QIAGEN N.V.

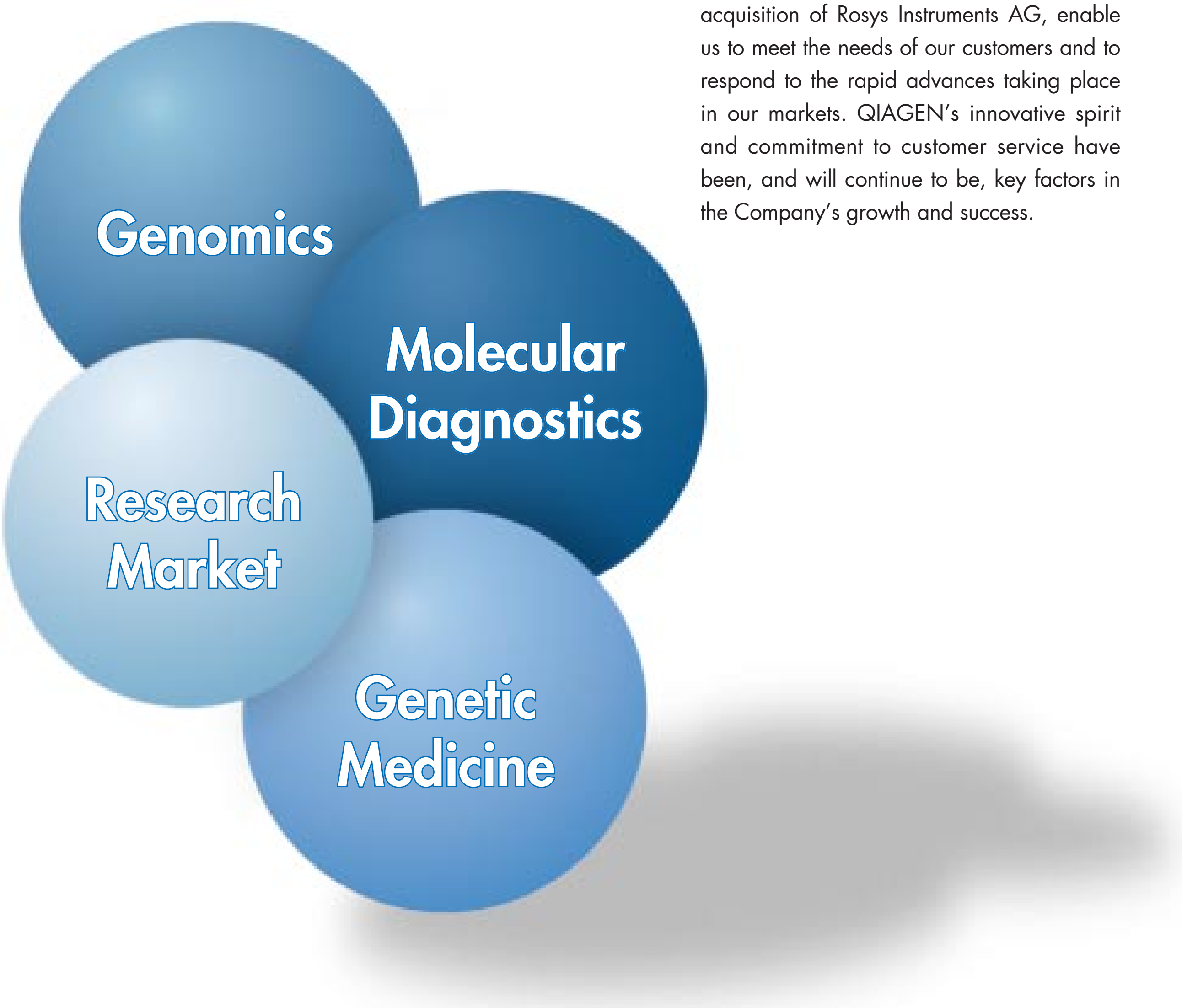
Annual Report 1998

QIAGEN

QIAGEN is the world's leading provider of innovative technologies for separating and purifying DNA and RNA — the genetic blueprints of life. Since 1986 QIAGEN has been successfully developing, producing, and marketing an ever expanding portfolio of proprietary products for academic, industrial, and clinical research.

As we approach the 21st century, the pace of genetic discovery is accelerating at an unprecedented rate — new genes are discovered almost daily, and new techniques to gather and analyze genetic information are revolutionizing fields such as medicine and agriculture. Technologies such as DNA sequencing, gene-chip analysis, and DNA- and RNA-based diagnostics are fueling advances in disease identification and prevention, targeted drug treatments, and effective management of infectious diseases. Key markets in the areas of genomics, molecular diagnostics, and gene therapy all share the crucial need to purify and analyze DNA and RNA and to increase productivity by automating laboratory processes.

QIAGEN is uniquely positioned to take advantage of the wealth of commercial opportunities presented by the biotech revolution. Our broad technology platform, talented and enthusiastic R&D team, and expertise in automation, boosted by the acquisition of Rosys Instruments AG, enable us to meet the needs of our customers and to respond to the rapid advances taking place in our markets. QIAGEN's innovative spirit and commitment to customer service have been, and will continue to be, key factors in the Company's growth and success.



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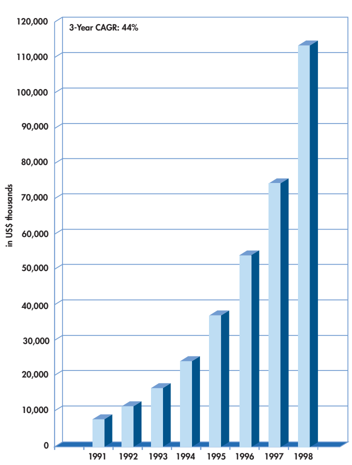
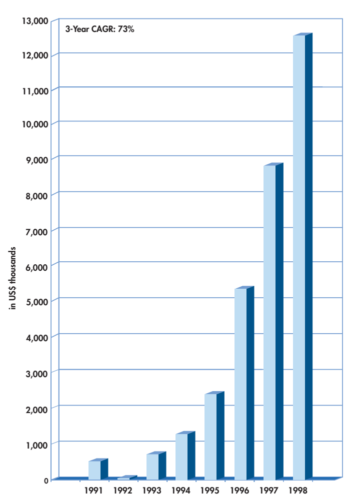
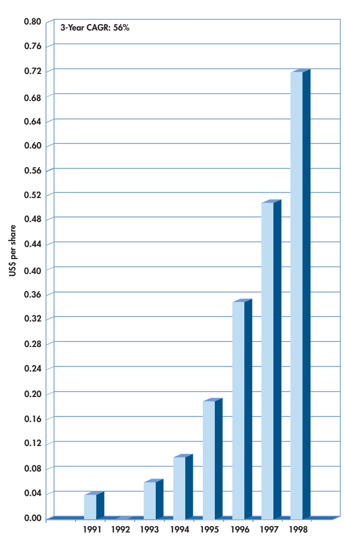
Net Sales



Net Income



Earnings per Share



QIAGEN Supervisory Board with
QIAGEN Management Board

From left to right, standing:
Mr. Peer M. Schatz; Dr. Franz A. Wirtz;
Mr. Erik Hornnaess; Prof. Dr. Detlev H. Riesner.

From left to right, sitting:
Mr. Jochen Walter; Prof. Dr. jur. Carsten P. Claussen;
Dr. Metin Colpan.

Dear Fellow Shareholders,

The QIAGEN Supervisory Board reviewed the activities of QIAGEN N.V. and its management continually throughout the financial year. Based on the information regularly supplied to the Supervisory Board by the Management Board at joint meetings and in both written and verbal reports, the Supervisory Board monitored the Company, focusing in particular on the growth and risks of the Company's business, its R&D investments, long-term strategy, investment budget, cooperation and acquisition opportunities, personnel issues in management and other important Company issues. In addition to participating in these regular meetings, the Chairman of the Supervisory Board was also informed about the Company's main business transactions in frequent discussions with the Management Board.

The QIAGEN Supervisory Board has created committees which focus on issues which it believes require more direct supervision, within the parameters of the report of the Netherlands Committee on Corporate Governance. The Company has formed the Audit and Compensation Committees which are composed of members of the Supervisory Board. Both of these Committees have fulfilled their legal and intended objectives.

The financial statements proposed by the Management Board are contained in this Annual Report and have been audited and reported on by Arthur Andersen LLP (Independent Public Accountants), and have been examined and approved by the Supervisory Board. We will recommend that our shareholders adopt these financial statements, including allocation of profits to retained earnings, at the Annual General Meeting.

QIAGEN N.V. is a limited liability company incorporated under the laws of the Netherlands. The common shares of the Company are registered and traded in the United States on the Nasdaq National Market, and are registered and traded in Germany on the Neuer Markt division of the Frankfurt Stock Exchange. We believe that the majority of our shares are held by shareholders in the United States and in Europe, in particular Germany. Thus, the Company, the Supervisory Board, and the Management Board are required to follow Dutch Corporation Law; U.S. Federal Securities Law and Regulations; and the laws of the German capital market, in particular the Börsengesetz and the Wertpapierhandelsgesetz.

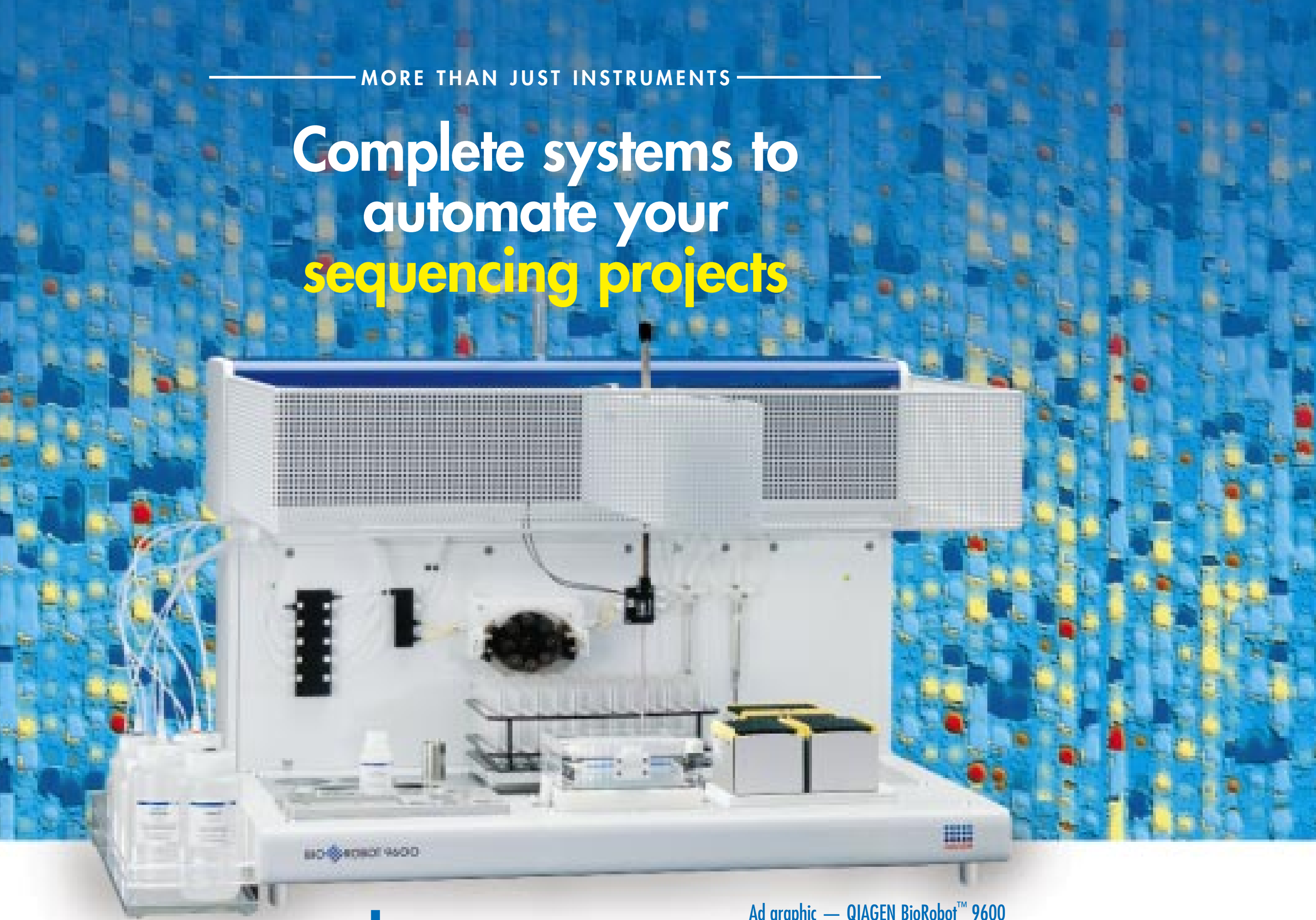
The Supervisory Board follows the principle of increasing shareholder value to further the interests of all shareholders and follows the practice of non-distribution of yearly net income. This practice is in keeping with the financial policies of relatively young, fast-growing companies in fields with significant growth potential in the years ahead. In addition, this policy is believed to be consistent with the preferences of our shareholders with regard to taxation.

The Supervisory Board has already reported on the recommendations of the Netherlands Committee on Corporate Governance in the 1997 Annual Report. No major changes occurred to our position regarding this evaluation during 1998.

The term of office of the Supervisory Board expires as of the close of the general meeting of shareholders of QIAGEN N.V. to be held on June 18, 1999. Mr. E. Hornnaess, Prof. Dr. D. Riesner, Mr. J. Walter and Dr. F. Wirtz will stand for re-election. Pursuant to Dutch corporate law, Prof. Dr. jur. C.P. Claussen, presently chairman of the Supervisory Board, cannot stand for re-election. The Supervisory Board and the Management Board have asked him to become an honorary special advisor to the Company. Because of his extensive knowledge and experience in the field of international management and his valuable contributions to the Company during his tenure on the Supervisory Board, the Supervisory Board believes it is desirable that the services of Prof. Claussen be available to the Supervisory Board and the Company, until the annual general meeting of shareholders of QIAGEN N.V. to be held in 2000.

The Supervisory Board proposes that the Managing Directors Dr. Metin Colpan, CEO, and Mr. Peer M. Schatz, CFO, be re-elected as members of the Management Board at the Annual General Meeting on 18 June 1999.

Hilden, Germany, April 1999
Prof. Dr. jur. Carsten P. Claussen
Chairman of the Supervisory Board



Ad graphic — QIAGEN BioRobot™ 9600

The BioRobot™ 9600 and BioRobot 9604 are designed to automate many of QIAGEN's proprietary nucleic acid separation and purification technologies. These instruments also perform liquid-handling tasks such as sequencing reaction setup and reaction cleanup, making them multipurpose laboratory workstations.

To Our Shareholders

We are pleased to tell you that 1998 was another successful year for QIAGEN, adding to our 13-year track record of achievements. In 1998, QIAGEN reported $110.2 million in net sales and $12.4 million in net income, representing growth over 1997 of 48% and 42%, respectively.

QIAGEN's successful growth stems from our dedication to developing innovative solutions to simplify daily laboratory tasks, and backing our products with first-class service and support. Our broad technology platform and talented R&D team are the cornerstones of our continually expanding product portfolio. In 1998 we introduced over 20 new products, including new technologies for PCR amplification, reverse transcription (RT), transfection, and protein purification and assay, as well as many additions to our extensive portfolio of DNA and RNA purification kits. In 1998, QIAGEN also made a significant leap forward into the molecular diagnostics market with the release of the BioRobot 9604, an instrument and consumable package for nucleic acid preparation from clinical samples. Our acquisition of Rosys Instruments AG has expanded our expertise in automation technologies, allowing us to focus with vigor on the growing opportunities presented by laboratory instrumentation markets.

The commitment of our workforce, which in 1998 reached 796 employees worldwide, is the key driving force behind the Company's success. Several senior sales and marketing personnel were appointed in 1998, bringing with them extensive experience from diverse backgrounds. In 1998, a successful new sales and marketing subsidiary was opened in Japan to tap into what the Company believes is up to 20% of the world's potential market for QIAGEN products. An additional achievement, announced early in 1999, was the granting of ISO 9001 and EN 46001 certification to QIAGEN in recognition of the quality assurance and quality management systems the Company implemented during the course of 1998.

QIAGEN believes the biotech revolution is just beginning, as genomic research explodes and biotech and pharmaceutical industries pump huge amounts of money into genomic-based diagnostics and therapeutics. Our leading position in the molecular biology research market is providing us with a strategic platform from which to take advantage of the growing commercial markets in DNA and RNA purification. We consider that the signing of a supply agreement with Abbott Laboratories, in which QIAGEN is to supply customized nucleic acid sample preparation products to this leader in clinical diagnostics, represents a significant opportunity for the Company in this expanding market.

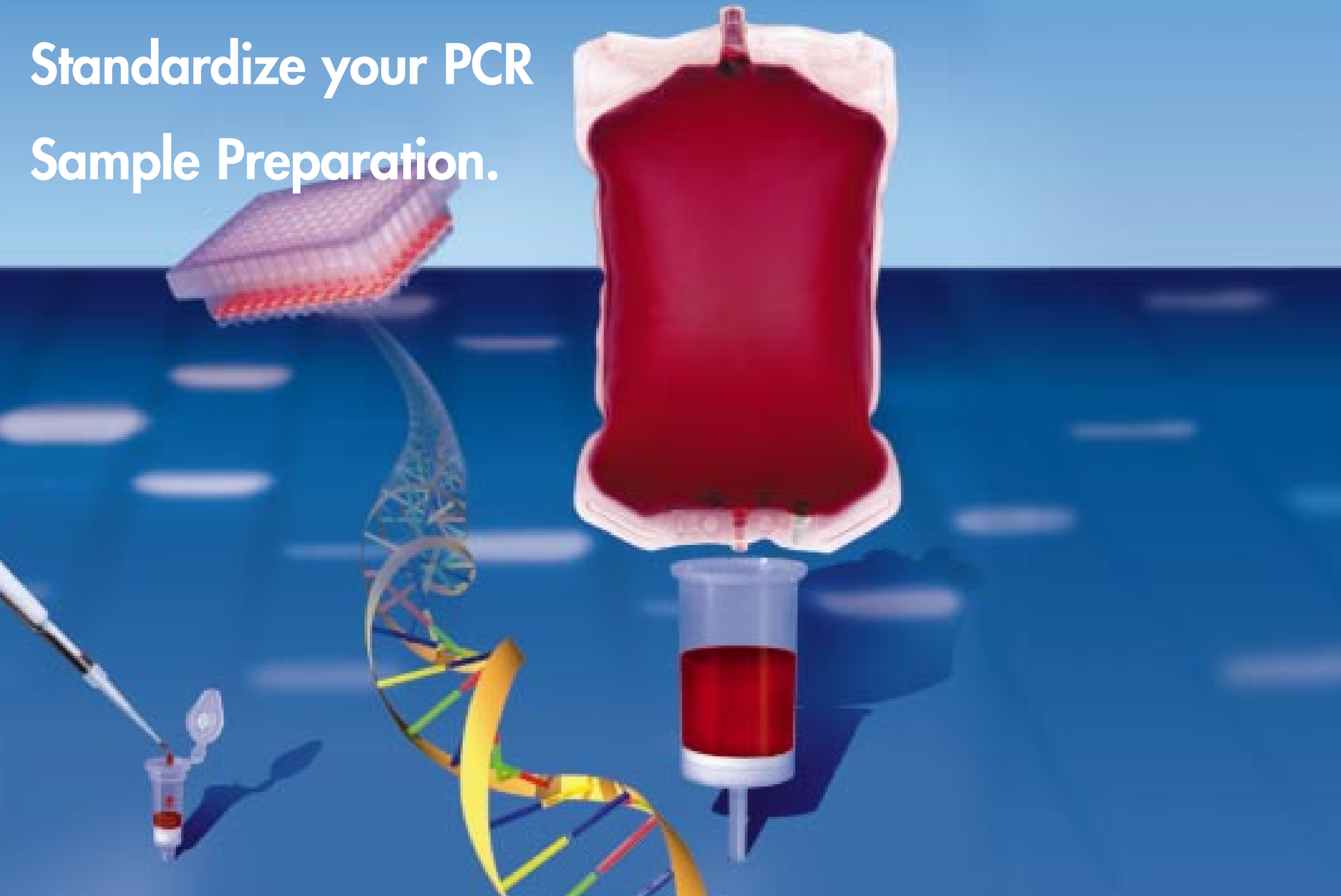
During the coming year we will continue to develop and supply innovative products for collecting, purifying, working with, and analyzing DNA and RNA. In this way we believe we are providing valuable fuel to drive the biotech revolution.

Pursuant to Dutch corporate law, the chairman of the supervisory board, Prof. Dr. Claussen, will unfortunately not stand for re-election this year. However, in recognition of his extensive knowledge of international management and his highly valuable contributions to our growth and success over the last 10 years, the Company's Supervisory and Management Boards have asked Prof. Claussen to be an honorary special advisor to QIAGEN. We are extremely pleased that Prof. Claussen has agreed to continue to make his expertise available to us.

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

Dr. Metin Colpan
Chief Executive Officer

Mr. Peer M. Schatz
Chief Financial Officer



Ad graphic — QIAamp® DNA Blood Kits

Safe and reliable isolation of DNA and RNA from blood samples is a key part of successful nucleic acid-based diagnostic procedures. QIAGEN offers a range of products for nucleic acid isolation from blood, provided in single tube and multiwell formats for use manually and for automated isolation on the new BioRobot 9604.

The Biotech Revolution — QIAGEN is helping it happen!

While the 20th century was the era of physics — from splitting the atom to computing on silicon chips — the biotech century, with all its promise, is now beginning. This biotech revolution is being driven by the rapid advances in molecular biology, and the strong belief that genetic information is the key to the future. Nucleic acids — DNA and RNA — are the heart of the biotech industry, and every day new companies are being formed to gather and use this gold mine of genetic information. As the world's leading supplier of products and technologies for the separation and purification of nucleic acids, QIAGEN is helping to fuel the biotech revolution and supporting it every step of the way.

A paradigm shift in drug development

In the past year we have seen huge investments in genomic research in the pharmaceutical industry, as the way that drugs are developed undergoes a paradigm shift. Pharmaceutical companies are identifying and studying the genes which play a role in diseases from Alzheimer's to yellow fever, and using that information to identify targets and pathways for drug design. Isolating and sequencing the nucleic acids and understanding their function is the cornerstone of this research. However, working with the DNA does not stop once a drug is developed. Screening the genetic sequences of patients may also tell doctors which drug will work best, and indicate potential adverse reactions.

The future of molecular diagnostics

Nucleic acid-based molecular diagnostics is also advancing rapidly as diagnostic companies race to the market with new tests. There are now hundreds of DNA probes for diseases and inherited disorders, and the number is growing daily. Many scientists speculate that these new DNA probes herald a new age for diagnostic medicine. Just as silicon chips allow computers to process millions of bits of data at one time, chips that incorporate DNA probes may someday be able to screen for thousands of genetic defects and diseases at one time. In the future, a doctor could take a blood sample and use DNA chip technology to identify the patient's genetic profile before suggesting a diagnosis or treatment. This approach is already being used in research laboratories where scientists are isolating RNA from patient blood samples and binding it to DNA chips to see which genes are turned on or off during disease progression and treatment.

Fixing the DNA itself

Knowing which genes are turned on or off during cancer and other diseases also opens the way for new biological therapies. Leading scientists believe that gene therapy, where DNA is used as the drug, is finally starting to approach some of the promise it held in the early 90s. Trials are underway to fix single gene disorders by delivering healthy DNA to cells, and more recent trials are exploring the insertion of DNA into cells to impart new functions, for example, injecting a gene for blood vessel growth directly into the heart.

The future is almost here

These examples are just a small part of the biotech revolution that is taking place around us. The list of exciting new applications and technologies based on DNA and RNA is almost endless, and we are now beginning to see existing strategies for prevention, diagnosis, and treatment of disease being replaced by these new, efficient methods. At QIAGEN, we are working closely with this burgeoning biotech industry to provide the reliable and simple solutions needed to purify and work with the DNA and RNA at the heart of its progress. We are proud that QIAGEN is helping to make it happen.

Ad graphic — SuperFect™ Transfection Reagent

Transfection — the introduction of foreign DNA into cells — is one of the most common ways of using purified plasmid DNA in molecular biology research. QIAGEN is leveraging its leadership in plasmid purification into a growing customer base for its two proprietary transfection technologies, SuperFect™ and Effectene™.

The QIAGEN strategy

At QIAGEN, we believe that reliable, efficient technologies for collecting, purifying, working with, and analyzing DNA and RNA are key factors in the success of the biotech revolution. It is our goal to provide the rapidly developing markets in molecular diagnostics, genetic medicine, and genomics and drug discovery with the best possible solutions for their needs, while expanding our leadership in the molecular biology research market.

Market and technology leadership

Molecular biology research is the birthplace of the new technologies and applications that make up the biotech industry. Our strong presence and expanding leadership in this growing market and our close links to leading researchers help us to keep abreast of new technologies and developments, and give us a head start in the new markets for DNA and RNA technologies as they develop. This strong position in the research market provides access to exciting new developments to further expand our broad technology platform. In 1998 we acquired several new technologies which we will use to expand our product range in the research market and to further support our growing customer base in the new biotech market places.

Expanding automation resources

Our acquisition of Rosys Instruments AG — considered to be a technology leader in the area of high-throughput liquid-handling instrumentation for the life sciences industry — offers increased support for our rapidly growing BioRobot product lines. The long history of close collaboration between Rosys and QIAGEN in the manufacture of our BioRobot product line, and the strong working relationship between both companies facilitated a smooth integration of the two operations. We believe that the combination of QIAGEN's technologies and products for the purification of nucleic acids with Rosys' leading-edge liquid-handling and robotic technology will provide unique integrated solutions designed to fulfill the needs of a growing pool of potential customers in the molecular biology research, genomics, and molecular diagnostics markets.

Supplying the key to reliable results

QIAGEN is working to establish itself as the main supplier of nucleic acid purification products to the leading companies in the diagnostic industry. We believe that our research strength and broad technology platform makes us the ideal partner for companies developing the next generation of diagnostic products. In October we announced an agreement with Abbott Laboratories to supply customized proprietary nucleic acid sample preparation products for use with Abbott's LCx probe-based diagnostic system. We believe this to be a significant validation of the QIAGEN technology and product base for use in nucleic acid-based molecular diagnostics, where reliable results are essential.

Launching new products and entering new markets

In 1998, QIAGEN brought over 20 new products to the market, including our first automated sample preparation system aimed at the molecular diagnostics market. The BioRobot 9604 is designed with the needs of customers in clinical laboratories in mind, and offers the sample tracking and safety features they demand. We also launched nine new separation and purification kits designed for the BioRobot 9600, which is mainly sold to the molecular biology research, genomics, and drug discovery markets. A proprietary technology for transfection, two unique enzymes for PCR and RT-PCR, magnetic bead-based purification technology, and a range of products for isolating nucleic acids from plants all contributed to expanding our leadership in the molecular biology research market.

Ad graphic — QIAprep® Spin Miniprep Kit

Plasmid DNA minipreps are one of QIAGEN's most successful product areas. We offer a wide range of miniprep products, each targeted to a specific market segment and designed to fill specific customer needs for purity, speed, throughput, price — or any combination of these attributes.

A history of successful growth

In 1998, QIAGEN continued to grow and build the strong infrastructure needed to execute our strategic plans for the future. We believe that the steps we are taking now will underpin our growth well into the next millennium.

Research and development

We continue to invest heavily in R&D and technology acquisitions to further expand our broad technology platform and product portfolio. Our new R&D building in Hilden added another 1090 m^2 (11,733 square feet) of lab space, and R&D personnel now represent over 18% of our worldwide headcount. In addition, our Business Development group expanded in 1998 to coordinate acquisition of several exciting new technologies.

Quality

In order to fully support the needs of our customers in the coming years, in 1998 QIAGEN employees designed and implemented a comprehensive quality management program which earned ISO 9001 and EN 46001 certification in early 1999. In addition to certification, we are in the process of implementing GMP procedures for production of certain products. We believe that our leading-edge products and technologies, coupled with the high-quality standards we apply to design, procurement, manufacturing, and distribution, create a strong platform for continued growth, particularly in the fields of molecular diagnostics and genetic medicine.

Sales and marketing

Excellence in sales and marketing is, we believe, a strong contributor to our growth and success. We have added several senior sales and marketing personnel in the past year, and in January 1998 opened QIAGEN K.K. in Japan. Japan is believed to be the second largest life science market in the world, after the United States. QIAGEN K.K. surpassed first year revenue targets in 1998, and we believe that our new Japanese catalog and targeted marketing efforts will continue to provide positive results in the coming years.

People

QIAGEN's success is based on the commitment and creativity of our international team of employees, who numbered 796 worldwide at the end of 1998. Each and every employee shares in our success through our Employee Stock Option Program, and participates in ongoing training both in house and externally. During 1998, we added over 4000 m^2 (43,056 square feet) of new office, warehousing, and production space in Hilden and other locations to provide all employees with a working environment where creativity and innovation can flourish.

We believe that QIAGEN's success will continue to increase as we expand our penetration of the exciting new biotechnology markets, and that these investments — in our product pipeline, our quality practices, our commercial activities, and most importantly, our people — are laying strong foundations for future growth and success.

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Selected Consolidated Financial Data

(amounts in thousands, except per share data)

The information below should be read in conjunction with the consolidated financial statements (and notes thereon) and "Management's Discussion and Analysis."

	Year Ended December 31,				
	1998	1997	1996	1995	1994
Consolidated Statement of Income Data:					
Net sales	**$ 110,248**	$ 74,274	$ 54,157	$ 36,992	$ 24,115
Cost of sales	**32,769**	20,069	14,669	9,550	7,288
Gross profit	**77,479**	54,205	39,488	27,442	16,827
Operating Expenses:					
Research and development	**12,844**	8,264	6,490	4,414	2,758
Sales and marketing	**31,672**	22,580	16,034	9,369	5,323
General and administrative	**18,295**	15,102	10,985	8,981	5,281
Total operating expenses	**62,811**	45,946	33,509	22,764	13,362
Income from operations	**14,668**	8,259	5,979	4,678	3,465
Other income (expense), net	**3,019**	5,237	2,682	(153)	(525)
Income before provision for income taxes and minority interest	**17,687**	13,496	8,661	4,525	2,940
Provision for income taxes	**5,105**	4,764	3,331	2,130	1,656
Minority interest	**148**	(31)	–	–	–
Net income	**$ 12,434**	$ 8,763	$ 5,330	$ 2,395	$ 1,284
Basic net income per common share [1]	**$ 0.73**	$ 0.52	$ 0.35	$ 0.19	$ 0.10
Diluted net income per common share [1]	**$ 0.72**	$ 0.51	$ 0.35	$ 0.19	$ 0.10
Weighted average number of common shares used to compute basic net income per common share	**17,063**	16,760	15,108	12,877	12,508
Weighted average number of common shares used to compute diluted net income per common share	**17,257**	17,051	15,340	12,877	12,508

	December 31,				
	1998	1997	1996	1995	1994
Consolidated Balance Sheet Data:					
Cash and cash equivalents	**$ 6,343**	$ 4,298	$ 1,975	$ 5,305	$ 3,612
Working capital	**$ 46,129**	$ 38,672	$ 35,829	$ 9,920	$ 8,303
Total assets	**$ 106,694**	$ 78,928	$ 66,190	$ 26,203	$ 19,450
Total long-term liabilities, including current portion	**$ 7,065**	$ 6,484	$ 7,108	$ 7,800	$ 7,279
Total shareholders' equity	**$ 73,041**	$ 53,951	$ 47,696	$ 12,208	$ 9,120

[1] *Computed on the basis described for net income per common share in Note 3 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 management expectations, and actual results may differ materially. Among the factors which could cause actual results to differ from management's expectations are those described in "Business Factors" below.

Overview

QIAGEN N.V. (the Company) 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.

The Company had a strong financial performance in 1998 continuing the past trends of significant growth. Since 1994 the Company has had compound annual growth of approximately 46% in net sales and 76% in net income. To date, the Company has funded its growth through internally generated funds, debt, the private sale of equity and through proceeds from the sale of securities to the public. In 1998, the Company recorded $12.4 million of net income on $110.2 million of net sales.

Two significant events that affected the Company's results of operations and financial position during the year were the successful launch of a new distribution subsidiary in Tokyo, Japan in January 1998, and the acquisition of Rosys Instruments AG (Rosys) in May 1998.

Rosys, a Swiss corporation, was acquired in a transaction that was accounted for as a pooling of interests. Rosys, founded in 1990, develops, produces and markets high throughput liquid handling instrumentation. Rosys has been an OEM supplier of instrumentation products and robotics technologies for QIAGEN's BioRobot product lines since 1994. The Company believes that the acquisition of Rosys will help QIAGEN increase its leadership in the automated nucleic acid purification field, particularly in the genomics and molecular diagnostics areas.

Results of Operations

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

	1998	1997	1996
Net sales	**100.0%**	100.0%	100.0%
Cost of sales	**29.7**	27.0	27.1
Gross profit	**70.3**	73.0	72.9
Operating expenses:			
Research and development	**11.7**	11.1	12.0
Sales and marketing	**28.7**	30.4	29.6
General and administrative	**16.6**	20.4	20.3
Total operating expenses	**57.0**	61.9	61.9
Income from operations	**13.3**	11.1	11.0
Other income	**2.7**	7.1	5.0
Income before provision for income taxes and minority interest	**16.0**	18.2	16.0
Provision for income taxes	**4.6**	6.4	6.2
Minority interest	**0.1**	–	–
Net income	**11.3**%	11.8%	9.8%

Fiscal Year Ended December 31, 1998 compared to 1997

Net Sales. Net sales increased 48% (or $36.0 million) to $110.2 million in 1998 compared to $74.3 million in 1997. Net sales in the United States increased 33% (or $14.1 million) to $57.4 million in 1998 from $43.3 million in 1997, and net sales outside the United States increased 70% (or $21.8 million) to $52.8 million in 1998 compared to $31.0 million in 1997. The increase in net sales in the United States was primarily driven by increased unit sales of consumable and instrumentation products. In addition to increased unit sales, increased net sales outside the United States also reflect the results of the Company's Japanese subsidiary, QIAGEN K.K., which began operations in January 1998. During 1998, QIAGEN K.K. contributed approximately $7.7 million to consolidated net sales. Further, the acquisition of Rosys Instruments AG (Rosys) in May 1998 contributed $7.8 million to the increase in net sales for 1998 compared to 1997. A material portion of the Company's sales continue to be attributable to the Company's range of products designed for large-scale plasmid DNA applications. While the Company generated increased sales of these products in 1998, QIAGEN expects a slower rate of sales growth for such products as their market matures. The Company continually introduces new products in order to extend the life of its existing product lines as well as to address new market opportunities. In 1998, the Company introduced more than 20 new products. The Company also experienced significant growth in unit sales of its instrumentation products in 1998. In 1998, the German mark, as measured by the average exchange rate for the year, depreciated against the U.S. dollar by 1.4% as compared to 1997. If the same rates used for 1997 were applied to 1998, net sales in 1998 would have been higher, and the growth of net sales would have exceeded the percentage calculated in reported net sales. See "Currency Fluctuations".

Gross Profit. Gross profit increased 43% to $77.5 million (70.3% of net sales) in 1998 from $54.2 million (73% of net sales) in 1997. The absolute dollar increase in gross profit is attributable to the increase in net sales. The decrease in gross profit as a percentage of net sales primarily reflects the acquisition of Rosys. The instrumentation products developed, produced and distributed by Rosys provide a lower gross profit. Excluding Rosys, the Company's gross profit would have been $73.2 million or 71.4% of net sales. The Company anticipates that the sale of Rosys products will continue to affect gross profit in 1999. The decrease in gross profit is also the result of higher licensing fees associated with some of the Company's newer products. Further, increased sales of instrumentation products, such as the QIAGEN BioRobot, also contributed to the lower gross margin percentage, as they carry a lower gross margin than the Company's consumable products. Following the August 1998 introduction of the QIAGEN BioRobot 96O4, designed for clinical laboratory use, the Company anticipates future increases in sales of instrumentation products.

Research and Development. Research and development expenses increased 55% to $12.8 million (11.7% of net sales) in 1998 from $8.3 million (11.1% of net sales) in 1997. The increased research and development expenditures reflects the Company's focus on discovering and developing new products and technologies to be used in the separation and purification of nucleic acids. These research and development costs primarily represent the personnel costs related to retaining employees for research and development efforts. At December 31, 1998, there were 145 employees dedicated to research and development activities, compared to 126 employees at December 31, 1997 (an increase of 15%). During the first quarter of 1999, construction was completed on a new research and development facility. The Company leases the facility, which carries a higher leasing cost than the former facility. The Company remains committed to these research and development efforts and anticipates that research and development expenses will continue to increase.

Sales and Marketing. Sales and marketing expenses increased 40% to $31.7 million (28.7% of net sales) in 1998 from $22.6 million (30.4% of net sales) in 1997. The increase in sales and marketing expenses reflects the Company's planned expansion of its sales force and advertising efforts in connection with the sale of its existing products and the introduction of new products. Such efforts contributed to the Company's growth in net sales during 1998. Increased sales and marketing costs are primarily associated with personnel, commissions, advertising, publications and other promotional items. Further, the sales and marketing expenses from the Company's Japanese subsidiary, which began operations in January 1998, contributed to the overall increase compared to 1997. As a percentage of net sales, sales and marketing expenses decreased, reflecting the Company's increasing economies of scale in this area.

General and Administrative. General and administrative expenses increased 21% to $18.3 million (16.6% of net sales) in 1998 from $15.1 million (20.3% of net sales) in 1997. The increase in general and administrative expenses is partially due to the acquisition of Rosys which contributed approximately $1.4 million to total consolidated general and administrative expenses. The Company's other subsidiaries experienced increased general and administrative costs related to growth of the Company's administrative infrastructure to accommodate increased sales. As a percentage of net sales, general and administrative costs decreased, representing economies of scale.

Other Income (Expense). Other income (expense) decreased to $3.0 million in 1998 compared to $5.2 million in 1997. The decrease was mainly attributable to decreased gains on foreign currency transactions, decreased interest income, decreased research and development grant income and increased interest expense.

Interest income decreased slightly to $1.6 million in 1998 from $1.7 million in 1997. Interest income is derived primarily from the Company's investment of funds, including primarily funds raised in its June 1996 public offering of stock, in investment grade, interest bearing marketable securities. At December 31, 1998, investments in marketable securities totaled $23.8 million.

Interest expense increased to $1.0 million in 1998 compared to $716,000 in 1997. The increase is partially due to increased interest expense on the Company's short-term borrowings. Short-term borrowings increased to approximately $6.8 million at December 31, 1998, from $2.3 million at December 31, 1997. These borrowings were used primarily for payment of the purchase price on a parcel of land purchased in February 1998.

Research and development grant income decreased slightly to $1.8 million in 1998 from $2.0 million in 1997. Research and development income came from German state and federal government grants as most of the Company's research and development activities are conducted in Germany. The Company anticipates continuing to apply for research and development grants in the future.

Income from foreign currency transactions decreased $1.9 million to $575,000 in 1998 compared to $2.5 million in 1997. Income from foreign currency transactions reflects net effects from conducting business in currencies other than the U.S. dollar. While the increase in value of the U.S. dollar had a negative effect on net sales translated from German marks and other currencies 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. See "Currency Fluctuations."

Other miscellaneous income (expense) increased to income of $79,000 in 1998 from expenses of $180,000 in 1997.

Provision for Income Taxes. The Company's effective tax rate decreased to 29% in 1998 from 35% in 1997. The decrease is primarily due to certain realized tax benefits which lowered taxable income for several of the Company's foreign subsidiaries.

Minority Interest. The Company has a 60 percent interest in its Japanese subsidiary, QIAGEN K.K. and a 50 percent interest in Rosys Instruments, Inc. (Rosys, Inc.), a subsidiary of Rosys. The financial position and results of operations of these subsidiaries are included in the Company's consolidated financial statements. The Company's minority interest in income of QIAGEN K.K. and Rosys, Inc. increased to $148,000 in 1998 from a loss of $31,000 in 1997, as shown in the consolidated statements of income. The increase the Company's minority interest is primarily a result of QIAGEN K.K.'s beginning operations in January 1998.

Fiscal Year Ended December 31, 1997 compared to 1996

Net Sales. Net sales increased 37% (or $20.1 million) to $74.3 million in 1997 from 54.2 million in 1996. Net sales in the United States increased 37% (or $11.8 million) to $43.3 million in fiscal 1997 from $31.5 million in 1996, and net sales outside the United States increased 37% to $31.0 million in fiscal 1997 from $22.7 million for 1996. The overall increase in net sales was primarily attributable to increases in unit sales, as price increases have been approximately in line with inflation. The increase in net sales reflects new product introductions, as well as strong growth across the Company's existing product lines. A material portion of the Company's sales continues to be attributable to the Company's range of products designed for plasmid DNA applications. While still contributing less than 10% of net sales due to their recent introduction, the Company's instrumentation products reflected significant growth in 1997. In 1997, the German mark, as measured by the average exchange rate for the year, depreciated against the U.S. dollar by 13% as compared to 1996. If the same rates used for 1996 were applied to 1997, net sales in 1997 would have been higher, and the growth of net sales would have exceeded the percentage calculated in reported net sales. See "Currency Fluctuations."

Gross Profit. The Company's gross profit increased from $39.5 million (73% of net sales) in 1996 to $54.2 million (73% of net sales) in 1997. The absolute dollar increase in gross profit was primarily due to increased unit sales. Gross profit as a percentage of sales remained constant for 1997 and 1996, as increases in gross margin due to economies of scale during 1997 were partially offset by increased sales of BioRobot instruments which carry lower gross margins. The Company continued to increase its production capacity by adding, among other things, personnel, automated equipment, and production and warehouse space, in order to accommodate its expanding sales. In September, the Company increased its production capacity by adding approximately 5,000 square meters (approximately 54,000 square feet) of production facilities pursuant to a three-year lease with various options to extend this period. The Company believes that the expansion in its production capacity will increase its production efficiency in the future.

Research and Development. Research and development expenses increased 27% from $6.5 million (12% of net sales) in 1996 to $8.3 million (11% of net sales) in 1997. The increase in research and development expenses resulted primarily from greater personnel expenses, as the Company continued the expansion of its product development capabilities, with particular emphasis on products and technologies for developing commercial markets. The Company has a strong commitment to research and development and expects its expenses in this area to continue to increase significantly. As of December 31, 1997, the Company had 126 employees engaged in research and development efforts.

Sales and Marketing. Sales and marketing expenses increased 41% from $16.0 million (29.6% of net sales) in 1996 to $22.6 million (30.4% of net sales) in 1997. The increase was associated with increased volume in unit sales, including expenditures for additional personnel, commissions, promotions, publications and advertising. A portion of the increase in these expenses as a percentage of sales was associated with the establishment of marketing and sales subsidiaries in Japan and Canada. In addition, the Company had the French and Australian operations for the full year in 1997, as compared to operating less than 12 months in 1996, since these operations were established in the second half of 1996. In 1997, the Company also launched approximately 18 new products that it supported with marketing efforts which increased expenses in marketing and sales.

General and Administrative. General and administrative expenses increased 37% from $11.0 million (20% of net sales) in 1996 to $15.1 million (20% of net sales) in 1997. The increase in general and administrative expenses was primarily due to the expansion of the Company's administrative infrastructure to accommodate sales growth and international expansion.

Other Income (Expense). Other income (expense) increased from $2.7 million in 1996 to $5.2 million in 1997. This increase was mainly due to increases in income from foreign currency transactions, interest income and research and development grant income, offset by an increase in interest and other expense.

Income from foreign currency transactions increased from $1.0 million in 1996 to $2.5 million in 1997. Income from foreign currency transactions reflects net effects from conducting business in currencies other than the U.S. dollar. While the increase in value of the U.S. dollar had a negative effect on net sales translated from German marks and other currencies 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. See "Currency Fluctuations."

Interest income increased from $1.0 million in 1996 to $1.7 million in 1997. This increase reflects interest income earned on funds, primarily from the Company's June 1996 public offering of stock, that the Company is currently investing in investment grade, interest-bearing securities. As of December 31, 1997, the Company had approximately $26 million invested in such securities.

Research and development grant income from European as well as German state and federal government grants increased from $1.3 million in 1996 to $2.0 million in 1997. The Company's research and development activities are currently principally carried out in Germany. The Company expects to continue to apply for such research and development grants in the future. Other expense increased from $88,000 in 1996 to $180,000 in 1997.

Provision for Income Taxes. The Company's effective tax rate decreased from 38% in 1996 to 35% in 1997. This decrease is mainly due to the increase in income of the Company's subsidiaries in Switzerland and the United Kingdom, as well as to effects following the Company's April 1996 reorganization in which QIAGEN N.V. was formed as a Dutch holding company.

Currency Hedging

In the ordinary course of business, the Company purchases foreign currency exchange option contracts to manage potential losses from foreign currency exposures. These contracts give the Company the right, but not the requirement, to sell foreign currencies in exchange for U.S. dollars at predetermined exchange rates. The principle objective of such contracts is to minimize the risks and/or costs associated with global financial and operating activities. The Company does not utilize financial instruments for trading or other speculative purposes.

Liquidity and Capital Resources

To date, the Company has funded its business primarily through internally generated funds, debt and the private and public sales of equity. For the year ended December 31, 1998 and 1997 , the Company generated net cash from operating activities of approximately $11.6 million and $8.5 million, respectively. Cash provided by operating activities increased in 1998 over the prior year primarily due to increased net income before depreciation and amortization.

Cash used in investing activities increased to $12.0 million in 1998 compared to $5.9 million in 1997. This increase was mainly due to purchases of property and equipment in connection with the expansion of the Company's German research and development facility. Construction of the facility was completed during the first quarter of 1999.

Financing activities provided $1.8 million in cash in 1998, a decrease from the $3.2 million provided in 1997. In 1998 the Company increased its short-term borrowing while decreasing amounts borrowed against its lines of credit to take advantage of more favorable interest rates. In addition to the higher borrowing against the lines of credit in 1997 compared to 1998, cash provided by financing activities for 1997 include proceeds collected from shareholder loans.

As of December 31, 1998 and 1997, the Company had cash and cash equivalents of approximately $6.3 million and $4.3 million, respectively, and working capital of approximately $46.1 million and $38.7 million, respectively. As of December 31, 1998, the Company had marketable securities of approximately $23.8 million, which were purchased in part with proceeds from the Company's June 1996 initial public offering. The Company has credit lines totaling approximately $6.3 million, of which approximately $5.2 million was available as of December 31, 1998. The Company also carries $562,000 of long-term debt which consists primarily of a note payable, due in December 2000, at an interest rate subsidized by a German government-related institution.

The Company believes that funds from operations, together with the proceeds from its public and private sales of equity, and uses of financing as needed, will be sufficient to finance its normal operating requirements during the coming year.

Currency Fluctuations

The Company operates on an international basis. A significant portion of its revenues and expenses are incurred in currencies other than the U.S. dollar. The German mark is the most significant such currency, with others including the British pound, Japanese yen, French franc, Swiss franc and Canadian and Australian 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 U.S. dollar translations of such currencies to vary from one period to another. Due to the number of currencies involved, the constantly changing currency exposures, and the potential substantial volatility of currency exchange rates, the Company cannot predict the effect of exchange rate fluctuations upon future operating results. However, because the Company has substantial expenses as well as revenues in each of its principal functional currencies, the exposure of its financial results to currency fluctuations is reduced. The Company seeks to mitigate what it believes to be a significant portion of the remaining risk through hedging transactions. In general terms, appreciation of the U.S. dollar against the Company's other foreign currencies, such as occurred in 1997 and 1998 with respect to the German mark, will decrease reported net sales, and vice versa. However, this impact normally will be at least partially offset in results of operations by gains or losses from foreign currency transactions.

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 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. The net gain on foreign currency transactions for 1998, 1997 and 1996, was $575,000, $2.5 million and $993,000, respectively, and is included in other income.

Year 2000 Compliance

The Year 2000 Issue refers to potential problems with computer systems or any equipment with computer chips or software that use dates where the date has been stored as just two digits (e.g., 97 for 1997). On January 1, 2000, any clock or date recording mechanism incorporating the date sensitive software that uses only two digits to represent the year may recognize a date using 00 as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruption of operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in similar business activities. To address the Year 2000 Issue, the Company has implemented a program with respect to its information technology (IT) systems, non-IT systems, and external suppliers of goods and services.

The Company believes that its primary IT system (SAP R/3) is Year 2000 compliant, based on written representation and limited internal testing. A comprehensive program is in place to remediate potential Year 2000 Issues in other purchased software and hardware, as well as non-IT systems. The program is divided into four phases:

1. complete inventory of IT and non-IT systems that may be sensitive to the Year 2000 Issue
2. assessment of systems to determine Year 2000 compliance
3. remediate non-compliant systems by repair or replacement
4. testing of remediated systems

The inventory, assessment and remediation phases were completed during the fourth quarter of 1998. Testing, the final phase, has begun and is anticipated to be completed by the end of the second quarter in 1999.

The Company is continuing the process of contacting its major suppliers, customers, financial institutions, parcel delivery services, telecommunication and utility providers, and other third parties with which it does business in an effort to determine the extent to which the Company may be vulnerable to those parties' failure to timely correct their own Year 2000 problems. To date, the Company is not aware of any situations of noncompliance that would materially adversely affect its operations or financial condition. There can be no assurance, however, that instances of noncompliance which could have a material adverse effect on the Company's operations or financial condition will be identified; that the systems of other companies with which the Company transacts business will be corrected on a timely basis; or that a failure by such entities to correct a Year 2000 problem or a correction which is incompatible with the Company's information systems would not have a material adverse effect on the Company's operations or financial condition.

In addressing Year 2000 Issues, the Company estimates the total incremental costs will be approximately $200,000. The total cost estimate includes costs related to modifying software, replacing non-compliant hardware and software, external consultant fees and internal personnel costs. The estimated costs are based on management's current assessment and could change as the testing phase progresses. Further, the total estimated costs are based on assumptions of future events such as the availability of resources and third party modification plans. Hence, there can be no assurance that actual costs incurred will not be materially different.

Although the Company believes that its primary IT system correctly defines the year 2000, prudent business practices call for the development of contingency plans. The Company's contingency plans will include strategies for dealing with Year 2000-related system failures or malfunctions due to the Company's internal systems or from external parties. The Company's most reasonably likely worst case scenario of a Year 2000 system failure, either internal or that of an external provider, could prevent the Company from being able to manufacture its products and to process and ship customer orders, or could disrupt financial and management controls and reporting systems. The Company expects to complete its contingency plans by July 1999.

The Company does not expect the Year 2000 issue to have a material adverse effect on its results of operation or financial position; however, if not effectively remediated, negative effects from Year 2000 Issues, including those related to internal systems, vendors, business partners, or customers, could have a material adverse effect on the Company's operations or financial condition.

New European Currency

On January 1, 1999, several member countries of the European Union adopted the euro as the common legal currency. The conversion rates between the existing sovereign currencies (the legacy currencies) and the euro were fixed on that date. During the three-year transition period, the legacy currencies as well as the euro will be acceptable as legal tender. The Company has wholly-owned subsidiaries located in several of the participating countries.

The adoption of the euro may create technical as well as strategic challenges. The Company has been preparing for the introduction of the euro by assessing its information systems requirements. Further, the Company is in the process of developing and implementing solutions to address other issues presented by the introduction of the euro, such as the impact on currency risk, derivatives and other financial instruments; events of noncompliance by third parties; and implications on pricing and marketing strategies. The cost of these efforts is not expected to be material.

Because of the numerous uncertainties associated with the euro conversion, there can be no assurance that all problems will be foreseen and corrected or that the conversion to the euro will not have a material impact on the Company's operations or financial condition. Additionally, the competitive impact from the introduction of the euro is not known at this time.

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 and to develop and introduce new products, (iii) the size, nature and development of the Company's markets and potential markets, (iv) the Company's ability to penetrate and expand these markets and trends in the demand for the Company's existing and new products, (v) the Company's ability to increase its production efficiency as a result of expansion in its production capacity and to manage growth and its international operations, (vi) variability of operating results and (vii) the Company's liquidity (including the effects of currency fluctuations). 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. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 1998	December 31, 1997
Assets		
Current Assets:		
Cash and cash equivalents	**$ 6,343,000**	$ 4,298,000
Marketable securities	**23,783,000**	25,831,000
Notes receivable	**892,000**	–
Accounts receivable, net of allowance for doubtful accounts of $869,000 and $630,000 in 1998 and 1997, respectively	**16,986,000**	10,433,000
Income taxes receivable	**160,000**	–
Inventories	**19,931,000**	14,569,000
Prepaid expenses and other	**2,986,000**	2,280,000
Deferred income taxes, net	**3,072,000**	1,088,000
Total current assets	**74,153,000**	58,499,000
Property, plant and equipment, net	**26,420,000**	17,766,000
Intangible assets	**4,591,000**	1,812,000
Other assets	**1,530,000**	851,000
	$ 106,694,000	$ 78,928,000

The accompanying notes are an integral part of these consolidated balance sheets.

QIAGEN N.V. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 1998	1997
Liabilities and Shareholders' Equity		
Current Liabilities:		
Lines of credit	**$ 720,000**	$ 1,677,000
Short-term debt	**6,802,000**	2,306,000
Current portion of long-term debt	**279,000**	255,000
Current portion of capital lease obligations	**1,277,000**	1,079,000
Accounts payable	**9,190,000**	6,652,000
Accrued liabilities	**6,987,000**	5,111,000
Income taxes payable	**2,769,000**	2,747,000
Total current liabilities	**28,024,000**	19,827,000
Long-Term Liabilities:		
Long-term debt, net of current portion	**283,000**	509,000
Capital lease obligations, net of current portion	**5,046,000**	4,504,000
Other	**180,000**	137,000
Total long-term liabilities	**5,509,000**	5,150,000
Minority interest in consolidated subsidiaries	**120,000**	–
Commitments and Contingencies (Note 14)		
Shareholders' Equity:		
Common shares, NLG .03 par value: Authorized–32,500,000 shares Issued and outstanding–17,084,523 shares in 1998 and 16,777,392 shares in 1997	**298,000**	294,000
Additional paid-in capital	**49,303,000**	41,574,000
Retained earnings	**25,841,000**	16,558,000
Accumulated other comprehensive income	**(2,401,000)**	(4,475,000)
Total shareholders' equity	**73,041,000**	53,951,000
	$ 106,694,000	$ 78,928,000

The accompanying notes are an integral part of these consolidated balance sheets.

QIAGEN N.V. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	1998	1997	1996
Net sales	**$ 110,248,000**	$ 74,274,000	$ 54,157,000
Cost of sales	**32,769,000**	20,069,000	14,669,000
Gross profit	**77,479,000**	54,205,000	39,488,000
Operating Expenses:			
Research and development	**12,844,000**	8,264,000	6,490,000
Sales and marketing	**31,672,000**	22,580,000	16,034,000
General and administrative	**18,295,000**	15,102,000	10,985,000
Total operating expenses	**62,811,000**	45,946,000	33,509,000
Income from operations	**14,668,000**	8,259,000	5,979,000
Other Income (Expense):			
Interest income	**1,575,000**	1,651,000	1,012,000
Interest expense	**(1,021,000)**	(716,000)	(574,000)
Research and development grants	**1,811,000**	1,990,000	1,339,000
Gain on foreign currency transactions, net	**575,000**	2,492,000	993,000
Other miscellaneous income (expense), net	**79,000**	(180,000)	(88,000)
Total other income (expense)	**3,019,000**	5,237,000	2,682,000
Income before provision for income taxes and minority interest	**17,687,000**	13,496,000	8,661,000
Provision for income taxes	**5,105,000**	4,764,000	3,331,000
Minority interest	**148,000**	(31,000)	–
Net income	**$ 12,434,000**	$ 8,763,000	$ 5,330,000
Basic net income per common share	**$ 0.73**	$ 0.52	$ 0.35
Diluted net income per common share	**$ 0.72**	$ 0.51	$ 0.35

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

QIAGEN N.V. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Shares Shares	Common Shares Amount	Additional Paid-In Capital	Retained Earnings	Notes Receivable from Sale of Shares	Accumulated Other Comprehensive Income	Total
BALANCE AT DECEMBER 31, 1995	**12,876,667**	**$ 225,000**	**$ 7,502,000**	**$ 2,465,000**	**$ –**	**$ 2,016,000**	**$ 12,208,000**
Net income	–	–	–	5,330,000	–	–	5,330,000
Translation adjustment	–	–	–	–	–	(1,322,000)	(1,322,000)
Comprehensive income	–	–	–	–	–	–	4,008,000
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
BALANCE AT DECEMBER 31, 1996	**16,740,500**	**293,000**	**40,643,000**	**7,795,000**	**(1,729,000)**	**694,000**	**47,696,000**
Net income	–	–	–	8,763,000	–	–	8,763,000
Translation adjustment	–	–	–	–	–	(5,169,000)	(5,169,000)
Comprehensive income	–	–	–	–	–	–	3,594,000
Shares issued in exchange for patents	1,000	–	32,000	–	–	–	32,000
Exercise of stock options	35,892	1,000	748,000	–	–	–	749,000
Repayment of notes receivable from sale of shares	–	–	–	–	1,729,000	–	1,729,000
Tax benefit in connection with nonqualified stock options	–	–	151,000	–	–	–	151,000
BALANCE AT DECEMBER 31, 1997	**16,777,392**	**294,000**	**41,574,000**	**16,558,000**	**–**	**(4,475,000)**	**53,951,000**
Net income	–	–	–	12,434,000	–	–	12,434,000
Unrealized loss on marketable securities	–	–	–	–	–	(160,000)	(160,000)
Translation adjustment	–	–	–	–	–	2,234,000	2,234,000
Comprehensive income	–	–	–	–	–	–	14,508,000
Exercise of stock options	57,511	1,000	934,000	–	–	–	935,000
Acquisition of Rosys AG	249,620	3,000	4,002,000	(3,151,000)	–	–	854,000
Tax benefit in connection with nonqualified stock options	–	–	2,793,000	–	–	–	2,793,000
BALANCE AT DECEMBER 31, 1998	**17,084,523**	**$ 298,000**	**$ 49,303,000**	**$ 25,841,000**	**$ –**	**$ (2,401,000)**	**$ 73,041,000**

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

QIAGEN N.V. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	1998	1997	1996
Cash Flows from Operating Activities			
Net income	**$ 12,434,000**	$ 8,763,000	$ 5,330,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**5,776,000**	4,925,000	2,455,000
Provision for losses on accounts receivable	**276,000**	358,000	108,000
Deferred income taxes	**(1,008,000)**	(922,000)	412,000
Loss on disposition of property and equipment	**75,000**	15,000	30,000
Loss on sale of marketable securities	**80,000**	47,000	–
Minority interest	**148,000**	(31,000)	–
Decrease (increase) in:			
Accounts receivable	**(4,167,000)**	(4,695,000)	(2,086,000)
Notes receivable	**(790,000)**	–	–
Inventories	**(3,176,000)**	(6,000,000)	(4,160,000)
Income taxes receivable	**(710,000)**	437,000	(503,000)
Prepaid expenses and other	**153,000**	(640,000)	(802,000)
Other assets	**(127,000)**	(73,000)	(436,000)
Increase (decrease) in:			
Accounts payable	**(1,389,000)**	1,781,000	3,106,000
Accrued liabilities	**1,500,000**	2,005,000	1,693,000
Income taxes payable	**2,495,000**	2,484,000	(1,012,000)
Net cash provided by operating activities	**11,570,000**	8,454,000	4,135,000

Cash Flows From Investing Activities			
Purchases of property and equipment	**(10,515,000)**	(6,758,000)	(9,706,000)
Proceeds from sale of property and equipment	**28,000**	27,000	5,000
Purchases of intangible assets	**(2,825,000)**	(1,054,000)	(471,000)
Purchases of investments	**(457,000)**	(289,000)	–
Purchase of marketable securities	**(19,950,000)**	(10,229,000)	(123,827,000)
Sales of marketable securities	**21,758,000**	12,448,000	95,730,000
Other	**263,000**	–	–
Net cash used in investing activities	**(11,698,000)**	(5,855,000)	(38,269,000)

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

	Years Ended December 31,		
	1998	1997	1996
Cash Flows from Financing Activities			
Increase (decrease) in lines of credit	**(1,639,000)**	1,767,000	–
Proceeds from short-term debt	**6,467,000**	2,396,000	1,820,000
Repayment of short-term debt	**(2,454,000)**	(1,820,000)	–
Principal payments on capital leases	**(1,199,000)**	(1,022,000)	(868,000)
Proceeds from long-term debt	**–**	59,000	14,000
Repayment of long-term debt	**(268,000)**	(397,000)	(152,000)
Proceeds from shareholder loans	**–**	1,472,000	–
Issuance of common shares	**935,000**	749,000	31,097,000
Net cash provided by financing activities	**1,842,000**	3,204,000	31,911,000
Effect of exchange rate changes on cash and cash equivalents	**331,000**	(3,480,000)	(1,107,000)
Net increase (decrease) in cash and cash equivalents	**2,045,000**	2,323,000	(3,330,000)
Cash and cash equivalents, beginning of year	**4,298,000**	1,975,000	5,305,000
Cash and cash equivalents, end of year	**$ 6,343,000**	$ 4,298,000	$ 1,975,000

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

QIAGEN N.V. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1998

1. Description of Business

QIAGEN N.V. and Subsidiaries (the Company) operates exclusively in the life sciences industry developing, producing and distributing biotechnology products, primarily for the separation and purification of nucleic acids (DNA/RNA). 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, 1998, the Company consists of the Netherlands parent company (QIAGEN N.V.) 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; QIAGEN Pty. Ltd. in Clifton Hill, Australia; QIAGEN Inc. in Mississauga, Canada; and Rosys AG in Hombrechtikon, Switzerland. The Company also has a 60 percent interest in QIAGEN K.K. in Tokyo, Japan and a 50 percent interest in Rosys Inc., a subsidiary of Rosys AG, in New Castle, United States.

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 these 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 (GAAP) and include the accounts of the Company and its wholly and majority owned subsidiaries, after elimination of all significant intercompany accounts and transactions.

The preparation of financial statements in conformity with United States GAAP 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.

Certain balances have been reclassified to conform to the current year presentation.

b. Cash and Cash Equivalents

Cash and cash equivalents consist of commercial paper and other investments that are readily convertible to cash and have original maturities of three months or less.

c. Marketable Securities

Marketable securities consist of interest bearing securities with original maturities in excess of three months. The Company accounts for these temporary investments in accordance with Statement of Financial Accounting Standard (SFAS) No. 115 "Accounting for Certain Investments in Debt and Equity Securities." All investments are classified as available-for-sale and are stated at fair value. Changes in market values are reflected as unrealized gains and losses, calculated on the specific identification method, directly in shareholders' equity within accumulated other comprehensive income. Interest income is accrued when earned.

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, 1998 and 1997, no single customer represented more than ten percent of accounts receivable. For the years ended December 31, 1998, 1997 and 1996, no single customer represented more than ten 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.

The components of inventories consist of the following as of December 31, 1998 and 1997:

	1998	1997
Raw materials	**$ 6,596,000**	$ 3,741,000
Work in process	**2,997,000**	3,206,000
Finished goods	**10,338,000**	7,622,000
Total inventories	**$ 19,931,000**	$ 14,569,000

f. Property, Plant and Equipment

Property, plant and equipment are stated at cost and are summarized as follows as of December 31, 1998 and 1997:

	1998	1997
Land and buildings	**$ 12,372,000**	$ 5,691,000
Machinery and equipment	**14,475,000**	8,569,000
Computer software	**3,963,000**	3,083,000
Furniture and office equipment	**9,363,000**	8,859,000
Leasehold improvements	**2,183,000**	1,685,000
Construction in progress	**1,259,000**	1,007,000
	43,615,000	28,894,000
Less: Accumulated depreciation and amortization	**(17,195,000)**	(11,128,000)
Property, plant and equipment, net	**$ 26,420,000**	$ 17,766,000

Depreciation is computed using the straight-line and declining balance methods over the following estimated useful lives: buildings for ten to twenty years; machinery and equipment for three to eight years; computer software for one to five years; furniture and office equipment for three to ten years; and leasehold improvements are computed on a straight-line basis 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 $532,000, $745,000 and $469,000 in fiscal years 1998, 1997 and 1996, respectively.

g. Revenue Recognition

The Company recognizes revenue from consumables when products are shipped. Revenue from instrumentation equipment is not recognized until title passes to the customer, either upon shipment or customer acceptance. Revenue from service contracts is deferred and recognized over the term of the contract.

h. Statements of Cash Flows

Non-cash investing and financing activities, which are excluded from the consolidated statements of cash flows, are as follows:

	Years Ended December 31,		
	1998	1997	1996
Equipment purchased through capital leases	**$ 1,594,000**	$ 1,680,000	$ 797,000
Shares issued for patents	**–**	$ 32,000	$ 383,000
Tax benefits related to stock options	**$ 2,793,000**	$ 151,000	–

Cash paid for interest was $1,110,000, $1,071,000 and $769,000 in 1998, 1997 and 1996, respectively. Cash paid for income taxes was $4,044,000, $2,300,000 and $4,496,000 in 1998, 1997 and 1996, respectively.

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, the Australian dollar, the Canadian dollar and the Japanese yen.

Balance sheets prepared in their functional currencies are translated to the reporting currency, the United States dollar, at exchange rates in effect at the end of the accounting period except for shareholders' equity accounts which are translated at rates in effect when these balances were originally recorded. Revenue and expense accounts are translated at a weighted average of exchange rates during the period. The cumulative effect of translation is included in accumulated other comprehensive income in the accompanying consolidated balance sheets.

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 consumables are shipped and when title on instrumentation equipment passes to the customer.

k. Fair Value of Financial Instruments

The carrying value of the Company's cash and cash equivalents, accounts receivable, accounts payable 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. Financial Instruments

In the ordinary course of business, the Company purchases foreign currency exchange option contracts to manage potential losses from foreign currency exposures. These contracts give the Company the right, but not the requirement, to sell foreign currencies in exchange for U.S. dollars at predetermined exchange rates. The principal objective of such contracts is to minimize the risks and/or costs associated with global financial and operating activities. The Company does not utilize financial instruments for trading or other speculative purposes.

Premiums to purchase foreign exchange option contracts are recorded as prepaid assets and amortized over the life of the contract or immediately if the contract is settled. Amortization is included in other expense. Gains, if any, are recorded in the period in which the contract is settled. Gains on option contracts that qualify as hedges are deferred and recognized as an adjustment of the carrying amount of the hedged asset, liability or foreign currency firm commitment. Gains on option contracts that do not qualify as hedges are recognized in income as gains on foreign currency transactions based on the fair market value of the contracts.

At December 31, 1998, the Company had options outstanding to purchase $8.1 million with a fair market value of approximately $30,000. These contracts expire at various dates through May 1999. No foreign currency option contracts were outstanding at December 31, 1997.

m. Authoritative Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB), issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." Under the statement, every derivative is recorded on the balance sheet as either an asset or liability measured at its fair value. Changes in the derivative's fair value will be recognized in earnings unless specific hedge accounting criteria are met. The Company will adopt this standard on January 1, 2000, and is currently analyzing the statement to determine the impact, if any, on the Company's financial position or results of operations.

3. Net Income per Common Share

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

	Years Ended December 31,		
	1998	1997	1996
Weighted average number of common shares used to compute basic net income per common share	**17,063,000**	16,760,000	15,108,000
Dilutive effect of stock options	**194,000**	291,000	232,000
Weighted average number of common shares used to compute diluted net income per common share	**17,257,000**	17,051,000	15,340,000

For the years ended December 31, 1998, 1997 and 1996, stock options to purchase 107,000, 47,000 and 51,000 shares, respectively, were excluded from the dilutive effect of stock options as such options were antidilutive.

4. Acquisitions

On May 28, 1998, QIAGEN N.V. acquired 100 percent of the shares of Rosys Instruments AG (Rosys) (a corporation located in Hombrechtikon, Switzerland) in a transaction that was accounted for as a pooling of interests. Rosys, founded in 1990, develops, produces and markets innovative liquid handling robotic systems. Rosys has been an OEM supplier of instrumentation products and robotics technologies for QIAGEN's BioRobot product lines since 1994. Rosys' robotic systems combine flexible multi-channel pipetting with transport of microtiter plates and other devices to provide reliable tube-to-plate and plate-to-plate transfer for a wide variety of applications. Rosys has a 50 percent interest in Rosys Inc., a distributor of the Rosys robotic systems, located in New Castle, Delaware. Essentially all of Rosys Inc.'s sales are derived from Rosys products. The Company issued 249,620 common shares in exchange for all outstanding shares of Rosys.

The accompanying consolidated financial statements and footnotes include the financial position and results of operations of Rosys.

5. Comprehensive Income

On January 1, 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 requires that comprehensive income, which is the total of net income and all other non-owner changes in equity, be displayed in the financial statements. The adoption of SFAS No. 130 had no impact on total shareholders' equity. The components of the Company's comprehensive income as presented in the Consolidated Statements of Shareholders' Equity include net income, unrealized gains and losses from foreign currency translation, and unrealized gains and losses from available-for-sale marketable securities. Prior year financial statements have been reclassified to conform to SFAS No. 130 requirements.

6. Marketable Securities

At December 31, 1998 and 1997 all of the Company's investments are classified as current, as the Company's plan is generally not to hold its investments until maturity to take advantage of market conditions.

The contractual maturities of corporate debt securities at December 31, 1998, are as follows:

Maturities in:	Cost	Fair Value
One to five years	$ 12,364,000	$ 12,323,000
Five to ten years	10,075,000	9,999,000
Over ten years	1,504,000	1,461,000
	$ 23,943,000	$ 23,783,000

At December 31, 1997, the fair market value of marketable securities approximated cost, thus no unrealized holding gains or losses were reported in the accompanying consolidated balance sheet.

For the years ended December 31, 1998 and 1997, proceeds from sales of available-for-sale securities totaled $21.8 million and $2.2 million and gross realized losses calculated on the specific identification method, totaled $80,000 and $47,000, respectively. For the year ended December 31, 1996, there were no proceeds or gross realized losses.

7. Investments

On September 23, 1998, the Company acquired a five percent investment in Ingenium Biopharmaceuticals AG by purchasing 1,053 common shares for $443,000.

In 1998, QIAGEN GmbH entered a joint venture agreement for the formation of QE-Diagnostiksysteme GmbH, a company which will focus on developing and providing enabling technologies for the molecular diagnostic industry. QIAGEN GmbH has a 50 percent interest (DM 25,000, approximately $15,000) and has committed to contribute an additional DM 475,000 (approximately $285,000 at December 31, 1998) by April 21, 1999. QE-Diagnostiksysteme is not yet operational. Once operational, the Company anticipates accounting for the joint venture as an equity investment.

On March 20, 1997, the Company sold certain research and licensing agreements valued at DM 760,000 (approximately $422,000 at December 31, 1997) to a newly founded company, CpG ImmunoPharmaceuticals, Inc. (CpG), for 2,040 shares of its preferred stock. Other shareholders of CpG include other significant shareholders of the Company. At December 31, 1998 and 1997, the Company had receivables from CpG in the amount of $79,000 and $19,000, respectively.

On October 10, 1997, the Company purchased a four percent investment in another start-up company, Genome Pharmaceuticals Corporation AG (GPC), for $290,000.

These investments are included in other assets in the accompanying consolidated balance sheets.

8. Intangible Assets

In connection with its formation, QIAGEN K.K. (the Company's 60 percent owned subsidiary in Japan), entered into a business transfer agreement with its minority shareholder. Pursuant to the agreement, the minority shareholder agreed to transfer to QIAGEN K.K. certain intangible assets, such as certain "know-how" and marketing information relating to the sale of the Company's products, in exchange for 330 million Japanese Yen (approximately $2.9 million at December 31, 1998). The Company made the payment of 330 million Japanese Yen on August 31, 1998, and capitalized the intangible assets which are being amortized over seven years. During 1998, the Company recorded amortization expense relating to these intangible assets of approximately $121,000.

In February 1998, the Company purchased patent and licensing rights from a research corporation (CpG) for approximately $259,000.

In October and November 1997, the Company entered into two agreements with two separate research corporations for the Company to purchase certain patents and licensing rights for approximately $100,000 and $862,000, respectively.

Also in 1997, the Company entered into an agreement with two separate universities to purchase certain patents and licensing rights for approximately $52,000 and $92,000, respectively.

All patents and licensing rights are being amortized over periods of five to seven years. The Company recognized amortization expense relating to patents and licensing rights of $343,000, $133,000 and $15,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

9. 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 net deferred tax asset of $3,142,000 at December 31, 1998, of which $70,000 is long-term and included in other assets. 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 asset at December 31, 1998 and 1997 are as follows:

	1998	1997
Deferred tax asset:		
Allowance for bad debts	**$ 198,000**	$ 207,000
Vacation accrual	**92,000**	106,000
Warranty accrual	**98,000**	134,000
Net operating loss carryforward	**1,139,000**	102,000
Inventories	**1,497,000**	373,000
United States state income taxes	**156,000**	104,000
Capital leases	**335,000**	327,000
Accrued intercompany interest	**–**	182,000
	3,515,000	1,535,000
Deferred tax liability:		
Depreciation	**(73,000)**	(80,000)
Intangibles	**(234,000)**	(286,000)
Other	**(66,000)**	(81,000)
	(373,000)	(447,000)
Net deferred tax asset	**$ 3,142,000**	$ 1,088,000

Approximately $1.0 million of the net operating loss carryforward is a result of the merger with Rosys and expire in the years 1999 through 2004. The remaining portion of the net operating loss carryforward may be carried forward indefinitely.

The provision for income taxes for the years ended December 31, 1998, 1997 and 1996 are as follows:

		Years Ended December 31,		
		1998	1997	1996
Current	- United States federal taxes	**$ 2,700,000**	$ 1,666,000	$ 1,378,000
	- United States state taxes	**705,000**	447,000	380,000
	- Non-United States taxes	**2,740,000**	3,504,000	1,209,000
		6,145,000	5,617,000	2,967,000
Deferred	- United States federal taxes	**(138,000)**	(313,000)	(13,000)
	- United States state taxes	**(37,000)**	(81,000)	29,000
	- Non-United States taxes	**(865,000)**	(459,000)	348,000
		(1,040,000)	(853,000)	364,000
Total provision for income taxes		**$ 5,105,000**	$ 4,764,000	$ 3,331,000

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, 1998, 1997 and 1996 are as follows:

	Years Ended December 31,					
	1998		1997		1996	
	Amount	Percent	Amount	Percent	Amount	Percent
Income taxes at United States statutory federal rate	**$ 6,014,000**	**34.0%**	$ 4,589,000	34.0%	$ 2,945,000	34.0%
United States state income taxes, net of federal income tax effect	**449,000**	**2.6%**	237,000	1.8%	263,000	3.0%
Non-United States taxes at rates greater than (less than) United States statutory federal rate	**(1,381,000)**	**(7.8%)**	(170,000)	(1.3%)	80,000	0.9%
Other items, net	**23,000**	**0.1%**	108,000	0.8%	43,000	0.5%
Total provision for income taxes	**$ 5,105,000**	**28.9%**	$ 4,764,000	35.3%	$ 3,331,000	38.4%

10. Accrued Liabilities

Accrued liabilities at December 31, 1998 and 1997 consist of the following:

	1998	1997
Payroll and related accruals	**$ 1,814,000**	$ 1,333,000
Management bonuses	**240,000**	426,000
Warranty	**495,000**	274,000
Unbilled services	**1,839,000**	1,450,000
Sales and other taxes	**619,000**	463,000
Deferred revenue	**280,000**	103,000
Royalties	**973,000**	674,000
Rent contract	**234,000**	149,000
Other	**493,000**	239,000
Total accrued liabilities	**$ 6,987,000**	$ 5,111,000

11. Lines of Credit and Debt

The Company has five separate lines of credit amounting to DM 10,500,000 (approximately $6.3 million) with interest rates ranging from 6.5 percent to 7.0 percent. These lines of credit may be called without notice, and the availability of total credit is reduced by approximately $355,000 due to guarantees made by a bank against one of the credit facilities. The Company also has two short-term bank loans due through April 1999 at interest rates ranging from 4.3 percent to 5.2 percent. Interest expense on short-term borrowings was $560,000, $312,000 and $28,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

Long-term debt consists of the following:

	1998	1997
Notes Payable:		
6.75% note due in semi-annual payments of DM 229,000 (approximately $137,000 at December 31, 1998) with a final payment due in December 2000	**$ 549,000**	$ 764,000
7.25% note with interest and principal due monthly through November 2001	**13,000**	–
Total long-term debt	**562,000**	764,000
Less current portion	**279,000**	255,000
Long-term portion of long-term debt	**$ 283,000**	$ 509,000

Future principal maturities of long-term debt as of December 31, 1998 are as follows:

Year ending December 31,	
1999	$ 279,000
2000	279,000
2001	4,000
	$ 562,000

Interest expense on long-term debt was $48,000, $67,000 and $98,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

12. Segment and Related Information

In June of 1997, the FASB issued SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information," effective for fiscal years beginning after December 15, 1997. The statement requires presentation of segment information based on the way management makes decisions and assesses performance. The information for 1997 and 1996 has been restated from the prior years' presentation in order to conform with the 1998 presentation.

The Company operates exclusively in the life sciences industry generating revenue exclusively from the sale of products and services for the separation and purification of nucleic acids. Reportable segments are based on the geographic locations of the subsidiaries and have been aggregated where below the quantitative thresholds.

The Company's reportable segments include the Company's production and manufacturing facility in Germany, sales and distribution facilities in the United States and the United Kingdom and Other Countries (consisting of the Company's subsidiaries in Switzerland, Canada, France, Australia, and Japan). The Company's holding company is located in the Netherlands.

The Company evaluates performance based on several factors, of which the primary financial measure is operating income. The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 2 of the Notes to Consolidated Financial Statements.

Summarized financial information concerning the Company's reportable segments is shown in the following tables.

	1998	1997	1996
Net Sales			
Germany	**$ 62,371,000**	$ 47,687,000	$ 34,955,000
United States	**59,353,000**	44,137,000	31,543,000
United Kingdom	**8,534,000**	6,180,000	3,844,000
Other Countries	**30,512,000**	8,437,000	4,606,000
Subtotal	**160,770,000**	106,441,000	74,948,000
Intersegment Elimination	**(50,522,000)**	(32,167,000)	(20,791,000)
Total	**$ 110,248,000**	$ 74,274,000	$ 54,157,000

Net sales are attributed to countries based on the location of the Company's subsidiary. During 1998, 1997 and 1996, no single customer represented more than ten percent of consolidated net sales. United States export sales did not exceed ten percent of consolidated net sales during fiscal 1998, 1997 or 1996.

	1998	1997	1996
Intersegment Sales			
Germany	**$ (41,479,000)**	$ (29,283,000)	$ (18,899,000)
United States	**(1,919,000)**	(866,000)	–
United Kingdom	**–**	–	–
Other Countries	**(7,124,000)**	(2,018,000)	(1,892,000)
Total	**$ (50,522,000)**	$ (32,167,000)	$ (20,791,000)

All intersegment sales are accounted for by a formula based on local list prices and eliminated in consolidation.

	1998	1997	1996
Operating Income (Loss)			
Germany	**$ 3,480,000**	$ 3,670,000	$ 1,253,000
United States	**9,934,000**	5,298,000	4,648,000
United Kingdom	**1,751,000**	914,000	723,000
Other Countries	**3,267,000**	450,000	244,000
The Netherlands	**(1,360,000)**	(991,000)	(202,000)
Subtotal	**17,072,000**	9,341,000	6,666,000
Intersegment elimination	**(2,404,000)**	(1,082,000)	(687,000)
Total	**$ 14,668,000**	$ 8,259,000	$ 5,979,000

The Netherlands component of operating income (loss) is primarily general and administrative expenses. The intersegment elimination represents the elimination of intercompany profit.

	1998	1997	1996
Depreciation and Amortization			
Germany	**$ 3,591,000**	$ 3,126,000	$ 1,962,000
United States	**1,515,000**	1,474,000	354,000
United Kingdom	**161,000**	141,000	63,000
Other Countries	**425,000**	98,000	76,000
The Netherlands	**84,000**	86,000	–
Total	**$ 5,776,000**	$ 4,925,000	$ 2,455,000

	1998	1997	1996
Assets			
Germany	**$ 51,115,000**	$ 34,369,000	$ 42,096,000
United States	**22,995,000**	20,793,000	13,586,000
United Kingdom	**2,970,000**	2,922,000	1,845,000
Other Countries	**13,739,000**	4,886,000	2,803,000
The Netherlands	**61,082,000**	51,436,000	49,768,000
Subtotal	**151,901,000**	114,406,000	110,098,000
Intersegment Elimination	**(45,207,000)**	(35,478,000)	(43,908,000)
Total	**$ 106,694,000**	$ 78,928,000	$ 66,190,000

Assets of the Netherlands include cash and cash equivalents, investments, prepaid assets and certain intangibles. The intersegment elimination represents intercompany investments and advances.

	1998	1997	1996
Capital Expenditures			
Germany	**$ 9,217,000**	$ 4,975,000	$ 5,323,000
United States	**813,000**	1,358,000	3,658,000
United Kingdom	**77,000**	178,000	338,000
Other Countries	**408,000**	213,000	387,000
The Netherlands	**–**	34,000	–
Total	**$ 10,515,000**	$ 6,758,000	$ 9,706,000

	1998	1997	1996
Long-Lived Assets			
Germany	**$ 22,385,000**	$ 13,813,000	$ 11,776,000
United States	**4,340,000**	5,070,000	4,728,000
United Kingdom	**274,000**	370,000	349,000
Other Countries	**3,828,000**	391,000	252,000
The Netherlands	**1,644,000**	785,000	517,000
Total	**$ 32,471,000**	$ 20,429,000	$ 17,622,000

13. 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, generally with terms of 10 years, subject to earlier termination in certain situations. The options vest over a three-year period. The exercise price of the options is determined by the Board or by 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.

Information regarding the Option Plan as of December 31, 1996, 1997 and 1998, and changes during the years then ended is summarized as follows:

	Option 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
Granted	199,870	32.82
Exercised	(35,892)	10.82
Forfeited	(19,571)	17.54
December 31, 1997	522,207	$ 19.96
Granted	163,995	57.41
Exercised	(57,511)	16.78
Forfeited	(26,775)	28.92
December 31, 1998	**601,916**	**$ 29.96**

At December 31, 1998 and 1997, 210,399 and 88,634 options were exercisable at a weighted average price of $17.14 and $12.86 per share, respectively. The options outstanding at December 31, 1998 expire in various years through 2008.

Information about stock options outstanding at December 31, 1998 is summarized as follows:

Range of Exercise Prices	Number Outstanding at 12/31/98	Weighted Average Remaining Contract Life	Weighted Average Exercise Price	Number Exercisable at 12/31/98	Weighted Average Exercise Price
$ 9.50 – $ 9.50	207,182	7.33 Years	$ 9.50	121,554	$ 9.50
$ 14.00 – $25.13	41,317	7.64 Years	$ 16.40	20,808	$ 15.24
$ 25.75 – $25.75	123,680	8.12 Years	$ 25.75	46,837	$ 25.75
$ 33.25 – $54.50	122,994	8.85 Years	$ 44.60	21,200	$ 43.81
$ 60.25 – $66.75	106,743	9.57 Years	$ 62.90	–	$ –
$ 9.50 – $66.75	601,916	8.22 Years	$ 29.96	210,399	$ 17.14

The Company has elected to adopt SFAS No. 123 for disclosure purposes only and applies Accounting Principles Board (APB) Opinion No. 25 and related interpretations in accounting for its employee stock options. No compensation cost was recognized relating to options for the years ended December 31, 1998, 1997 and 1996. Had compensation cost for the stock options awarded under the Option Plan been determined based on the fair value at the dates of grant consistent with the methodology of SFAS No. 123, the Company's net income and basic and diluted earnings per share would have reflected the following proforma amounts:

	1998	1997	1996
Proforma net income	**$ 10,321,000**	$ 7,324,000	$ 5,188,000
Proforma basic net income per share	**$ 0.60**	$ 0.44	$ 0.34
Proforma diluted net income per share	**$ 0.60**	$ 0.43	$ 0.34

The weighted average fair value of options granted during 1998, 1997 and 1996 was $29.13, $16.89 and $6.23, respectively.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes multiple option pricing model with the following assumptions used for the grants: weighted average risk-free interest rates of 5.27 percent, 5.70 percent and 6.35 percent and a weighted average expected life of six years for the years ended December 31, 1998, 1997 and 1996, respectively. The weighted average expected volatility was 45 percent, and it is assumed that no dividends would be issued during the option term. Because the Company's stock was not publicly traded prior to 1996, the resulting proforma 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.

14. Commitments and Contingencies

a. Lease Commitments

The Company leases facilities and equipment under operating lease arrangements expiring in various years through 2013. 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, 1998 are as follows:

	Capital Leases	Operating Leases
1999	$ 1,605,000	$ 3,262,000
2000	1,164,000	2,831,000
2001	951,000	1,964,000
2002	714,000	1,083,000
2003	693,000	716,000
Thereafter	4,013,000	3,303,000
	9,140,000	$ 13,159,000
Less: Amount representing interest	(2,817,000)	
	6,323,000	
Less: Current portion	(1,277,000)	
	$5,046,000	

Rent expense under noncancelable operating lease agreements was $2,071,000, $2,376,000 and $2,019,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

On January 1, 1999, the Company entered into a capital lease agreement related to a new research and development facility in Germany. The lease expires in 2018 and has total minimum future payments of $14,076,000, of which $5,871,000 represents interest. The minimum future payments are paid over the following years: $612,000 per year for the years 1999 through 2003 and a total of $11,016,000 for the years thereafter.

b. Purchase Commitments

At December 31, 1998, the Company had commitments with several vendors to purchase certain products during 1999 at a total cost of approximately $2.0 million. The Company also has a commitment with one other vendor to purchase products during 1999 and 2000 at a total cost of approximately $5.0 million and $7.0 million, respectively.

c. Commitments

In October 1998, the Company announced that it had signed a five-year supply agreement with Abbott Laboratories (Abbott). According to the agreement, the Company will supply Abbott with various proprietary nucleic acid sample purification and preparation products. Under the terms of this agreement, Abbott has committed to certain purchases of the Company's products over the term of the contract. The Company has committed to certain expansions of its production capacity and product quality and will receive payments for such achievements.

As discussed in Note 7, the Company has committed to contribute DM 475,000 (approximately $285,000 at December 31,1998) to QE-Diagnostiksysteme GmbH.

In January 1999, the Company committed DM 897,000 (approximately $538,000) towards the establishment of a GMP compliant manufacturing facility.

d. Contingencies

The price of the intangible assets purchased by QIAGEN K.K., discussed in Note 8, was calculated based on the estimated net revenues of QIAGEN K.K. for the years ending December 31, 1998, 1999 and 2000. If actual net revenues are in excess of the estimated net revenues, QIAGEN K.K. will make an adjustment payment to the minority shareholder. If actual net revenues are below the estimated net revenues, QIAGEN K.K. will receive a refund from the minority shareholder. Any adjustment payments or refunds would be due and payable on August 31, 1999, 2000 and 2001. For the year ended December 31, 1998, no significant adjustment was required.

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 legal counsel, management believes that such litigation will not have a material adverse effect on its financial position or results of operations.

15. Retirement Plans

In September 1992, QIAGEN Inc. (U.S.) adopted the QIAGEN Inc. 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 1998, 1997 and 1996, the Company's total contributions to the Plan were approximately $161,000, $118,000 and $83,000, respectively.

As of December 31, 1998, QIAGEN GmbH has deferred compensation plans for two employees (one officer, one employee). For the 1997 and 1996 years, only one officer accrued benefits under a deferred compensation plan. The present value of the future compensation obligation of $174,000, $137,000 and $93,000 has been accrued in the accompanying consolidated financial statements at December 31, 1998, 1997 and 1996, respectively.

16. Licensing Agreements

The Company has licensing agreements with companies, universities and individuals, some of which require certain up-front payments. Royalty payments are required on net product sales ranging from one to ten percent of covered products. Several of these agreements have minimum royalty requirements. The accompanying consolidated financial statements include accrued royalties relating to these agreements in the amount of $973,000 and $674,000 at December 31, 1998 and 1997, respectively. Royalty expense relating to these agreements amounted to $2,651,000, $1,434,000, and $261,000 for the years ended December 31, 1998, 1997 and 1996, respectively. Some of these agreements also have minimum raw material purchase requirements (see Note 14) and requirements to perform specific types of research. These licensing agreements are amortized over five to seven years.

17. Related Party Transactions

In connection with its formation, QIAGEN K.K. entered into a service agreement with its minority shareholder. Pursuant to the agreement, the minority shareholder will provide services such as stock keeping, order processing, and packing and shipping. As compensation for services provided, QIAGEN K.K. will pay the minority shareholder a service fee equal to seven percent of the net revenues of QIAGEN K.K. For the year ended December 31, 1998, QIAGEN K.K. expensed approximately $537,000 in service fees, of which $53,000 is included in accrued liabilities at year end.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets of QIAGEN N.V. (a Netherlands company) and Subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1998. 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, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Los Angeles, California
February 12, 1999

For Dutch statutory purposes we hereby include the QIAGEN N.V. Annual Accounts for the year 1998 based on International Accounting Standards.

QIAGEN N.V.
ANNUAL ACCOUNTS
FOR THE YEAR 1998
TOGETHER WITH AUDITORS' REPORT

AUDITORS' REPORT

Introduction

We have audited the financial statements of QIAGEN N.V., Venlo, The Netherlands, for the year 1998. 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 audit.

Scope

We conducted our audit in accordance with auditing standards generally accepted in The Netherlands. 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 audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the company as of December 31, 1998 and of the result for the year then ended in accordance with International Accounting Standards and in substance comply with the financial reporting requirements included in Part 9, Book 2 of The Netherlands Civil Code.

Eindhoven, The Netherlands,
February 12, 1999.

QIAGEN N.V.
FINANCIAL STATEMENTS

QIAGEN N.V.
BALANCE SHEET AT DECEMBER 31, 1998

(After proposed appropriation of income)
(Currency – Thousands of US Dollars)

ASSETS				
		1998		1997
FIXED ASSETS:				
Intangible fixed assets	**USD**	**393**	USD	471
Tangible fixed assets		**18**		24
Financial fixed assets		**34,792**		20,816
Total fixed assets		**35,203**		21,311
CURRENT ASSETS:				
Accounts receivable-				
Group companies		**13,226**		5,797
Prepaid and deferred expenses		**490**		856
		13,716		6,653
Securities		**23,783**		25,831
Cash		**3,043**		527
Total current assets		**40,542**		33,011
Total assets	**USD**	**75,745**	USD	54,322

SHAREHOLDERS' EQUITY AND LIABILITIES				
		1998		1997
SHAREHOLDERS' EQUITY:				
Issued and paid-in capital	**USD**	**298**	USD	294
Additional paid-in capital		**49,303**		41,574
Retained earnings		**25,681**		16,558
Cumulative translation adjustment		**(2,241)**		(4,475)
Total shareholders' equity		**73,041**		53,951
SHORT-TERM LIABILITIES:				
Group companies		**2,171**		145
Accounts payable and accrued liabilities		**533**		226
Total short-term liabilities		**2,704**		371
Total shareholders' equity and liabilities	**USD**	**75,745**	USD	54,322

QIAGEN N.V.
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 1998

(Currency – Thousands of US Dollars)

		1998		1997
INCOME AFTER TAXES	**USD**	**670**	USD	3,248
INCOME FROM SUBSIDIARIES		**11,764**		5,515
Net income	**USD**	**12,434**	USD	8,763

QIAGEN N.V.
NOTES TO FINANCIAL STATEMENTS
AT DECEMBER 31, 1998

(Currency – Thousands of US Dollars)

1. General

The company was incorporated on April 29, 1996 and has its legal seat in Venlo. The description of the company's activities and the group structure, as included in the notes to the consolidated financial statements, also apply to the company-only financial statements. The consolidated financial statements are included in this Annual Report. The consolidated financial statements are prepared in accordance with US generally accepted accounting principles.

In accordance with Dutch statutory regulations these financial statements are based on International Accounting Standards.

2. Accounting Principles

(a) General

The accounting principles as described in the notes to the consolidated financial statements also apply to the company-only financial statements, unless indicated otherwise.

In accordance with article 402 Book 2 of the Netherlands Code the statement of income is presented in abbreviated form.

(b) Financial fixed assets

The investments in subsidiary companies are stated at the net asset value of the subsidiaries if influence of significance can be exercised over the subsidiaries' operational and financial activities. The net asset value is determined on the basis of the accounting principles as applied by the company.

The other investments are stated at acquisition cost or, in case of a permanent impairment of the value of the investments, at lower net realizable value.

3. Financial Fixed Assets

The movement in financial fixed assets is as follows:

(a) Investment in subsidiary companies		1998
Balance January 1	USD	20,526
Additions due to merger		854
Translation gain		2,234
Net result		11,764
Dividends received		(4,605)
Tax benefit options		2,793
Other		(7)
Balance December 31	USD	33,559
(b) Other investments		
Balance January 1	USD	290
Additions due to merger		943
Balance December 31	USD	1,233
Total financial fixed assets December 31	USD	34,792

4. Intangible Fixed Assets

The movement in intangible fixed assets is as follows:

		Licences and Patents
Balance January 1	USD	471
Amortization		78
Balance December 31	USD	393
Original cost	USD	548
Accumulated amortization		155
Balance December 31	USD	393

5. Tangible Fixed Assets

Tangible fixed assets consist of furniture and office equipment. The depreciation charge for the year amounts to USD 6.

6. Cash and Securities

Securities consist of commercial paper and other interest bearing securities with original maturities in excess of three months. No restrictions on usage of cash and securities exist.

7. Shareholders' Equity

The authorized share capital consists of 32,500,000 ordinary shares, 5,000,000 financing preference shares and 37,500,000 preference shares. All shares have a par value of NLG0.03 (three Dutch cents). As of December 31, 1998, 17,084,523 ordinary shares have been issued and fully paid-up. For the movement in shareholders' equity we refer to the consolidated statements of shareholders’ equity on page 25 of the consolidated annual accounts. For the purpose of the company-only financial statements "the unrealized loss on marketable securities" has been classified as retained earnings.

8. Statutory and Supervisory Directors

The company has two statutory directors and five supervisory directors, who received a total remuneration of USD 758.000 in their capacity.

QIAGEN N.V.
OTHER INFORMATION

Statutory Profit Appropriation

Statutory profit appropriation is mentioned in Article 40 of the Articles of Association and can be summarized as follows:

1. Out of the profits remaining after distribution on the preference shares, if any, such amounts shall be allocated to reserve as the Supervisory Board shall decide.
2. Insofar as the profit is not distributed or allocated to reserve (to the preference shares and the financing preference shares, if any) upon application of the previous paragraphs of this article, it shall be at the free disposal of the general meeting, with the proviso that no further dividend will be distributed on the preference shares and the financing preference shares.
3. The Company can only declare distributions insofar as its "eigen vermogen" (shareholders' equity) exceeds the amount of the paid-up and called portion of the share capital, plus the "wettelijke" (statutory) reserves.
4. The Board of Management may, with the approval of the Supervisory Board, decide to pay an interim dividend provided always that paragraph 3 of this Article is complied with and the profit so permits. Interim dividends may be distributed on one class of shares only.
5. Dividends (including interim dividends for the purpose of this and the next paragraph) shall be made payable at the Company's offices address or addresses in The Netherlands, to be determined by the Supervisory Board, as well as at least one address in each country where the shares of the Company are listed on a stock exchange, as from a date determined by the Supervisory Board.
6. Dividends that have not been claimed within five years and two days of becoming payable shall be forfeited and shall accrue to the benefit of the company.

EXECUTIVE OFFICERS AND SUPERVISORY DIRECTORS

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

Executive Officers

Dr. Metin Colpan
Managing Director, Chief Executive Officer

Mr. Peer M. Schatz
Managing Director, Chief Financial Officer

Chairman of the Supervisory Board

Professor Dr. jur. Carsten P. Claussen (1)(2) is a partner in the law firm of Hoffmann Liebs and Partner. He is Chairman of Germania Epe AG and serves as a member of other boards.

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

Supervisory Directors

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

Mr. Jochen Walter (1)(2) is Managing Director of RBS GmbH, the management company for S-Kapitalbeteiligungsgesellschaft Düsseldorf GmbH.

Dr. Franz A. Wirtz is Director of Grünenthal GmbH.

Mr. Erik Hornnaess is a consultant with many years experience in the diagnostic industry.

Market Information

The Common Shares are quoted on the Nasdaq National Market under the symbol QGENF. The following table sets forth the range of quarterly high and low closing sale prices of the Common Shares on the Nasdaq National Market for each quarterly period within the two most recent fiscal years:

1997:	High ($)	Low ($)
First Quarter	37.125	24.250
Second Quarter	50.125	31.375
Third Quarter	59.000	43.750
Fourth Quarter	48.500	38.250
1998:		
First Quarter	76.000	41.875
Second Quarter	68.500	61.000
Third Quarter	66.125	49.000
Fourth Quarter	66.875	47.938
1999:		
First Quarter (through February 26, 1999)	78.250	65.500

As of September 25, 1997, the Common Shares have been trading officially on the Frankfurt Stock Exchange, Neuer Markt. The following table sets forth the range of quarterly high and low closing sale prices of the Common Shares on the Neuer Markt since September 25, 1997, in German marks, until the end of the fourth quarter of 1998, and in euros, from the beginning of the first quarter of 1999. In connection with the adoption of the euro by Germany on January 1, 1999, trades on the Neuer Markt, as of January 1, 1999, are denominated in euros. The conversion rate between the German mark and the euro was fixed on January 1, 1999 at 1.95583 German marks per euro.

1997:	High (DM)	Low (DM)
Third Quarter (from September 25, 1997)	86.50	80.60
Fourth Quarter	83.50	70.50
1998:		
First Quarter	137.60	76.50
Second Quarter	132.00	107.55
Third Quarter	116.75	85.00
Fourth Quarter	111.70	73.10
1999:	**High (EUR)**	**Low (EUR)**
First Quarter (through February 26, 1999)	70.50	57.50

As of February 26, 1999, there were approximately 1,150 shareholders of record and beneficial stockholders (stockholders holding Common Shares in brokerage accounts) of the Company's Common Shares. The Company has not paid any dividends on its Common Shares since its inception and does not intend to pay any dividends on its Common Shares in the foreseeable future. The Company intends to retain its earnings, if any, for the development of its business.

STOCKHOLDER INFORMATION

Corporate Headquarters

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1076 HR Amsterdam

Germany
Bruckhaus Westrick Heller Löber
Freiligrathstraße 1
40479 Düsseldorf

Registrar and Transfer Agent

American Stock Transfer & Trust Company
40 Wall Street
New York, NY 10005
USA
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.
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Annual Meeting

The Company expects to hold its Annual General Meeting of Stockholders on Friday, June 18, 1999 at 10:30 AM in Venlo, The Netherlands.

Information via Internet

Internet World Wide Web users can access QIAGEN N.V.'s Annual Report and other financial information at the QIAGEN homepage at: http://www.qiagen.com

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
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The PCR process is covered by U.S. Patents 4,683,195 and 4,683,202 and foreign equivalents owned by Hoffmann-La Roche AG.

Notes

QIAGEN Around the World

QIAGEN Contact Info

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Technical Support • Customer

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