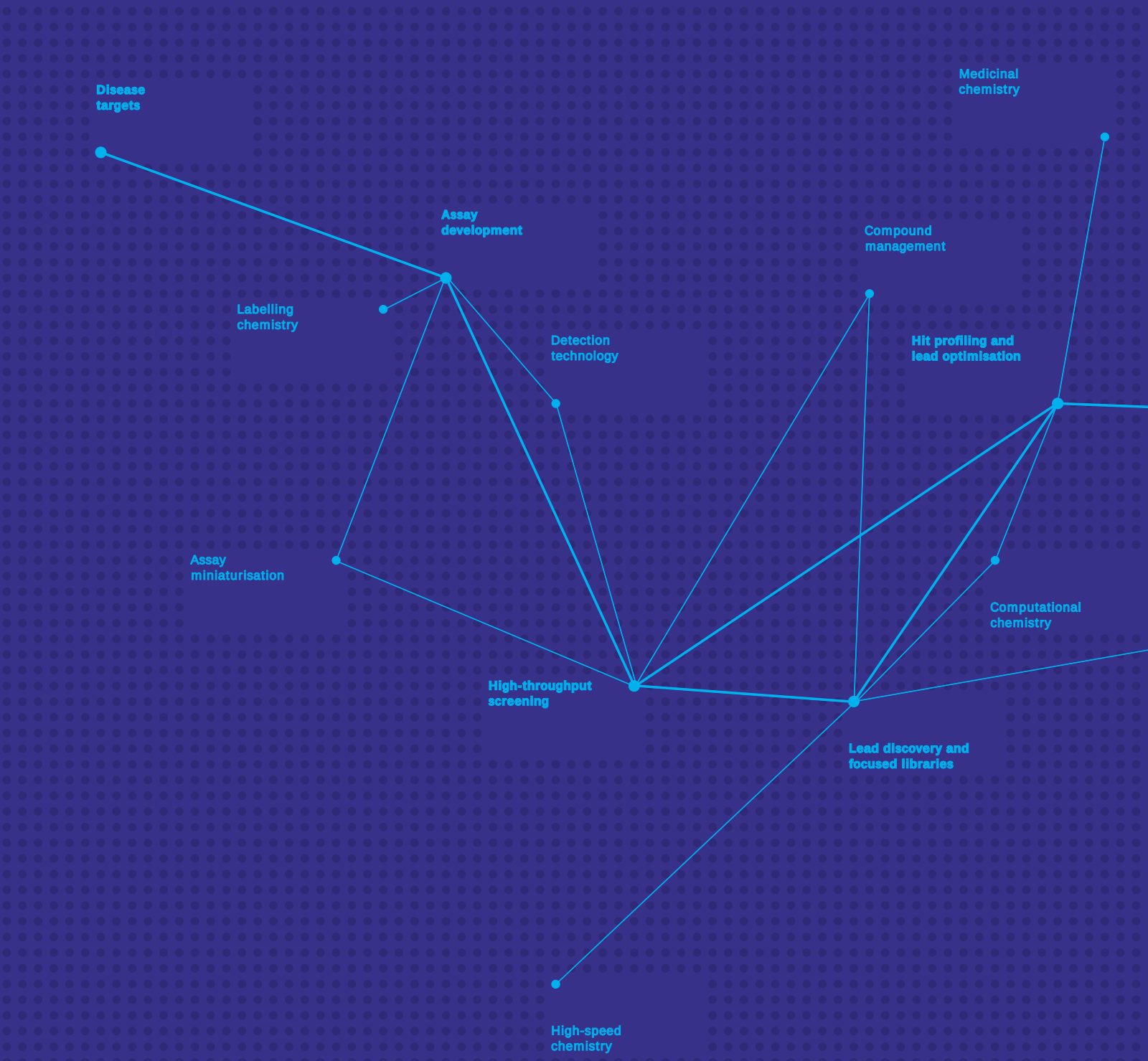
evotec OAI


Disease targets
Medicinal chemistry
Assay development
Compound management
Labelling chemistry
Detection technology
Hit profiling and lead optimisation
Assay miniaturisation
Computational chemistry
High-throughput screening
Lead discovery and focused libraries
High-speed chemistry

evotec OAI 1

28-22	Business Development	3. + 4.
	Kathrin Halbach	Oktober
2-7	Detection Technology	5.9.
	A Change	
14	Research IT	
	Nanbws	

evotec OAI 2

4-3		
8		
11-20		
	Hamhws	

evotec OAI 3

1-9	Labeling Chemistry	04.10.2007
10-16	LST	05.12.2001
17-23		
	Nanhws	

evotec OAI 4

1-7	PAA MEDGE - DEVELOPMENT
9-14	ANALK ASSAYS - DISCOVERY
	Ox

evotec OAI 5

	Logistics (Sch. Keller)
	HH

evotec OAI 6

Elektronik / Optik
A. Change

evotec OAI 7

27-6	HIT PROFILING
	HH

evotec OAI 8

6-11-2008	EVOTEC OAI
	Labeling Chemistry
	HH

evotec OAI 9

	Screening Operations / 07.11.07
	Screening Service
	Jürgen Wolf
	HH

evotec OAI 10

	DISCOVERY CHEMISTRY / 17/12/01
Ox	

evotec OAI 11

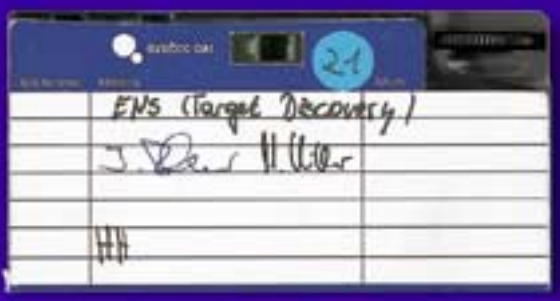
Quality / Reg. Support
Ox

evotec OAI 12

Custom synth. -	Clara Quinnell
Development	
Chemistry	
OXFORD	

evotec OAI 13

CHEMINFORMATICS	NOV 2001
Oxford	



Background to the photostory

To give you the most realistic picture possible of Evotec OAI, we asked our employees to take part in a special experiment. We gave them disposable cameras and asked them to photograph what they were working on at the moment or what they thought was important in their work area. Through the series of snapshots presented here, you will get to know Evotec OAI through the eyes of its employees—and you will most certainly discover some new, and unusual aspects of our daily work.

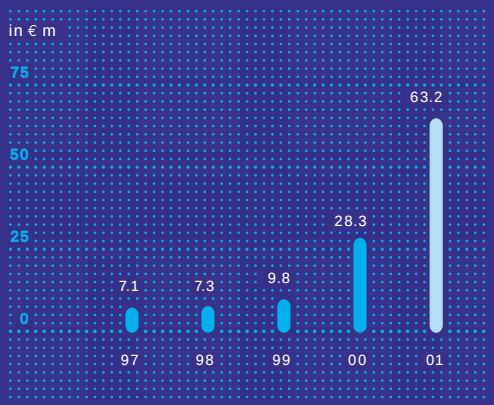
Evotec OAI AG	Page		2000	2001	Δ 01 | 00 in %
Results					
Revenue	28	T€	28,276	63,225	123.6
R&D expense	30	T€	18,480	23,012	24.5
Operating loss [1]	30	T€	14,361	12,837	(10.6)
Net loss	31	T€	47,074	147,750	213.9
EBITDA	31		(9,459)	(1,011)	89.3
Cash flow	33	T€	(24,760)	(12,733)	48.6
Balance sheet data					
Stockholders' equity	32	T€	502,495	347,591	(30.8)
Capital expenditure [2]	33	T€	8,128	17,531	115.7
Cash including					
marketable securities	33	T€	48,924	27,833	(43.1)
Balance sheet total	33	T€	532,706	394,617	(25.9)
Personnel data					
Employees as at Dec. 31	29		505	585	15.8
Per share					
Result	32	€	(1.75)	(4.17)	(138.3)
EBITDA	31	€	(0.35)	(0.03)	91.4

1) adjusted for acquisition-related amortisation of goodwill and other intangible assets
2) purchase of fixed and intangible assets

Exchange rate 2000: GBP|€ 1.66598 (average 4th quarter 2000)
Exchange rate 2001: GBP|€ 1.60905

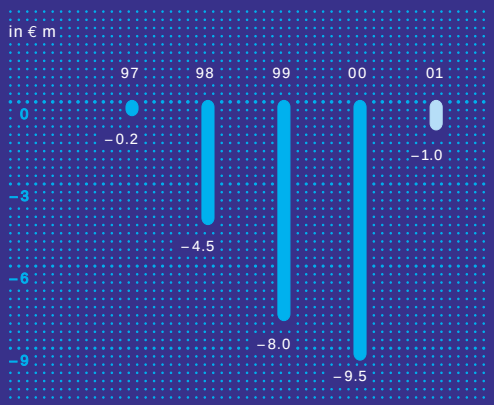
Revenue

Strong growth



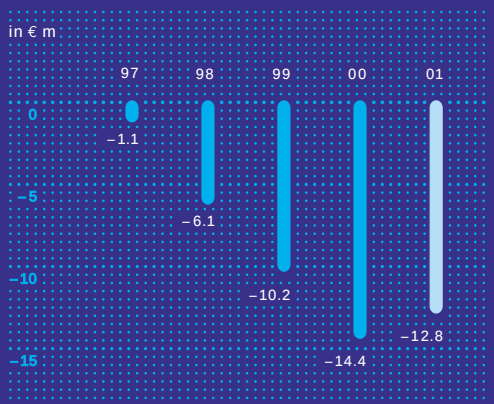
EBITDA

Almost achieving EBITDA break-even



Operating result [1]

Improved actual and pro-forma



Content

Most integrated provider of drug discovery services
> from target to IND

Ideal partner of pharma and biotech companies
> 20 customers
out of top 20 pharma

Critical mass, proprietary technologies and state-of-the-art expertise
> 585 people,
140 patent families

Strong growth approaching EBITDA break-even
> service business + 21%

Participation in future growth of successful products
> service fees + milestones
+ royalties

02 From target to IND
Photostory

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About this report

Detailed key figures
Glossary

From target to IND

On the following pages our employees guide you through the complex process of drug discovery and development. It is their expertise, combined with their ability to work in interdisciplinary teams, that creates the culture of excellence at Evotec OAI.

Disease targets

Understanding disease targets and developing new drugs against them is key to our clients', and therefore to our, businesses. Once identified and validated we use our expertise to discover lead candidates and to develop them into compounds for clinical testing.

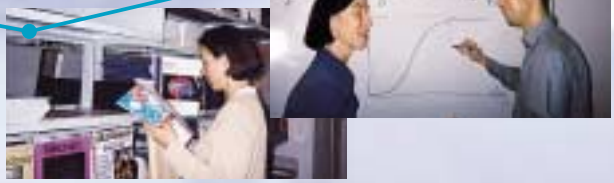
Part of the human brain: tissue samples taken from different brain regions are analysed and targets for Alzheimer's disease are identified

Assay development

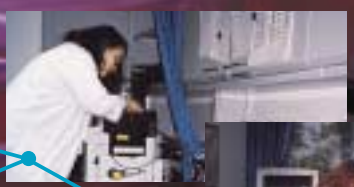
Over 200 man-years of experience combined with our versatile detection technology (which increases flexibility and reduces time in assay development) has enabled us to develop more than 80 novel biological assays from a wide variety of target classes. With Sugen, for example, we reduced the assay development timelines for certain enzyme targets from four months to six weeks. We provide off-the-shelf assays ready for screening and constantly develop new solutions to unlock targets that have not previously been amenable to screening.

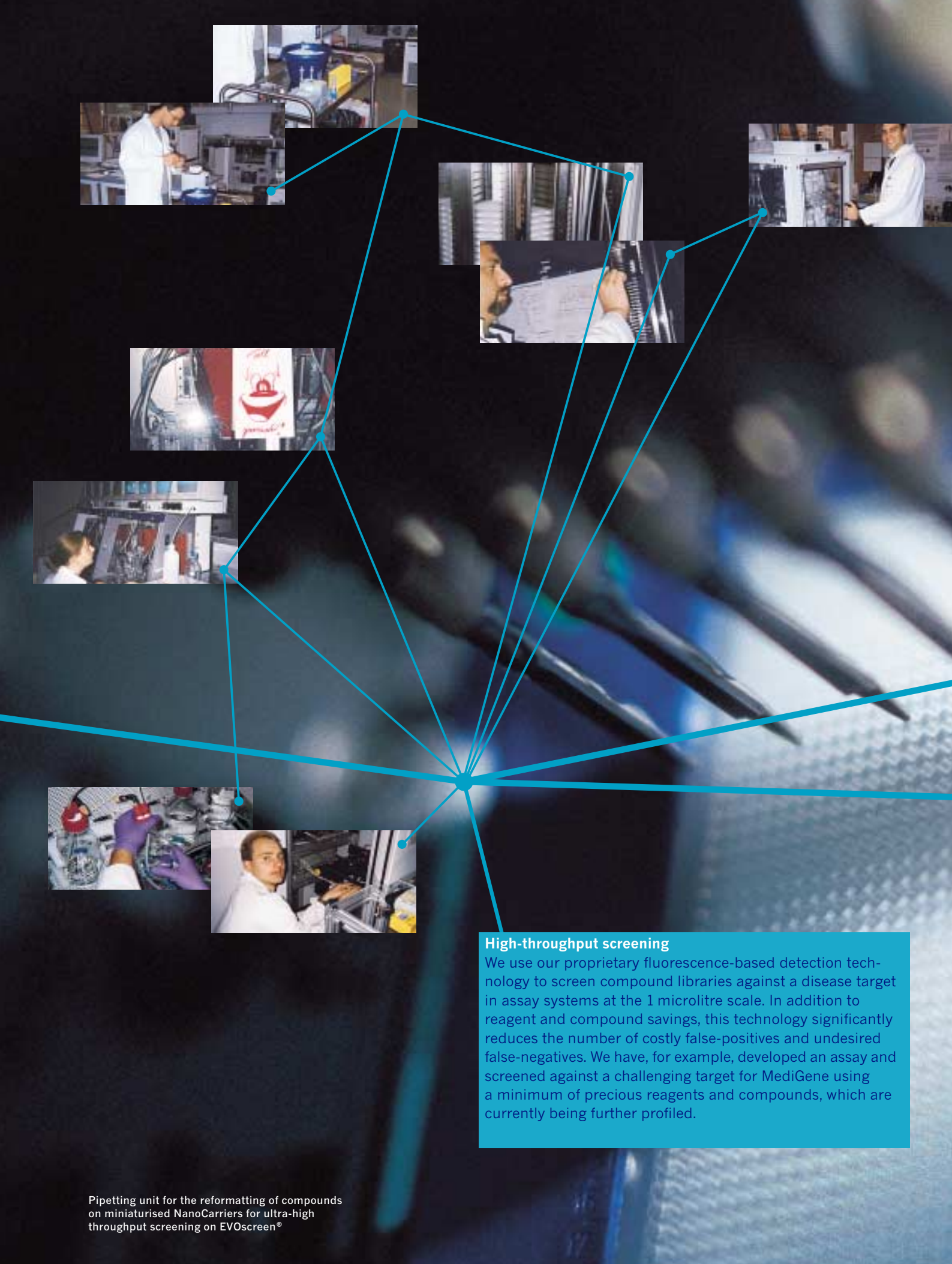
Incubation of mammalian cell lines prior to their use in cell-based HTS assays

Labelling chemistry



Assay miniaturisation





High-throughput screening
We use our proprietary fluorescence-based detection technology to screen compound libraries against a disease target in assay systems at the 1 microlitre scale. In addition to reagent and compound savings, this technology significantly reduces the number of costly false-positives and undesired false-negatives. We have, for example, developed an assay and screened against a challenging target for MediGene using a minimum of precious reagents and compounds, which are currently being further profiled.

Pipetting unit for the reformatting of compounds on miniaturised NanoCarriers for ultra-high throughput screening on EVOscreen®

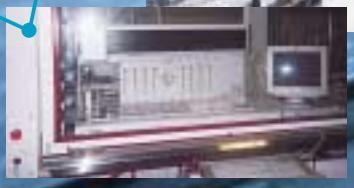
Detection technology

Compound management

Lead discovery and focused libraries

We design and synthesise libraries of well-characterised compounds for lead generation. Our knowledge of a broad range of therapeutic targets ensures a drug-like focus from day one. We have successfully managed many programmes and have synthesised hundreds of libraries of high-quality compounds from a broad range of diverse and validated templates.
A compound developed from one such programme has been approved to enter clinical trials in September 2001.

High-speed chemistry



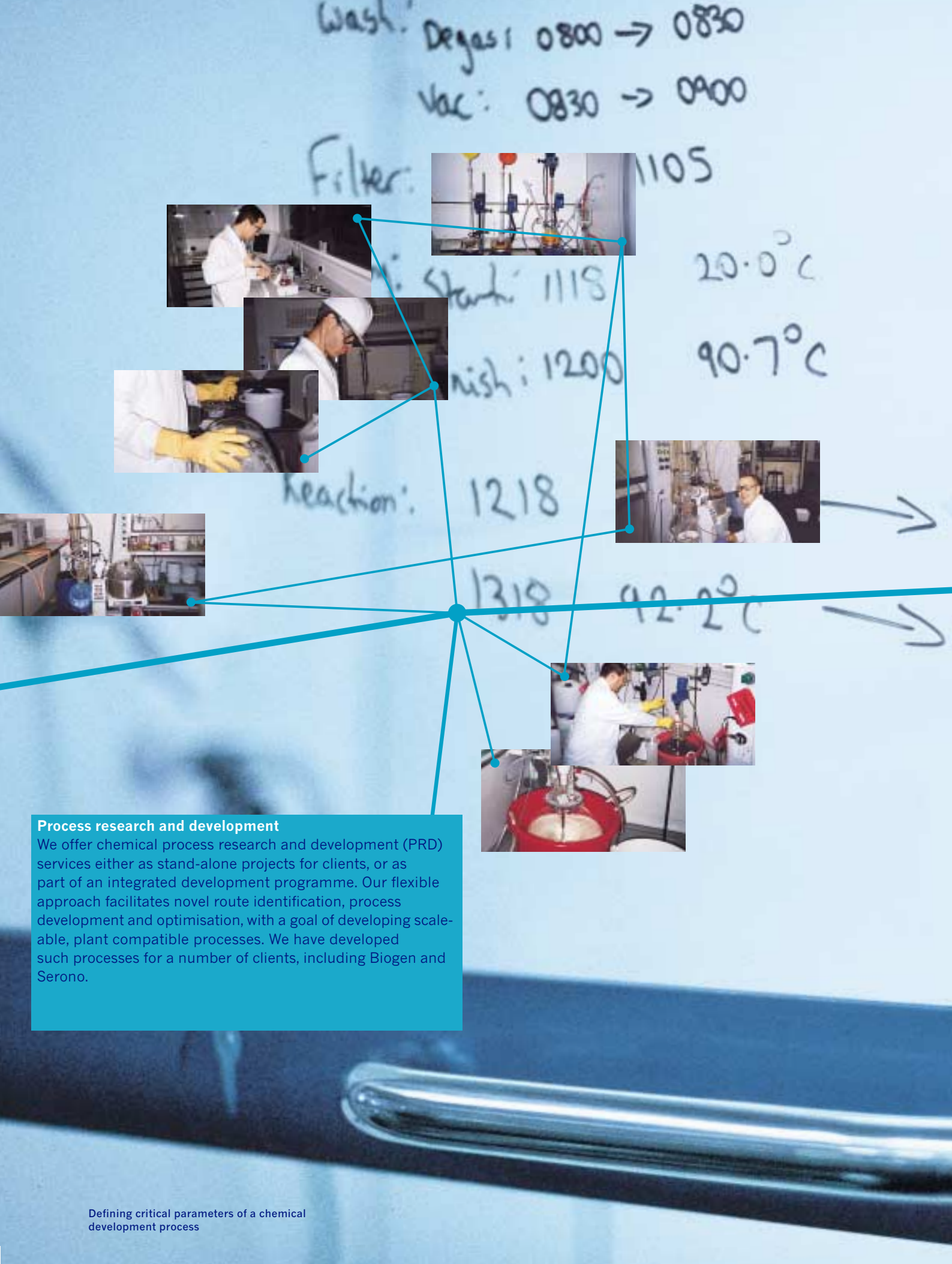
Computational chemistry

Chemical libraries in refrigerators for screening and hit profiling

Medicinal chemistry

Hit profiling and lead optimisation
We can rapidly characterise an identified hit for biological potency and its physiological profile. The biological and pharmacological properties of validated hits are improved, using our lead optimisation platform, with the aim of producing sustainable leads. This platform is based on significant expertise in medicinal and computational chemistry. For example, as a result of a collaboration with Evotec OAI, Serono has filed several patents and we are collaborating with them in the further development of a number of compounds.

Crystal structure of the interaction between a drug candidate and the protein Cytochrome P-450, which is important for the metabolism of this drug candidate



Process research and development

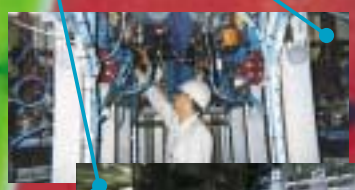
We offer chemical process research and development (PRD) services either as stand-alone projects for clients, or as part of an integrated development programme. Our flexible approach facilitates novel route identification, process development and optimisation, with a goal of developing scale-able, plant compatible processes. We have developed such processes for a number of clients, including Biogen and Serono.

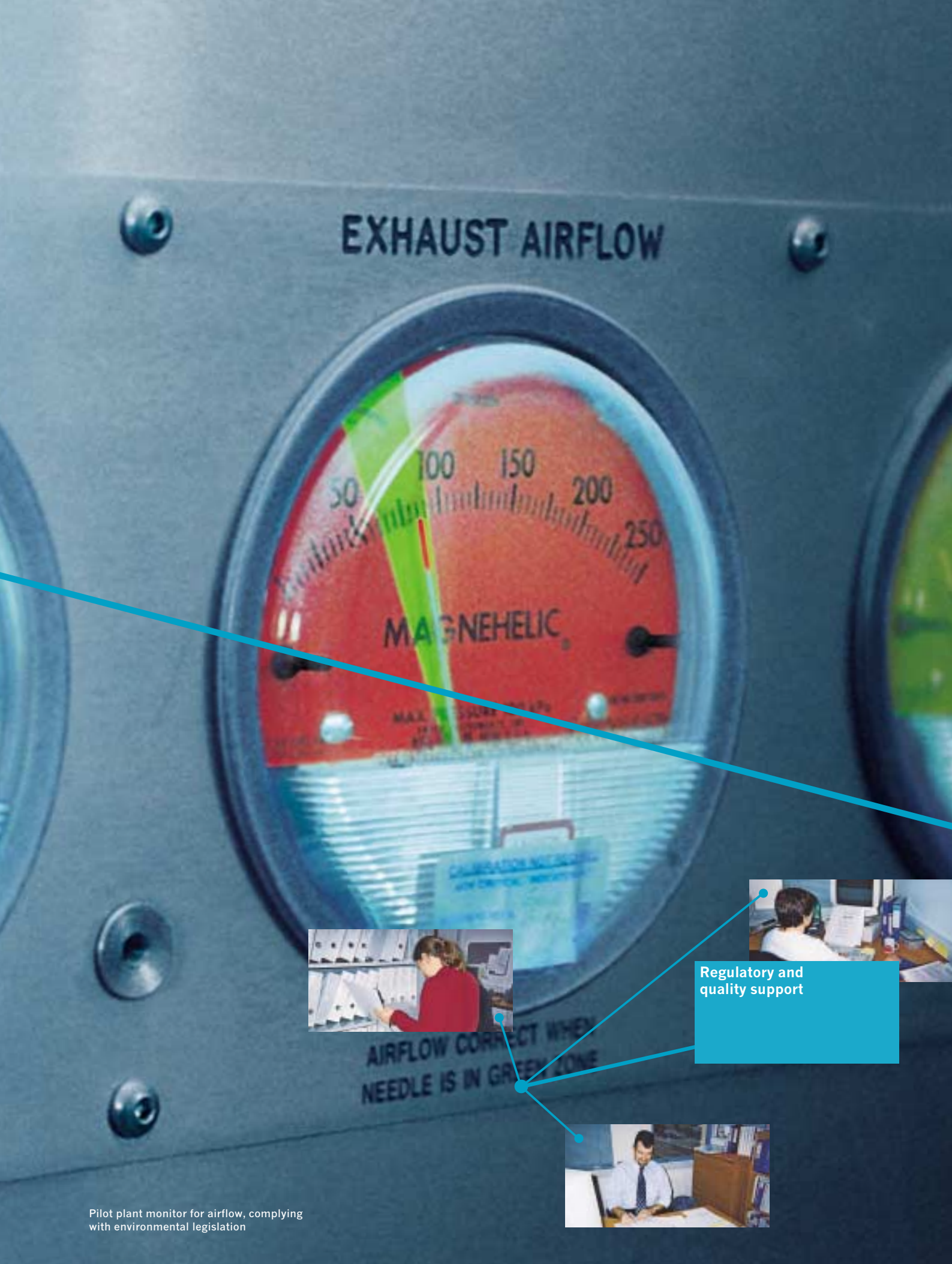
Defining critical parameters of a chemical development process

Analytical services

Scale-up and manufacture

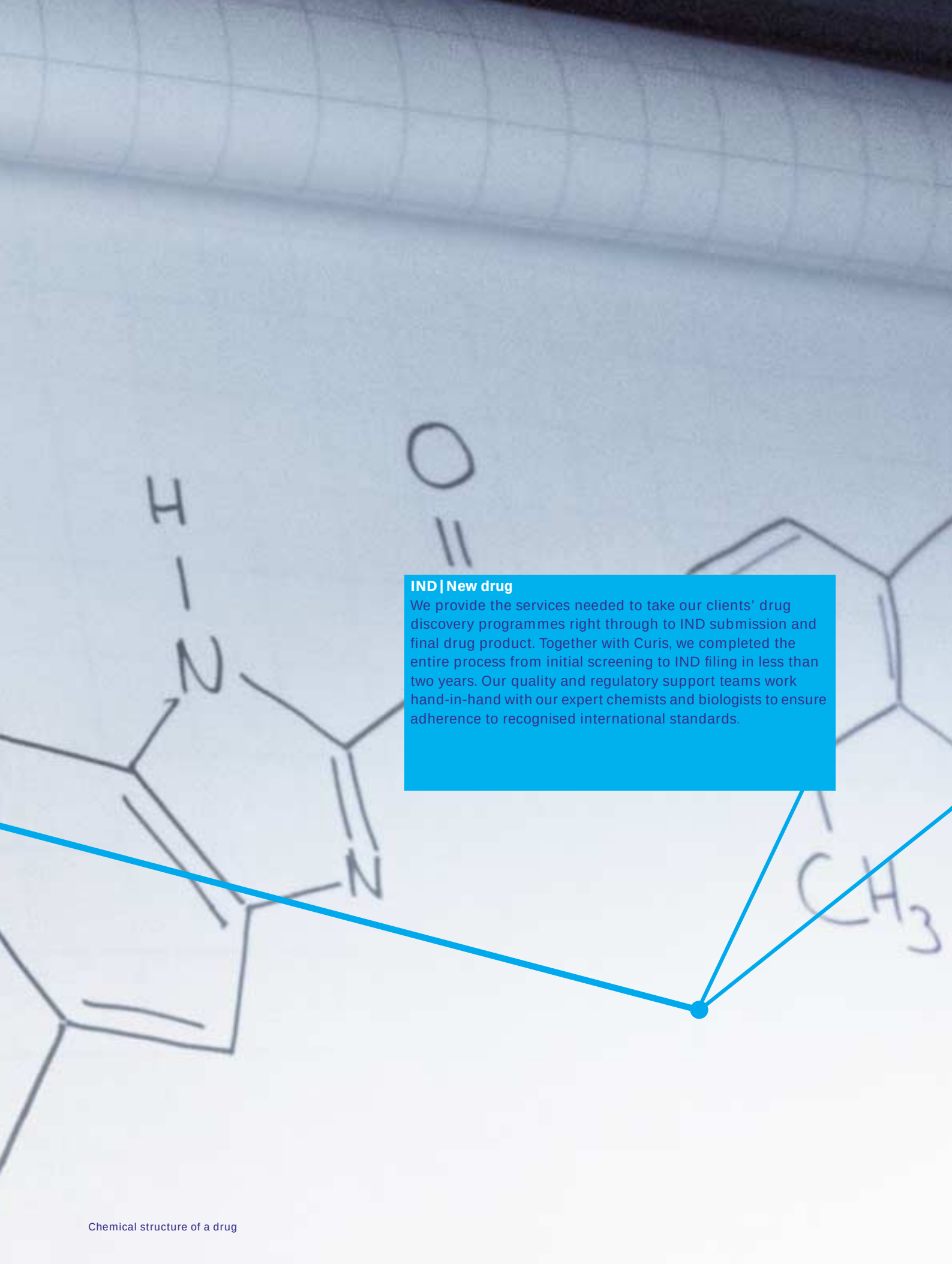
We offer a flexible production service from 1 gram to hundreds of kilograms. Materials can be synthesised under GMP or non-GMP conditions. In 2001 we opened our state-of-the-art 4,200 sq m pilot plant, which provides material for Phase I–III clinical trials and small-scale manufacture. Clients benefit from having all the supporting disciplines of PRD, quality and analysis on site to support manufacture. Our dedication to quality has been fully endorsed by our approval as the commercial supplier of an API for the U.S. market.





Regulatory and quality support

Pilot plant monitor for airflow, complying with environmental legislation

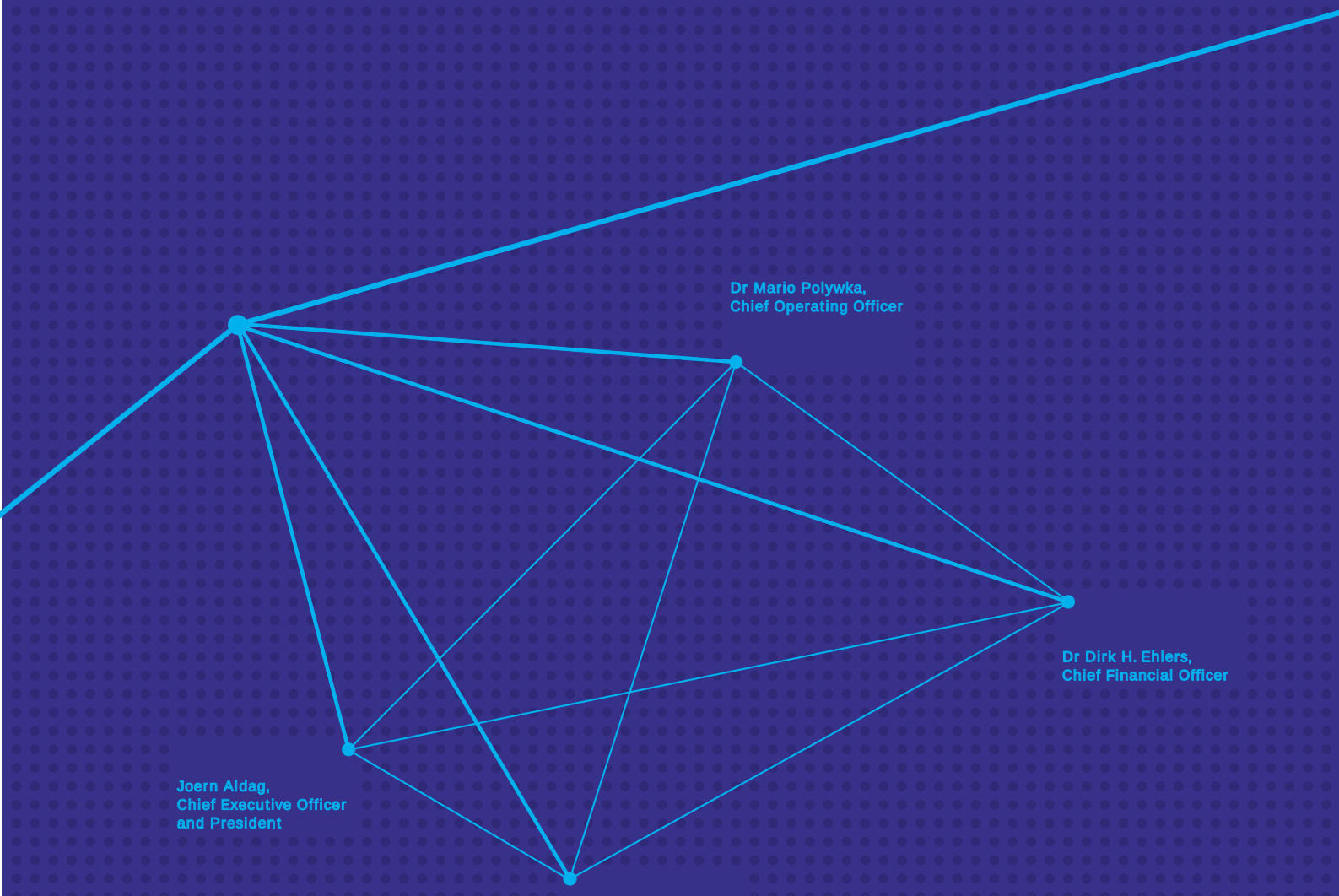


IND | New drug

We provide the services needed to take our clients' drug discovery programmes right through to IND submission and final drug product. Together with Curis, we completed the entire process from initial screening to IND filing in less than two years. Our quality and regulatory support teams work hand-in-hand with our expert chemists and biologists to ensure adherence to recognised international standards.

Chemical structure of a drug

To our shareholders



We maintained our record of working with the world's principal pharmaceutical and biotechnology companies and successfully evolved the company into a leading provider of drug discovery services and research partnerships.

Joern Aldag,
Chief Executive Officer and President

2001 was the first full year of operations since EVOTEC BioSystems merged with Oxford Asymmetry International (OAI) to create a leading integrated drug discovery company which provides services to, and collaborates on research with, the world's most significant pharmaceutical and biotechnology companies. Our comprehensive set of skills and capabilities in drug discovery and development, enables us to meet our customers' specific needs. We do this either through target-to-IND programmes, or by providing individual activities throughout the drug discovery and development chain.

Our fully-integrated platform comprises proprietary as well as state-of-the-art technologies and processes:

> we provide gene cloning and protein expression, fluorescent labelling, assay development, chemical library design and screening in the course of hit identification;

> to optimise the quality of these compounds we perform hit profiling, lead optimisation and medicinal chemistry programmes;

> for these optimised structures, which we call drug candidates, we deliver the corresponding chemical process development;

> and in our pilot plant, we are able to produce the larger quantities of bulk drug substance in amounts up to 100 kilograms to support clinical development.

Based on our extensive know-how and experience, we help to accelerate our customers' pre-clinical development phases while, at the same time, improving the success rates of compounds in later development stages. The quality and speed of our processes rely on our strong and validated chemical discovery processes and on our proprietary screening technologies. Numerous customer case studies document and confirm our competitive position.

Dr Timm-H. Jessen,
Chief Scientific Officer

In a year of integration, which for many companies is a time for internal consolidation, we achieved 124 % revenue growth and our order book is healthier than at any stage in the company's history.

A solid performance. We are very pleased with our performance in 2001. Revenues grew from € 28 m in 2000 to € 63 m, an increase of 124 %. Our services business grew by 234 %. In a year of integration, which for many companies is a time for internal consolidation, even on a pro-forma basis (including the chemistry business for the full year 2000) our services business achieved a growth rate of 21%. Our technology partnership business declined as expected, and our instrumentation business unit, which we have successfully transferred into a separate legal entity (Evotec Technologies), grew by 455 %. Overall, revenues in our technology units (partnerships and instruments) were slightly below the previous year's level. This provides convincing evidence that, after many years of technology development, we have successfully mastered the transition to being a provider of drug discovery services and research partnerships.

Dr Mario Polywka,
Chief Operating Officer

Successful relationships. We continued to maintain our long record of working successfully with virtually every large pharmaceutical and biotechnology company in the world. During the year, we signed many new agreements and extended many others, including a particularly significant chemical library collaboration with Merck & Co. Our order book is healthier than at any stage in the company's history. In addition, we are delighted that, for the first time, a compound which we have co-developed with one of our clients has been approved for clinical Phase I. This is particularly important because, as many of our contracts contain success-related remuneration, such as milestones or royalties, we want our customers to be successful.

In 2001 we successfully validated the biology service by use of its underlying detection and assay technologies. Our EVOscreen® Mark II screening systems, which were delivered throughout 2000 to our three technology consortium partners, Novartis, GSK and Pfizer, were installed in-house, and are proving their worth as a powerful tool in compound screening. Several million compounds have already been routinely screened, providing extremely high quality data. At the end of 2001 we delivered, to GlaxoSmithKline (GSK), the next generation EVOscreen® Mark III system.

At the same time, we have continuously improved turnaround times for assay formats for all major target classes, and many customer screening projects have already been successfully completed. Our biology services were also commercially successful: on a stand-alone basis they grew by 55 % to € 5.4 m.

Dr Dirk H. Ehlers,
Chief Financial Officer

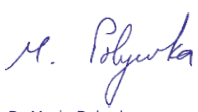
Favourable risk|return ratio. The broad synergies expected from our merger with OAI in 2000 have, in many instances, come to fruition quickly. A number of customers which had previously used services and technologies from one part of our company, have already extended their relationships with us. In addition, we concluded a number of research agreements with companies which are using both the biology and chemistry areas of our discovery platform. We continue to secure future milestone or royalty payments on many programmes, in addition to our normal service fees, through our high value offer. This mid-term financial upside from our service business creates a very favourable risk|return ratio. In the short-term, even without such benefits, during Q3 we recorded positive earnings before interest, tax, depreciation and amortisation (EBITDA) for the first time. This trend continued into Q4 and, adjusted for seasonal effects, is expected to be maintained in the current fiscal year.

We are optimistic about the future. Our continued investment in R&D, our record, expertise and ongoing business relationships, form a solid base for strong and steady business growth.

Looking ahead. We continue to be optimistic about the outlook for 2002. We now employ nearly 600 people, primarily at our two main sites at Hamburg in Germany and Abingdon in the UK. We have the critical mass and skills to sustain our technical superiority and to continue to offer our state-of-the-art product offering. Completion of our technology platform gives us the opportunity to direct our R&D resources towards more proprietary biological applications and innovations in chemistry. We are confident that our continued investment in R&D, our record, expertise and ongoing business relationships, give us a very solid base for strong and steady business growth.

We thank our shareholders, customers, partners and, particularly, our staff for their loyalty and hard work during the past year. Together, we accomplished a great deal in 2001; with their continued support, we look forward to another year of progress.

Joern Aldag,
Chief Executive Officer
and President

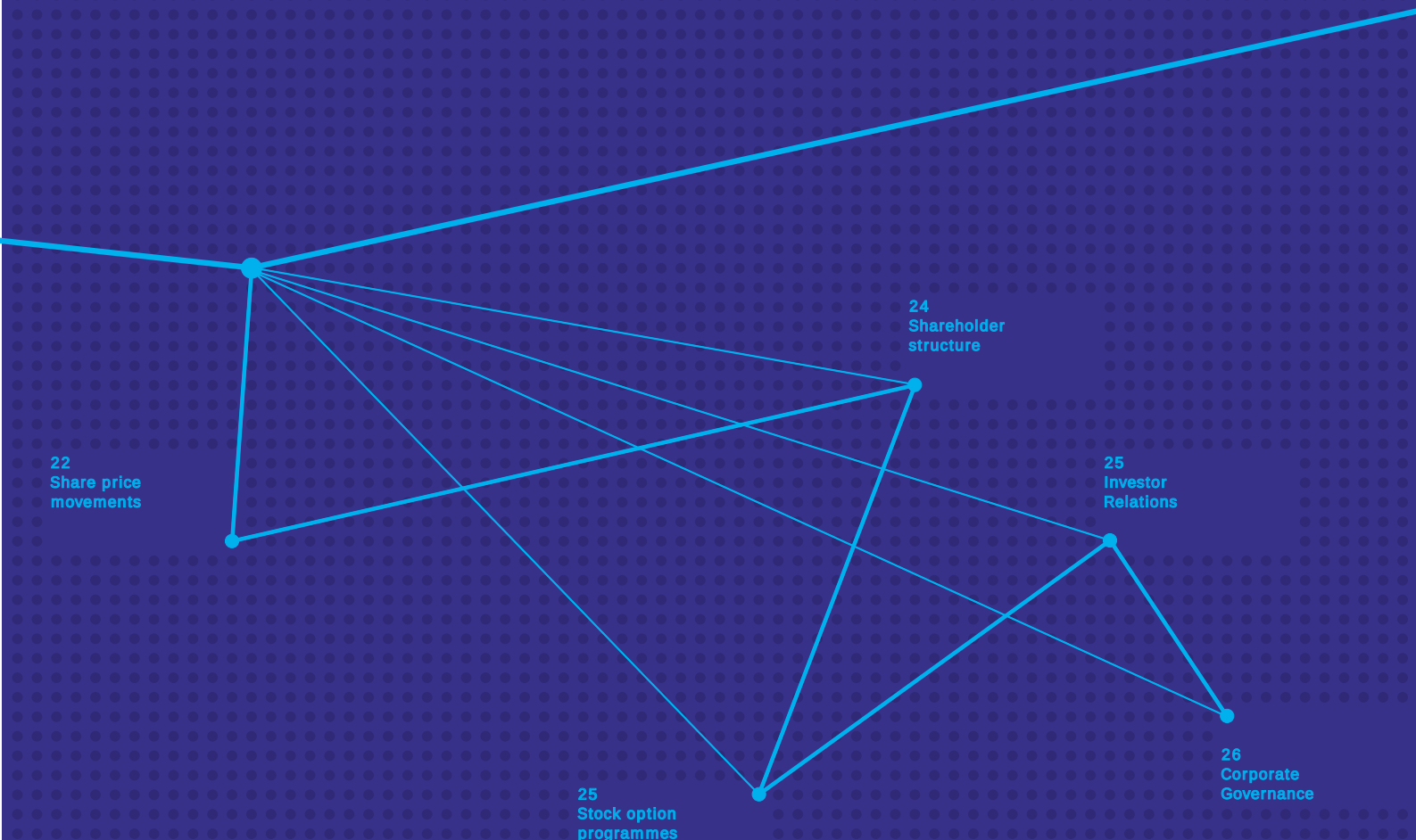


Dr Mario Polywka,
Chief Operating Officer

Dr Timm-H. Jessen,
Chief Scientific Officer

Dr Dirk H. Ehlers,
Chief Financial Officer

Evotec OAI shares



Share price movements

A difficult year. 2001 was a memorable year on the stock markets: it brought high volatility and large losses, a situation which reached a peak in September. Even though shares began to show signs of recovery at the end of the year—after a low on 21 September the Euro Stoxx 50 grew by 32 %—there was little appetite for celebration. The Euro Stoxx 50 was down by 20 % year-on-year, and the individual European markets reported similarly high losses. The DAX fell by almost 20 %—its largest downturn since 1990—to record a second consecutive year of loss. Investors in American securities were, however, able to hold their heads above water despite the recession: the Dow Jones Index recorded a relatively moderate loss when it fell by only 6 % while the market-wide S&P-500 Index slumped by 12 %.
The largest fall in 2001 was in technology shares. The Nemax 50 closed the year at 1,150, down 60 %. In September, it had even sunk below the 1,000-point mark for the first time. At first glance, this is disappointing but, in many cases, the heavy losses were the result of the fierce general overheating in spring 2000, followed by a sustained downturn, of what is still a young growth sector.

Evotec OAI shares 2001

1st quarter	January 4	High	€	33.95
	March 22	Low	€	15.05
2nd quarter	May 28	High	€	23.10
	June 26	Low	€	12.50
3rd quarter	July 4	High	€	16.50
	September 21	Low	€	5.35
4th quarter	October 19	High	€	14.45
	October 1	Low	€	6.70

2001	High (variable)	€	33.95
	Low (variable)	€	5.35
	Average share price	€	15.98
	Average daily trading volume	pcs.	147,511
	Price decrease	%	68
	Closing price as at December 31, 2001 (Xetra)	€	10.15
	Market capitalisation as at December 31, 2001	€ m	360.40
	Number of shares as at December 31, 2001	pcs.	35,507,047
Key share data	Earnings	€	(4.17)
	Earnings, adjusted for amortisation of goodwill		
	and other intangible assets	€	(0.23)
	EBITDA	€	(0.03)
	Dividend	€	0

German securities identification number: 566480
Neuer Markt abbreviation: EVT
Index: Nemax 50, Neuer Markt Biotechnology

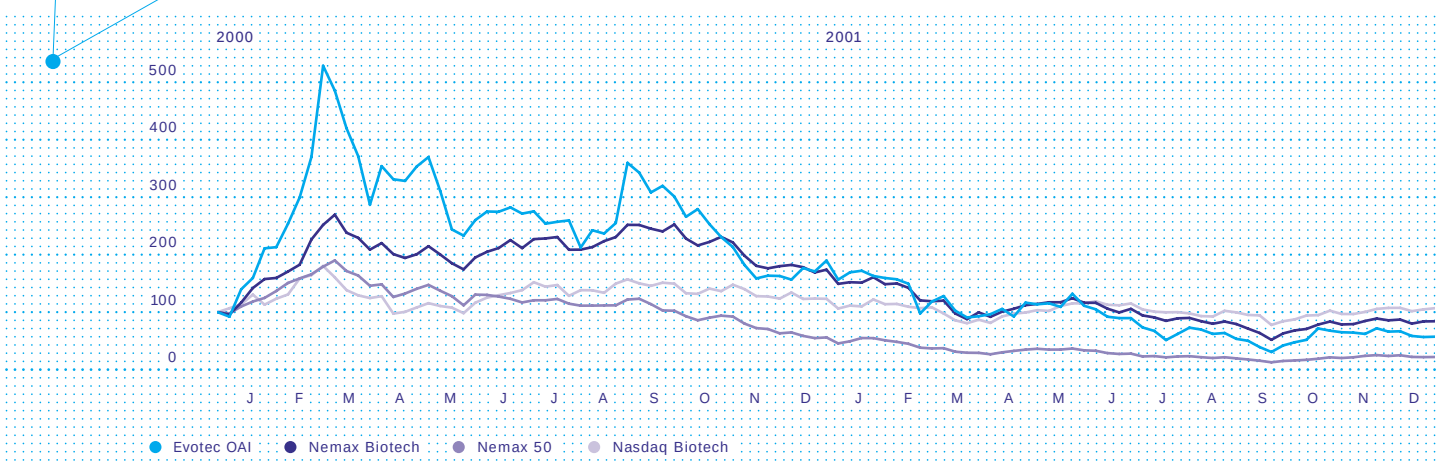
The European biotech industry is still young, but has comparatively stable foundations. These enabled it to withstand the worst of the volatility in the world's stock markets. Evotec OAI stock ended the year 56 % above its issue price.

Relative stability in biotechnology shares. In contrast to the Nemax 50, the Nemax Biotechnology Industry Index did well in 2000, closing at the head of the Nemax sector rankings with growth of more than 70 %. At that point, it was speculated that biotechnology securities would record disproportionate losses in 2001. The Nemax Biotechnology Index fared, however, better than the Nemax 50 Index when it recorded a 51 % fall in 2001. The comparatively stable foundations of the industry can be attributed to many years of solid research and to the successful development of many biotechnology companies.

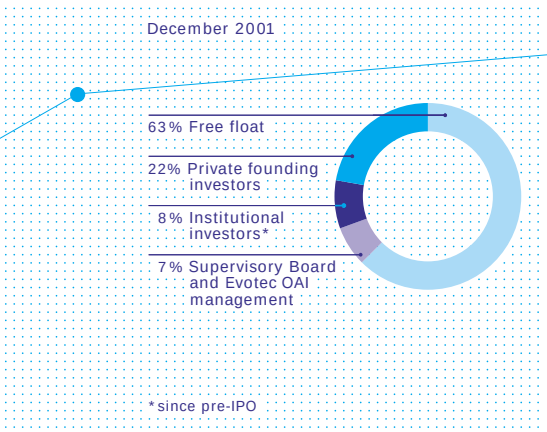
In common with other companies on the Neuer Markt, Evotec OAI shares recorded substantial losses in 2001. They were 68 % down on the year ending at € 10.15 but, in contrast with many other securities on the index they ended the year above their issue price (+ 56 %). We had no reason to be satisfied with this result, however, particularly when we compared it with those of our competitors on the Nasdaq Biotech Index, which fell by only 17 % during 2001.

The past year's unsatisfactory results on the Neuer Markt do not imply a continual weakness in the New Economy as a whole. Fundamentally sound companies will continue to generate good growth. The Frankfurter Wertpapierbörse (Frankfurt Stock Exchange) has introduced measures to increase transparency on the Neuer Markt. These include structured interim reports, and the reporting of security transactions, in addition to the introduction of de-listing rules, but it remains to be seen whether they will facilitate the selection of high-quality shares and make a positive contribution to the performance of this growth sector. In light of the current undervaluation of our shares relative to our American peer group, it is possible that there will be more interest from American investors in 2002. Investors and analysts are increasingly aware that, in the biotechnology and pharmaceuticals sectors, real markets exist and do not need to be created.

Development of Evotec OAI share price for 2000 and 2001, indexed



Shareholder structure



Shareholder structure

The number of shares at the end of the year increased following the exercise of 54,899 stock options to 35,507,047. In December 2001, roughly 63 % of these were held in free float (shares that are not held by the company's management, members of the Supervisory Board, or founding shareholders).
The Evotec OAI management and the Supervisory Board hold approximately 7 % of the shares. The shares are held primarily in Europe, the majority in Germany and England.
At the end of the year, we were not aware of any single investor holding more than a 5 % interest in the company. This means that Evotec OAI should profit from the new regulation of the Frankfurter Wertpapierbörse (effective as of June 24, 2002) which governs the calculation of a company's weighting in the share index. In accordance with this regulation, if a shareholder's accumulated shares comprise 5 % or more of the share capital in one category of a company, they are designated as a block of non-free float shares. Non-free float shares will no longer be taken into account when calculating the index. Under this definition, 100 % of Evotec OAI's shares are free float and will be used in the calculation of the company's index weighting.

Shareholdings of the Board of Evotec OAI AG

	Holdings March 31, 2001		Holdings December 31, 2001		Transactions 2001		
	Shares	Stock options	Shares	Stock options	Date	Transaction type	Quantity
Management Board							
Joern Aldag	278,000	32,600	278,000	72,600	06 | 12	Issuance of stock options	40,000
Dr Timm-H. Jessen	146,672	26,732	136,172	53,232	04 | 07	Sale of shares	14,000
					27 | 11	Exercise of stock options	3,500
					06 | 12	Issuance of stock options	30,000
Dr Mario Polywka	32,565	15,000	32,565	45,000	06 | 12	Issuance of stock options	30,000
Dr Dirk H. Ehlers [1]	0	0	0	30,000	12 | 09	Issuance of stock options	30,000
Supervisory Board							
Prof Dr Heinz Riesenhuber	110,000	0	110,000	0			
Peer Schatz	3,892	0	3,892	0			
Dr Karsten Henco [2]	1,306,356	26,732	1,306,356	26,732			
Dr Edwin Moses [2]	313,058	15,000	313,058	15,000			
Michael Redmond	0	0	1,000	0	12 | 07	Purchase of shares	1,000
Dr Pol Bamelis [3]	0	0	0	0			
Roland Oetker [4]	545,998	0	555,998 [5]	0 [5]	04 | 04	Purchase of shares	10,000
Prof Dr Hans-Jürgen Quadbeck-Seeger [4]	5,400	0	5,400 [5]	0 [5]			

1) member of the Management Board since September 5, 2001
2) member of the Management Board until June 30, 2001 and member of the Supervisory Board since July 1, 2001
3) member of the Supervisory Board since June 12, 2001
4) member of the Supervisory Board until June 30, 2001
5) as of June 30, 2001

We operate stock option programmes which offer all employees the opportunity to become shareholders. In today's competitive environment, this is an important incentive in attracting and retaining high-quality people.

Stock option programmes

Evotec OAI offers all its employees the opportunity to become shareholders through stock option programmes. This is an important incentive in attracting and retaining highly qualified employees in the face of intense international competition. In addition to the stock option programmes, dated June 7, 1999 and June 26, 2000, the Annual General Meeting on June 18, 2001, agreed to the launch of a third programme, under which a maximum of 1,129,600 shares might be issued.
In 2001, we issued a total of 823,445 options to our employees, the majority in September at an exercise price of € 6.80 and in December at € 12.48 for new employees. At the end of the year, the total number of exercisable options amounted to 1,666,451. In November, our long-standing employees were given the opportunity for the first time to convert a portion of their first options into shares. Since our share price was, at that time, more than 50 % above its issue price, many employees took up the offer.

We focus on transparency in our communications with investors and analysts. Continual dialogue enables us to demonstrate our progress, to build confidence and to retain investors over the long-term.

Investor Relations

Evotec OAI aims to achieve a sustained increase in the value of its shares by engaging in professional operational and strategic work. Our goal is to inform our shareholders of our company's achievements and potential via intensive and systematic Investor Relations. We set great store in communicating this information in an open and timely manner. In the biotechnology industry, in which there are many different business models and a great deal of complex sector know-how, it is particularly important to create transparency through a continued dialogue with investors and analysts. This enables us to demonstrate our progress, to build confidence and to retain investors over the long-term.
In the Investor Relations Prize 2001, awarded by Capital magazine and the DVFA (the German Society of Investment Analysts and Asset Managers), Evotec OAI was placed tenth of all the companies listed on the Nemax 50. An improvement of four places on the previous year, this was evidence that we had provided our shareholders with "solid information" throughout the stock market's ups and downs in 2001. We made around 150 one-to-one presentations at our principal locations in Hamburg and Abingdon, at roadshows in Frankfurt, London, Amsterdam, Vienna, Zurich, Milan and Tokyo, and in various U.S. cities. There we primarily maintained a strong presence with presentations and interviews at five prominent international investor conferences for the health industry. All in all, we presented Evotec OAI at 25 international investor events. These, together with the 29 financial analysts from leading financial institutions who now regularly report on the company, play an important role in shaping opinion within our sector. We are committed to creating the basis for a fair valuation of our company by continuing our dialogue with analysts and investors.

Investor Relations information is available on our website www.evotecoai.com

Good corporate governance is at the heart of our policies and procedures, which comply in large part with the new code which was published in February 2002.

Corporate Governance

2001 was witness to increasing public discussion on corporate governance in German companies. A new German Corporate Governance Code was developed by a dedicated government commission and published in February 2002.

Good corporate governance has formed the cornerstone of the management policies of Evotec OAI. As a result, we checked our policies and procedures for compliance against this new code with the objective of adopting it without delay. We have found only two material differences:

> Based on decisions taken at the company's General Meeting in 2001, compensation of the Supervisory Board is not linked to performance.

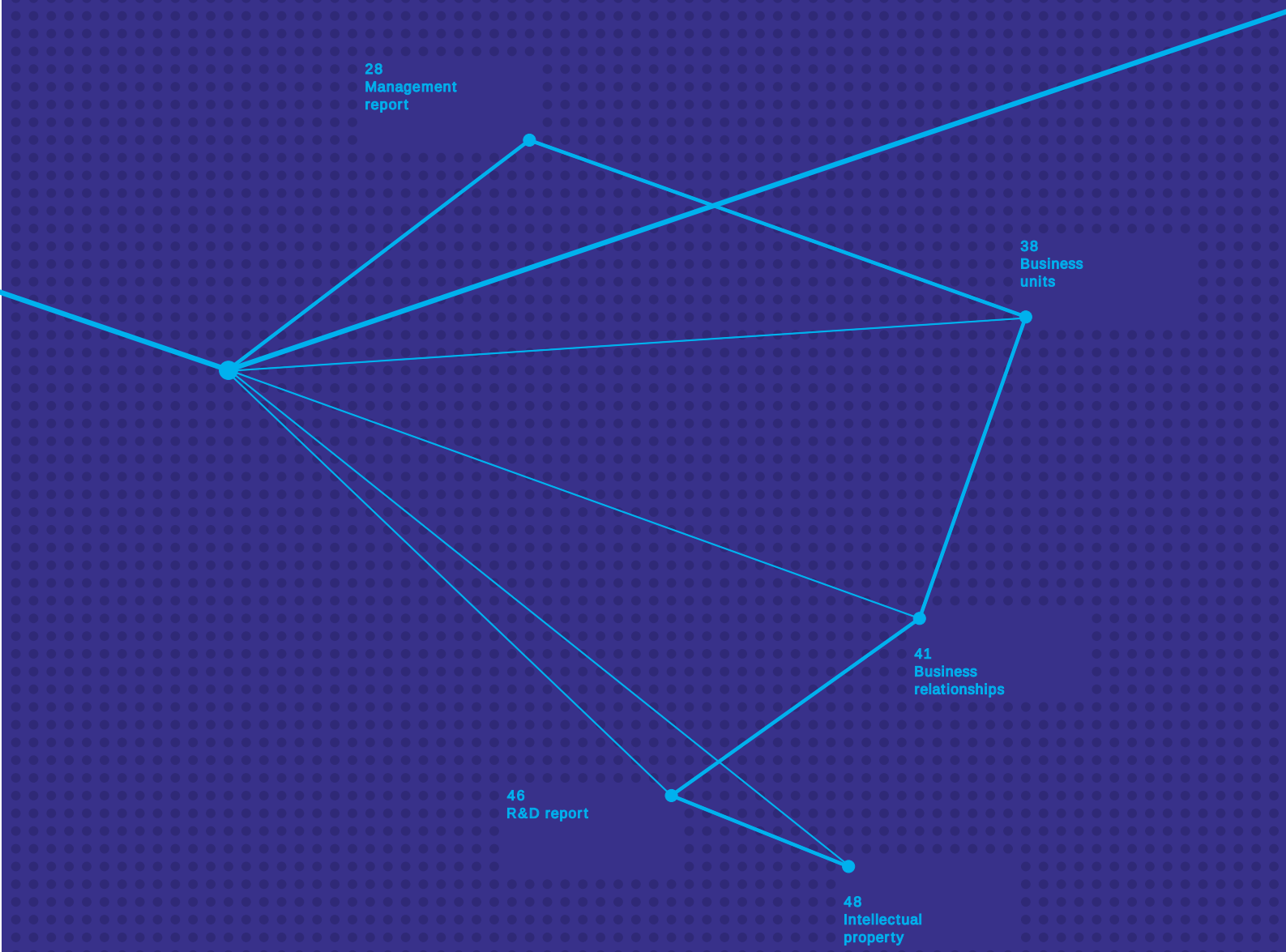
> We opted to take out a D&O policy (directors' and officers' liability insurance) with full coverage.

All other policies comply with the code today. Some have minor formal deviations which will be adjusted during 2002 or will be explained in the 2002 Annual Report.

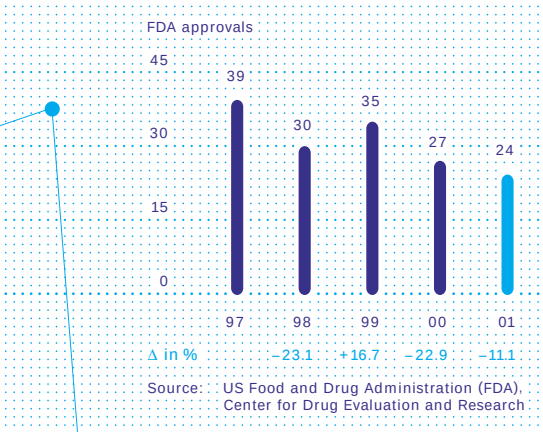
Financial institutions which regularly report on Evotec OAI

A & A Aktienbank
B. Metzler seel. Sohn & Co. KGaA
Bank Vontobel AG
Bankgesellschaft Berlin AG
Bankhaus Julius Bär
Concord Effekten AG
Conrad Hinrich Donner Bank AG
Consors Capital Bank AG
Crédit Agricole Indosuez Cheuvreux GmbH
Delbrück Asset Management
Deutsche Bank AG
DZ Bank AG
Equinet Institutional Services GmbH
Goldman Sachs Global Equity Research
Hamburger Sparkasse
Helaba Trust GmbH
HSBC Trinkaus & Burkhardt KGaA
HypoVereinsbank AG
Landesbank Baden-Württemberg
Lehman Brothers International
M. M. Warburg & Co.
Merck Finck & Co. Privatbankiers
Puilaetco Investment Banking
Sal. Oppenheim jr. & Cie.
SES Research GmbH
SG Securities Ltd
UBS Warburg
Vereins- und Westbank AG
West LB Panmure Ltd

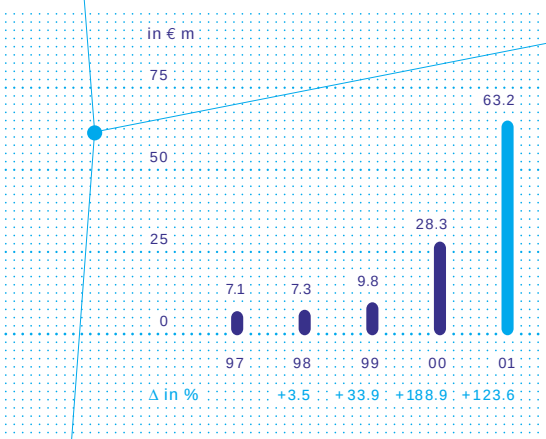
The fiscal year 2001

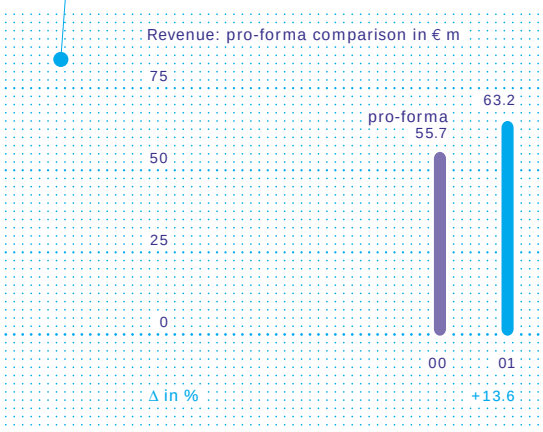


Number of New Molecular Entities



Revenue





Management report

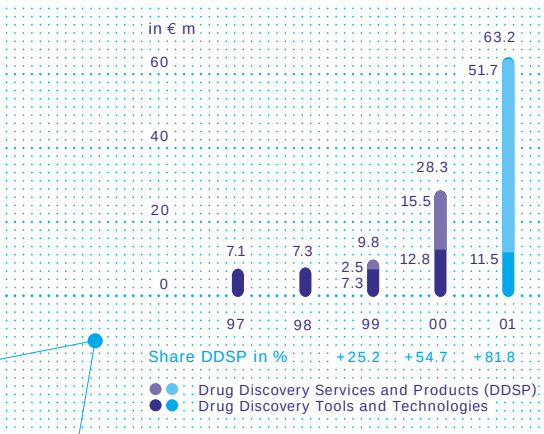
Industry situation and outlook—number of NMEs again declined year-on-year. In 2001, the pharmaceutical and biotechnology research markets continued to grow rapidly, but the impending expiration of a number of patents for proprietary drugs, combined with increased competition, is putting significant pressure on the pharmaceutical industry. To grow in line with historical levels, big pharmaceutical companies need to produce on average three NMEs (New Molecular Entities) a year; the current reality is less than one NME and mergers and acquisitions in the industry have not, on the whole, increased efficiency as intended.

The challenge is to maintain historic growth rates while continuing to ensure good profit margins. Whilst the industry has significantly increased its expenditure on research and development (in 2001, PhRMA—the Pharmaceutical Research and Manufacturers of America—member companies invested an estimated $ 30.3 billion in R&D—16.6 % above the 2000 level), the proportion of new drugs in the pipeline is not meeting corporate objectives: the number of new active pharmaceutical ingredients launched in 2001 again declined year-on-year, from 27 to 24.

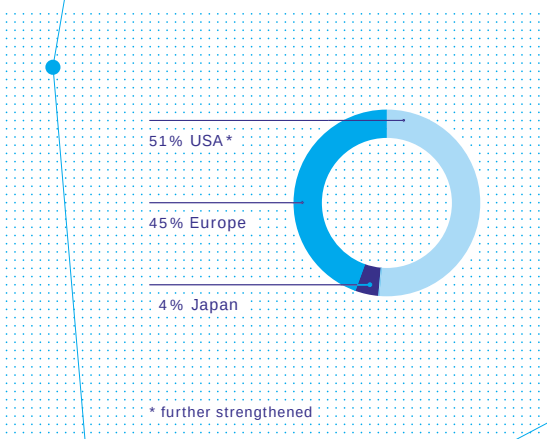
Advances in the decoding of the human genome and in proteomic sciences have resulted in an increase in the number of available biological disease targets. This, together with the ever increasing capacity to synthesise new chemical structures, has led to a need for a dramatic increase in research activity. The number of new targets will, however, be large and presents considerable challenges in industrialising the drug discovery process to ensure that throughput and quality are sufficient. This creates significant opportunities for Evotec OAI as pharmaceutical and biotechnology companies outsource more of the process to specialist drug discovery service providers.

Sales—strong growth, actual and pro-forma. In 2001, the EVOTEC Group's sales increased by 124 % to € 63.2 m (2000: € 28.3 m). This strong increase over 2000 is largely attributable to the acquisition of the OAI chemistry business, late in 2000, but rapid organic growth in drug discovery services also contributed. Despite a slight decline in the tools and technologies business over 2000, we achieved pro-forma growth (including the chemistry business for the full year 2000) of 14 % overall (2000 pro-forma € 55.7 m) and 21% in our service business (2000 pro-forma: € 42.9 m) compared with the previous year.

Revenue by segments

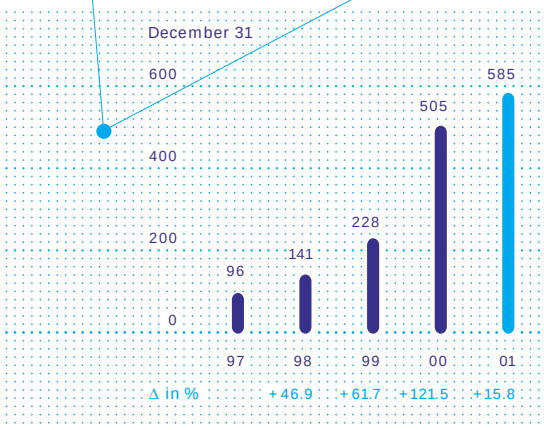


Revenue by regions



* further strengthened

Employees



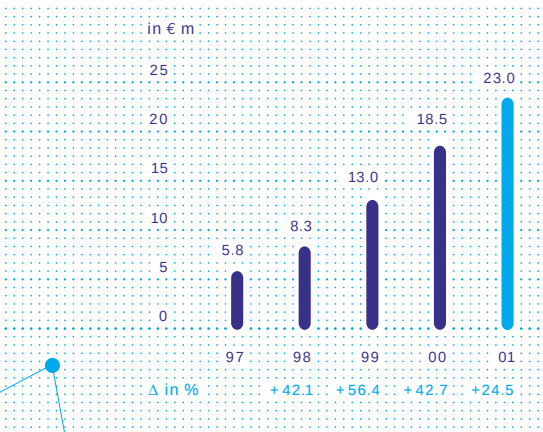
This strong pro-forma growth in our Drug Discovery Services and Products division, our largest business, is particular noteworthy in the first year after the merger, which for many companies is a time for consolidation. It is a result of the extension of existing collaborations and the signing of a significant number of new partnerships. In total, this business unit grew by 234 % to € 51.7 m (2000: € 15.5 m).

The Drug Discovery Tools and Technologies business unit contributed € 11.5 m to total sales (2000: € 12.8 m). Revenues in this division declined slightly compared with the previous year, as a result of the successful completion of the EVOscreen® Mark II systems in 2000 which was part of our business with consortium partners. Tools and technologies revenues from sources other than consortium partner contracts, grew, however, by an impressive 455 % to € 4.6 m (2000: € 0.8 m). This is a result of our successful collaboration with Olympus in diagnostics and other instruments and reagents.

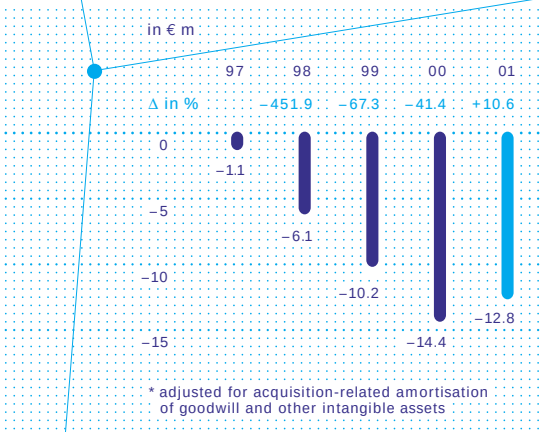
51 % of our revenues were generated in the U.S. This is a demonstration of our continued strong presence in the U.S. pharmaceutical market.

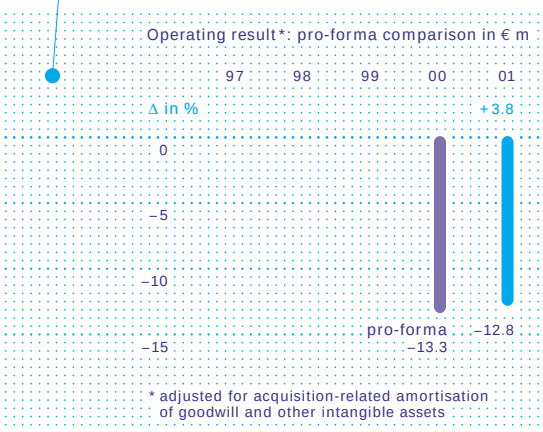
Human resources—growth in line with company development. Strong revenue growth, particularly in discovery chemistry, led to a significant increase in scientific personnel. At the end of the year, we employed 585 (+ 80) people. Of these, 336 work in the UK, 237 in Germany, seven in Estonia and five in the U.S. The educational profile of our employees remained at the same high level as in previous years: 34 % are PhDs and 82 % are graduates.

R&D expense



Operating result*





Research and development—continued strong commitment to R&D. R&D expenses rose by 25% to € 23.0 m (2000: € 18.5 m), on a pro-forma basis by 18% (2000 pro-forma: € 19.5 m). 2001 marked a transition in our R&D strategy: We made our highest ever R&D investment in technology development, in particular for the establishment of our uHTS platform EVOscreen® Mark III. This level of investment is planned to decrease in the coming year. At the same time, we directed a growing proportion of our R&D efforts towards expanding our assay portfolio and increasing the excellence of our integrated services. This current overlap resulted in an increased overall R&D spend in 2001.

Our EVOscreen® Mark II uHTS platforms were in full operation in 2001. We developed proprietary assay formats for almost all therapeutic target classes and paid particular attention to the development and detection of cell-based assays. Our hit profiling R&D focused on target-independent characterisations, such as ADME|T assays.

In accordance with our contractual obligations to our consortium partners, Novartis, GlaxoSmithKline and Pfizer, we focused on completing and developing the EVOscreen® systems. We achieved a new level of robustness for our Mark II platform, through a significant development in our fluidics research, and are particularly pleased that our new generation Mark III exceeded GlaxoSmithKline's criteria for robustness, precision and data quality.

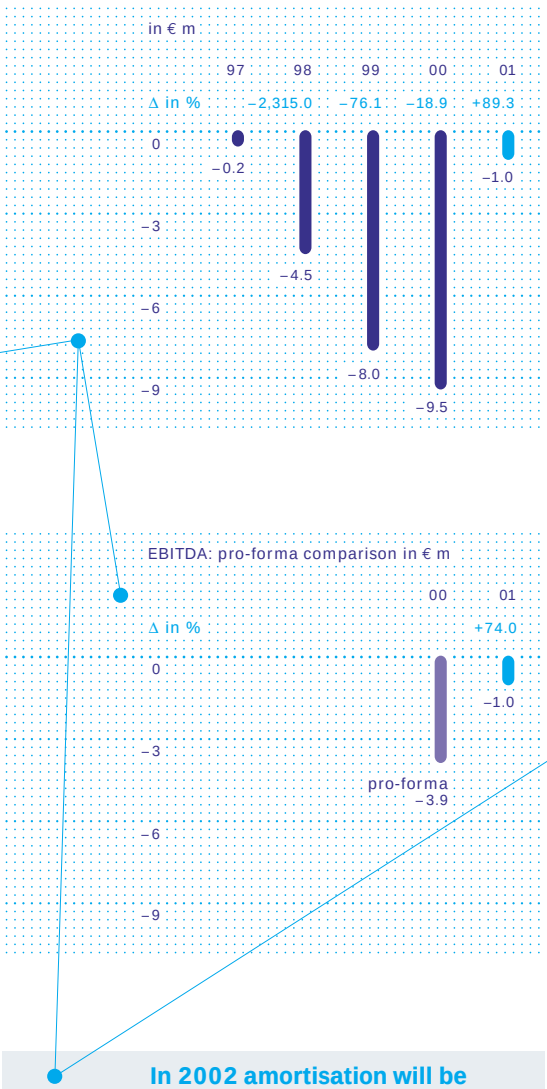
In addition, Evotec NeuroSciences GmbH (ENS) continued to identify novel targets for the treatment of Alzheimer's disease.

Operating result—improved before goodwill amortisation, actual and pro-forma. For the first time, in 2001 we reduced our operating loss before amortisation of goodwill and other intangible assets from the acquisition of OAI and Genion, year-on-year, despite continuing to increase our investment in R&D. Excluding the non-cash amortisation charge, it improved by 11% to €(12.8) m (2000: € (14.4) m). On a pro-forma basis, operating loss improved by 4%. Including non-cash effects of € 139.6 m, the operating loss totalled €(152.5) m compared with € (48.9) m in 2000. This significant increase is the result of consolidating OAI—and with it the amortisation charge—for the final quarter of 2000 only, as against a full year in 2001. The goodwill amortisation will no longer be accounted for from January 1, 2002 (see below).

Cost of sales increased by 164% to € 33.3 m (2000: € 12.6 m), primarily as a consequence of integrating the chemistry business. On a pro-forma basis, cost of sales increased by 12% (2000 pro-forma: € 29.9 m). The gross margin continued at the same level as in the previous year: 46% in 2000 (pro-forma) and 47% in 2001.

SG&A increased by 67% to € 19.2 m (2000: € 11.5 m). This is, again, mainly a result of the integration of OAI. On a pro-forma basis, SG&A expenses decreased by 2% (2000 pro-forma: € 19.6 m).

EBITDA



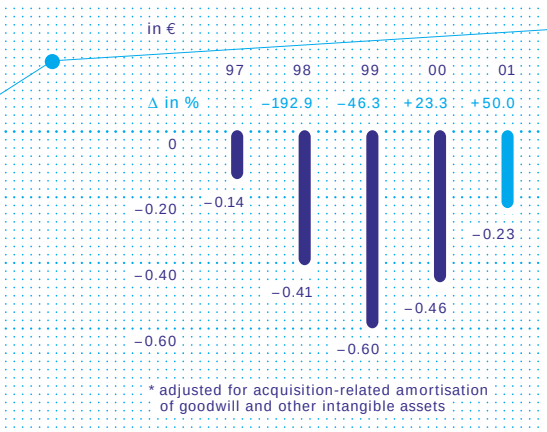
In 2002 amortisation will be significantly lower and limited to non-goodwill items.
We had already amortised 39 % of the original position of goodwill and other intangible assets by the end of 2001.

EBITDA—close to achieving EBITDA break-even. Earnings before interest, tax, depreciation and amortisation (EBITDA) improved significantly in 2001. In Q3 2001, for the first time we achieved positive EBITDA. This trend continued in Q4, resulting in close to EBITDA break-even for the full year. It increased by 89 % to € (1.0) m (2000: € (9.5) m). Even on a pro-forma basis, EBITDA improved by 74 %. The EBITDA per share increased by € 0.32—on a pro-forma basis by € 0.08—to € (0.03).

Goodwill—goodwill will not be amortised from 2002. The acquisition of OAI and Genion in share-for-share transactions during 2000 led to goodwill and other intangible assets of € 451 m. We have taken the rather conservative position of amortising the majority of this over a three-year period. Amortisation is disclosed in the operating result and has no impact on the company's liquidity, which continues to be strong. We disclose goodwill amortisation separately and show a comparison of the results including and excluding this effect. Under a new regulation by the U.S. accounting authority, the Financial Accounting Standards Board (FASB), the treatment of business combinations changed significantly in July 2001. The rules require that goodwill and intangible assets with indefinite useful lives should no longer be amortised, but should instead be tested for impairment at least once a year. Intangible assets with estimable useful lives will be amortised over that period to their estimated residual values and reviewed for impairment. We will adopt these new rules from January 1, 2002.
As of December 31, 2001, we had already amortised 39 % of the original position of goodwill and other intangible assets.

Loss for the year—improved before amortisation by 35 %. The loss for the year, excluding the non-cash effects relating to the amortisation of goodwill and other intangible assets from the acquisitions of OAI and Genion, was significantly reduced to € 8.1 m (2000: € 12.4 m). Including the amortisation charge, the net loss was € 147.8 m. This is significantly higher than in 2000 (€ 47.1 m) when OAI—and with it the amortisation charge—was consolidated for the last quarter of the year only. At Group level, it takes into account income tax benefits, totalling € 1.8 m.

Earnings per share*



Earnings per share. Adjusted for goodwill and other intangible assets, the loss per share was significantly reduced to € 0.23 (2000: € 0.46). Including those non-cash effects, the loss per share was € 4.17, compared with € 1.75 in the previous year.
The weighted average number of shares used in calculating basic earnings per share (eps) was increased from 26,934,830 to 35,455,457, since the shares issued in 2000 were not in issue for the full year 2000.

Balance sheet—solid asset and capital structure. Investment activities in 2001 led to an increase in property, plant and equipment of € 8.0 m, to € 67.8 m. Goodwill and other intangibles, principally from the mergers with OAI and Genion, were reduced by € 126.6 m and resulted in a total of € 273.1 m (of which goodwill: € 228.6 m).
Since short-term assets also decreased by € 16.7 m, total assets were down by € 138.1 m to € 394.6 m. Stockholders' equity amounted to € 347.6 m, 88 % of total liabilities and stockholders' equity. Because 54,899 new shares were issued following the exercise of stock options, the share capital increased to T€ 35,507. Accrued liabilities decreased from € 9.6 m to € 9.0 m. Taking into account the reversal of accruals for merger-related expenses of € 4.4 m, other accruals increased by € 3.6 m. Long-term liabilities inclusive minority interest increased by € 10.4 m, to € 24.9 m due to an increase in deferred tax liabilities.
The company's equity ratio for 2001 decreased slightly to 88 % compared with 94 % in the previous year. Long-term assets are covered by stockholder's equity at 102 % (previous year 109 %). This underscores a very solid asset and capital structure.

Balance sheet structure Evotec OAI

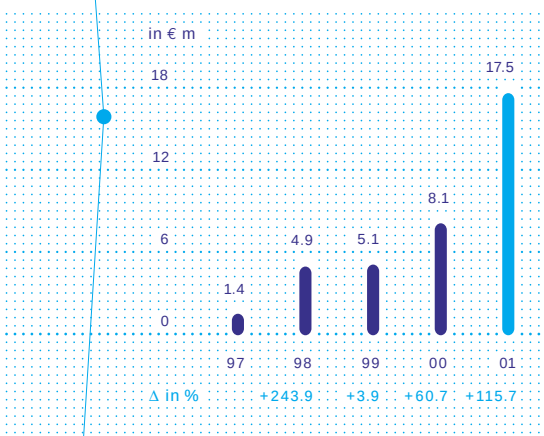
T€	2001	2000
Cash, cash equivalents and securities	27,833	48,924
Inventories	6,524	5,434
Other current assets	18,770	15,497
Property, plant and equipment	67,847	59,800
Intangible assets	273,131	399,693
Other non-current assets	512	3,358
Total assets	394,617	532,706
Accruals	8,972	9,589
Other current liabilities	13,121	10,265
Long-term liabilities and minority interest	24,933	10,357
Total stockholders' equity	347,591	502,495
Total liabilities and stockholders' equity	394,617	532,706

UK companies are encouraged to invest in capital equipment for R&D purposes through a tax incentive. The deferred tax expenses we report in the UK are therefore unpaid and not relevant to cash flow in 2001.

UK tax incentive. We reported € 1.8 m tax income in 2001. Deferred tax income resulting from the amortisation of intangible assets in the amount of € 5.3 m (of which € 4.9 m in the UK) is set-off against € 3.3 m deferred tax expenses in the UK. These are unpaid, and are not relevant to cash flow in 2001, because of a special tax incentive. In the UK, companies are encouraged to invest in capital equipment for R&D purposes through a specific tax incentive (scientific research allowances) which improves future cash flows. Routine capital investment receives an allowance over a number of years which can be deducted during tax calculations; in the case of R&D expenditure, this is "accelerated" and 100 % of the allowance is allowed in the year of expenditure.

Capital expenditure. In 2001, we invested a total of € 17.5 m, which was almost all accounted for by fixed assets. We invested in facility projects, such as the completion of the new pilot plant, additional laboratories in Abingdon, and the construction of the screening factory in Hamburg. We purchased new laboratory equipment and set up our own Mark III system for screening operations in Hamburg.

Capital expenditure

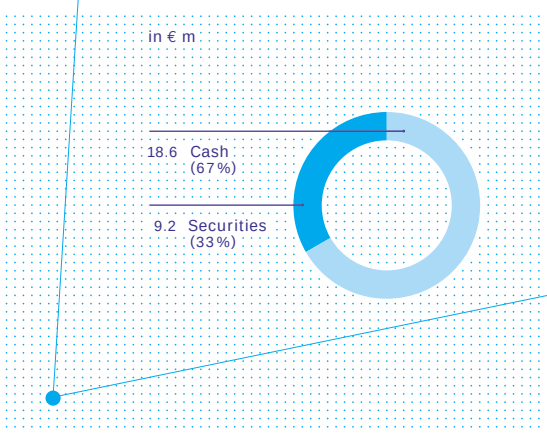


Cash flow | cash and cash equivalents—positive cash flow from operating activities in Q4. Cash flow from operating activities amounted to € (2.5) m (2000: € (14.6) m). 2001 cash consumption was driven by the net loss from operations, and a decrease of accruals as a result of outstanding merger-related payments to bankers and lawyers. Net cash used in investing activities amounted to € (10.2) m.

Condensed cash flow statement

T €	2001	2000
Net cash used in operating activities	(2,525)	(14,606)
Net cash used in investing activities	(10,171)	(18,144)
Net cash (used in) provided by financing activities	(37)	7,990
Net decrease in cash and cash equivalents	(12,733)	(24,760)
Exchange rate difference	(1,100)	(244)
Cash and cash equivalents at beginning of year	32,484	57,488
Cash and cash equivalents at end of year	18,651	32,484
Cash and cash equivalents including marketable securities	27,833	48,924

Liquidity at year end



We achieved positive cash flow from operations in Q4 2001 as a result of the significant level of business in that quarter. This improved cash and cash equivalents over Q3 2001. At December 31, 2001, our cash amounted to € 18.6 m. In addition, the company holds prime-rated interest-bearing investments (Standard & Poor's A to AAA ratings) totalling € 9.2 m.

Financing. We believe that our solid cash and cash equivalents position is necessary to ensure the company's continued development. Our business plan does not anticipate the need for further financing to support our current drug discovery services business model.

Production and procurement. Procurement in our Drug Discovery Products and Services business unit is limited to buying in standard products and secondary services. In this instance, the criteria we use to select our partners are delivery time and flexibility, combined with high product quality.
Our Drug Discovery Tools and Technologies business unit includes the development and installation of prototypes. We work with suppliers to produce everything from components through to complete mechanical and electronic instruments. These collaborations exclude, however, components in our core technology areas and the development of software for process engineering workflow. When we select suppliers, we look for long-term partnerships with leading companies whose own expertise will add value to our instruments.

Legal structure. The new company name—Evotec OAI AG—was approved by the Annual General Meeting on June 18, 2001, and was officially registered in the trade register in September. We did not make any other changes to our legal structure in the year.

Risks and future development. Our business includes some areas in which we have only limited experience and in which markets are not yet fully mature, particularly in assay development, screening and the identification of drugs for third parties. We have only recently begun to record sales from these services and are, therefore, exposed to the risks which are typically associated with a new business. These include difficulties in developing marketing, sales and distribution channels, a lack of market acceptance or slower-than-anticipated market development. In the mid-term, these risks could have a material adverse effect on our business activities, financial position and results.

Our future success will depend as much on our skill in improving our existing products and services as in developing and launching new ones.

The market for drug discovery services is characterised by dynamic technological changes and the frequent introduction of novel solutions to problems. Pharmaceutical and biotechnology companies, as well as research organisations in other areas, compete with Evotec OAI. Our success will depend on our ability to keep pace with potential customers' changing needs. If we fail to adapt to technological change, and to develop and introduce new processes, services and other drug discovery and development solutions in response to changing markets, our ability to offer competitive solutions will be adversely affected.
Our success will, to a significant degree, depend on continuity of key management and of highly-skilled staff who have scientific expertise and relevant experience. Competition for qualified people, combined with their ability to terminate employment contracts at short notice, could have a material effect on our business.

Even if we identify targets and compounds which have drug development potential in proprietary research, it is likely that it will be a considerable time before we could sell or license any drug candidates, if at all. Expenditure on drug candidates has the potential substantially to reduce our profitability and resources.
We may, in the future, expand through the acquisition of technologies, products or businesses, but there is no guarantee that we would be able to achieve the benefits expected from any potential acquisition in a reasonable timeframe, or at all.

During the year, a review of our risk management system revealed that the majority of our systems were already adequate and reliable.

Risk management. In 2001 we reviewed our risk management system in light of the merger with OAI, strong company growth and the change in our profile. While some of our management systems needed to be adjusted, the majority proved to be adequate and reliable.
We established new policies for foreign currency management, pricing and transfer pricing, established new tools for project costing and controlling, coordinated authorisation procedures and commercial standard terms and conditions, and established an overall framework for further refinements. We succeeded in securing extended insurance cover for the group, even in the very tight insurance market after September 11, 2001.

We make detailed risk assessments and implement safety training programmes to ensure that safe working practices ensure environmental protection, quality and efficient production.

Occupational safety and environmental protection. We believe that we have an obligation to exceed statutory requirements in protecting our employees and the environment.
At Abingdon, our revised Health and Safety Policy and related procedures enabled us to implement our safety action plan, the success of which was evidenced by the positive comments made during a Health and Safety Executive (HSE) inspection in May 2001. Detailed risk assessments of all processes are now made to ensure that safe working practices ensure environmental protection, quality and efficient production. The Hamburg authorities approved the operations in our new ground-floor screening facilities and raised no objections in an audit of our genetic engineering practice.
At Abingdon and Hamburg we also implemented safety training programmes for management and staff; these included instructions for improving safety while working with biological and genetically engineered organisms.
Our manufacturing facilities at Abingdon continued to comply with the highest standards of environmental protection, and with all procedures in the UK Environmental Act of 1990. In Hamburg, we demonstrated our commitment to environmental protection when we established, and documented, a basic Quality Management System for our Biological Services.

Post-balance sheet events. In our Drug Discovery Tools and Technologies business unit, we are expecting a further important contribution to sales from former technology transfer partners as well as a significant growth from other sources. In order to optimise its specific organisational demands, the technical equipment and consumables business will be reorganised into one legal entity during 2002. The company intends to locate these activities in Evotec Analytical Systems GmbH, which will change its legal name to Evotec Technologies GmbH in 2002.

In a drug discovery market which has excellent growth opportunities, we are confident of again achieving strong growth in service revenues.

Outlook

Sales development. We operate in a market which has excellent growth opportunities. The need to improve efficiency and output, leads pharmaceutical companies continuously to increase their investment in R&D and to outsource drug discovery and development. Since our offer covers almost all those stages which are critical for success in identifying new drugs, we are an ideal partner for pharma and biotech companies worldwide. At the beginning of 2002, our order book is healthier than at any stage in our history: it already accounts for more than 40 % of forecasted revenues for the year (analyst consensus). This makes us confident of again achieving our targeted growth in service revenues of more than 20 % a year.

Human resources. The increase in headcount in 2002 is primarily aimed at supporting our service business. We expect to employ more than 640 people by the year end.

R&D activities. Our R&D continues to be vital in strengthening our market position. In 2002 we will focus our R&D efforts on expanding our service platform, in particular by adding cellular assays and ADME|T capabilities and by extending our corporate compound library. In addition, we continue to increase our capability in computational chemistry, virtual screening and predictive methods. We expect that our investment in R&D will be on a similar level to that in 2001.

Results. As goodwill from acquisitions will no longer be amortised in 2002, we anticipate a substantial improvement in our operating result for the current fiscal year. Amortisation will be significantly lower and limited to non-goodwill items. In addition, the positive trend in EBITDA and operating result before goodwill and other intangible assets, adjusted for seasonal effects, is expected to be maintained in 2002. Traditionally, the first quarter has always been weaker than average, and the fourth quarter has recorded the best results.

Investment. In 2002, we will focus our investment on increasing capacity and on continuing to update technology for our service business. For our capital investments, we will target laboratory and IT equipment. Since major projects, including our pilot plant at Abingdon and our screening factory at Hamburg, were completed in 2001, we expect the level of investment in 2002 to be significantly lower.

Legal structure of Evotec OAI. Genion's activities of ion channel-assays have been integrated into Evotec OAI's assay development and screening services portfolio. We now intend to merge Genion with Evotec OAI in 2002, as there is no longer a need for a separate entity (Genion = Genion Forschungsgesellschaft mbH).

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

Business units

Drug Discovery Services and Products

Drug Discovery Services provides integrated chemistry and biology activities which support the entire drug discovery and development chain. Our expertise and genuinely industrialised activities in assay development, screening, library design and production, medicinal chemistry, scale-up, and production of material for clinical trials, enables us to reduce the time needed to develop innovative, new drug molecules for our partners.

Our state-of-the-art screening facility in Hamburg increased our capability in biology. To enable us to handle our fast growing chemistry activities, we fitted out additional laboratories at Abingdon, and opened a new pilot plant.

During 2001, we substantially increased our capacity and capability in biology and chemistry. We moved into a state-of-the-art screening facility in Hamburg and now operate two Mark II and one EVOscreen® Mark III screening platforms. On these we ran assays, in high-throughtput format, for almost all therapeutic target classes and developed proprietary screening formats (such as kinase assays and GPCR assays using VLiPs™) which enable us to screen promising drug targets with greater accuracy. Additional laboratories to handle our fast growing chemistry activities, were fitted out at Abingdon and our new pilot plant became operational in the second half of the year. Also, the recruitment of Dr Mark Whittaker as Director of Drug Discovery augmented our already-impressive medicinal chemistry expertise; he brings more than ten years' high-calibre drug discovery experience to our activities.

Our impressive array of biology and chemistry services increasingly enables us to cover all aspects of drug discovery for our customers, and has been validated by customers returning.

We expanded our customer base substantially during the year and collaborated with all the world's leading pharmaceutical and biotechnology companies in more than 100 programmes. Industry practice is generally to outsource specific activities in the drug discovery chain. Our impressive array of biology and chemistry services enables us, however, increasingly to cover all aspects of drug discovery for our customers. We are, for example, developing a novel assay and screening compounds against one of Serono's targets, optimising hits from our long-standing chemistry collaboration, and are now producing material for pre-clinical candidates developed from this collaboration—a genuine example of adding value through offering an integrated service. Our partnership with MediGene involves the true marriage of all our services as we endeavour to develop an IND candidate for their novel target.

The best validation of any service is repeat business. In 2001 we extended a number of relationships with leading clients. We continued programmes in medicinal chemistry with Vertex, Curis, Pharmacia, Amgen and Serono. In addition, our GMP laboratories and pilot plant continue to provide Biogen with quantities of one of their small molecule drug candidates and we expanded, and extended, our custom preparation contract with Pfizer, to which we supply quantities of intermediates and products to support internal medicinal chemistry programmes.

Our principal goal is to continue to deliver excellent service to our partners throughout the drug discovery and development process.

Our new programme with Merck & Co., for the supply of a large, primary screening library, creates a significant opportunity over the next years.
Our principal goal for 2002, will be to continue to deliver excellent service to our partners throughout the drug discovery and development process. We are introducing a number of initiatives, such as ADME|T and physicochemical testing to help us maintain our industry-wide leadership and to offer increased value to our customers. We are also developing our capability in cellular assay development and screening and are in the process of substantially improving and enlarging our corporate chemical library.
The ability to use information gathered through our research continues to be a priority as we seek new ways to use predictability as an adjunct to "wet science" and standard in silico modelling (see R&D report, pages 46 and 47).

Our technologies, expertise and experience have given us a leading position in providing innovative solutions to the Life Science industry.

Drug Discovery Tools and Technologies

Evotec OAI was founded around novel detection and screening technologies and subsequently built on that expertise in a consortium with Novartis, GSK and Pfizer. Together we developed leading technologies around our ultra-high-throughput screening (uHTS) system EVOscreen®.
Four EVOscreen® Mark II systems are currently operating at our partners' sites, as well as two at our Hamburg facility. In 2001, we entered into several long-term service and maintenance agreements and provided upgrades to support the daily operations of these systems. Promising hits identified on EVOscreen® currently undergo further profiling in our, and in our customers', labs.
During the year we also improved the range of detection capabilities in our screening platform as well as in our assay development and hit profiling devices, including the Closed loop reader which we sold to Pfizer and to Direvo. We achieved all our technical targets and look forward to continuing our team-based, successful collaboration with our partners.

The ability of our new EVOscreen® Mark III to screen cellular assays in high-throughput mode closes virtually all the remaining gaps in our comprehensive uHTS platform.

Our increasing focus on the application of technologies for the identification of novel drugs, and the successful conclusion of the EVOscreen® consortium, led to the separation of the instrument business from our core business.

We are particularly proud of the completion of our newly-developed EVOscreen® Mark III system and its delivery to GSK in the fourth quarter of 2001. The new system, in comparison with the Mark II platform, offers higher throughput, screening of cellular assays, and the integration of external devices into the EVOscreen® platform. This not only increases its flexibility for end users, but also enables us to maintain our position at the forefront of screening technology. The exceptional results of our Mark III development now bring the consortium arrangement with Novartis, GSK and Pfizer to an end. Our partners all recognise the superior quality of our screening technology; Mark III closes virtually all the remaining gaps in a comprehensive uHTS platform.

Our cutting-edge technologies, application expertise and experience in transferring technology to our customers have given us a leading position in providing innovative solutions for complex tasks in the Life Science industry. The imminent end of the research consortium, and our increasing focus on the application of these technologies for the identification of novel drugs led us, at the beginning of 2002, to separate the instrumentation business from the company's core business. This newly-formed subsidiary, which will be called Evotec Technologies, transfers the innovative know-how and intellectual property of Evotec OAI, developed around EVOscreen®, to other product lines, principally benchtop systems and new applications. It supplies hardware prototypes, modules and integrated systems, together with software, consumables and consulting, to customers in pharma, biotech and the diagnostics industries, and in academic research.

In 2001, Evotec Technologies supplied our distribution partner Olympus with 15 diagnostic analysers for the Japanese market. These are able to detect single nucleotide polymorphisms (SNPs) from tiny amounts of patient material. Our Cytocon™ device, which was sold to several clients, including GSK, enables touch-free handling, analysis and selection of single cells in a small heterogenous population. In addition, we have received many requests for our cell reader, which was originally developed for the EVOscreen® Mark III system, for use as a stand-alone device. We have already negotiated some of the application development with Byk Gulden and will provide the research community with a benchtop system, Opera, during 2002.

The strong growth of sales outside the EVOscreen® consortium agreements (+ 455 % to € 4.6 m) has validated our business plan and supported our strategy. Evotec Technologies, which employs approximately 60 people, will continue to capitalise on synergies with Evotec OAI, but will develop as a separate business around innovative solutions and applications in the Life Sciences industry.

We now work with all the major pharmaceutical companies, and with many of the leading biotechnology companies in the world.

Business relationships

Drug Discovery Services and Products

Our cutting-edge technologies, an enhanced service offering and increased business development resources, enabled us to sign a significant number of new collaborations and to extend existing ones in 2001. We are proud of our record. We now work with all the major pharmaceutical, and many biotechnology companies in the world, and have already negotiated and published 14 contracts in which we will benefit from the future growth of our customers' products through milestone and royalty payments. Some examples of our collaborations are detailed below:

Abbott Laboratories. As a result of Abbott's acquisition of BASF Pharma, this assay development and screening collaboration was on hold for part of 2001. After transferring responsibility of the programme to Abbott, we screened the first Abbott target and successfully completed the project, including assay development, within a four-month timeframe. In addition, by successfully completing assay development for a second target, we added a novel target class to our portfolio. For one particular target, we discovered new structures with high potency. After hit confirmation, these compounds were further characterised in secondary assays.

Alliance partners

Abbott Laboratories

ACHILLION PHARMACEUTICALS, INC.

ALIZYME

AMGEN

Aventis

Achillion. After a successful process research and development programme, our pilot plant produced several kilograms of an Achillion compound. It is now moving into clinical trials.

Alizyme. In addition to providing process research and development services, we manufactured quantities of Alizyme's compound Renzapride. This is currently in Phase II clinical development.

Amgen Inc. Our collaboration with Amgen Inc. to provide lead optimisation and medicinal chemistry was expanded and extended in 2001. In addition to fees for services, if products resulting from the collaboration are developed and commercialised we will receive milestone payments.

Aventis. During the year we signed two contracts with Aventis to provide focused libraries. Based on scaffolds delivered by our partner, we design the synthetic routes and synthesise the related, high-quality libraries for screening.

Biogen. We continue to provide material to support one of Biogen's small molecule programmes.

Bristol Myers Squibb. We completed production of a significant volume of an intermediate for one of BMS's drug candidates which is in development.

Byk Gulden | Altana. In close collaboration with Byk Gulden, the pharmaceutical group of Altana, we began a novel assay development programme based on our innovative detection platform for high-throughput imaging (Opera). Following the successful development of the assay principle, Byk Gulden will acquire and integrate our cell reader into its own screening systems.

Celgene. We continue to support Celgene in the production of a number of pre-clinical and clinical drug substances.

Celltech. In April 2001 we announced a technology agreement with Celltech. By applying our proprietary VLiP™ technology, reagents for two of Celltech's GPCR targets were prepared and evaluated.

Curis. Our collaboration with Curis, which began in April 1999 was renewed and expanded in May 2000. Twelve full-time chemists (FTEs) have undertaken services for Curis on compounds involved in the company's drug discovery programmes. The services provided in this overall project used our complete platform, from drug discovery to IND filing. In addition to programme fees, we will earn milestone payments for all patented compounds that enter clinical trials.
We have worked on various biological targets for Curis since 1999 and, to date, Curis has filed four related patents. This successful partnership resulted in the discovery and scale-up of CUR-61414, Curis's drug candidate for the treatment of the most common form of skin cancer, Basal Cell Carcinoma.

Ionix. In early 2002 we announced our collaboration with Ionix Pharmaceuticals Ltd on the design and synthesis of drug-like chemical compounds for evaluation as potential inhibitors of a proprietary Ionix ion channel drug target. Antagonists for this target may lead to potent new drugs for the management of chronic inflammatory and neuropathic pain. In collaboration with medicinal chemists at Ionix, we will synthesise a series of ion channel-focused libraries for lead generation. We will receive programme funding from Ionix, and downstream payments for successful development and commercialisation of product candidates.

Alliance partners

BIOGEN

Bristol-Myers Squibb Company

Byk Gulden

Celgene

CELLTECH

CURIS

ionix

We negotiate milestone and royalty payments with many customers, through which we benefit from the success of their products.

MediGene. In March we announced a collaboration with MediGene to identify novel drugs for the treatment of cardiac diseases. Under the terms of the agreement, we developed an assay for a promising MediGene target and have made good progress towards completion of the primary screen. In addition to a fixed payment for the agreed services, we will receive success-dependent milestone payments and royalties.

Merck & Co. At the end of 2001, we announced a significant agreement with Merck & Co., Inc. to synthesise small-molecule chemical libraries. Under the terms of the agreement, we will synthesise well-characterised drug-like library compounds, using our proprietary high-speed combinatorial chemistry and auto-purification platforms, which Merck will use in its drug research and development programmes.

Pfizer Global Research and Development (formerly Parke-Davis). This is the second one-year extension of the contract which was originally signed in 1998. Evotec OAI chemists will continue to provide Pfizer with custom synthesis services and quantities of novel, sophisticated intermediates.

Pharmacia Corporation. In August 2001, we announced a new four-year contract with Pharmacia which extends an original agreement signed in February 1998. Under the new contract, we will provide high-quality focused libraries for pharmaceutical screening. In addition to programme fees spread over the contract period, we will receive milestone payments for each product from the collaboration that enters clinical development and|or is successfully commercialised.

Rigel Pharmaceuticals. In October 2001 we signed a medicinal chemistry agreement with Rigel for the optimisation of small molecules focused on inhibitors of ubiquitin ligases. With the aim of identifying an IND candidate within twelve months, we will select and synthesise lead compounds with optimised properties for Rigel to screen against their target proteins, and identify novel scaffolds from our portfolio of validated chemistries. Rigel will provide us with funding for services conducted during this programme. In addition, we may receive future milestone payments if discovery projects meet defined goals and products are commercialised.

Roche. In June 2001, we began a one-year contract to supply chemical compound libraries to support Roche's drug discovery screening programmes.

Alliance partners

MediGene

MSD

Pfizer Global Research & Development

PHARMACIA

RIGEL

Roche

Serono. This collaboration has continued to grow since 1998 and now includes our complete service offer. The original two-year discovery chemistry agreement was extended for the second time in October 2001. Under this € 2.4 m contract we will supply chemical libraries, primarily for lead optimisation. As a result of the overall programme, Serono has already filed several patent applications. In addition to the fees for service we will receive potential future milestone and royalty payments. We are currently producing larger scale quantities of some of the compounds under development from the collaboration. Furthermore, in April 2001 we announced the extension of our partnership to provide biology drug discovery services. Using our proprietary VLiP™ technology, we are developing a novel biological assay for one of Serono's cellular targets and will start screening against the target in 2002.

Solvay. We are in the second year, of a two-year collaboration to synthesise focused libraries for Solvay. These will be used in screens against targets in Solvay's drug discovery programmes. We will receive milestone payments if any compound supplied enters advanced clinical trials and|or is commercialised.

Sugen|Pharmacia. This programme, begun in 2000, has been successfully completed. During the course of the collaboration, we developed the agreed number of targets and screened a total of 400,000 datapoints using Sugen compounds and 100,000 datapoints using EvotecOAI compounds against them. The collaboration was extended during the year to fractionation of Sugen's natural extracts by Evotec OAI's proprietary Nacona technology and subsequent bioassay. In addition to programme fees we will be entitled to royalties on potential product sales which result from the commercialisation of compounds from the collaboration.

Vertex Pharmaceuticals. Our existing multi-year agreement, under which we provide small, focused libraries to aid Vertex's drug discovery programmes, was again expanded and extended in 2001. In addition to programme fees, the agreement allows for potential milestone payments based on product development stages.

VitaResc. Under the terms of an agreement, signed in summer 2000, VitaResc and Evotec OAI successfully developed a protocol for high-yield synthesis of an anti-thrombotic drug, VTR-TI. During 2001, we extended our co-operation to scale-up production of VTR-TI. We showed, once again, the value we bring to our partners' programmes by offering the whole range of integrated chemical development services, from process research, to scale-up and supply of material for clinical trials.

Alliance partners

serono biotech & beyond

Solvay Pharmaceuticals

SUGEN

VERTEX

vitaResc Biotech AG

During the year, we achieved our technical targets and look forward to continuing our successful team-based collaboration with our partners.

Alliance partners

Drug Discovery Tools and Technologies

GlaxoSmithKline (GSK). The excellent collaboration between Evotec OAI and GSK continued in 2001 and resulted in the completion of our new generation of cutting-edge, ultra-high-throughput screening equipment, EVOscreen® Mark III. We attained Factory Acceptance Testing which significantly exceeded the agreed pass criteria, and delivered the platform to GSK's screening site in Tres Cantos, Spain. All technical and biological milestones for 2001 in the technology development and transfer agreement have now been met. During 2001, we also signed a service and maintenance contract with GSK and delivered a number of instrument upgrades and additional equipment.

Novartis. We successfully upgraded the EVOscreen® Mark II system, which is in routine operation at Novartis's Basel screening laboratories, and the on-bead PickoScreen device in Vienna. These upgrades substantially increase the respective instruments' throughput and robustness. We are continuing to discuss further uses of our screening technology with Novartis. Their interest was underscored by visits, to and training at, our Hamburg screening factory during the year.

Olympus. For the Japanese market, Evotec OAI delivered 15 diagnostic analysers for SNP analysis as well as genotyping and biochemical assays to Olympus. In addition, we collaborated closely to develop the first prototype of the MMF-Reader with our signal-processing unit, a core module of the new generation of our research detector.

Pfizer. Our partnership with Pfizer continues to flourish: a cornerstone of the current collaboration is our innovative assay development and labelling services which have given rise to a joint assay patent application. By developing and delivering Closed loop readers, and by implementing Fluorescence Lifetime Analysis, we supported Pfizer's in-house screening efforts with our hardware and proprietary detection technology. Using a specific programme, we substantially increased the robustness and throughput of the EVOscreen® systems that are now in routine operation at Pfizer. 2001 marked a shift from delivering hard- and software to increasing Pfizer's productivity through the application of our technology.

R&D report

Our development of proprietary screening formats enables us to screen promising drug targets with greater accuracy and less reagent consumption.

2001 marked a transition in Evotec OAI's R&D strategy. While we established the EVOscreen® Mark III uHTS platform during the year—an achievement made possible as a result of significant investment in technology research—an increasing proportion of our R&D efforts are now directed at expanding our portfolio and increasing the excellence of our integrated services. This resulted in an increased R&D spend in 2001.

The past year marked the first full year of using our EVOscreen® Mark II uHTS screening platform internally. The huge quantity of high-quality data produced on almost all therapeutic target classes, validated the development of the respective hard-, soft- and wetware. We developed proprietary screening formats which enable us to screen promising drug targets with greater accuracy and less reagent consumption.

We identified new hit compounds in a number of GPCR screens and extended our offering into orphan receptor screening by the use of our VLiP™ technology. In addition, we successfully entered the challenging field of protein-protein interaction screens and identified hits. In one instance we enabled Pfizer to perfom an enzyme screen on a target which, other than in miniaturised format, had not been available for an HTS campaign because of the very limited supply of the respective reagent. Mutually-developed intellectual property in the kinase assay area led to a common patent application together with Pfizer on assay methodology.

We continue to develop innovative assay solutions for all drug target classes and support this activity with improved detection methods, such as lifetime, lifetime|brightness combinations and autofluorescence correction. This collaboration between our R&D department and our screening factory gives us the potential to identify hit populations over a wider range of chemical diversity.

Our efforts in hit profiling currently focus on target-independent characterisations, such as molecular and cellular ADME|T assays. We have increased our portfolio of miniaturised P-450 assays to cover all relevant cytochromes, have developed a cytotoxicity screen based on liver cells and have expanded our ion channel offering, with a particular focus on HERG channel interactions, determined by fluorescence and|or electrophysiology. We are also investigating new ways of identifying the toxic potential of compounds based on, for example, elucidation of cellular proteome patterns.

We combine superior biology with cutting-edge drug discovery hardware and have paid particular attention to developing and detecting cell-based assays.

Evotec OAI combines superior biology with cutting-edge drug discovery hardware. The Mark III screening platform, which is at the heart of our technology portfolio, further enhances our integrated service offer. We paid particular attention to the development and detection of cell-based assays such as reporter-, translocation- and functional-receptor assays.

Our IT department successfully integrated external devices into our screening platform while, at the same time, improving its operating software. A significant development in our fluidics research group led to a previously unknown level of robustness in the piezo-driven nanodispensing of reagents. This enables both us and our customers to reduce the number of people needed to operate the respective screening platforms.

We increased our efforts in computational chemistry throughout 2001. In common with a number of our clients' medicinal chemistry collaborations, Rigel is using our capabilities in molecular modelling and cheminformatics to progress and expedite the optimisation of leads.

Finally, Evotec NeuroSciences GmbH (ENS) continued to identify novel targets for the treatment of Alzheimer's disease. These are currently undergoing further validation as potential drug targets.

Today, Evotec OAI is a recognised leader in innovative drug discovery. Our R&D activities continue to be vital in strengthening our market position. We will continue to expand our expertise and to invest in research and development to identify competitive solutions, for us and our partners, for the industrialisation of drug discovery and for providing medicines for the future.

In 2002 we will direct our R&D efforts to improving and expanding our drug discovery processes by addressing, in particular, cellular screening and ADME|T assays. In addition, we will build on our expertise to create knowledge around the large amount of high-quality data we generate through our research and operations. To this end we continue to invest in knowledge management systems and will continue to increase our capability in computational chemistry, virtual screening and predictive methods.

We continue to invest in knowledge management systems and to increase our capability in computational chemistry, virtual screening and predictive methods to identify competitive solutions for providing medicines for the future.

We continue to expand and exploit our patent portfolio, and to extend our access to third-party intellectual property rights, through licenses, options and co-operation agreements.

Intellectual property

Expanding and securing a robust, up-to-date, international intellectual property portfolio is one of the most significant tasks faced by any growing biotechnology company. During 2001, we continued to widen and exploit our patent position and to extend our access to third-party intellectual property rights, through license, option and co-operation agreements with external scientists, academic institutions and companies.

The Evotec OAI group holds more than 140 families of rights, each of which protects one invention in different countries. Of these rights, two German utility models are already registered and 25 German, 12 European, 16 U.S. and one Japanese patents issued. We increased our IP protection, particularly in the field of detection technology in Europe and in the U.S., when we again obtained several patents in the past year.

We entered into a license and technology agreement with Novartis which gives us exclusive commercialisation rights for their AIDA on-bead chemistry combined with our own PickoScreen on-bead screening technology for drug discovery. Combining both companies' technologies will increase the quality of identifying drug candidates synthesised on beads.

We issued licenses for our proprietary technologies in return for up-front payments, milestones and royalties. In addition, we continued our strategy of acquiring equity in companies in return for technology licenses—our interest in a joint venture with MelTec, a pioneer in topological proteomics, represents a further stage in the implementation of this approach.

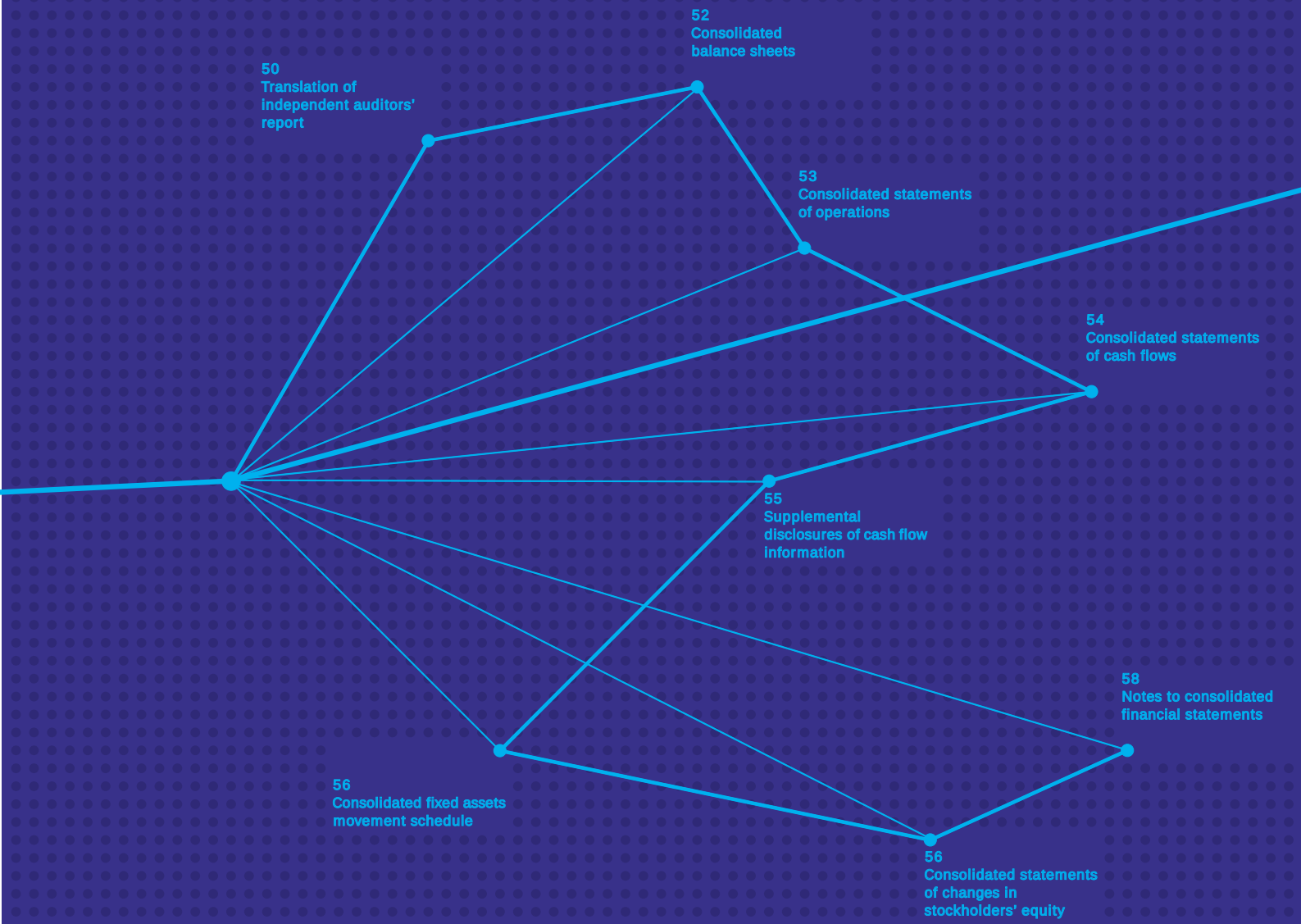
Evotec OAI holds more than 140 families of rights, comprising two registered German utility models and 25 German, 12 European, 16 U.S. and one Japanese issued patents.

Distribution of Evotec OAI's families of protective rights by technologies at December 31, 2001

Technology	Number of families of protective rights*
FCS and FCS+ plus detection technology	34
Assay development including cell-handling technologies	45
Microfluidics	15
Labelling strategies	5
Sample carriers	17
Molecule optimisation	4
Potential target genes (Alzheimer, anti-infective, etc.)	17
Others	4

* These include our proprietary and in-licensed patent and utility model rights.

Consolidated financial statements according to U.S. GAAP



Translation of independent auditors' report

We have audited the consolidated financial statements, comprising the balance sheet, the statement of operations and the statements of changes in shareholders' equity and cash flows as well as the notes to the consolidated financial statements prepared by the Evotec OAI AG for the business year from January 1 to December 31, 2001. The preparation and the content of the consolidated financial statements in accordance with United States Generally Accepted Accounting Principles (U.S. GAAP) are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

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

Our audit, which also extends to the group management report prepared by the Company's management for the business year from January 1 to December 31, 2001, has not led to any reservations. In our opinion on the whole the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the business year from January 1 to December 31, 2001 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German law.

Hamburg, March 13, 2002

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Papenberg
German public auditor

Dr Erle
German public auditor

In case of publication or transmission of the consolidated financial statements in a version different to the version confirmed by us (including translation into other languages), in so far as our audit opinion is quoted or our review referred to, a new statement is to be obtained from us. Please refer to § 328 HGB.

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

T€ except share data	footnote reference	2001	2000	Δ 01|00 in %*
Assets				
Current assets:				
– Cash and cash equivalents		18,651	32,484	(42.6)
– Marketable securities, at fair value	(5)	9,182	16,440	(44.1)
– Trade accounts receivable		11,890	10,732	10.8
– Accounts receivable due from related parties	(19)	676	–	100.0
– Inventories, at cost	(6)	6,524	5,434	20.1
– Deferred tax assets	(12)	104	229	(54.6)
– Prepaid expenses and other current assets		6,100	4,536	34.5
Total current assets		53,127	69,855	(23.9)
Property, plant and equipment, net	(8)	67,847	59,800	13.5
Intangible assets, excluding goodwill, net	(9)	44,519	54,685	(18.6)
Investments	(7)	463	3,319	(86.1)
Goodwill, net	(9)	228,612	345,008	(33.7)
Other non-current assets		49	39	25.6
Total assets		394,617	532,706	(25.9)

	footnote reference	2001	2000	Δ 01|00 in %*
Liabilities and stockholders' equity				
Current liabilities:				
– Current portion of long-term debt	(13)	829	718	15.5
– Trade accounts payable		5,677	3,752	51.3
– Accounts payable to related parties	(19)	40	–	100.0
– Accrued liabilities	(14)	8,160	8,901	(8.3)
– Accrued vacation		812	688	18.0
– Deferred revenues		4,053	3,762	7.7
– Income taxes payable		–	449	(100.0)
– Other current liabilities		2,522	1,584	59.2
Total current liabilities		22,093	19,854	11.3
Long-term debt, less current portion	(13)	3,009	3,527	(14.7)
Deferred revenues		–	373	(100.0)
Deferred tax liabilities	(12)	21,221	5,820	264.6
Other non-current liabilities		50	7	614.3
Commitments and contingencies	(18)			
Minority interests		653	630	3.7
Stockholders' equity:				
– Share capital**	(16)	35,507	35,452	0.2
– Additional paid-in capital		536,857	539,179	(0.4)
– Unearned compensation	(15)	(635)	(703)	(9.7)
– Accumulated other comprehensive loss		(6,762)	(1,807)	274.2
– Accumulated deficit		(217,376)	(69,626)	212.2
Total stockholders' equity		347,591	502,495	(30.8)
Total liabilities and stockholders' equity		394,617	532,706	(25.9)

* unaudited

** 53,207,047 and 41,482,176 shares, 1€ nominal amount, authorised at December 31, 2001 and 2000, respectively; 35,507,047 and 35,462,148 shares issued and outstanding in 2001 and 2000, respectively

See accompanying notes to consolidated financial statements.

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

T€ except share and per share data	footnote reference	2001	2000	Δ 01|00 in %*
Revenues:				
– Drug discovery products & development of technologies		12,358	13,149	(6.0)
– Drug discovery services		50,867	15,127	236.3
Total revenues	(11)	63,225	28,276	123.6
Cost of revenues				
– Drug discovery products & development of technologies		5,212	4,687	11.2
– Drug discovery services		28,102	7,919	254.9
Total cost of revenues	(11)	33,314	12,606	164.3
Gross profit		29,911	15,670	90.9
Operating costs and expenses:				
– Research and development expenses		23,012	18,480	24.5
– Selling, general and administrative expenses		19,193	11,481	67.2
– Amortisation of goodwill and other intangible assets	(9)	140,175	34,635	304.7
Total operating costs and expenses		182,380	64,596	182.3
Operating loss		(152,469)	(48,926)	211.6
Other non-operating income (expense)				
– Interest income		1,743	2,102	(17.1)
– Interest expense		(249)	(258)	(3.5)
– Net loss from equity investments		(1)	(277)	(99.6)
– Foreign currency exchange gains (losses), net		(246)	289	(185.1)
– Other non-operating income (expense), net		1,663	576	188.7
Total non-operating income		2,910	2,432	19.7
Loss before income taxes and minority interests		(149,559)	(46,494)	221.7
Income tax benefit (expense)	(12)	1,831	(599)	(405.7)
Result before minority interests		(147,728)	(47,093)	213.7
Minority interests		(22)	19	(215.8)
Net loss		(147,750)	(47,074)	213.9
Weighted average common share outstanding (basic)		35,455,457	26,934,830	
Net loss per share (basic)		(4.17)	(1.75)	

* unaudited

See accompanying notes to consolidated financial statements.

Consolidated statements of cash flows for the years ended December 31

T€	2001	2000
Cash flows from operating activities:		
Net loss	(147,750)	(47,074)
Adjustments to reconcile net loss to net cash used in operating activities:		
– Depreciation of property, plant and equipment	9,889	4,225
– Amortisation of goodwill and other intangible assets	140,175	34,635
– Equity in loss of investment	1	277
– Compensation expense	272	61
– Gain (loss) on sale of marketable securities, net	(252)	–
– Gain on long-term investments	–	(33)
– Gain on sale of fixed assets	(1)	–
– Loss on sale of fixed assets	8	142
– Deferred tax (benefit) expense, net	(2,036)	273
– Minority interests	22	(19)
Change in assets and liabilities:		
– Decrease (increase) in:		
– Accounts receivable	(1,600)	(5,500)
– Inventories	(1,002)	1,212
– Other assets	(1,488)	(1,854)
– Increase (decrease) in:		
– Accounts payable	1,879	(1,388)
– Deferred revenues	(170)	(475)
– Accrued liabilities	(706)	838
– Income taxes payable	(698)	294
– Other liabilities	932	(220)
Net cash used in operating activities	(2,525)	(14,606)
Cash flows from investing activities:		
– Purchase of marketable securities	(24,960)	(52,359)
– Purchase of fixed assets	(16,652)	(8,088)
– Purchase of intangible assets	(879)	(40)
– Acquisition costs	–	(3,964)
– Cash acquired	–	10,382
– Proceeds from sale of equipment	1	6
– Proceeds from sale of marketable securities	32,319	35,919
Net cash used in investing activities	(10,171)	(18,144)
Cash flows from financing activities:		
– Net proceeds from capital increase	357	8,650
– Repayment of long-term debt	(394)	(660)
Net cash flow (used in) provided by financing activities	(37)	7,990
Net decrease in cash and cash equivalents	(12,733)	(24,760)
Exchange rate difference	(1,100)	(244)
Cash and cash equivalents at beginning of year	32,484	57,488
Cash and cash equivalents at end of year	18,651	32,484

See accompanying notes to consolidated financial statements.

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

T€	2001	2000
Cash paid during the year for:		
– Interest	176	494
– Taxes	795	32
Supplemental schedule of non-cash activities:		
– Removal of embargo	1,600	–
– Transfer of assets under construction to inventory	375	–
– Acquisition of Evotec OAI Ltd (formerly Oxford Asymmetry International plc.)	16,690	476,982
– Capital increase in Direvo	–	2,828
– Other adjustments to investment	(2,828)	–
– Acquisition of Genion Forschungsgesellschaft mbH	1,077	2,556

See accompanying notes to consolidated financial statements.

Consolidated fixed assets movement schedule according to U.S. GAAP

T€	Acquisition and manufacturing costs					
	01|01|2001	Foreign exchange	Additions	Disposals	Reclass	31|12|2001
I. Intangible assets						
1. Patents and licenses	1,604	–	2,132	–	–	3,736
2. Goodwill	376,523	(3,578)	17,862	–	–	390,807
3. Developed technologies	33,799	(310)	252	–	–	33,741
4. Customer list	23,174	(226)	–	–	–	22,948
	435,100	(4,114)	20,246	–	–	451,232
II. Tangible fixed assets						
1. Leasehold improvements	13,479	475	750	–	10,929	25,633
2. Machinery and equipment	23,801	745	2,613	38	15,566	42,687
3. Office equipment	8,400	237	1,106	382	209	9,570
4. Computer software	801	–	94	48	–	847
5. Assets under construction	21,530	689	12,089	375	(26,704)	7,229
	68,011	2,146	16,652	843	–	85,966
III. Financial assets						
1. Investments	3,319	–	–	2,856	–	463
2. Other financial assets	39	–	10	–	–	49
	3,358	–	10	2,856	–	512
	506,469	(1,968)	36,908	3,699	–	537,710

See accompanying notes to consolidated financial statements.

Consolidated statements of changes in stockholders' equity

T€ except share data	Share capital		Additional paid-in capital	Unearned compensation
	Shares	Amount		
Balance at December 31, 1999	24,156,000	24,156	58,746	(51)
Receipt of share capital subscription	–	–	7,740	–
Acquisition of Genion	52,913	53	2,503	–
Acquisition of OAI	11,225,744	11,226	465,756	–
Share capital increase in Direvo	–	–	2,828	–
Share capital increase	17,491	17	893	–
Stock option plan	–	–	713	(652)
Comprehensive loss:				
– Foreign currency translation	–	–	–	–
– Net unrealised holding gains on available-for-sale securities	–	–	–	–
– Net loss	–	–	–	–
Total comprehensive loss				
Balance at December 31, 2000	35,452,148	35,452	539,179	(703)
Share capital increase	54,899	55	302	–
Stock option plan	–	–	204	68
Other adjustments to additional paid-in capital	–	–	(2,828)	–
Comprehensive loss:				
– Foreign currency translation	–	–	–	–
– Net unrealised holding losses on available-for-sale securities	–	–	–	–
– Net loss	–	–	–	–
Total comprehensive loss				
Balance at December 31, 2001	35,507,047	35,507	536,857	(635)

See accompanying notes to consolidated financial statements.

	Depreciation, amortisation and writedowns					Net book value	
	01|01|2001	Foreign exchange	Additions	Disposals	31|12|2001	31|12|2001	31|12|2000
	856	–	476	–	1,332	2,404	748
	31,515	2,325	128,355	–	162,195	228,612	345,008
	1,877	112	6,839	–	8,828	24,913	31,922
	1,159	82	4,505	–	5,746	17,202	22,015
	35,407	2,519	140,175	–	178,101	273,131	399,693
	431	63	1,542	–	2,036	23,597	13,048
	4,920	314	5,518	35	10,717	31,970	18,881
	2,381	102	2,613	378	4,718	4,852	6,019
	479	–	216	47	648	199	322
	–	–	–	–	–	7,229	21,530
	8,211	479	9,889	460	18,119	67,847	59,800
	–	–	–	–	–	463	3,319
	–	–	–	–	–	49	39
	–	–	–	–	–	512	3,358
	43,618	2,998	150,064	460	196,220	341,490	462,851

Foreign currency translation adjustment	Unrealised gains (losses) on securities	Accumulated deficit	Total stockholders' equity
–	–	(22,552)	60,299
–	–	–	7,740
–	–	–	2,556
–	–	–	476,982
–	–	–	2,828
–	–	–	910
–	–	–	61
(2,443)	–	–	(2,443)
–	636	–	636
–	–	(47,074)	(47,074)
			(48,881)
(2,443)	636	(69,626)	502,495
–	–	–	357
–	–	–	272
–	–	–	(2,828)
(4,471)	–	–	(4,471)
–	(484)	–	(484)
–	–	(147,750)	(147,750)
			(152,705)
(6,914)	152	(217,376)	347,591

Notes to consolidated financial statements

(Euro in thousands, except where otherwise stated)

(1) Business Description and Basis of Presentation

Evotec OAI AG ("Evotec" or the "Company") formerly EVOTEC BioSystems AG, is a biotechnology company serving the life science industry by designing and applying technologies for highly effective drug discovery. Evotec offers products and services which are designed to increase the speed, accuracy and efficiency of the drug discovery process and designs and develops systems for the efficient screening of a large number of chemical compounds (ultra-high-throughput screening).

The Company was founded on December 8, 1993 as EVOTEC BioSystems GmbH. Evotec had an initial public offering on November 10, 1999.

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") and include the accounts of Evotec OAI AG and all companies which are under its control. All intercompany transactions and balances have been eliminated in consolidation.

Investments where Evotec does not have a controlling interest but is in a position to influence the operating or capital decisions of the investee are carried at equity.

All amounts herein are shown in thousands of Euro ("T€"), unless indicated otherwise.

Certain balances in the prior fiscal year consolidated financial statements and notes have been reclassified to conform to the presentation adopted in the current fiscal year.

(2) Summary of Significant Accounting Policies

The following is a summary of significant accounting policies followed in the preparation of the accompanying consolidated financial statements.

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

Marketable securities. The Company applies Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities". According to SFAS No. 115, the Company has classified all of its debt and equity securities as available-for-sale and states them at fair value as determined by the most recently traded price of each security at the balance sheet date. Unrealised gains and losses are included in accumulated other comprehensive income (loss), a separate component of shareholders' equity. Unrealised losses deemed to be other than temporary are reported in other non-operating expense.

Realised gains and losses from the sale of available-for-sale securities are determined based on specific identification of the cost of securities sold and are reported in other non-operating income and expense.

Inventories. Inventories are valued at the lower of cost or market, cost being generally determined on the basis of an average method. Cost consists of purchased component costs and manufacturing costs, which are comprised of direct material and labor costs and applicable indirect costs.

Issuance of a subsidiary's stock. Gains and losses recognized from the issuance of a subsidiary's stock are treated as capital transactions and reported in stockholders' equity.

Property, plant and equipment. Property, plant and equipment acquisitions, including leasehold improvements, are recorded at cost less any vendor rebates. Amortisation of leasehold improvements is calculated using the straight-line method over the shorter of the related lease term or the estimated useful life. Depreciation of property, plant and equipment is calculated using the straight-line method over the estimated useful lives of the assets as follows:

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

The costs included in property, plant and equipment related to assets under construction do not include capitalised interest due to the Company's zero cost of capital and are not depreciated until the assets are placed into service by the Company. Upon sale or retirement, the costs and the related accumulated depreciation are removed from the respective accounts, and any gain or loss is included in other operating income and expense. Maintenance and repairs are expensed as incurred.

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

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

Revenue recognition. Significant management judgements and estimates must be made and used in connection with revenue recognized in any accounting period. Material differences may result in the amount and (or) timing of our revenue for any period if our management made different judgements or utilized different estimates.
Revenue under collaborative long-term research and development ("R&D") agreements is recognized when earned and realisable based upon the performance requirements of the respective agreements. Advance payments received in excess of amounts earned are recorded as deferred revenue. Revenue under these long-term collaborative agreements typically consists of the following:

1. Technology Access Fees—Lump-sum up-front fees are typically made to finance the Company's ongoing research and development activities. Revenue from technology access fees associated with collaborative research and development efforts is recognized ratably over the related forecasted research period.

2. Research Payments—Revenue from research payments finances both direct costs incurred in connection with the Company's ongoing research and development activities and indirect costs incurred as part of an allocation of certain other administrative expenses. Revenue from research payments is recognized ratably over the related forecasted research period as services are provided.
3. Success Payments—Revenue contingent upon the attainment of certain R&D milestones is recognized in the period the milestone is successfully achieved. This usually occurs when the funding party agrees that the requirements stipulated in the agreement have been met.

Revenues from the sale of systems, equipment and devices are recorded at the time of delivery, title transfer, or upon final acceptance by the customer as required by agreement.
Product and chemical compound sales are recorded as revenue upon delivery if the Company has a customer order, the price is determined and collectibility is reasonably assured. The Company assesses collectibility based on a number of factors, including past transaction history with the customer and their creditworthiness.
Service revenues generated from screening services or contract services are recognized as the services are rendered.
In addition, Evotec receives royalties under the terms of various contractual arrangements which are incremental to product sales. Royalty income of T€ 18 and T€ 44 is included in product revenue for 2001 and 2000, respectively.

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

Research and development. Research and development costs are expensed as incurred. Research and development costs to develop software internally which is used as integral part of a product or process is capitalised when both the technological feasibility of the software component is established and the research and development activities relating to the hardware component have been successfully completed. These conditions are usually met shortly before the product or process is launched and as a result no development costs have been capitalised.
The Company receives grants from government authorities for the support of specific research and development projects. The grants are requested when qualifying expenses have been incurred and are recognized as a reduction of R&D expense when they are received. Most governmental research grants are not refundable. The amounts recognized as a reduction of the Company's research and development expense were T€ 967 and T€ 1,097 in 2001 and 2000, respectively. Under the terms of the grants, the governmental agencies generally have the right to audit the use of the payments received by the Company.

Use of estimates. The preparation of the accompanying consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent amounts and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In addition, due to current economic conditions and events, it is possible that these conditions and events could have a significant effect on such estimates made by management.

Foreign currency translation and denominated transactions. In accordance with SFAS No. 52, "Foreign Currency Translation", the assets and liabilities of foreign subsidiaries with functional currencies other than the Euro are translated into Euro using period-end exchange rates, while the revenues and expenses of such subsidiaries are translated using average exchange rates during the period. Gains or losses resulting from translating foreign currency financial statements are included in other comprehensive income (loss) and are reported as a separate component of stockholders' equity. Gains or losses resulting from operating foreign currency transactions are included in selling, general and administrative ("SG & A") expenses. Gains or losses resulting from non-operating foreign currency transactions are included in other non-operating income and expense.

Impairment of long-lived assets. The Company reviews long-lived assets, including intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the discounted estimated net future cash flows. Considerable management judgement is necessary to estimate discounted future cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

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

Stock compensation. The Company has elected to apply the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") in accounting for options granted under its stock option plan. Compensation cost from the issuance of employee stock options is measured using the intrinsic value method and is charged to expense over the vesting period. The disclosure-only provisions required by SFAS No. 123 "Accounting for Stock-Based Compensation" are provided in the notes.

Recent pronouncements. In July 2001, the FASB issued SFAS No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. SFAS No. 141 also specifies criteria intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill, noting

that any purchase price allocable to an assembled workforce may not be accounted for separately. SFAS No. 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortised, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 will also require that intangible assets with estimable useful lives be amortised over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of".

The Company adopted the provisions of SFAS No. 141 on July 1, and expects to adopt SFAS No. 142 effective January 1, 2002. Furthermore, goodwill and intangible assets determined to have an indefinite useful life acquired in a purchase business combination completed after June 30, 2001, but before SFAS No. 142 is adopted in full have not been amortised, but will continue to be evaluated for impairment in accordance with the appropriate pre-SFAS No. 142 accounting literature. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortised and tested for impairment in accordance with the appropriate pre-SFAS No. 142 accounting requirements prior to the adoption of SFAS No. 142.

SFAS No. 141 will require, upon adoption of SFAS No. 142, that the Company evaluate its existing intangible assets and goodwill that were acquired in a prior purchase business combination, and to make any necessary reclassifications in order to conform with the new criteria in SFAS No. 141 for recognition apart from goodwill. Upon adoption of SFAS No. 142, the Company will be required to reassess the useful lives and residual values of all intangible assets acquired, and make any necessary amortisation period adjustments by the end of the first interim period after adoption. In addition, to the extent an intangible asset is identified as having an indefinite useful life, the Company will be required to test the intangible asset for impairment in accordance with the provisions of SFAS No. 142 within the first interim period. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period.

In connection with SFAS No. 142's transitional goodwill impairment evaluation, SFAS No. 142 will require the Company to perform an assessment of whether there is an indication that goodwill (and equity-method goodwill) is impaired as of the date of adoption. To accomplish this, the Company must identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. The Company will then have up to six months from the date of adoption to determine the fair value of each reporting unit and compare it to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and the Company must perform the second step of the transitional impairment test. In the second step, the Company must compare the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair value to all of its assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation in accordance with SFAS No. 141, to its carrying amount, both of which would be measured as of the date of adoption. This second step is required to be completed as soon as possible, but no later than the end of the year of adoption. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in the Company's statement of operations.

As of the date of adoption, the Company expects to have unamortised goodwill in the amount of T€ 228,612, which will be subject to the transition provisions of SFAS No. 142. Amortisation expense related to goodwill was T€ 128,355 and T€ 31,515 for the years ended December 31, 2001, and 2000, respectively. Because of the extensive effort needed to comply with adopting Statement 142, it is not practicable to reasonably estimate the impact of adopting this Statement on the Company's financial statements at the date of this report, including whether it will be required to recognize any transitional impairment losses as the cumulative effect of a change in accounting principle.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations", which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) normal use of the asset.

SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value of the liability is added to the carrying amount of the associated asset and this additional carrying amount is depreciated over the life of the asset. The liability is accreted at the end of each period through charges to operating expense. If the obligation is settled for other than the carrying amount of the liability, the Company will recognize a gain or loss on settlement.

The Company plans to adopt the provisions of SFAS No. 143, effective January 1, 2003. To accomplish this, the Company must identify all legal obligations for asset retirement obligations, if any, and determine the fair value of these obligations on the date of adoption. The determination of fair value is complex and will require the Company to gather market information and develop cash flow models. Additionally, the Company will be required to develop processes to track and monitor these obligations. Because of the effort necessary to comply with the adoption of SFAS No. 143, it is not practicable for management to estimate the impact of adopting this statement at the date of this report.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 retains the current requirement to recognize an impairment loss only if the carrying amounts of long-lived assets to be held and used are not recoverable from their expected undiscounted future cash flows. However, goodwill is no longer required to be allocated to these long-lived assets when determining their carrying amounts. SFAS No. 144 requires that a long-lived asset to be abandoned, exchanged for a similar productive asset, or distributed to owners in a spin-off be considered held and used until it is disposed. However, SFAS No. 144 requires the depreciable life of an asset to be abandoned be revised. SFAS No. 144 requires all long-lived assets to be disposed of by sale be recorded at the lower of its carrying amount or fair value less cost to sell and to cease depreciation (amortisation). Therefore, discontinued operations are no longer measured on a net realisable value basis, and future operating losses are no longer recognized before they occur. The Company is required to adopt SFAS No. 144 by January 1, 2002. The adoption of SFAS No. 144 is not expected to have a material impact on the Company's consolidated financial statements.

(Euro in thousands, except where otherwise stated)

(3) Collaborative Agreements

A significant portion of the Company's revenue has been generated from collaboration agreements with a limited number of partners in the pharmaceutical industry. The Company's collaborative agreements generally extend one to three years and have accounted for 12.0 % and 42.4 % of revenues in 2001 and 2000, respectively:

%	2001	2000
Pfizer (USA, UK)	5.7	21.1
GlaxoSmithKline (USA, UK, Spain)	6.3	15.7
Novartis (Switzerland)	0.0	5.6

Related receivables from these customers were approximately 22 % and 30 % of trade accounts receivable at December 31, 2001 and 2000, respectively.
As part of the long-term agreements, the collaborating partners acquire the right to purchase for internal use the screening machines which are developed as a result of the funded research and development activities.
Evotec is not subject to any restrictions concerning technologies arising in the course of its cooperation with Pfizer.
Under the terms of an amended contract with GlaxoSmithKline (GSK), Evotec may use the results of the collaboration agreements for projects not related to pharmaceutical drug discovery, for internal projects in pharmaceutical drug discovery, or in "external target collaborations", i.e. cooperations which the Company enters into with third parties with respect to the screening of chemical or biological substances on a pharmaceutical target, provided that the number of molecular targets does not exceed certain restrictions. These restrictions lapse in April 2003.
In May 2001, the Company again amended this agreement with GSK to allow Evotec to sell detection systems and liquid handling devices, which have a restricted throughput of compounds per day. The amendment provided GSK with the election to receive a specific amount of systems and devices under preferred conditions. The estimated future commitment is recognized under accrued liabilities and resulted in the recognition of an intangible asset. The intangible asset is amortised over the remaining period of the original restriction, determined to be approximately three years. In addition, the amendment grants to Evotec the right to enter into other collaborative agreements with two additional funding partners. In case such agreements are established, GSK will receive a specified amount of credits against future goods depending on the number of additional funding partners.
With regards to the "external target collaborations" under the Novartis agreement, Evotec must pay royalties equal to 5 % of qualifying revenue to Novartis for a period of ten years beginning on March 17, 1998. The Company had to pay royalties of T€ 54 and T€ 31 in 2001 and 2000, respectively.
In December 2001, Evotec signed an amendment of the Novartis agreement which allows Evotec to sell detection systems and liquid handling devices which have a restricted throughput of compounds per day. The amendment provided Novartis with the right to receive a specific amount of systems and devices under preferred conditions and (or) a revenue share on the sales of the equipment to third parties up to a limited amount. The estimated future commitment is recognized under accrued liabilities and resulted in the recognition of an intangible asset. The intangible asset is amortised over the remaining period of the original restriction, which is two years.

(Euro in thousands, except where otherwise stated)

(4) Acquisitions

The Company acquired, with effective date October 4, 2000, Oxford Asymmetry International plc., now Evotec OAI Ltd, Abingdon, UK ("OAI"). The acquisition was made on a stock for stock basis. Evotec issued 11,225,744 shares to acquire OAI. The cost of T€ 485,956 comprises the fair value of the shares issued and direct incremental costs of T€ 8,974. The acquisition is accounted for as a purchase and OAI's operations have been fully consolidated from that date. OAI provides sophisticated chemical services to the pharmaceutical and biotechnology industries. OAI's range of products and services comprises fully-integrated chemistries from discovery to final manufacture of the active ingredient. These products and services, particularly in combination, present significant opportunities for customers to reduce time and risks associated with bringing new drugs to market.

The allocation of the purchase price of OAI to the certain assets acquired was based on an appraisal conducted by an experienced third party. Due to the additional information which became available during the allocation period ending October 4, 2001, the Company has increased the goodwill associated with OAI by T€ 16,960.

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

T€	
Goodwill	393,213
Developed technology	31,782
Customer list	23,174
Total	448,169

With effective date of June 30, 2000, the Company acquired all the shares of GENION Forschungsgesellschaft mbH ("Genion"), Hamburg, Germany. The purchase price was T€ 2,556 and paid in 52,913 shares of Evotec stock.

The acquisition is accounted for as a purchase and Genion's operations have been fully consolidated from that date. In 2001, subsequent acquisition costs of T€ 252 relating to developed technologies occurred. Also in 2001, due to the additional information which became available during the allocation period, the Company has recorded an amount of goodwill associated with Genion of T€ 1,077. A qualified internal appraisal of the fair market value was conducted to determine the purchase price allocation. The resulting excess of the purchase price over the net tangible assets acquired relates to goodwill of T€ 1,077, developed technologies of T€ 2,269 and patents of T€ 283.

Due to the acquisition of OAI and of Genion in 2000, the consolidated financial statements for 2001 are not comparable to the consolidated financial statements of 2000. The following unaudited pro forma information is based on the assumption that the acquisitions of OAI and Genion had occurred as of January 1, 2000:

		2000
Pro-forma revenues	T€	55,659
Pro-forma net loss	T€	150,477
Pro-forma loss per share	€	4.25

(Euro in thousands, except where otherwise stated)

(5) Marketable Securities

Marketable securities, considered available-for-sale securities, consist of the following:

T€	31|12|2001	31|12|2000
Money market mutual funds	7,284	12,297
Foreign corporate bonds	1,898	0
Foreign government bonds	0	1,793
Corporate bonds	0	2,350
Total	9,182	16,440

All bonds are publicly traded, are due within one year, and are denominated in Euro except for a total balance of T€ 1,898 and T€ 1,793 in 2001 and 2000, respectively, which are denominated in U.S. dollars.
The unrealised gain on these securities amounts to T€ 152 and T€ 636 as of December 31, 2001 and 2000, respectively. Realised losses in 2001 on the sale of corporate bonds amounted to T€ 42. Realised gains on the sale of money market mutual funds, foreign government bonds and corporate bonds amounted to T€ 280, T€ 5 and T€ 9 in 2001, respectively, and to T€ 10, T€ 216 and T€ 178 in 2000, respectively.

(6) Inventories

Inventories consist of the following:

T€	31|12|2001	31|12|2000
Raw materials	3,788	3,133
Work-in-progress	2,256	759
Finished goods	480	1,542
Total	6,524	5,434

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

(Euro in thousands, except where otherwise stated)

(7) Long-term Investments

Evotec has a 50 % investment in QE-Diagnostiksysteme GmbH ("QED"), which is accounted for under the equity method of accounting. Through December 31, 2001, QED had not generated any revenue. The Company's accumulated equity contributions and advances to QED amounted to T€ 1,089 and T€ 1,129 at December 31, 2001 and 2000, respectively. The Company's share of the net loss of QED amounted to T€ 1 and T€ 264 for 2001 and 2000, respectively. The amount by which Evotec's share of the loss of the investee exceeded the equity investment was set off against the advances. The remaining carrying amount of advances, recorded in long-term investments, is T€ 463 and T€ 504 as of December 31, 2001 and 2000, respectively.

Evotec has a 65 % investment in the common stock of DIREVO Biotech AG ("Direvo"), which is accounted for under the equity method of accounting. Direvo is working in the field of development, production and selling of evolutionary optimized biomolecules. On December 12, 2000, Direvo issued to new investors 50,000 shares of preference stock, with a liquidation preference, at € 175.00 per share for T€ 8,750 in cash. The preferred stock has a conversion feature into common stock whereby one share of preferred can be exchanged for one share of common at the request of the holder at any time. Due to the voting rights held by the preferred stockholders and the resulting decrease in Evotec's proportionate voting interest of Direvo from 65 % to 32.5 %. Evotec discontinued consolidating the financial results of Direvo and accounts for the investment using the equity method. Due to the redeemable feature of the preferred shares, the Company reduced the investment in Direvo to zero in the current year.

Through December 31, 2001, Direvo had not generated any revenue. The Company's share of the net loss of Direvo amounted to T€ 0 and T€ 13 for 2001 and 2000, respectively. The remaining carrying amount of the investment is T€ 0 and T€ 2,815 as of December 31, 2001 and 2000, respectively.

The long-term investments of Evotec continue to have losses and, therefore, do not have undistributed profits.

(8) Property, Plant and Equipment

Property, plant and equipment consist of the following:

T€	31|12|2001	31|12|2000
Machinery and equipment	42,687	23,801
Leasehold improvements	25,633	13,479
Office equipment	9,570	8,400
Assets under construction	7,229	21,530
Computer software	847	801
Fixed assets, at cost	85,966	68,011
Less accumulated depreciation without software	17,471	7,732
Less accumulated amortisation of software	648	479
Total	67,847	59,800

The main additions in 2001 relate to a completed Pilot Plant, situated in Abingdon, UK, and a Evotec Mark III screening machine belonging to Evotec, which is included in assets under construction. Upon completion, costs are transferred into their respective fixed assets classification. Depreciation expense amounted to T€ 9,889 and T€ 4,225 in 2001 and 2000, respectively.

(Euro in thousands, except where otherwise stated)

(9) Intangible Assets

Intangible assets consist of the following:

T€	31|12|2001	31|12|2000
Goodwill	390,807	376,523
Developed technologies	33,741	33,799
Customer list	22,948	23,174
Patents and licenses	3,736	1,604
Intangible assets, at cost	451,232	435,100
Less accumulated amortisation	178,101	35,407
Total	273,131	399,693

Amortisation expense amounted to T€ 140,175 and T€ 34,365 in 2001 and 2000, respectively. A balance of T€ 128,355 and T€ 31,515 included in total amortisation expense in 2001 and 2000, respectively, represents amortisation expense for goodwill.

(10) Financial Instruments

The fair value of cash and cash equivalents, trade accounts receivable and trade accounts payable approximate their carrying values in the consolidated financial statements due to the short-term nature. The fair value of debt is determined on the basis of discounted cash flows using an appropriate discount rate. The fair value of long-term loans closely approximates their carrying values on December 31, 2001 and 2000. Marketable securities are carried at their quoted market price which represents the fair value.

The Company periodically enters into derivatives including foreign currency forward contracts and options. The objective of these transactions is to reduce the market risk of exchange rate fluctuations to its foreign currency denominated cash flows. Evotec does not enter into derivatives for trading or speculative purposes. At December 31, 2001, the Company held U.S. dollar forward contracts with Euro equivalent notional amounts of approximately T€ 560 and a fair value of T€ 16. Additionally, the Company held U.S. dollar option contracts with Euro equivalent notional amounts of approximately T€ 5,004. The fair value of the option contracts is T€ 81 at December 31, 2001. The fair values of foreign currency contracts are determined using quoted market prices or discounted cash flows. As of December 31, 2001 and 2000, the carrying amounts and the fair values of the foreign currency contracts are the same. The carrying amounts of the foreign currency contracts is included in prepaid expense and other current assets. Gains and losses related to foreign currency derivatives and foreign currency transactions amounted to T€ 225 and T€ 148, for the years ended December 31, 2001 and 2000, respectively. Gains and losses on derivative financial instruments are included in determining net income, and are included in other non-operating income or expense.

(Euro in thousands, except where otherwise stated)

(11) Segment Information

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

The Company has two core business segments which are application focussed: (i) drug discovery tools and technologies and (ii) drug discovery services and products.

The drug discovery tools and technologies segment collaborates with pharmaceutical companies to develop its platform technology and to design, manufacture, assemble and deliver instruments and disposables for its drug discovery systems. Drug discovery tools and technologies consists of research and development activities with collaborative and strategic partners in the pharmaceutical industry to develop new technologies and enhance the screening systems resulting from those contracts.

The drug discovery services and products segment enters into service contracts with third parties to provide screening, assay development and offers chemical compounds and disease targets. The business activities of OAI are included in this second segment.

The Company makes decisions about resources to be allocated to the segments and assesses their performance using revenues and gross profits. Evotec does not identify or allocate assets to the operating segments nor does the Company evaluate the segments on these criteria.

Due to the specific application and product base nature of the operating segments, there are no sales transactions between segments. Accordingly, net sales by operating segments represents sales to external customers. Cost of products sold are allocated on the basis of direct attributable cost.

Revenues in the statement of operations are differentiated by products and by services. This definition is close to the definition used in the segment reporting. Differences between the revenue splits are mainly due to product deliveries from our service unit, which are reported in services in the segment reporting.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see note 2).

The following represents segment data, revenues and gross profit from continuing operations, for the years ended December 31, 2001 and 2000:

T€	2001	2000
Revenues:		
– Drug discovery tools and technologies	11,489	12,800
– Drug discovery services	51,736	15,476
Total revenues	63,225	28,276
Costs of products sold:		
– Drug discovery tools and technologies	5,021	4,686
– Drug discovery services	28,293	7,920
Total costs of products sold	33,314	12,606
Gross profit	29,911	15,670

(Euro in thousands, except where otherwise stated)

Revenues can be split, based on the customer's location, in the following geographical regions:

%	2001	2000
Germany	8	9
United Kingdom	14	29
Rest of Europe	23	19
United States	51	42
Rest of the world	4	1

Long-lived assets of T€ 323,987 and T€ 447,272 are located in UK, and the remaining amounts of T€ 17,503 and T€ 15,579 are in Germany as of December 31, 2001 and 2000, respectively.
Investments in research and development projects are based on the expectations in the respective field of business and are not necessarily related to the existing segments. As the Company grows away from pure research and development towards customer-related work, the need for more comprehensive segment information will be required. Thus, management is in the process of implementing a system to gather additional segmental information.

(12) Income Taxes

Income (loss) before income taxes, minority interest and equity in net loss of investees is attributable to the following geographic regions for the years ended December 31, 2001 and 2000:

T€	2001	2000
Germany	(158,562)	(48,401)
Foreign	9,004	2,184
Total	(149,558)	(46,217)

Income tax benefit (expense) for the years ended December 31, 2001 and 2000 is as follows:

T€	2001	2000
Current taxes:		
– Germany	(14)	(326)
– Foreign	(191)	–
Total current taxes	(205)	(326)
Deferred taxes:		
– Germany	423	–
– Foreign	1,613	(273)
Total deferred taxes	2,036	(273)
Total income tax benefit (expense)	1,831	(599)

In the fourth quarter of 2000, the German government enacted new tax legislation which, among other changes, abolished the split tax rate system and will reduce the Company's statutory corporate tax rate in Germany to a uniform 25 %, effective for the year beginning January 1, 2001. In addition, capital gains on the sale of certain qualifying investments by corporate sellers will be tax free starting on January 1, 2002. The impact of the various revisions in the new tax legislation was accounted for during the year ended December 31, 2000, the period of the enactment of the legislation, as required by SFAS No. 109, "Accounting for Income Taxes". The impact of the legislation was to decrease income tax benefit by T€ 126 for the year ending December 31, 2000.

(Euro in thousands, except where otherwise stated)

In general, prior to January 1, 2001 retained (undistributed) German corporate income was initially subject to a federal corporation income tax rate of 40 % plus a solidarity surcharge of 5.5 % for each year on federal corporate taxes payable. Giving effect to the surcharge, the federal corporate tax rate amounted to 42.2 % for the year ended December 31, 2000. Upon distribution of certain retained earnings to shareholders, the corporate income tax rate on such distributed earnings is adjusted to 30 %, plus a solidarity surcharge of 5.5 % for a total of 31.65 % for each year. This reduction is effected by means of a refund for taxes previously paid, which is known as a dividend tax credit. In addition, the Company is subject to local trade taxes on income (Gewerbesteuer).
For the years ended December 31, 2001 and 2000, the actual income tax benefit (expense) differed from the amounts determined using the German federal corporation income tax rate of 40,38 % (2000: 42.2 %) as follows:

T€	2001	2000
Expected income tax benefit	60,392	19,504
Non-deductible goodwill	(51,830)	(14,610)
Other permanent differences	(236)	4,057
Foreign tax differential	(170)	168
Effect of tax rate change	(58)	(2,901)
Change in valuation allowance	(7,121)	(6,822)
Other	854	5
Actual income tax benefit (expense)	1,831	(599)

Deferred income tax assets and liabilities as of December 31, 2001 and 2000 relate to the following:

T€	2001	2000
Deferred tax assets		
– Losses carried forward	32,214	29,720
– Deferred revenue	474	1,043
– Other	206	196
Total	32,894	30,959
Valuation allowances on deferred tax assets	(24,647)	(21,260)
Total deferred tax assets	8,247	9,699
Deferred tax liabilities		
– Property, plant and equipment	15,879	14,564
– Intangible assets	13,102	–
– Inventory	–	371
– Marketable securities	60	268
– Accrued liabilities	73	70
– Other	250	17
Total deferred tax liabilities	29,364	15,290
Deferred tax liability, net	21,117	5,591

(Euro in thousands, except where otherwise stated)

Net deferred income tax assets and liabilities are presented in the accompanying balance sheets as of December 31, 2001 and 2000 as follows:

T€	2001	2000
Deferred tax assets:		
– Current	237	939
– Non-current	8,010	8,760
Deferred tax liabilities:		
– Current	133	710
– Non-current	29,231	14,580
Total	21,117	5,591

For the years ended December 31, 2001 and 2000, Evotec did not recognize tax benefits of T€ 7,121 and T€ 6,822, respectively. These benefits would have been recognized to the extent it is considered more likely than not that such benefits would be realised in future years. These considerations include, but are not limited to, the ability under German tax law to carry forward incurred tax losses indefinitely and thereby offset taxable income in future years without limitation, tax planning strategies and estimates of future taxable income. Evotec has not generated taxable income in Germany since the start of operations and does not expect to in the foreseeable future. These benefits were not recognized based on management's belief that it would have been more likely than not that such benefits would not have been utilized by Evotec in future years. This belief is based on the unanticipated prospect of generating taxable income and the questionable nature, availability and benefit of these tax loss carry-forwards generated prior of the completion of the initial public offering.
For the year ended December 31, 2001, the Company recorded a reduction of T€ 7,125 to the estimated tax loss carry-forwards in Germany, reducing also the valuation allowance by the same amount.
Evotec did not provide income taxes or foreign withholding taxes on cumulative earnings of foreign subsidiaries for the years ended December 31, 2001 and 2000 because these earnings are intended to be indefinitely reinvested in those operations in the foreseeable future. It is not practical to estimate the amount of unrecognized deferred tax liabilities for these undistributed foreign earnings.
Income tax expense for 2001 and 2000 was allocated entirely to continuing operations, with nothing allocated to accumulative other comprehensive income on the basis that a valuation allowance is established on the net deferred tax asset positions in Germany.

(Euro in thousands, except where otherwise stated)

(13) Long-Term Debt

In February 1998, the Company entered into a T€ 5,113 loan agreement with a bank of which T€ 3,196 is still outstanding. This loan carries an interest rate of 5 % per annum and is repayable in semi-annual installments ending on September 30, 2006. This loan is secured by certain patents, receivables and equipment.
A subsidiary of OAI has debt of T€ 642. It is repayable in installments through 2007 and secured by all of that subsidiary's assets. The annual maturities of these loans are as follows:

T€	
2002	829
2003	887
2004	694
2005	694
2006	694
Thereafter	40
Total	3,838

The Company maintains lines of credit totaling T€ 128 to finance its short-term capital requirements, of which the entire balance is available as of December 31, 2001. These lines of credit provide for borrowings at various interest rates and have no stated expiration date.

(14) Accrued Liabilities

The accrued liabilities consist of the following:

T€	31|12|2001	31|12|2000
Accrued outstanding invoices	3,517	1,353
Bonus accruals	2,735	2,086
Liabilities to collaborative partners	1,600	–
Accrued costs for the OAI acquisition	–	4,364
Other accrued liabilities	308	1,098
Total	8,160	8,901

(15) Stock-Based Compensation

The shareholders' meeting on June 7, 1999 established a stock option plan and authorised the granting of stock options for up to 1,466,600 shares. The plan is subject to certain restrictions regarding the number of stock awards that may be granted in a year and the allocation of the grants to members of the Management Board, other key management personnel and all other employees. In connection with the acquisitions in 2000 (see note 4) and the increased number of employees, the shareholders approved an additional 949,000 shares which may be issued in connection with the granting of stock options. In 2001, the annual shareholders' meeting provided for the authorisation of an additional 1,129,600 stock options.
The terms of the stock option plan provide that the price of the Company's stock should increase by at least 30 % compared to the average closing price of the stock during the last quarter of the year preceding the year of the date of any subsequent grant. The Supervisory Board, however, has the authority to authorise the granting of options to employees if such a decision is considered necessary for the interests of the Company. The initial grant of stock options in 1999 was in connection with the initial public offering.

(Euro in thousands, except where otherwise stated)

Under the terms of the plan, each option entitles the holder to purchase one share of the Company's stock within ten years of the grant date at a set strike price. For all options granted in 1999, the strike price was the price of the initial public offering of € 13 (€ 6.50 after stock split). Options granted in 2000 and thereafter can be exercised at a strike price equal to the closing price of the shares on the trading day before the option was granted. Options have a graded vesting: a maximum of one-third of which can be exercised at the earliest after two years, a maximum of two-thirds after three years and all remaining awarded options after four years. Options can only be exercised within certain specified two week periods starting on the third day after one of the following events: (i) release of the quarterly results, (ii) annual press conference on the financial statements, or (iii) annual shareholders' meeting of the Company. The options can only be exercised if the stock price exceeds the strike price by at least 5 % on the date of exercise.
A summary of the status of the plan as of December 31, 2001 and 2000, and the changes during the years then ended is presented as follows:

pcs. and €	2001		2000	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding at beginning of the year	1,001,403	18.45	356,538	6.50
Options granted	823,445	7.75	672,165	24.30
Options exercised	54,899	6.50	–	–
Options forfeited	103,498	18.88	27,300	6.50
Outstanding at end of the year	1,666,451	13.53	1,001,403	18.45
Thereof exercisable	49,446	6.50	–	–

A summary of the stock options outstanding at December 31, 2001 is as follows:

pcs. and € Range of exercise prices	Outstanding	Weighted average remaining contractual life	Weighted average exercise price
6.50 – 6.80	932,503	9.20 years	6.72
10.15 – 15.29	138,400	9.91 years	12.47
24.30	595,548	8.90 years	24.30

Evotec's stock option plan is a variable compensation plan and results in compensation expense when Evotec's stock price exceeds the strike price by 5 % subsequent to the issuance of the options. Total compensation costs of T€ 204 and T€ 713 were determined at the measurement dates in 2001 and 2000, respectively. These amounts were reflected in unearned compensation, a component of stockholders' equity. The Company recognized compensation expense in 2001 and 2000 totaling T€ 272 and T€ 61, respectively, which was reflected as SG & A expenses in the income statement.
The fair value of each option grant was estimated on the date of grant for the fiscal years ended December 31, 2001 and 2000 using a Black-Scholes option pricing model with the following weighted average assumptions:

%	2001	2000
Risk-free interest rate	4.5	4.5
Volatility	100.95	150
Dividend yield	–	–
Options expected to be exercised	80	90

The weighted average fair value under SFAS No. 123 of each option granted during the year ended December 31, 2001 was € 1.31.
Had compensation expense been determined based on the fair value provisions of SFAS No. 123, the Company's unaudited pro forma loss and pro forma loss per share would have increased to T€ 148,568 and € 4.19 in 2001, respectively, and to T€ 47,216 and € 1.75 in 2000, respectively.

(16) Stockholders' Equity

On December 31, 2001, a conditional capital (bedingtes Kapital) of 3,490,301 shares and an approved capital (genehmigtes Kapital) of 17,700,000 shares exist. On December 31, 2001, 35,507,047 shares are issued and outstanding.
On November 27, 2001, the Company issued 54,899 new shares to their employees under the stock option plan. The price per share paid was € 6.50.
The annual shareholders' meeting on June 18, 2001 authorised the Management Board of the Company to issue up to 17,700,000 shares for cash or contribution in kind. On December 31, 2001 up to 17,700,000 shares are authorised for issuance. Under German law, the shareholders of a stock corporation may empower the Management Board to issue shares in a specified aggregate nominal value not exceeding 50 % of the issued share capital at the time of the shareholder vote, in the form of approved capital (genehmigtes Kapital). The authorisation expires five years after the date of the shareholders' resolution.
On November 14, 2000, the Company issued 17,491 new shares to Pfizer under the terms of the collaborative agreement at a price equal to the average share price between the date of the initial public offering and the date of issuance. The shares were registered in the trade register on January 3, 2001. The price per share paid was in excess of the quoted price at the date of issuance.
The annual shareholders' meeting on June 26, 2000 approved a two-to-one stock split which was retroactively considered for all periods presented in these financial statements.
In connection with the initial public offering in November 1999 and giving the effect to the subsequent stock split, the Company issued 8,200,000 shares with a par value of € 1.00 and an additional 1,290,000 shares upon exercise of the overallotment option by the underwriter. Offering costs of T€ 4,402 were offset against the proceeds from the offering. Shareholders' equity at December 31, 1999 did not include the amount of T€ 7,740 by which the price exceeded the par value of the shares issued in connection with the exercise of the overallotment option which was paid after December 31, 1999 and therefore not at the Company's disposition at that date.

(17) Risks

Financial risks of the Company consist primarily of trade accounts receivables. Concentrations of credit risks with respect to trade accounts receivables are limited by a number of geographically diverse customers and the Company's monitoring procedures.
In order to remain competitive, Evotec must continue to make substantial investments in research and development. Portions of these investments might not be recoverable if these research and development efforts fail to gain market acceptance or if markets significantly deteriorate.

(Euro in thousands, except where otherwise stated)

(18) Commitments and Contingencies

(a) Operating leases. The Company leases certain office space and other equipment under operating leases. The future minimum lease payments under non-cancelable operating leases are approximately as follows at December 31, 2001:

T€	
2002	3,602
2003	2,958
2004	2,727
2005	2,646
2006	2,175
Thereafter	15,423
Total	29,531

The expense for operating leases amounted to T€ 2,793 and T€ 1,497 for the years ended December 31, 2001 and 2000, respectively. Rental income under sub-lease agreements at OAI amounts to T€ 409 and T€ 34 for the years ended December 31, 2001 and 2000, respectively.

(b) Other commitments. The Company has entered into long-term consultant contracts. During 2001 and 2000, payments under consultant contracts totaled T€ 269 and T€ 300, respectively. The future minimum payments associated with long-term consultant and other miscellaneous long-term commitments totals approximately T€ 206 at December 31, 2001.
As discussed in note 3, commitments from amendments exist with our technology funding partners.

(19) Related Party Transactions

Evotec invoiced services in the amount of approximately T€ 483 in 2001 to a company of which a member of the Supervisory Board of the Company is non-executive chairman. The corresponding receivables including VAT at the year-end amount to T€ 578.
The Company invoiced services in the amount of T€ 237 in 2001 to two companies of which a member of the Supervisory Board of the Company is member of the Supervisory Boards. The related amount of receivables is T€ 98.
In the ordinary course of business, the Company bought raw materials in the amount of T€ 31 and T€ 47 during 2001 and 2000, respectively, from another company of which a member of the Supervisory Board is the CFO.
In the ordinary course of business, the Company entered into a service agreement with another company during 2001. A Supervisory Board member of the Company is also Supervisory Board member of this company. Revenues from the service agreement in 2001 amounted to T€ 426.
A Supervisory Board member of the Company is a member of the Supervisory Board of another company from which the Company has obtained licenses. License expenses amounted to T€ 35 and T€ 24 in 2001 and 2000, respectively. The related payables, including VAT, amounted to T€ 40. The Company has also entered into a consultancy contract in the ordinary course of business with this related party. The maximum possible obligation of the Company based on time worked amounts to approximately T€ 180 per year.
In the ordinary course of business, the Company entered into a rental agreement with another company of which a Supervisory Board member of the Company is also member of this company's Supervisory Board. Rental expenses in 2001 amounted to T€ 180.

(Euro in thousands, except where otherwise stated)

(20) Other Disclosures

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

(a) Number of employees. The average number of persons employed by the Company in 2001 was 555 (2000: 308).

(b) Personnel expenses and cost of material. The personnel expenses in the group amounted to T€ 31,917 of which T€ 16,476 relates to personnel expenses of OAI (2000: T€ 17,997 and T€ 3,809, respectively).
Cost of material amounted to T€ 13,789, thereof T€ 5,645 are cost of material of OAI (2000: T€ 6,409 and T€ 1,229, respectively).

(c) Consolidated subsidiaries and equity investees. Information on the annual results as reported in the statutory financial statements are prepared in accordance with the respective local generally accepted accounting principles.

% and T€	Company's ownership interest	2001 Net income (loss)
Subsidiaries (verbundene Unternehmen)		
– Evotec OAI Ltd, Abingdon, UK *	100.0	6,134
– EVOTEC Analytical Systems GmbH, Erkrath	100.0	0
– EVOTEC NeuroSciences GmbH, Hamburg	62.4	0
– GENION Forschungsgesellschaft mbH, Hamburg	100.0	31
– ProPharma Ltd, Glasgow, UK	58.0	53
– Evotec OAI Inc., Delaware, U.S. **	100.0	33
– Oxford Diversity Ltd, Abingdon, UK	100.0	0
– Oxford Asymmetry Employee Shares Trust Ltd, Abingdon, UK	100.0	0
Investees (assoziierte Unternehmen)		
– QE-Diagnostiksysteme GmbH, Erkrath	50.0	(2)
– DIREVO Biotech AG, Cologne	32.5	(1,052)

* formerly Oxford Asymmetry International plc
** formerly Oxford Asymmetry International Inc.

(d) Management Board. The members of the Management Board are listed at the end of this report. The remuneration paid to the members of the Management Board in the financial year totaled T€ 1,459 (2000: T€ 708) of which T€ 301 (2000: T€ 134) was variable. Under the Company's stock option plan, the members of the Management Board received 130,000 (2000: 75,000) options of which one-third may be exercised after two years.

(e) Supervisory Board. The members of the Supervisory Board are listed at the end of this report. The remuneration paid to the members of the Supervisory Board in the financial year amounted to T€ 33 (2000: T€ 34).

(f) Scientific Advisory Committee. Dr Karsten Henco, Erkrath; Prof Dr Guenther Fuhr, Berlin; Prof Dr Roger Nitsch, Zurich, CH; Dr Norbert Riedel, Glendale, U.S.; Prof Dr Detlev Riesner, Duesseldorf; Prof Dr Rudolf Riegler, Stockholm, S; Prof Dr Heinrich Schulte, Hamburg; Prof Dr Charles Weissmann, London, UK.

(g) Summary of Significant Differences between U.S. GAAP and HGB Accounting Requirements.

Introduction. Evotec OAI AG, as a German company, is subject to the German Commercial Code ("Handelsgesetzbuch", or "HGB"), which principally requires the Company to prepare consolidated financial statements in accordance with the HGB accounting principles and regulations ("German GAAP"). Pursuant to HGB Section 292a, the Company is exempt from this requirement, if consolidated financial statements are prepared and issued in accordance with a body of internationally accepted accounting principles (such as U.S. GAAP). Accordingly, the Company has prepared its consolidated financial statements in accordance with U.S. GAAP. The following is a description of the significant differences between German GAAP and U.S. GAAP.

Fundamental differences. The emphasis of U.S. GAAP is to provide all relevant information to investors in order to facilitate future investment decisions. The primary difference between German GAAP and U.S. GAAP is that they are based on different concepts. German GAAP is oriented towards the protection of creditors and emphasis on the prudence concept.

Financial statement presentation. The balance sheet presentation under U.S. GAAP is based on the planned realisation of assets and the maturity of liabilities in the normal course of business. The balance sheet under German GAAP is principally defined in HGB section 266, and is based on enterprise's planned holding time for the respective asset, liability or equity.

Revenue recognition. Revenue recognition is generally the same under German and U.S. GAAP, whereby revenue is recognized when realised and earned. Differences in the timing of recognition can exist in transaction when the Company retains on-going financial, operational or performance commitments or the contractual amounts are not objectively verifiable.

Marketable securities. Under German GAAP, marketable debt and equity securities are valued at the lower of acquisition cost or fair market value as of the balance sheet date. Under U.S. GAAP, the Company's marketable securities are classified as available-for-sale and valued at fair market value as of balance sheet date. Unrealised gains and losses are reported in other comprehensive income, net of deferred taxes.

Inventories. Inventory valuation is based on manufacturing cost under both German and U.S. GAAP. Manufacturing costs under U.S. GAAP are defined as production costs on a full absorption basis, whereby manufacturing overhead is included together with material and other direct manufacturing costs.

Goodwill. Under U.S. GAAP, pursuant to SFAS No. 141, "Business Combinations", in connection with SFAS No. 142, "Goodwill and Other Intangible Assets", goodwill arising from business combinations accounted for as a purchase after June 30, 2001 is no longer amortised.

Financial instruments. Under German GAAP, derivative financial instruments are not recorded on the balance sheet. Unrealised gains are not recognized and unrealised losses are accrued. Under U.S. GAAP, derivative financial instruments are recorded on the balance sheet at their fair value. Changes in fair value are recorded in current earnings or other comprehensive income, depending on whether the derivative financial instruments is designated as part of a hedge transaction and the type of hedge transaction.

Deferred taxes. The main difference in accounting for deferred taxes relates to the fact that under German GAAP deferred tax assets are not recorded for net operating losses. Under U.S. GAAP, deferred tax assets are recorded for net operating losses and a valuation allowance is established when it is deemed "more likely than not" that the deferred tax asset will not be realised.

Stock-based compensation. Under German GAAP, the Company recognizes as expense the difference between the fair market value of the Evotec shares and the exercise price of the stock options, if the fair market value is higher. Under U.S. GAAP, the Company accounts for stock-based compensation on the intrinsic value method pursuant to APB Opinion No. 25 which does not result in a compensation charge if the fair market value of the stock does not exceed the exercise price of the option on the measurement date.

Accrued liabilities. Under German GAAP, certain costs can be accrued for anticipated future events in certain circumstances. Under U.S. GAAP, recognition of an accrued liability represents an existing liability to third parties or must meet specific recognition criteria.

Foreign currency translation. Under German GAAP, foreign currency denominated assets and liabilities are recorded at spot rate on the transaction date, with only unrealised losses reflected in income at the balance sheet date. Under U.S. GAAP, foreign currency denominated assets and liabilities are translated at the spot rate at the balance sheet date, with both unrealised gains and losses reflected in income.

Gain on associated company share issuance. Under German GAAP, a capital increase of an associated company which increases the proportional valuation of the Company's investment is reflected in income. U.S. GAAP and specific SEC regulations, income recognition is subject to additional criteria which, if not met, requires recognition as an adjustment to stockholders' equity.

Report of the Supervisory Board

The Supervisory Board's duty is to supervise the company's activities, acting always in the best interest of the shareholders, the company and its business. To this end the Supervisory Board monitored the Management Board's policies and conduct throughout 2001.

During the year, the Management Board provided the Supervisory Board with detailed information on the status of business operations and the prospects for further development of the company in five formal meetings, as well as through regular verbal and written reports.

In addition to the standing agenda items, specific subjects were discussed in detail at each of the meetings:

> In March, in addition to the 2000 annual financial statements, the principal subject for discussion was the integration of the two core companies in Germany and England, as well as the restructuring of the company's instrument business.
> In June, the Board discussed the Annual General Meeting and the expansion of the product and service offerings.
> At a special meeting in August, the Board discussed in detail the company's strategic development.
> The principal topics at the November meeting were Evotec OAI's research portfolio and the approval of the new bye-laws for the Management Board.
> In December, the budget for 2002 was discussed at length, as were the business prospects of Evotec OAI's subsidiaries and the instrument business.

The Supervisory Board focused on the company's strategic development: the potential of its R&D projects, the expansion of its service offer and the business prospects of its subsidiaries were discussed in detail.

The financial statements, together with the management report for 2001, were audited by KPMG, and were given an unqualified audit opinion.

In addition, KPMG Deutsche-Treuhand-Gesellschaft-Aktiengesellschaft-Wirtschaftsprüfungsgesellschaft carried out an analysis of the company's risk management system at the Supervisory Board's request. The analysis revealed no material defects.

The financial statements for 2001 were submitted to the Supervisory Board for approval. After an in-depth examination the financial statements were approved by the Supervisory Board. The financial statements, together with the management report of Evotec OAI AG for 2001, were audited by KPMG Deutsche-Treuhand-Gesellschaft-Aktiengesellschaft-Wirtschaftsprüfungsgesellschaft, Hamburg, and were given an unqualified audit opinion. This also applies to the consolidated financial statements in compliance with § 292a of Germany's Commercial Code and the consolidated management report. The auditors gave a comprehensive report on the audit and their observations at the Supervisory Board meeting on March 4, 2002. This report was approved by the Supervisory Board.

Dr Karsten Henco
Member of the Supervisory Board
from July 1, 2001

Dr Edwin Moses
Member of the Supervisory Board
from July 1, 2001

Dr Pol Bamelis
Member of the Supervisory Board
from June 12, 2001

During the year, Joern Aldag became Chief Executive Officer. He was replaced as Chief Financial Officer by Dr Dirk H. Ehlers.

The Supervisory Board agrees with the proposal of the Management Board to carry forward the net accumulated losses.

> On June 12, 2001, the judge of the district council in Hamburg appointed Dr Pol Bamelis as a Member of the Supervisory Board of Evotec OAI. He replaced Dr Helmut Schuehsler, Techno Venture Management, who had been the lead venture capitalist in Evotec since 1997 and had given much valuable support and advice to the company. Dr Bamelis has considerable experience in the pharmaceutical industry. During his 36 years at Bayer, for example, he completed significant collaborations with leading biotechnology companies.

> Dr Karsten Henco, the former Chief Executive Officer, and Dr Edwin Moses, the former President, resigned from the Management Board and were elected to the Supervisory Board of Evotec OAI at the Annual General Meeting on June 18, 2001, effective July 1, 2001. Dr Henco will also continue his duties as head of the Scientific Advisory Board of Evotec OAI and as a consultant to the Group's management.

> Joern Aldag, the former Chief Financial Officer of Evotec OAI, was appointed Chief Executive Officer, effective July 1, 2001.

> At the same time Roland Oetker and Prof Dr Hans-Jürgen Quadbeck-Seeger stepped down from the Supervisory Board, effective July 1, 2001. I thank them for the significant contribution they made to the company during their time as members of the Board.

> On August 17, 2001, Dr Mario Polywka was appointed Deputy Chief Executive Officer.

> Dr Dirk H. Ehlers was appointed to the Management Board as Chief Financial Officer on September 5, 2001. He succeeded Joern Aldag.

The Supervisory Board thanks the Management Board and the company's employees for their hard and successful work during the year and wishes them continued success for 2002.

Hamburg, March 14, 2002

Prof Dr Heinz Riesenhuber
Chairman of the Supervisory Board

Prof Dr Heinz Riesenhuber
Chairman of the Supervisory Board

Peer Schatz
Vice Chairman of the Supervisory Board

Michael Redmond
Member of the Supervisory Board

Roland Oetker
Member of the Supervisory Board
until June 30, 2001

Prof Dr Hans-Jürgen Quadbeck-Seeger
Member of the Supervisory Board
until June 30, 2001

Supervisory Board

Prof Dr Heinz Riesenhuber Chemist, Frankfurt am Main|D	Chairman of the Supervisory Board	Member of the Supervisory Board: Altana AG, Bad Homburg|D Frankfurter Allgemeine Zeitung, Frankfurt am Main|D Henkel KGaA, Duesseldorf|D Mannesmann AG, Duesseldorf|D OSRAM GmbH, Munich|D Portum AG, Frankfurt am Main|D Member of the Verwaltungsrat: HBM BioVentures AG, Baar|CH (from April 2001)
Peer Schatz Business Executive, Duesseldorf|D	Vice Chairman of the Supervisory Board	Chairman of the Supervisory Board: Qiagen S.A., Courtaboeuf Cedex|F Member of the Supervisory Board: Mulligan BioCapital AG, Hamburg|D Qiagen K.K., Tokyo|J Qiagen Ltd, Crawley|UK Qiagen Pty Ltd, Clifton Hill, Victoria|AUS Qiagen S.p.A., Milan|I Sawady Technology Co, Ltd, Tokyo|J Member of the Beirat: ACS Moschner & Co Ges.m.b.H., Vienna|A Venture Capital Partners KEG, Vienna|A Member of the Boersenrat: Frankfurter Wertpapierboerse (from December 2001)
Dr Pol Bamelis Chemist, Leverkusen|D	Member of the Supervisory Board (from June 12, 2001)	Chairman of the Supervisory Board: Crop Design N.V., Gent|B (from May 2001) Member of the Supervisory Board: Agfa-Gevaert N.V., Mortsel|B (from June 2001) Bekaert N.V., Zwevegem|B MediGene AG, Munich|D (from May 2001) Oleon N.V., Ertvelde|B (from March 2001)
Dr Karsten Henco Biochemist, Erkrath|D	Chief Executive Officer (until June 30, 2001) Member of the Supervisory Board (from July 1, 2001)	Member of the Supervisory Board: DIREVO Biotech AG, Cologne|D Garching Innovation GmbH, Munich|D NewLab BioQuality AG, Erkrath|D QE Diagnostiksysteme GmbH, Erkrath|D U3 Pharma AG, Martinsried|D (from December 2001)
Dr Edwin Moses Chemist, Goring, Berkshire|UK	President (until June 30, 2001) Member of the Supervisory Board (from July 1, 2001)	Chairman of the Supervisory Board: Amedis Ltd, Cambridge|UK (from October 2001) Inhibox Ltd, Oxford|UK (from December 2001) ProImmune Ltd, Oxford|UK (from October 2001) Prolysis Ltd, Oxford|UK (from August 2001) ProPharma Ltd, Glasgow|UK (until June 2001) Member of the Supervisory Board: BioImage A|S, Copenhagen|DK (from September 2001) Centre for Scientific Enterprise Ltd, London|UK (from September 2001) Inpharmatica Ltd, London|UK (from August 2001) Ionix Ltd, Cambridge|UK (from August 2001)
Michael Redmond Business Executive, Bury St Edmunds|UK	Member of the Supervisory Board	Chairman of the Supervisory Board: Arakis Ltd, Cambridge|UK (from May 2001) Microscience Ltd, Reading|UK Synexus Ltd, Chorley|UK (from April 2001) Member of the Supervisory Board: Atugen AG, Berlin|D (from November 2001) Biocompatibles International plc, Farnham|UK Dechra Pharmaceuticals plc, Stoke-on-Trent|UK (from May 2001) Strakan Group Ltd, Galashiels|UK (from July 2001) Cantab Pharmaceuticals plc, Cambridge|UK (until May 2001) CeNeS (formerly: Core) plc, Cambridge|UK (until October 2001) Scotia Holdings Ltd, Stirling|UK (until February 2001)

Roland Oetker Business Executive, Duesseldorf|D	Member of the Supervisory Board (until June 30, 2001)	Chairman of the Supervisory Board: Mulligan BioCapital AG, Hamburg|D Member of the Supervisory Board: Degussa AG, Duesseldorf|D (from February 2001) IKB Deutsche Industriebank AG, Duesseldorf|D Volkswagen AG, Wolfsburg|D Falke Bank AG, Duesseldorf|D (until May 2001) Member of the Verwaltungsrat: Gamma Holding N.V., Helmond|NL Scottish Widows Pan-European Smaller Companies OEIC, London|UK Chairman of the Beirat: Falke Bank AG, Duesseldorf|D (from September 2001) Member of the Beirat: Dr August-Oetker-Gruppe, Bielefeld|D President: DSW Deutsche Schutzvereinigung für Wertpapierbesitz e.V., Duesseldorf|D
Prof Dr Hans-Juergen Quadbeck-Seeger Chemist, Bad Duerkheim|D	Member of the Supervisory Board (until June 30, 2001)	Member of the Verwaltungsrat: Chemspeed Ltd, Augst|CH

Management Board

Joern Aldag Business Executive, Hamburg|D	Chief Executive Officer	Member of the Supervisory Board: LION bioscience AG, Heidelberg|D
Dr Mario Polywka Chemist, Abingdon, Oxfordshire|UK	Deputy Chief Executive Officer Chief Operating Officer	Member of the Supervisory Board: ProPharma Ltd, Glasgow|UK (from June 2001)
Dr Dirk H. Ehlers Physicist, Wohltorf|D	Chief Financial Officer (from September 5, 2001)	
Dr Timm-H. Jessen Chemist, Fleckeby|D	Chief Scientific Officer	
Dr Karsten Henco Biochemist, Erkrath|D	Chief Executive Officer (until June 30, 2001) Member of the Supervisory Board (from July 1, 2001)	see Supervisory Board
Dr Edwin Moses Chemist, Goring, Berkshire|UK	President (until June 30, 2001) Member of the Supervisory Board (from July 1, 2001)	see Supervisory Board

Evotec OAI's financial calendar

March 25, 2002	Annual report 2001, press conference and analysts' meeting
May 15, 2002	First quarter report 2002
May 23, 2002	Annual general meeting
August 20, 2002	Second quarter report 2002
November 14, 2002	Third quarter report 2002

About this report

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This annual report is also available in German.

Key figures

Evotec OAI AG		1997	1998	1999	2000	2001	Δ 01|00 in %
Results							
Revenue	T€	7,061	7,308	9,786	28,276	63,225	123.6
R&D expense	T€	5,829	8,283	12,952	18,480	23,012	24.5
Operating loss	T€	1,100	6,071	10,154	48,926	152,469	211.6
Operating loss [1]	T€	1,100	6,071	10,154	14,361	12,837	(10.6)
Net loss	T€	1,368	5,589	9,482	47,074	147,750	213.9
Net loss [1]	T€	1,368	5,589	9,482	12,509	8,118	(35.1)
EBITDA	T€	(187)	(4,516)	(7,953)	(9,459)	(1,011)	89.3
Cash flow	T€	283	12,875	41,549	(24,760)	(12,733)	48.6
Balance sheet data							
Subscribed capital [2]	T€	10,000	14,196	24,156	35,452	35,507	0.2
Number of shares [2]	T	10,000	14,196	24,156	35,452	35,507	0.2
Stockholders' equity	T€	(6,713)	13,829	60,299	502,495	347,591	(30.8)
Equity ratio	%	–	51.98	81.70	94.33	88.08	–
Investments [3]	T€	1,416	4,870	5,059	493,757	36,908	–
– Intangible assets	T€	51	195	337	433,819	20,246	–
– Tangible fixed assets	T€	1,354	4,663	4,715	56,626	16,652	(70.6)
– Financial assets	T€	11	11	7	3,312	10	–
Cash including marketable securities	T€	3,064	18,176	57,488	48,924	27,833	(43.1)
Balance sheet total	T€	5,345	26,605	73,806	532,706	394,617	(25.9)
Personnel data							
Employees as at Dec. 31		96	141	228	505	585	15.8
Total corporate personnel expenditures	T€	4,142	6,812	10,519	17,997	31,917	77.3
Revenue per employee	T€	74	52	43	56	108	92.9
Per share							
Result	€	(0.14)	(0.41)	(0.60)	(1.75)	(4.17)	(138.3)
Adjusted result [1]	€	(0.14)	(0.41)	(0.60)	(0.46)	(0.23)	50.0
EBITDA	€	(0.02)	(0.33)	(0.50)	(0,35)	(0.03)	91.4
Dividends	€	–	–	–	–	–	–
Security identification no.						566480	

Exchange rate	1997	1998	1999	2000	2001
GBP|€	–	–	1.51912	1.66598 [4]	1.60905

1) adjusted for acquisition-related amortisation of goodwill and other intangible assets
2) refers to 1 € (retrospectively adopted to stock split)
3) including additions from acquisitions of OAI and GENION
4) average 4th quarter 2000

Evotec OAI product definitions as mentioned in this report

Cell reader (Opera). It produces and analyses confocal microscopical images of high spatial resolution. Intra-cellular activities can thus be visualised and recorded precisely in an → uHTS format.

Closed loop reader (Clarina). Automated version of → **FCS⁺plus** reader combined with a robotic arm that is operated under a scheduling software. This enables it to work in an unattended mode with larger sample batches, e.g. plates.

EVOscreen®. The world's first fully-operational, automated, miniaturised → screening platform: accurate to 1 microlitre, designed for ultra-high-throughput screening (→ uHTS), developed by Evotec OAI and its three consortium partners Novartis, GlaxoSmithKline and Pfizer.

Nacona. Part of → **EVOscreen®**. Module for the separation of natural extracts into hundreds of individual micro-fractions prior to → ultra-high-throughput-screening for the search of new drugs from natural sources.

PickoScreen. A technology developed by Evotec OAI which enables one to screen for compounds attached to beads.

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

Glossary

ADME|T-assay. Acronym for **A**bsorption, **D**istribution, **M**etabolism, **E**xcretion and **T**oxicity of a substance reflecting the physiological processes → in vivo. ADME studies are used to simulate how drugs are taken up by the body, where they go in the body, the chemical changes they undergo in the body and how they are eliminated from the body.

AIDA. Fluorogenic dye which is incorporated during the synthesis of combinatorial compound libraries on polymer beads.

API. **A**ctive **p**harmaceutical **i**ngredient.

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

Cellular assay. → Assay performed using whole living cells.

Chemical|compound library. Collection of a multitude of different molecules; used for → screening.

Cheminformatics. Computer processing of data relating to chemical molecules and reactions.

Clinical testing. Drug research studies that involve patients.

Clones. Group of identical → genes, cells or organisms derived from a single ancestor.

Computational chemistry. Scientific discipline using mathematical methods for the calculation of molecular properties and|or for the simulation of molecular behaviour.

Cytochrome P-450 (CYP). CYPs are key → enzymes responsible for the phase 1 metabolism of drugs. Inhibition of CYPs by drugs is a frequent cause of adverse drug-drug-interactions and late failure of drug candidates in clinical development. To avoid such problems, an early testing of CYP inhibition by compounds is strongly indicated.

Cytotoxicity screen. Early determination of whether a chemical compound causes cell death.

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

Enzymes. → Proteins that act as catalysts, speeding the rate at which biochemical reactions proceed.

Expression. The production of a → protein based on its genetic code.

FDA (**F**ood and **D**rug **A**dministration). American authority for drug approval.

Fluorescence correlation spectroscopy (**FCS²plus**). Evotec OAI's single molecule detection technology. A laser beam is directed towards a very small focal point using a special confocal lens. Biological substances, marked with a fluorescent dye, show up brightly at the focal point of the laser. Their species-specific photons are picked up by a highly sensitive detector as a function of time.

Focused libraries. Well characterised, high quality libraries or compound arrays designed primarily to be targeted towards → gene product families or to contain specific known pharmacophoric fragments. They allow '→ hits' to be identified from specific classes of compounds and permit the rapid initiation of 'hit-to-lead' programmes.

Functional receptor assay. → Assay system that utilises cultured, live mammalian cells expressing the → receptor of interest on its outer plasma membrane. The binding of the ligand to the receptor, triggers a series of downstream events in the cell; these can be measured using the appropriate fluorescent read-out.

Gene. Unit of inheritance; a working sub-unit of DNA which contains the code for a specific product, typically a → protein, such as an → enzyme or a → receptor.

GMP or cGMP. **C**urrent **G**ood **M**anufacturing **P**ractice is that part of quality assurance which ensures that medicinal products are consistently produced and controlled to the quality standards appropriate to their intended use and as required by the marketing authorisation (MA) or product specification. GMP is concerned with both production and quality control. Any → API synthesised by Evotec OAI and destined for human use will need to be made to GMP standards. This is regulated by the → FDA in the US and the European Commission|MCA and other competent authorities in Europe.

GPCRs (**G**-**P**rotein **C**oupled **R**eceptors). Large family of related cell surface → receptors which play a very important role in drug therapy. These receptors stimulate and convey signals within cells harbouring these → proteins through interactions with a conserved family of proteins known as G-proteins.

HERG channel. The potassium channel plays an important role during the excitability of the human heart. As interactions with the HERG channel can cause cardiotoxicity problems and as a result are responsible for the termination of a large number of development projects, drug candidates of nearly all pharmacological areas are tested for their effect on this target before clinical investigations are carried out.

High-speed chemistry. It involves making more compounds more quickly through the use of new chemical technologies for the synthesis of compound arrays and libraries in manual, semiautomated and automated approaches. These approaches increase the synthesis throughput as well as compound purities whilst allowing the production of structurally diverse libraries|arrays.

Hit (compound). A molecule which has a robust dose-response activity in a → primary screen, of known confirmed structure and with preliminary SAR information.

IND (**I**nvestigational **N**ew **D**rug). Is a substance which enters → clinical testing in humans following approval for initiation of clinical testing by the → FDA or similar regulatory authority.

In vitro. A biological test or experiment conducted in a non-living environment (e.g. in a test tube).

In vivo. In the living cell or organism as opposed to → in vitro.

Ion channels. → Receptors which, when activated, allow the passage of ions across cell membranes which influence the physiology of a cell.

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

Labelling chemistry. Performs chemical modifications of biologically active components by attaching fluorescent labels to make them suitable for fluorescence-based detection techniques.

Lead (compound). A representative of a compound series with sufficient potential (as measured by potency, selectivity, pharmacokinetics, physicochemical properties, novelty and absence of toxicity) to progress to a full drug optimisation programme.

Lead discovery. The process of identifying active new chemical entities, which by subsequent chemical modification (→ lead optimisation) may be transformed into a clinically useful drug.

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

Library design. The design of a collection of chemical compounds that are to be used in a biological → assay. The design may be based upon knowledge of the biological → target, desired physical properties of the compounds or chemistry knowledge.

Medicinal chemistry. A chemistry-based discipline, also involving knowledge and aspects of biological, medicinal and pharmaceutical sciences. It is concerned with the invention, discovery, design, identification and preparation of biologically active compounds, the study of their → ADME|T properties, the interpretation of their mode of action at the molecular level and the construction of structure-activity relationships. It is the 'fine tuning' required to turn a validated → lead into a pre-clinical candidate involving subtle structural changes to the lead using a 'hand-crafted' approach.

Molecular modelling. Technique for the investigation of molecular structures and properties using → computational chemistry and graphical visualisation to provide a three-dimensional representation of molecules, such as the interaction of a drug with its → target → protein.

On-bead chemistry. Chemical synthesis carried out on molecules attached to a solid support.

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

Orphan receptor. → Protein molecule in or on a cell that specifically recognises and binds a ligand, the identity of which is unknown.

Physiochemical testing. Refers to analytical chemistry methods to measure the physical properties of a molecule, such as aqueous solubility and lipophilicity.

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

Primary screen. The initial → screening of a new → target.

Process research and development (PRD). Once a development candidate has been identified from a drug discovery programme, PRD is conducted on the molecule to develop a robust and efficient chemical synthesis of the compound suitable for its production on a large scale to → GMP.

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

Protein. Large, complex molecule composed of amino acid sub-units. Proteins are essential to the structure, function and regulation of the body.

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

Reporter assay. Particular type of cellular → assay whereby the activity of a compound is reported by the activity of a newly synthesised → protein in the cell.

Scaffold. The constant core structural entity for a library of compounds to which are attached the variable chemical substituent groups that provide points of diversity.

Scale-up. The process (developed through PRD) by which a laboratory-based synthetic process is developed to allow safe and reproducible production on a larger scale.

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

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

Single nucleotide polymorphism (SNP). Point mutation in a → gene that is subject to pharmacogenomic studies or can be used to locate disease genes.

Small molecule. A low molecular weight organic compound. These are preferred for drugs as they usually are orally available (unlike → proteins that must be administered by injection). The size of small molecules is less than 1,000 Daltons, and is usually in the range from 250 to 700 Daltons.

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

Target validation. This is a key part of drug discovery research and involves the verification of the relevance of a → target to the course of a specific illness. Validated targets are an essential requirement for successful drug discovery and development.

Topological proteomics. Technology that allows the quantification and spatial location of distinct → proteins within a cell or a tissue.

Translocation receptor assay. A functional → receptor assay. Upon ligand binding, some receptors are internalised to the cytoplasm or even, as with the nuclear hormone receptors, translocate into the nucleus of the cell. By appropriate labelling, it is possible to measure a dynamic of the fluorescence, upon ligand-induced binding, from the outer plasma membrane to internal parts of the cell.

uHTS (ultra high-throughput-screening). Technique of rapidly searching for molecules with desired biological effects from very large compound libraries, often exceeding 100,000 tests a day.

Virtual screening. A → computational chemistry technique whereby existing compounds and|or virtual collections of compounds are screened in silico for a particular predicted attribute, such as binding to → protein → target.

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