



Evotec OAI AG, Third Quarter Report 2004

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Dear shareholders,

There are three main comments regarding our financial and operational performance in the third quarter of 2004:

1. Q3 revenues for 2004 amounted to EUR 16.1 million, 26% lower than in the previous year. The decline is mainly due to a strong Q3 for Evotec OAI in 2003, as a result of above average sales in Evotec Technologies following the delivery of a suite of discovery instruments to Pfizer. The weak 2004 third quarter sales performance has been anticipated and communicated in our Q2 financial report.
2. Our 2004 order intake in September and early October was lower than anticipated, and this effect will result in lower full-year 2004 numbers than expected. In light of the 2004 Q3 results and the status of contracted revenues and contract negotiations as of October we revised our revenue guidance on 20 October 2004 for the year 2004 to approximately EUR 70 to 75 million. Timing risks of revenue recognition in our instrumentation business are the main reason for such a broad range. During the first nine months of 2004, instrument deliveries increasingly shifted into the fourth quarter. Consequently, there is a high risk that some of those revenues may slip into next year. Based on this updated revenue guidance, currency effects and continued investments into our internal

discovery efforts, EBITDA for 2004 is expected to be between EUR –4 and –7 million.

3. Strategically and operationally, Evotec OAI has made important progress in all business units in Q3. We have advanced two out of four projects into lead optimisation in our Metabolic Disease venture, which is part of our Discovery Programs Division. We have built momentum in our contract services business, both through new customers and innovative higher value deal structures. This is of utmost strategic importance to us in an environment where the traditional fee-for-service outsourcing business is under continued pressure.

Although we had to revise our targets for the current year, we were successful in gaining business with many new customers. We signed a long-term discovery partnership with Germany's largest pharmaceutical group Boehringer Ingelheim and have signed new contracts with customers, including Altana Pharma, Seikagaku and Morphochem. While the environment is still challenging we are looking forward to a very good Q4.

Highlights

Strategic drug discovery collaboration with Boehringer Ingelheim and Evotec Neurosciences

In August, the **Drug Discovery Services business** made progress in its goal to shift focus to higher value strategic partnerships with pharma companies by signing a three-year research alliance with Boehringer Ingelheim. Evotec OAI and Evotec Neurosciences are collaborating with Boehringer Ingelheim to identify and develop small molecule therapeutics acting on selected G–Protein Coupled Receptors (GPCRs) with an initial focus on CNS diseases. We are able to share the success of this joint research through milestones and royalties by combining our powerful discovery engine and target class experience with Evotec Neurosciences' disease expertise in neurological disorders.

Altana selected Evotec OAI for kinase lead identification project

In early October, Evotec OAI announced a research agreement with Altana PHARMA AG to identify and optimise novel lead compounds that interact with one of their kinase targets. This is another example where we can bring our powerful discovery engine combined with exemplified target class expertise in the field of kinases to bear in a research programme with one of Europe's finest pharma companies.

New assay development and screening customer in Japan

In August, we announced that Seikagaku Corporation has chosen Evotec OAI as an assay development and screening partner to identify small molecule therapeutics for inflammatory diseases. This partnership represents another important milestone in our efforts to further strengthen our position in the Japanese market.

Chemical and pharmaceutical development business continues solid performance

Our **Chemical and Pharmaceutical Development business** continues to produce a solid performance as demonstrated in the second quarter of 2004. Several pilot plant projects were completed and invoiced in Q3 for customers including GSK, Celgene, Morphochem and Point Therapeutics. Laboratory development work was conducted for Stiefel and Morphochem, among others and contract negotiations for 2005 orders are promising.

Biogen Idec selected Evotec OAI as service provider for process research and development; new contract with Morphochem

In July, we announced two important new contracts: We signed a significant new contract with Morphochem to support them in the development of their dual-action antibiotic Oxaquin® and Biogen Idec expanded their relationship with Evotec OAI under a master services agreement. The objective of the collaboration is to progress one of Biogen Idec's development candidates rapidly through preclinical testing into clinical trials through provision of Evotec OAI's integrated chemical and pharmaceutical development platform, EVOdevelop™. The companies have collaborated for five years on a variety of projects including novel route selection all the way through to scale-up and cGMP manufacturing.

**Good progress in
Metabolic Disease
joint venture with
DeveloGen**

In the **Discovery Programs Division** progress has been made on all internal projects in Metabolic Disease within our DeveloGen joint venture. We have advanced two out of the four projects into lead optimisation.

**Evotec
Technologies: Strong
Q4 expected**

Evotec Technologies' challenge for 2004 has been to compensate for the single large contract with EVOscreen® partner Pfizer and show continued growth by gaining new customers to reduce the dependence on Pfizer and by introducing new products into the market. In the third quarter, orders were received for two Opera high throughput cell analysers from a large US pharma company and Xantos, and for two Clarina II assay development and low throughput screening devices from Novartis. By signing a co-promotion agreement for the Opera with Qiagen, Evotec Technologies expects to further increase the market awareness for this core product. The EVOscreen® system which was sold to a major global academic organisation in Q2 has passed factory acceptance testing in Hamburg on schedule and is expected to be installed in Asia in December. On this basis, the company is expecting a strong Q4 2004.

In summary, Evotec Technologies is on track to successfully build a strong and broad customer base among pharma, biotech and academic institutes.

**Capital increased by
EUR 7.5 million**

On 14 July 2004, Evotec OAI increased its share capital with the issue of 2.5 million new shares, receiving issue proceeds amounting to EUR 7.5 million. The placement of these shares will help fund the targeted growth of Evotec OAI in its core Discovery and Development Services business and further support research in our Discovery Programs Division.

Important events after the end of the third quarter

On top of the described financial update no major event to be reported occurred since the end of the reported period.

Financial Report

Revenue

For the first nine months of 2004, Evotec OAI revenues amounted to EUR 47.4 million (-16%, 2003: EUR 56.7 million). The Company achieved Q3 revenues of EUR 16.1 million (-26%, 2003: EUR 21.9 million). As expected, the third quarter was weak compared to the same period in the previous year mainly due to above average sales in Evotec Technologies last year following the delivery of a suite of discovery instruments to Pfizer.

Our **Discovery and Development Services Division (DDS)** achieved revenues of EUR 42.0 million (-5%, 2003: EUR 44.0 million) in the first nine months of 2004 including intra-group revenues. Segmental revenues within the group amounted to EUR 3.9 million, largely originating from the delivery of services to the joint venture with DeveloGen. Third party revenues declined by 11% to EUR 38.1 million, reflecting lower sales from drug discovery services with some long-term contracts being scaled-down or terminated in this challenging market environment. Although our business has recovered since the beginning of the year, we were not able to compensate for this initial shortfall. In addition, discovery biology sales were particularly strong in Q3 2003, following the completion of screening campaigns for Novartis. Chemical and Pharmaceutical Development showed a stable performance compared to last year.

Revenues in our **Discovery Programs Division (DPD)** amounted to EUR 0.9 million (2003: EUR 0.5 million). They were booked in the first quarter and resulted from the collaboration between Evotec Neurosciences (ENS) and Takeda. There have not been any further revenues after Q1 due to the deconsolidation of Evotec Neuroscience after a successful venture capital funding.

For the first nine months of 2004, revenues in our **Tools and Technologies Division (Evotec Technologies)** were EUR 9.6 million (-33%, 2003: EUR 14.3 million). As previously stated, much of this relative shortfall was due to the timing of EVOscreen®-related revenues and other instrumentation revenues. 2003 revenues for the first nine months included strong sales of instruments delivered to Pfizer. This year, the fourth quarter is expected to be much stronger.

Evotec OAI recorded 48% of total revenues in Europe, 43% in the United States and 9% in Japan and the Rest of the World.

Operating cost structure

For the first nine months, **cost of revenue** amounted to EUR 31.0 million (2003: EUR 34.3 million). Gross margin was at 34.6% (2003: 39.6%).

In our Discovery and Development Services Division margins remained on the same low level as in the first half of this year (32.5%) due to a continued adverse market environment and adverse currency effects from a weak US-Dollar and a strong Pound Sterling. If last year's exchange rates were applied, the gross margin for the first nine months would have amounted to 36.5% for DDS and 38.2% for the Group.

Gross margins in our Tools and Technologies Division (Evotec Technologies) continue to be strong (54.3%). The slightly better margin in the first half of the year (56.6%) was a result of the sales mix and some success payments from one of our customers.

As anticipated, **R&D expenditure**, not including R&D in our joint venture with DeveloGen was reduced to EUR 10.0 million for the first nine months (-14%, 2003: EUR 11.6 million).

Research activities directed towards our Metabolic Disease discovery programme with DeveloGen proceeded as planned. The associated EUR 2.2 million of expenses are booked as a net loss from equity investments under non-operating expenses.

In our Discovery and Development Services division several platform R&D projects were finished in the first half of the year and more staff was assigned to customer projects in the third quarter. The resulting decline of platform R&D in Q3 was largely compensated by the continued higher R&D investment within Evotec Technologies which invested in upgrades of new instruments and their applications.

SG&A costs for the first nine months of 2004 amounted to EUR 15.7 million (2003: EUR 13.0 million), a 20 % increase compared to 2003. SG&A expenses in Q3 2003 were particularly low as a result of timing of SG&A projects as well as personnel expenses. Also, in 2004 Evotec Technologies has invested more in its US and Asian sales efforts. Total third quarter SG&A spend remained on the same level as in the first half of the year.

Financial results

The **operating loss** increased to EUR 19.6 million for the first nine months (2003: EUR 12.3 million). Excluding amortisation charges, losses from operations amounted to EUR 12.1 million (2003: EUR 4.2 million).

The decline in operating results relative to 2003, and our investments in our Metabolic Disease research programme with DeveloGen, which began only in the second half of 2003, resulted in an increased **net loss** of EUR 17.7 million for the nine months (2003: EUR 9.9 million).

Net income tax benefits increased to EUR 3.8 million. Deferred tax benefits in the UK (EUR 1.7 million) and current taxes worldwide (EUR (0.1) million)

added to deferred tax benefits from the amortisation of merger-related non-goodwill intangible assets (EUR 2.2 million).

Net income per share for the first nine months of 2004 was EUR (0.49) (2003: EUR (0.28)).

Earnings before interest and taxes, depreciation and amortisation (**EBITDA**) for the first nine months amounted to EUR (6.1) million (2003: EUR 3.5 million).

Segment reporting

Discovery and Development Services

Euro in thousands	01-09/2004	01-09/2003	Δ in %
Total revenues	41,977	44,009	(4.6)
– Thereof 3rd party	38,045	42,799	(11.1)
Gross profit	13,650	17,926	(23.9)
Gross margin	32.5%	40.7%	
- Research and development expense	5,498	6,085	(9.7)
- Selling, general and administrative expenses	12,024	9,691	24.1
- Other operating expenses	2,787	2,029	37.4
- Amortisation of goodwill amongst other things	7,454	7,828	(4.8)
Operating income (loss)	(14,113)	(7,707)	(83.1)
Operating income (loss) before amortisation and impairment	(6,659)	121	-

Euro in thousands	07-09/2004	07-09/2003	Δ in %
Total revenues	14,921	15,191	(1.8)
– Thereof 3rd party	13,524	14,848	(8.9)
Gross profit	4,813	6,634	(27.5)
Gross margin	32.3%	43.7%	
- Research and development expense	1,419	2,298	(38.3)
- Selling, general and administrative expenses	4,123	2,742	50.4
- Other operating expenses	865	357	142.3
- Amortisation of goodwill amongst other things	2,488	2,584	(3.7)
Operating income (loss)	(4,082)	(1,347)	(203.0)
Operating income (loss) before amortisation and impairment	(1,594)	1,237	(228.9)

Discovery Programs Division

Euro in thousands	01-09/2004	01-09/2003	Δ in %
Total revenues	927	518	79.0
– Thereof 3rd party	925	505	83.2
Gross profit	348	245	42.0
Gross margin	37.6%	47.3%	
- Research and development expense	1,876	3,559	(47.3)
- Selling, general and administrative expenses	884	1,165	(24.1)
- Other operating expenses	-	-	-
- Amortisation of goodwill amongst other things	81	47	72.3
Operating income (loss)	(2,493)	(4,526)	44.9
Operating income (loss) before amortisation and impairment	(2,412)	(4,479)	46.2

Euro in thousands	07-09/2004	07-09/2003	Δ in %
Total revenues	-	508	(100.0)
– Thereof 3rd party	-	505	(100.0)
Gross profit	-	241	(100.0)
Gross margin	-	47.4%	
- Research and development expense	578	989	(41.6)
- Selling, general and administrative expenses	205	233	(12.0)
- Other operating expenses	-	-	-
- Amortisation of goodwill amongst other things	11	13	(15.4)
Operating income (loss)	(794)	(994)	20.1
Operating income (loss) before amortisation and impairment	(783)	(981)	20.2

Tools and Technologies

Euro in thousands	01-09/2004	01-09/2003	Δ in %
Total revenues	9,579	14,275	(32.9)
– Thereof 3rd party	8,472	13,410	(36.8)
Gross profit	5,197	5,585	(7.0)
Gross margin	54.3%	39.1%	
- Research and development expense	4,566	3,402	34.2
- Selling, general and administrative expenses	2,894	2,161	33.9
- Other operating expenses	-	-	-
- Amortisation of goodwill amongst other things	605	758	(20.2)
Operating income (loss)	(2,868)	(736)	(289.7)
Operating income (loss) before amortisation and impairment	(2,263)	22	-

Euro in thousands	07-09/2004	07-09/2003	Δ in %
Total revenues	2,743	7,041	(61.0)
– Thereof 3rd party	2,577	6,510	(60.4)
Gross profit	1,327	2,003	(33.8)
Gross margin	48.4%	28.5%	
- Research and development expense	1,522	949	60.4
- Selling, general and administrative expenses	972	679	43.2
- Other operating expenses	-	-	-
- Amortisation of goodwill amongst other things	201	251	(19.9)
Operating income (loss)	(1,368)	124	-
Operating income (loss) before amortisation and impairment	(1,167)	375	(411.2)

Capital expenditure

Evotec OAI invested EUR 1.6 million in fixed assets in the first nine months of 2004 (2003: EUR 10.0 million) which mainly comprised laboratory equipment. To maintain current sales volumes no investment in capacities was needed. Consequently, the Company's capital expenditure in 2004 will be significantly lower than in the previous year which was characterised by unusually high level of investment due to the fit-out of our new laboratory building in the UK.

Cash flow and cash equivalents

Cash flow from operating activities for the first nine months amounted to EUR (7.0) million (2003: EUR 0.2 million). It was mainly a result of the increased operating loss. Also, inventories have increased to EUR 14.7 million as of 30 September 2004, primarily in anticipation of a strong Q4 instrument delivery by Evotec Technologies. Cash flow from investing activities totalled EUR (3.4) million (2003: EUR (13.6) million). In addition to the purchase of fixed assets, cash outflows included research expenses related to the DeveloGen joint venture, which are not included in operating cash flow, and the acquisition of shares in ProPharma in the second quarter of 2004. Net cash flow from financing activities amounted to EUR 9.0 million (2003: EUR 8.2 million). Evotec OAI received issue proceeds of EUR 7.5 million from the capital increase offered and closed on 14 July 2004. Cash and cash equivalents at the end of September amounted to EUR 17.2 million.

Employees and management

At the end of September, 629 people were employed within the Evotec OAI group, unchanged from the end of Q2 2004. The reduction reported in comparison to the end of 2003 (644) was due to the deconsolidation of ENS, effective 31 March 2004.

By mutual agreement Bernard Questier departed from his position as Chief Business Officer, effective 31 August 2004. Effective 30 September 2004, after more than 4 years of service and due to increased involvement in other activities, Michael Redmond has resigned from his position as a

member of the Company's Supervisory Board. The company expects to announce a proposed successor shortly.

Stock options programme

No options were either issued or exercised in the second and third quarter of 2004. In Q1 2004, Evotec OAI issued 34,200 stock options to management. As of 30 September 2004, the total number of options available for future exercise amounted to 2,290,659 (approximately 6% of shares in issue). Options are accounted for under the APB 25 pricing model.

Sales and order book, outlook

The sales and order book for 2004 has increased to EUR 72 million as of October. Based on this order situation Evotec OAI is on track to reach its updated revenue target of approximately EUR 70 to 75 million as communicated on 20 October 2004. This means that in Q4 we will grow about 10 to 35% year on year. EBITDA for 2004 is expected to be between EUR –4 and –7 million. This updated situation may lead to a non-cash impairment of parts of our assets, in particular goodwill and pilot plant, of EUR 50 to 75 million. Such estimated result of the regular annual impairment review under US-GAAP is preliminary to date and subject to auditor's review.

Looking forward, our contract pipeline for 2005 for the services business is better today than it was for 2004 at the same time last year. For a full year 2005 projection, more visibility on firm orders will be required. However, we are in a strong position to take the company forward and benefit from an improvement in our industry's environment. Traditionally we provide full year guidance not before March.

Shareholdings of the Boards of Evotec OAI AG

	Number of shares	Share options
Management Board		
Joern Aldag	298,056	172,600
Dr Dirk H. Ehlers	4,540	81,500
Prof Dr Ian M. Hunneyball	0	61,500
Bernard Questier*	0	40,000
Supervisory Board		
Prof Dr Heinz Riesenhuber	110,400	0
Peer Schatz	3,892	0
Dr Pol Bamelis	1,500	0
Dr Karsten Henco	1,328,190	26,732
Dr Edwin Moses	313,058	15,000
Michael Redmond	1,000	0

30 September 2004

*As of 31 August 2004.

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

Segment reporting according to US GAAP Evotec OAI AG and Subsidiaries

Euro in thousands	Discovery and Development Services	Discovery Programs Division	Tools and Technologies	Consolidation
Revenue:				
– Drug discovery products & development of technologies	112	-	9,579	(1,107)
– Drug discovery services	41,865	927	-	(3,934)
Total revenue	41,977	927	9,579	(5,041)
– Cost of revenue	28,327	579	4,382	(2,282)
Gross Profit	13,650	348	5,197	(2,759)
– Research and development expenses	5,498	1,876	4,566	(1,964)
– Selling, general and administrative expenses	12,024	884	2,894	(68)
– Amortisation of goodwill amongst other things	7,454	81	605	(595)
– Other operating expenses	2,787	-	-	-
Operating income (loss)	(14,113)	(2,493)	(2,868)	(132)

Condensed consolidated statements of operations according to US GAAP

Evotec OAI AG and Subsidiaries

Euro in thousands except share data and per share data

	01-09/2004	01-09/2003	Δ in %	07-09/2004	07-09/2003	Δ in %
Revenue:						
– Drug discovery products & development of technologies	8,584	13,433	(36.1)	2,621	6,524	(59.8)
– Drug discovery services	38,858	43,266	(10.2)	13,479	15,338	(12.1)
Total revenue	47,442	56,699	(16.3)	16,100	21,862	(26.4)
– Cost of revenue	31,006	34,256	(9.5)	10,806	13,545	(20.2)
Gross profit	16,436	22,443	(26.8)	5,294	8,317	(36.4)
– Research and development expenses	9,976	11,617	(14.1)	2,871	3,640	(21.1)
– Selling, general and administrative expenses	15,734	13,013	20.9	5,310	3,662	45.0
– Amortisation of goodwill amongst other things	7,545	8,038	(6.1)	2,502	2,650	(5.6)
– Other operating expenses, net	2,787	2,029	37.4	865	357	142.3
Operating income (loss)	(19,606)	(12,254)	(60.0)	(6,254)	(1,992)	(214.0)
– Interest income (expense)	(195)	(79)	(146.8)	(106)	(82)	(29.3)
– Income from investments and participations	-	-	-	-	-	-
– Net loss from equity investments ¹	(2,804)	(115)	-	(1,034)	(64)	-
– Foreign currency exchange gain (loss), net	302	(3)	-	195	-	100.0
– Other non-operating income, net	722	471	53.3	214	97	120.6
Result before income taxes and minority interests	(21,581)	(11,980)	(80.1)	(6,985)	(2,041)	(242.2)
Income tax benefit	3,764	2,118	77.7	1,019	369	176.2
Extraordinary income (expenses)	-	-	-	-	-	-
Result before minority interests	(17,817)	(9,862)	(80.7)	(5,966)	(1,672)	(256.8)
Minority interests	121	(26)	565.4	23	(29)	179.3
Net income / loss	(17,696)	(9,888)	(79.0)	(5,943)	(1,701)	(249.4)
Net loss per share (basic)	(0.49)	(0.28)		(0.16)	(0.05)	
Net loss per share (diluted) ²	-	-		-	-	
Weighted average common share outstanding (basic)	36,167,064	35,510,130		37,466,652	35,510,130	
Weighted average common share outstanding (diluted)	-	-		-	-	
Depreciation of property, plant and equipment included in total operating expense	7,658	7,406	3.4	2,381	2,279	4.5

¹ In 2003: Income (expense) from associated companies

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

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

Euro in thousands	30/09/2004	31/12/2003	Δ in %
Assets			
Current assets:			
– Cash and cash equivalents	17,218	18,763	(8.2)
– Marketable securities, at fair value	-	708	(100.0)
– Trade accounts receivable, net	8,647	7,714	12.1
– Accounts receivable due from associated companies	127	-	100.0
– Accounts receivable due from related parties	333	506	(34.2)
– Inventories	14,730	10,225	44.1
– Deferred tax assets	77	76	1.3
– Current tax receivables	790	2,754	(71.3)
– Prepaid expenses and other current assets	3,200	2,246	42.5
Total current assets	45,122	42,992	5.0
Long-term investments	3,348	677	394.5
Property, plant and equipment, net	57,901	62,051	(6.7)
Intangible assets, excluding goodwill, net	10,205	18,731	(45.5)
Notes receivable / loans	-	-	-
Goodwill, net	99,337	96,418	3.0
Deferred taxes	-	-	-
Other non-current assets	50	50	-
Total assets	215,963	220,919	(2.2)
Liabilities and stockholders' equity			
Current liabilities:			
– Current portion of capital lease obligations	748	615	21.6
– Current maturities of long-term loans	1,143	1,590	(28.1)
– Trade accounts payable	3,376	5,510	(38.7)
– Accounts payable to related parties	46	18	155.6
– Advanced payments received	1,926	917	110.0
– Accrued expenses	7,731	7,794	(0.8)
– Deferred revenues	2,924	4,545	(35.7)
– Current tax payables	71	62	14.5
– Deferred taxes	-	-	-
– Other current liabilities	1,694	1,479	114.5
Total current liabilities	19,659	22,530	(12.7)
Long-term loans	12,555	10,758	16.7
Long-term capital lease obligations	2,068	1,777	16.4
Deferred tax liabilities	7,868	11,329	(30.6)
Deferred revenues	878	1,661	(47.1)
Other non-current liabilities	99	98	1.0
Minority interests	544	665	(18.2)

Stockholders' equity:			
– Share capital	38,010	35,510	7.0
– Additional paid-in capital	550,515	540,035	1.9
– Treasury stock	-	-	-
– Retained earning/accumulated deficit	(380,944)	(363,248)	4.9
– Accumulated other comprehensive loss	(35,289)	(40,196)	(12.2)
Total liabilities and stockholders' equity	215,963	220,919	(2.2)

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

Euro in thousands	30/09/2004	30/09/2003
Cash flows from operating activities:		
Net loss	(17,696)	(9,888)
Adjustments to reconcile net loss to net cash used in operating activities	14,063	13,380
Change in assets and liabilities	(3,326)	(3,318)
Net cash (used in) provided by operating activities	(6,959)	174
Cash flows from investing activities:		
Purchase of marketable securities	-	(4,230)
Purchase of long-term investments	(2,604)	(64)
Purchase of property, plant and equipment	(1,597)	(9,966)
Purchase of intangible assets	(1)	(36)
Proceeds from sale of property, plant and equipment	58	15
Proceeds from sale of shares in long-term investments	-	-
Proceeds from sale of marketable securities	732	718
Net cash (used in) provided by investing activities	(3,412)	(13,563)
Cash flows from financing activities:		
Net proceeds from capital increase	7,500	-
Capital contributed by minorities	-	3,064
Net proceeds from increase of bank loan	6,102	6,341
Repayment of bank loan	(4,574)	(1,177)
Net cash (used in) provided by financing activities	9,028	8,228
Net increase (decrease) in cash and cash equivalents	(1,343)	(5,161)
Exchange rate difference	(202)	(754)
Cash and cash equivalents at beginning of year	18,763	21,308
Cash and cash equivalents at end of the third quarter	17,218	15,393
Cash, cash equivalents and marketable securities at end of the third quarter	17,218	18,988

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

Evotec OAI AG and Subsidiaries

Euro in thousands except share data

	Share capital Shares	Share capital Amount	Additional paid-in capital	Unearned compen- sation	Other comprehen- sive loss	Unrealised gains (losses) on securities	Retained deficit	Total stock- holders' equity
Balance at December 31, 2002	35,510,130	35,510	536,908	(345)	(27,660)	-	(349,006)	195,407
Share capital increase	-	-	-	-	-	-	-	-
Stock option plan	-	-	3	217	-	-	-	220
Capital contributed by minorities	-	-	2,835	-	-	-	-	2,835
Comprehensive loss:								
- Foreign currency translation	-	-	-	-	(9,545)	-	-	(9,545)
- Net unrealised holding losses on available-for-sale securities	-	-	-	-	-	-	-	-
- Net loss	-	-	-	-	-	-	(9,888)	(9,888)
Total comprehensive loss	-	-	-	-	-	-	-	(19,433)
Balance at September 30, 2003	35,510,130	35,510	539,746	(128)	(37,205)	-	(358,894)	179,029
Balance at January 1, 2004	35,510,130	35,510	540,035	(150)	(40,046)	-	(363,248)	172,101
Share capital increase	2,500,000	2,500	5,000	-	-	-	-	7,500
Stock option plan	-	-	5	77	-	-	-	82
Share capital in ENS	-	-	5,475	-	-	-	-	5,475
Comprehensive loss:								
- Foreign currency translation	-	-	-	-	4,830	-	-	4,830
- Net unrealised holding losses on available-for-sale securities	-	-	-	-	-	-	-	-
- Net loss	-	-	-	-	-	-	(17,696)	(17,696)
Total comprehensive loss	-	-	-	-	-	-	-	(12,866)
Balance at September 30, 2004	38,010,130	38,010	550,515	(73)	(35,216)	-	(380,944)	172,292

Basis of presentation

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

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

Forward looking statements

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