar, mainly the German mark. The Company has historically recorded a majority of its expenses in German marks, especially research and development expenses, with the substantial majority of its revenues denominated in U.S. dollars. Fluctuations in the value of the currencies in which the Company conducts its business relative to the U.S. dollar have caused and will continue to cause dollar-translated amounts to vary from one period to another. Due to the number of currencies involved, the constantly changing currency exposures, and the substantial volatility of currency exchange rates, the Company cannot predict the effect of exchange rate fluctuations upon future operating results. From time to time, the Company engages hedging transactions which include, but are not limited to, purchases of exchange traded put options on U.S. dollars to mitigate foreign currency exposure.

The functional currencies of the Company and its subsidiaries generally are their respective local currencies in accordance with Statement of Financial Accounting Standard No. 52 "Foreign Currency Translation". All amounts in the financial statements of entities whose functional currency is not the dollar are translated into dollar equivalents at exchange rates as follows: (1) assets and liabilities at period-end rates, (2) income statement accounts at weighted average exchange rates for the period and (3) components of shareholders' equity at historical rates. Translation gains or losses are recorded in shareholders' equity and transaction gains and losses are reflected in net income (loss). The net exchange gain (loss) for 1994, 1995 and 1996, was ($310,000), ($560,000) and $993,000, respectively, which is included in other income (expense).

Business Factors

This report contains certain forward-looking statements that are subject to certain risks and uncertainties. These statements include statements regarding (I) the Company's ability to maintain its relationships with its customers and its broad range of products, (II) the Company's ability to stay abreast of technological developments, (III) the size of the Company's markets and potential markets, (IV) the Company's ability to penetrate and expand these markets and the demand for the Company's products, (V) the Company's ability to increase its production efficiency as a result of expansion in its production capacity, and (VI) the Company's liquidity. Such statements are based on management's current expectations and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. The Company cautions investors that there can be no assurance that actual results or business conditions will not differ materially from those projected or suggested in such forward-looking statements as a result of various factors, including, but not limited to, the following: risks associated with the Company's expansion of operations, management growth, international operations, and dependence on key personnel; intense competition; the variation in the Company's operating results; technological change; the Company's ability to develop and protect proprietary products and technologies and to enter into collaborative commercial relationships; the Company's future capital requirements; and uncertainties as to the extent of future government regulation of the Company's business. As a result, the Company's future development efforts involve a high degree of risk. For further information, refer to the more specific risks and uncertainties discussed throughout this Annual Report.

QIAGEN N.V.

CONSOLIDATED BALANCE SHEETS

	December 31,	
	1996	1995
Assets		
Current Assets:		
Cash and cash equivalents	**$ 1,975,000**	$ 5,305,000
Marketable securities	**28,097,000**	–
Accounts receivable, net of allowance of $390,000 and $284,000 in 1996 and 1995, respectively	**6,498,000**	4,680,000
Income taxes receivable	**492,000**	–
Inventories	**9,851,000**	6,152,000
Prepaid expenses and other	**1,625,000**	758,000
Deferred income taxes	**30,000**	407,000
Total current assets	**48,568,000**	17,302,000
Property, plant and equipment, net	**16,115,000**	8,756,000
Intangible assets	**938,000**	–
Other assets	**569,000**	145,000
Total assets	**$ 66,190,000**	$ 26,203,000

The accompanying notes are an integral part of these consolidated statements.

QIAGEN N.V.

CONSOLIDATED BALANCE SHEETS

	December 31,	
	1996	1995
Liabilities and Shareholders' Equity		
Current Liabilities:		
Short-term debt	**$ 1,820,000**	$ –
Current portion of long-term debt	**449,000**	319,000
Current portion of capital lease obligations	**904,000**	868,000
Accounts payable	**5,552,000**	2,919,000
Accrued liabilities	**3,475,000**	1,755,000
Income taxes payable	**539,000**	1,521,000
Total current liabilities	**12,739,000**	7,382,000
Long-Term Liabilities:		
Long term debt, net of current portion	**891,000**	1,276,000
Capital lease obligations, net of current portion	**4,771,000**	5,248,000
Other	**93,000**	89,000
Total long-term liabilities	**5,755,000**	6,613,000
Commitments and Contingencies (Note 12)		
Shareholders' Equity:		
Common shares, NLG .03 ($.0175) par value: Authorized--32,500,000 shares Issued and outstanding--16,740,500 shares in 1996 and 12,876,667 shares in 1995	**293,000**	225,000
Additional paid-in capital	**40,643,000**	7,502,000
Retained earnings	**7,795,000**	2,465,000
Notes receivable from sale of shares	**(1,729,000)**	–
Cumulative translation adjustment	**694,000**	2,016,000
Total shareholders' equity	**47,696,000**	12,208,000
	$66,190,000	$26,203,000

The accompanying notes are an integral part of these consolidated statements.

QIAGEN N.V.

CONSOLIDATED STATEMENTS OF INCOME

	Years ended December 31,		
	1996	1995	1994
Net Sales	**$ 54,157,000**	$ 36,992,000	$ 24,115,000
Cost of Sales	**14,669,000**	9,550,000	7,288,000
Gross profit	**39,488,000**	27,442,000	16,827,000
Operating Expenses:			
Research and development	**6,490,000**	4,414,000	2,758,000
Sales and marketing	**16,034,000**	9,369,000	5,323,000
General and administrative	**10,985,000**	8,981,000	5,281,000
Total operating expenses	**33,509,000**	22,764,000	13,362,000
Income from operations	**5,979,000**	4,678,000	3,465,000
Other income (expense):			
Interest income	**1,012,000**	76,000	16,000
Interest expense	**(574,000)**	(706,000)	(726,000)
Research and development grants	**1,339,000**	790,000	296,000
Gain (loss) on foreign currency transactions	**993,000**	(560,000)	(310,000)
Other income (expense), net	**(88,000)**	247,000	199,000
	2,682,000	(153,000)	(525,000)
Income before provision for income taxes	**8,661,000**	4,525,000	2,940,000
Provision for income taxes	**3,331,000**	2,130,000	1,656,000
Net income	**$ 5,330,000**	$ 2,395,000	$ 1,284,000
Net income per common share	**$ 0.35**	$ 0.18	$ 0.10
Weighted average number of common shares	**15,410,000**	13,623,000	13,132,000

The accompanying notes are an integral part of these consolidated statements.

QIAGEN N.V.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

FOR THE THREE YEARS ENDED DECEMBER 31, 1996

	Common Shares		Additional	Retained	Notes Receivable	Cumulative	
	Shares	Amount	Paid-In Capital	Earnings (Deficit)	from Sale of Shares	Translation Adjustment	Total
BALANCE AT DECEMBER 31, 1993	**12,140,000**	**$ 212,000**	**$ 6,266,000**	**$(1,214,000)**	**$ –**	**$ 421,000**	**$ 5,685,000**
Issuance of common shares	736,667	13,000	1,236,000	–	–	–	1,249,000
Net income	–	–	–	1,284,000	–	–	1,284,000
Translation adjustment	–	–	–	–	–	902,000	902,000
BALANCE AT DECEMBER 31, 1994	**12,876,667**	**225,000**	**7,502,000**	**70,000**	**–**	**1,323,000**	**9,120,000**
Net income	–	–	–	2,395,000	–	–	2,395,000
Translation adjustment	–	–	–	–	–	693,000	693,000
BALANCE AT DECEMBER 31, 1995	**12,876,667**	**225,000**	**7,502,000**	**2,465,000**	**–**	**2,016,000**	**12,208,000**
Issuance of common shares	833,333	15,000	1,731,000	–	(1,729,000)	–	17,000
Initial public offering	3,016,500	53,000	31,027,000	–	–	–	31,080,000
Shares issued in exchange for patents	14,000	–	383,000	–	–	–	383,000
Net Income	–	–	–	5,330,000	–	–	5,330,000
Translation adjustment	–	–	–	–	–	(1,322,000)	(1,322,000)
BALANCE AT DECEMBER 31, 1996	**16,740,500**	**$ 293,000**	**$40,643,000**	**$ 7,795,000**	**$ (1,729,000)**	**$ 694,000**	**$ 47,696,000**

The accompanying notes are an integral part of these consolidated statements.

QIAGEN N.V.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31,		
	1996	1995	1994
Cash Flows From Operating Activities			
Net income	**$ 5,330,000**	$ 2,395,000	$ 1,284,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**2,455,000**	1,803,000	1,158,000
Provision for losses on accounts receivable	**108,000**	142,000	140,000
Deferred income taxes	**412,000**	349,000	1,264,000
Loss on disposition of property and equipment	**30,000**	49,000	55,000
Decrease (increase) in:			
Accounts receivable	**(2,086,000)**	(1,745,000)	(956,000)
Inventories	**(4,160,000)**	(1,772,000)	(656,000)
Income taxes receivable	**(503,000)**	–	
Prepaid expenses and other	**(802,000)**	(260,000)	536,000
Other assets	**(436,000)**	(103,000)	(2,000)
Increase (decrease) in:			
Accounts payable	**3,106,000**	1,208,000	(244,000)
Accrued liabilities	**1,693,000**	567,000	505,000
Income taxes payable	**(1,012,000)**	1,223,000	301,000
Net cash provided by operating activities	**4,135,000**	3,856,000	3,385,000

The accompanying notes are an integral part of these consolidated statements.

	Years ended December 31,		
	1996	1995	1994
Cash Flows From Investing Activities:			
Purchases of property and equipment	**(9,706,000)**	(1,706,000)	(1,061,000)
Proceeds from sale of property and equipment	**5,000**	80,000	203,000
Purchases of intangibles assets	**(471,000)**	–	–
Purchases of marketable securities, net	**(28,097,000)**	–	–
Net cash used in investing activities	**(38,269,000)**	(1,626,000)	(858,000)
Cash Flows From Financing Activities:			
Proceeds from short-term debt	**1,820,000**	–	–
Principal payments on capital leases	**(868,000)**	(878,000)	(529,000)
Proceeds from long-term debt	**14,000**	–	457,000
Repayment of long-term debt	**(152,000)**	(320,000)	(1,330,000)
Issuance of common shares	**31,097,000**	–	1,249,000
Net cash provided by (used in) financing activities	**31,911,000**	(1,198,000)	(153,000)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**(1,107,000)**	661,000	792,000
Net increase (decrease) in cash and cash equivalents	**(3,330,000)**	1,693,000	3,166,000
Cash and Cash Equivalents, beginning of year	**5,305,000**	3,612,000	446,000
Cash and Cash Equivalents, end of year	**$ 1,975,000**	$ 5,305,000	$ 3,612,000

The accompanying notes are an integral part of these consolidated statements.

QIAGEN N.V.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1996

1. Line of Business

QIAGEN N.V. (the Company) and subsidiaries produce and distribute biotechnology products, primarily for the separation and purification of nucleic acids (DNA/RNA). The Company also assembles and distributes certain robotic equipment to be used in connection with the Company's products. The Company's products are used in biological research by universities and research institutions as well as in genome sequencing, diagnostic and therapeutic industries. At December 31, 1996, the Company consists of the Netherlands parent company and its wholly owned subsidiaries, QIAGEN GmbH in Hilden, Germany; QIAGEN Inc. in Los Angeles, United States; QIAGEN Ltd. in Crawley, England; QIAGEN AG in Basel, Switzerland; QIAGEN S.A. in Courtaboeuf Cedex, France; and QIAGEN Pty Ltd in Clifton Hill, Australia.

Prior to April 29, 1996, the Company operated as QIAGEN GmbH with subsidiaries QIAGEN Inc., QIAGEN Ltd. (since 1994) and QIAGEN AG (since 1994). On April 29, 1996, QIAGEN N.V. acquired all of the outstanding shares of QIAGEN GmbH in exchange for 41,130,000 newly issued shares of QIAGEN N.V. which continues as the parent of QIAGEN GmbH. In June 1996, the Company effected a reverse stock split of 1:3 shares, resulting in 13,710,000 shares outstanding with a par value NLG .03 per share. The effect of the reincorporation and related stock split has been retroactively reflected in the accompanying financial statements for all periods presented.

The Company's products are sold throughout the world, primarily in the United States and in Europe. Similar to most companies in this line of business, the Company's products are subject to rapid technological change. Because of technological changes, the Company needs to continuously expend resources toward research and development.

2. Summary of Significant Accounting Policies

a. Principles of Consolidation

The accompanying consolidated financial statements were prepared in conformity with United States generally accepted accounting principles and include the accounts of the Company and its subsidiaries, after elimination of all significant intercompany accounts and transactions. The present consolidated statements were prepared for Securities and Exchange Commission filing purposes and do not contain complete information related to the Company's statutory accounts, which must be adopted at the Annual General Meeting of shareholders pursuant to Dutch law.

b. Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingencies at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

c. Net Income per Common Share

Net income per common share for each of the three years ended December 31, 1996 is based on the weighted average number of common shares outstanding. For all periods presented, per share information was computed pursuant to the rules of the Securities and Exchange Commission (SEC), which require that common stock issued by the Company during the twelve months immediately preceding the Company's initial public offering plus the number of common shares issuable pursuant to the grant of options issued during the same period, be included in the calculation of the shares outstanding using the treasury stock method from the beginning of all periods presented.

The following schedule summarizes the information used to compute earnings per common share:

	Years ended December 31,		
	1996	1995	1994
Net income	**$ 5,330,000**	$ 2,395,000	$ 1,284,000
Weighted average common shares outstanding	**15,222,000**	13,565,000	13,074,000
Dilutive effect of stock options pursuant to SEC Rules	**188,000**	58,000	58,000
Weighted average common shares used to compute earnings per share	**15,410,000**	13,623,000	13,132,000
Net income per common share	**$ 0.35**	$ 0.18	$ 0.10

d. Credit Risk

The Company's accounts receivable are unsecured and the Company is at risk to the extent such amounts become uncollectible. As of December 31, 1996 and 1995, no single customer represented more than 10 percent of accounts receivable. For the years ended December 31, 1996, 1995 and 1994, no single customer represented more than 10 percent of consolidated net sales.

e. Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market and consist of materials, labor and overhead.

f. Property, Plant and Equipment

Depreciation is computed using the straight-line and declining balance methods over the following estimated useful lives: buildings for 25 years; machinery and equipment for three to eight years; computer software for one to five years; furniture and office equipment for three to five years; and leasehold improvements are computed on a straight-line method over the lesser of the life of the lease or the estimated useful life.

The Company follows the policy of capitalizing expenditures that materially increase asset lives and charging ordinary maintenance and repairs to operations as incurred. When property or equipment are disposed of, the cost and related accumulated depreciation and amortization are removed from the accounts and any gain or loss is included in operations. Repairs and maintenance expense was $469,000, $266,000 and $172,000 in fiscal years 1996, 1995 and 1994, respectively.

g. Revenue Recognition

The Company recognizes product revenue when products are shipped, except that revenue from instrumentation equipment is not recognized until customer acceptance. Revenue from services is recognized when the related service is performed.

h. Statements of Cash Flows

During fiscal years 1996, 1995 and 1994, the Company acquired property and equipment with a cost of $797,000, $1,155,000 and $1,060,000, respectively, through lease financing agreements. During 1996, the Company issued 14,000 common shares at a fair market value of $383,000 for patents and related rights. These non-cash transactions are excluded from the statements of cash flows.

Cash paid for interest was $769,000, $1,046,000 and $953,000 in 1996, 1995 and 1994, respectively. Cash paid for income taxes was $4,496,000, $599,000 and $117,000 in 1996, 1995 and 1994, respectively.

The Company considers all short-term investments with original maturities of three months or less to be cash equivalents.

i. Foreign Currency Translation

The Company's reporting currency is the United States dollar. The subsidiaries' functional currencies are the German mark, the United States dollar, the British pound, the Swiss franc, the French franc and the Australian dollar.

Balance sheets prepared in a currency other than the functional currency are restated to the functional currency using the year-end exchange rates, except for prepayments, property, other long-term assets and shareholders' equity accounts, which are restated at rates in effect when these assets were acquired. Revenues and expenses are restated at average rates during the year except for depreciation and amortization, which are translated at the historical rates.

Balance sheets prepared in their functional currency are translated to the reporting currency, the United States dollar, at exchange rates in effect at the end of the accounting period. Revenue and expense accounts are translated at a weighted average of exchange rates during the period. The cumulative effect of translation is a component of shareholders' equity.

The Company entered into certain foreign currency exchange contracts during 1996 and 1995 to hedge against foreign currency fluctuations. The Company incurred commissions relating to these contracts of approximately $145,000 and $120,000 during 1996 and 1995, respectively.

In February 1997, the Company entered into a $16 million foreign currency contract to hedge an inter-company loan.

j. Warranty

The Company warrants its products against defects in materials and workmanship for a period of one year. A provision for estimated future warranty is recorded when products are shipped.

k. Fair Value of Financial Instruments

The carrying value of the Company's cash, receivables, trade payables and accrued liabilities approximate their fair values because of the short maturities of those instruments. The carrying value of the Company's debt and capital leases approximate their fair values because of the short maturities and/or interest rates which are comparable to those available to the Company on similar terms.

l. Authoritative Pronouncements

In March 1995, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of," which requires impairment losses to be recorded on long-lived assets used in operations when indications of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. The Company adopted SFAS 121 in the first quarter of 1996 and the impact on the Company's financial position and results of operations was insignificant.

In October 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation". SFAS 123 encourages, but does not require, a fair value based method of accounting for employee stock options or similar equity instruments. It also allows an entity to elect to continue to measure compensation cost for employee options under Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," but requires pro forma disclosure of net income and earnings per share as if the fair value based method had been applied. The Company has chosen to elect this disclosure method and to continue to measure compensation cost under APB 25. Therefore, SFAS 123 had no impact on the Company's financial position or results of operations.

3. Marketable Securities

Marketable securities consist of commercial paper and other interest bearing securities with original maturities in excess of three months. The Company accounts for these temporary investments in accordance with SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities." At December 31, 1996, the fair market value of temporary investments, classified as "available for sale securities," approximated cost, thus no unrealized holding gains or losses were reported in the accompanying balance sheets. During fiscal year 1996, the Company realized gains from the sale of securities in the amount of approximately $1,000.

On December 3, 1996, the Company purchased foreign currency contracts to hedge transactions denominated in United States Dollars ($6 million). The contracts expire at various dates through June 30, 1997. The value of these contracts at December 31, 1996 amounted to DM 28,500 ($16,440) and is included in marketable securities in the accompanying balance sheet.

4. Inventories

The components of inventories consist of the following as of December 31, 1996 and 1995:

	1996	1995
Raw materials	**$ 2,973,000**	$ 2,243,000
Work in process	**2,601,000**	1,459,000
Finished goods	**4,277,000**	2,450,000
	$ 9,851,000	$ 6,152,000

5. Property, Plant and Equipment

Property, plant and equipment are stated at cost and are summarized as follows as of December 31, 1996 and 1995:

	1996	1995
Land and buildings	**$ 5,652,000**	$ 5,125,000
Machinery and equipment	**6,533,000**	5,665,000
Computer software	**2,517,000**	1,027,000
Furniture and office equipment	**6,434,000**	2,920,000
Leasehold improvements	**1,447,000**	137,000
Construction in progress	**1,079,000**	12,000
	23,662,000	14,886,000
Less: Accumulated depreciation and amortization	**(7,547,000)**	(6,130,000)
	$ 16,115,000	$ 8,756,000

6. Intangible Assets

On November 1, 1996, the Company entered into an agreement with a research corporation and an individual to purchase certain patents, trademarks and licensing rights for $100,000 cash and 14,000 shares of common stock, valued at $383,000.

During 1996, the Company also purchased rights from a University for certain patents in the amount of approximately $500,000. All patents and related rights are amortized over 5 years. The Company recognized amortization expense relating to these agreements of $15,000 for the year ended December 31, 1996.

7. Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109. Under SFAS 109, deferred income tax assets or liabilities are computed based on the temporary difference between the financial statement and income tax bases of assets and liabilities using the enacted marginal income tax rate in effect for the year in which the differences are expected to reverse. Deferred income tax expenses or credits are based on the changes in the deferred income tax assets or liabilities from period to period.

The Company has recorded a gross deferred tax asset of $726,000 at December 31, 1996. Realization is dependent on generating sufficient taxable income in the future. Although realization is not assured, management believes it is more likely than not that all of the deferred tax asset will be realized.

The components of the net deferred tax assets at December 31, 1996 and 1995 are as follows:

	1996	1995
Deferred tax asset:		
Allowance for bad debts	**$ 121,000**	$ 92,000
Vacation accrual	**74,000**	44,000
Warranty accrual	**56,000**	15,000
Net operating loss carryforward	**139,000**	–
Inventory	**–**	195,000
United States state income taxes	**129,000**	47,000
Capital lease	**158,000**	–
Other	**49,000**	61,000
	726,000	454,000
Deferred tax liability:		
Depreciation	**(120,000)**	(47,000)
Inventory	**(30,000)**	–
Intangibles	**(546,000)**	–
	(696,000)	(47,000)
Net deferred tax asset	**$ 30,000**	$ 407,000

The provision for income taxes for the years ended December 31, 1996, 1995 and 1994 are as follows:

	1996	1995	1994
Current - United States federal taxes	**$ 1,378,000**	$ 545,000	$ 305,000
- United States state taxes	**380,000**	159,000	85,000
- Non-United States taxes	**1,209,000**	1,080,000	–
	2,967,000	1,784,000	390,000
Deferred - United States federal taxes	**(13,000)**	(131,000)	(20,000)
- United States state taxes	**29,000**	29,000	1,000
- Non-United States taxes	**348,000**	448,000	1,285,000
	364,000	346,000	1,266,000
Provision for income taxes	**$ 3,331,000**	$2,130,000	$1,656,000

Differences between the provision for income taxes and income taxes at the United States statutory federal income tax rate for the years ended December 31, 1996, 1995 and 1994 are as follows:

	1996		1995		1994	
	Amount	Percent	Amount	Percent	Amount	Percent
Income taxes at United States statutory federal rate	**$ 2,945,000**	**34.0%**	$ 1,539,000	34.0%	$ 1,000,000	34.0%
United States state income taxes, net of federal income tax effect	**263,000**	**3.0%**	87,000	1.9%	53,000	1.8%
Non-United States taxes at rates greater than United States statutory federal rate	**80,000**	**0.9%**	477,000	10.6%	580,000	19.7%
Other items, net, none of which individually exceed 5 percent of federal taxes at statutory rate	**43,000**	**0.5%**	27,000	0.6%	23,000	0.8%
	$ 3,331,000	**38.5%**	$ 2,130,000	47.1%	$ 1,656,000	56.3%

8. Accrued Liabilities

Accrued liabilities at December 31, 1996 and 1995 consist of the following:

	1996	1995
Payroll and related	**$ 1,167,000**	$ 531,000
Management bonuses	**318,000**	240,000
Warranty	**347,000**	237,000
Professional services	**607,000**	112,000
Sales and other taxes	**123,000**	114,000
Royalties	**117,000**	95,000
Other	**796,000**	426,000
	$ 3,475,000	$ 1,755,000

9. Debt

The Company has three separate lines of credits amounting to DM 5,500,000 (approximately $3.6 million) with interest rates ranging from 7 percent to 8.5 percent. These lines of credit may be called without notice. No amounts were outstanding under these credit facilities at December 31, 1996 or 1995.

Short term debt at December 31, 1996 consists of a three day margin loan at an interest rate of approximately 5 percent, secured by marketable securities, which matured on January 2, 1997.

Long-term debt consists of a note payable for $1,340,000 which is secured by technical and other equipment. The note bears interest at 6.75 percent and is due in semi-annual payments of $148,000, with a final payment due in December 2000. One major shareholder has guaranteed approximately $325,000 of the loan.

Future principal maturities of long-term debt as of December 31, 1996 are as follows:

Year ending December 31,	
1997	$ 449,000
1998	297,000
1999	297,000
2000	297,000
	$ 1,340,000

10. Business Segments

A summary of net sales, pre-tax income and identifiable assets for the Company's operations is as follows:

	1996	1995	1994
Sales:			
United States	**$ 31,543,000**	$ 20,972,000	$ 15,702,000
Germany	**34,955,000**	24,221,000	16,818,000
Other European Countries	**8,190,000**	5,032,000	767,000
Australia	**260,000**	–	–
Sub-total	**74,948,000**	50,225,000	33,287,000
Eliminations	**(20,791,000)**	(13,233,000)	(9,172,000)
Total	**$ 54,157,000**	$ 36,992,000	$ 24,115,000
Pre-tax income (loss):			
The Netherlands	**$ 1,195,000**	$ –	$ –
United States	**4,315,000**	1,419,000	869,000
Germany	**19,736,000**	2,115,000	2,726,000
Other European Countries	**913,000**	824,000	(117,000)
Australia	**(86,000)**	–	–
Sub-total	**26,073,000**	4,358,000	3,478,000
Eliminations	**(17,412,000)**	167,000	(538,000)
Total	**$ 8,661,000**	$ 4,525,000	$ 2,940,000
Identifiable Assets:			
The Netherlands	**$ 49,768,000**	$ –	$ –
United States	**13,586,000**	7,448,000	6,235,000
Germany	**42,096,000**	22,635,000	17,947,000
Other European Countries	**4,305,000**	1,828,000	792,000
Australia	**343,000**	–	–
Sub-total	**110,098,000**	31,911,000	24,974,000
Eliminations	**(43,908,000)**	(5,708,000)	(5,524,000)
Total	**$ 66,190,000**	$ 26,203,000	$ 19,450,000

European sales includes sales to European distributors which are sold in countries other than Europe. United States sales include limited sales to customers in Canada and Mexico. The eliminations represent intercompany sales and investments, advances, interest charges, management fees and intercompany profit.

11. Stock Options

On April 30, 1996, the Company adopted the QIAGEN N.V. 1996 Employee, Director and Consultant Stock Option Plan (the Option Plan). The Option Plan allows for incentive stock options as well as for non-qualified options with a term of generally 10 years, subject to earlier termination in certain situations. The exercise price of the options is determined by the Board or the Compensation Committee, but in the case of an incentive stock option, the exercise price may not be less than 100 percent of the fair market value at the date of grant. The Company has reserved 1,371,000 shares of common stock for issuance under this plan. During 1996, the Company granted options to purchase 378,350 common shares. These options vest over a period of three years and have exercise prices ranging from $9.50 to $25.75.

During January and February 1997, the Company granted another 72,400 options to purchase common shares at exercise prices of $25.125 and $25.75.

Information regarding the Company's Option Plan as of December 31, 1996, and changes during the year then ended is summarized as follows:

	Shares	Weighted Average Exercise Price
December 31, 1995	–	$ –
Granted	378,350	12.22
Exercised	–	–
Forfeited	550	14.00
December 31, 1996	377,800	$ 12.22

The options outstanding at December 31, 1996 expire in the year 2006. None of the options were exercisable at December 31, 1996. The weighted average fair value of options granted during 1996 was $6.94. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants: risk-free interest rates of 6.35, 6.66 and 5.99 percent; expected lives of 7 years; expected volatility of 45 percent and no dividends would be issued during the option terms.

Information about stock options outstanding at December 31, 1996 is summarized as follows:

	Options Outstanding		
Exercise Price	Number Outstanding	Weighted Average Remaining Contract Life	Weighted Average Exercise Price
$ 9.50	279,900	9.3 Years	$ 9.50
$ 14.00	47,950	9.5 Years	$ 14.00
$ 25.75	49,950	10.0 Years	$ 25.75
	377,800	9.4 Years	$ 12.22

The Company accounts for its stock option plan under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," under which no compensation cost has been recognized. Had compensation cost for the Company's stock option plans been determined consistent with SFAS No. 123, "Accounting for Stock-Based Compensation," the Company's net income and earnings per share would have been reduced to the following pro forma amounts at December 31, 1996:

Net Income	As Reported	$ 5,330,000
	Pro Forma	$ 5,102,000
Net Income per share	As Reported	$ 0.35
	Pro Forma	$ 0.33

Because the Company had no options outstanding prior to 1996, the resulting compensation cost may not be representative of that to be expected in future years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. Option value models also require the input of highly subjective assumptions such as expected option life and expected stock price volatility. Because the Company's stock-based compensation plans have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, the Company believes that the existing option valuation models do not necessarily provide a reliable single measure of the fair value of awards from those plans.

12. Commitments and Contingencies

a. Lease Commitments

The Company leases facilities and equipment under operating lease arrangements expiring in various years through 2007. Certain facility and equipment leases constitute capital leases. The accompanying consolidated financial statements include the assets and liabilities arising from these capital lease obligations.

Minimum future obligations under capital and operating leases at December 31, 1996 are as follows:

	Capital Leases	Operating Leases
1997	$ 1,302,000	$ 2,289,000
1998	1,196,000	2,068,000
1999	933,000	1,631,000
2000	500,000	960,000
2001	487,000	550,000
Thereafter	6,384,000	1,478,000
	10,802,000	$ 8,976,000
Less: Amount representing interest	(5,127,000)	
	5,675,000	
Less: Current portion	(904,000)	
	$ 4,771,000	

Rent expense under noncancelable operating lease agreements was $2,019,000, $608,000 and $535,000 for the years ended December 31, 1996, 1995 and 1994, respectively.

b. Purchase Commitments

At December 31, 1996, the Company had commitments with one vendor to purchase certain products during 1997 at a total cost of approximately $2 million.

c. Contingencies

The Company is a party to legal proceedings incidental to its business. Certain claims, suits or complaints arising out of the normal course of business have been filed or were pending against the Company. Although it is not possible to predict the outcome of such litigation, based on the facts known to the Company and after consultation with counsel, management believes that such litigation will not have a material adverse effect on its financial position or results of operations.

13. Retirement Plans

In September 1992, QIAGEN Inc. adopted the Employees 401(k) Savings Plan (the Plan). The purpose of the Plan is to provide retirement benefits to all eligible employees of the subsidiary. QIAGEN Inc. may make a matching contribution to the Plan at the discretion of the Board of Directors and can make a profit sharing contribution to the Plan at the Board's discretion. In 1996 and 1995, the Company's total contribution to the Plan was approximately $83,000 and $45,000, respectively. The Company made no contribution to the Plan during 1994.

QIAGEN GmbH has a deferred compensation plan for one officer. The present value of the future compensation obligation of $93,000 and $89,000 has been accrued in the accompanying consolidated financial statements at December 31, 1996 and 1995, respectively.

14. Equity Transactions

a. Stock Issuance

Prior to the initial public offering, the Company issued 25,000 (833,333 after reincorporation) shares of common stock to certain existing shareholders including certain executive officers for $1,746,000. Cash of $17,000 was paid and the balance was financed through notes receivables, which are reflected as a reduction of equity in the balance sheet at December 31, 1997.

In November 1996, the Company issued 14,000 shares in connection with the purchase of patents and related rights (see Note 6).

b. Initial Public Offering

In June 1996, the Company completed an initial public offering of its common stock. The Company sold 2,514,000 shares at a price of $12.00 per share. In connection with this offering, the Company granted the underwriters an option for 30 days to purchase an additional 502,500 shares. These shares were purchased by the underwriters in July 1996. The gross proceeds of the initial public offering were $36,198,000. This amount, net of underwriting commissions and other costs totaling $5,118,000, was recorded in common stock and capital in excess of par value in the accompanying financial statements.

c. Restructuring

On July 30, 1996, QIAGEN N.V. purchased the subsidiaries of QIAGEN GmbH for DM 24,401,000. Those subsidiaries of QIAGEN GmbH were QIAGEN Inc., QIAGEN AG and QIAGEN Ltd. A gain of DM 24,003,000 was recognized by QIAGEN GmbH on the sale which is eliminated in consolidation.

15. Licensing Agreements

The Company has licensing agreements with two companies requiring certain up-front royalties and royalty payments on net product sales ranging from 3 to 10 percent of covered products. The accompanying consolidated financial statements include accrued royalties relating to these agreements in the amount of $117,000 and $95,000 at December 31, 1996 and 1995, respectively. Royalty expense relating to these agreements amounted to $261,000, $95,000 and $52,000 for the years ended December 31, 1996, 1995 and 1994, respectively. These agreements also have minimum raw material purchase requirements (see Note 12).

16. New Authoritative Pronouncements

Subsequent to year-end, the Financial Accounting Standards Board introduced SFAS No. 128 "Earnings per Share" and SFAS No. 129 "Disclosure of Information About Capital Structure". SFAS No. 128 revises and simplifies the computation of earnings per share and requires certain additional disclosures. SFAS No. 129 requires additional disclosure regarding the Company's capital structure. Both standards will be adopted in the fourth quarter of fiscal 1997. Management does not expect the adoption of these standards to have a material effect on the Company's financial position or results of operations.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders of QIAGEN N.V.:

We have audited the accompanying consolidated balance sheets of QIAGEN N.V. (a Netherlands company) and subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of QIAGEN N.V. and subsidiaries as of December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996 in conformity with generally accepted accounting principles.

(signature)

ARTHUR ANDERSEN LLP

Los Angeles, California
February 24, 1997

EXECUTIVE OFFICERS AND SUPERVISORY DIRECTORS

The supervisory directors, managing director and executive officers of the Company are as follows:

Executive Officers

Dr. Metin Colpan
Managing Director, Chief Executive Officer

Peer M. Schatz
Chief Financial Officer

Chairman of the Supervisory Board

Professor Dr. jur. Carsten P. Claussen(1) is a partner in the law firm of Hoffmann Liebs and Partner. He is a Chairman of the Board of Deinhard & Co. K.G. and Germania Epe AG and is a member of other boards.

Supervisor Directors

Peter Kaleschke(1)(2) is a Managing Partner of TVM Techno Venture Management.

Martijn Kleijwegt(1)(2) is a general partner of Euroventures Benelux.

Professor Dr. Detlev H. Riesner is Vice President of Research at the University of Düsseldorf, Germany.

Jochen Walter(2) is Managing Director of RBS GmbH & Co. KG the management company for S-Kapitalbeteiligungsgesellschaft Düsseldorf GmbH.

Dr. Franz A. Wirtz is Executive Director (Partner) of Grünenthal GmbH.

(1) Member of the Compensation Committee.
(2) Member of the Audit Committee.

Market Information

The Company's common stock has been traded on The Nasdaq Stock Market under the symbol QGENF since June 28, 1996. Prior to June 28, 1996, the Company's common stock was not publicly traded. The following table sets forth for the periods indicated the high and low sales price per share of the common stock as reported by The Nasdaq Stock Market.

1996:	High	Low
Second Quarter (from June 28, 1996)	15.125	15.125
Third Quarter	30.750	15.000
Fourth Quarter	31.250	23.625
1997:		
First Quarter	37.125	24.250

On March 14th, 1997, the last sale price for the Common Shares on The Nasdaq Stock Market was $33.250 per share.

As of January 31st, 1997, there were approximately 1,550 shareholders of record of the Company's common stock. The Company has not paid any dividends on its common stock since its inception and the Supervisory Board has indicated in various filings with the United States Securities and Exchange Commission that it does not intend to pay any dividends on its common stock in the foreseeable future. The Company intends to retain its earnings, if any, for the development of its business.

SEC Form 20-F

A copy of the Company's Annual Report on Form 20-F filed with the United States Securities and Exchange Commission is available without charge upon written request to:

Corporate Controller
QIAGEN N.V.
Spoorstraat 50
5911 KJ Venlo
The Netherlands
Phone (+31)-77-320-8400
Fax (+31)-77-320-8409

Dutch Annual Accounts

This Annual Report does not contain complete information related to the company's statutory accounts, which must be adopted at the Annual General Meeting of shareholders pursuant to Dutch law.
A copy of the Dutch statutory accounts can be obtained free of charge by contacting:

Corporate Controller
QIAGEN N.V.
Spoorstraat 50
5911 KJ Venlo
The Netherlands
Phone (+31)-77-320-8400
Fax (+31)-77-320-8409

STOCKHOLDER INFORMATION

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Arthur Andersen LLP
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Los Angeles, CA 90071

Counsel

MINTZ LEVIN COHN FERRIS GLOVSKY AND POPEO PC
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Boston, MA 02111

Registrar and Transfer Agent

American Stock Transfer & Trust Company
40 Wall Street
New York, NY 10005
Phone (212)-936-5100

Stockholder Inquiries

Communications concerning transfer requirements, lost certificates, and change of address should be directed to the transfer agent. All other inquiries should be directed to:

Investor Relations
QIAGEN N.V.
Spoorstraat 50
5911 KJ Venlo
The Netherlands
Phone (+31)-77-320-8400
Fax (+31)-77-320-8409

Annual Meeting

The Annual General Meeting of Stockholders will be held on Wednesday, June 25, 1997 at 3:00 PM at the offices of:

De Brauw Blackstone Westbroek
Advocaten & Notarissen
"Tripolis 300"
Burgerweeshuispad 301
1076 HR Amsterdam
The Netherlands

QIAGEN Around the World

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