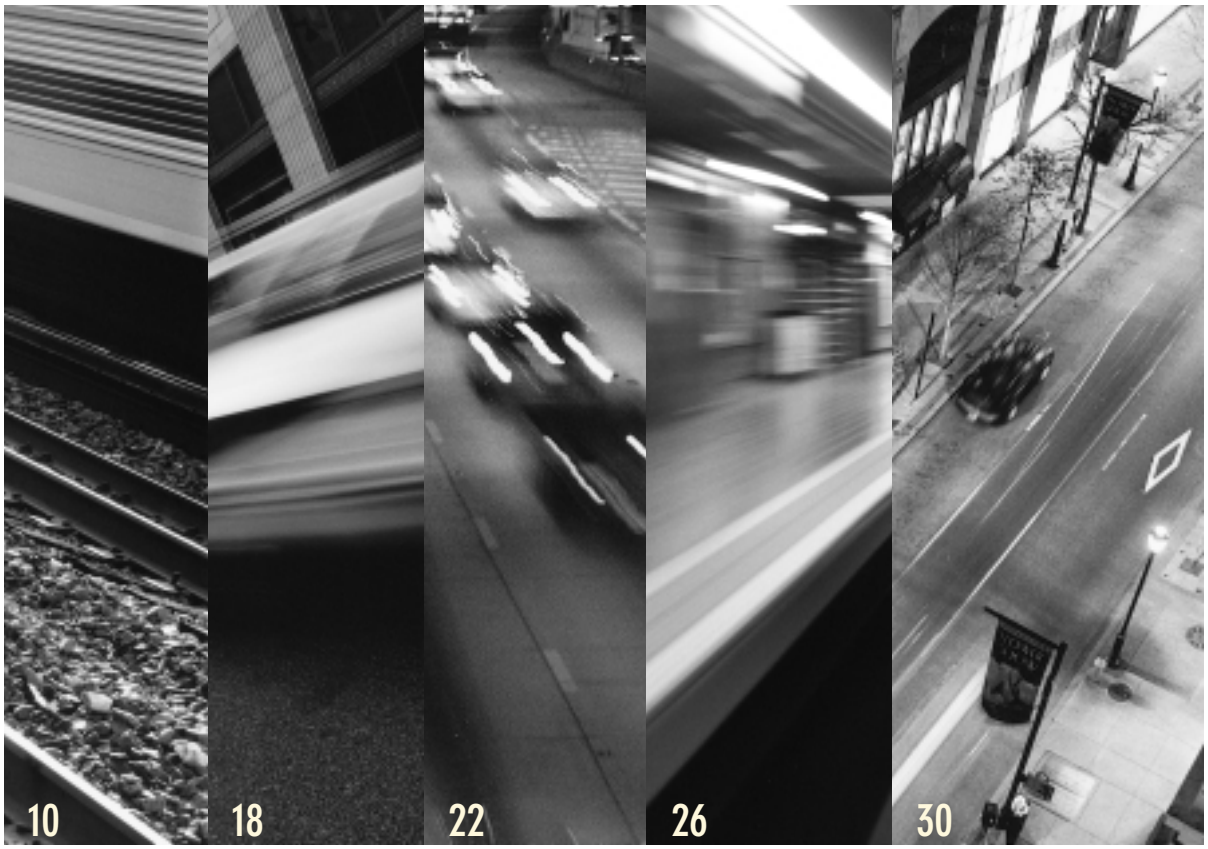
Cephalon

L E A D I N G T H E W A Y

2001 ANNUAL REPORT

Cephalon is moving rapidly ahead on clear paths of growth, profitability, innovation and success. We are creating opportunities and mapping a distinct journey. The path we took in 2001 led us to outstanding achievements in the biopharmaceutical industry, and it will lead us to greater successes in the years ahead.

ON THE PATH OF SUCCESS



A BANNER YEAR

Achieved the first profitable[1] year from operations in the history of our company, driven by product sales of $226 million in 2001

Attained profitability just three years after launching our first product, PROVIGIL® (modafinil) tablets [C-IV], in February 1999

Increased total prescriptions in 2001 for our three key products, PROVIGIL, ACTIQ® (oral transmucosal fentanyl citrate) [C-II] and GABITRIL® (tiagabine hydrochloride), by 98 percent, 180 percent and 43 percent respectively over the previous year

Consolidated the worldwide rights to our flagship product, PROVIGIL, adding nearly 500 employees and more than a dozen drugs to our portfolio by purchasing the French pharmaceutical company Laboratoire L. Lafon

Earned a position in the Nasdaq-100 Index. This recognizes our ascent as one of the 100 largest non-financial companies listed on the Nasdaq National Market tier of The Nasdaq Stock Market

Established a partnership with Sanofi-Synthélabo to co-develop and co-market angiogenesis inhibitors for oncology that are based upon our proprietary kinase inhibitor technology

Increased product sales from PROVIGIL by 108 percent over the previous year and ACTIQ by 238 percent over the previous year

Surpassed 1 million filled prescriptions for PROVIGIL

Reported positive results from the largest clinical trial using PROVIGIL as treatment for excessive sleepiness associated with obstructive sleep apnea. The results demonstrate significant improvement in daytime wakefulness among patients who suffer from this nighttime breathing disorder

Earned recognition for PROVIGIL from the American Academy of Sleep Medicine as a standard for the treatment of excessive daytime sleepiness associated with narcolepsy

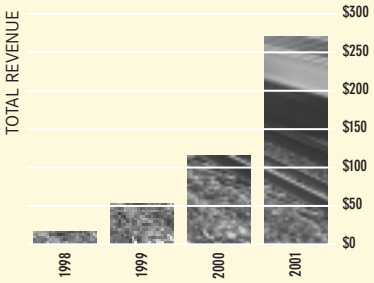
Received marketing authorization for ACTIQ in 16 European countries via the European Union's Mutual Recognition Procedure

Manufactured the 1 millionth unit of ACTIQ at our Salt Lake City facilities for export to Europe

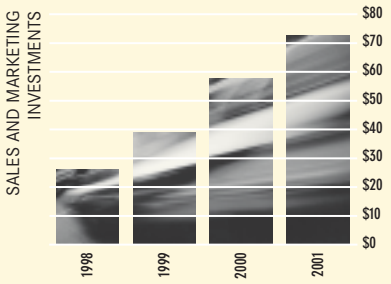
Marketed GABITRIL as the first commercially available SGRI (selective GABA reuptake inhibitor)

[1] Cephalon reported diluted earnings per share of $0.19 for the year 2001 before certain charges and extraordinary items. Please see the selected consolidated financial data beginning on page 30 of this report for a complete summary of our financial results. All references to profitability herein should be considered in the context of these results.

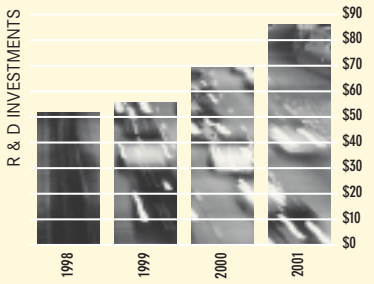
2001 *(numbers in millions)*



2001 *(numbers in millions)*



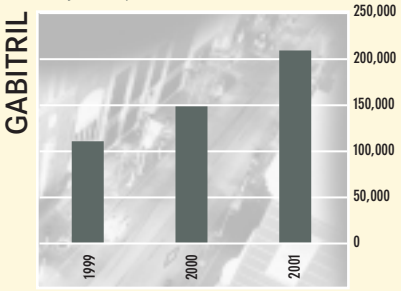
2001 *(numbers in millions)*



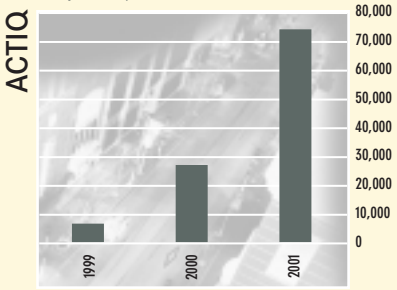
A Year of Achievements

2001

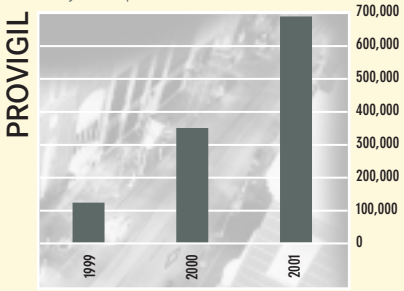
Yearly Prescription Growth



Yearly Prescription Growth



Yearly Prescription Growth



TO OUR SHAREHOLDERS

Two thousand one was a breakthrough year for Cephalon as we achieved profitability for the first time in our brief history. When we started the company in 1987, we had a vision to build an integrated biopharmaceutical company with a presence in the major markets of the world. We envisioned a company with operations that could fuel both top-and bottom-line growth. We also were realistic, recognizing that the drug development business is a risky one where some programs would succeed and others would fail.

Our strategy was to build a company that could sustain growth, regardless of the success or failure of any individual product. We were successful over the years at managing the risks inherent in our business and at building a team of employees and managers who are very skilled at executing a strategic business plan. In 2001, we realized this vision thanks to the dedication and commitment of hundreds of individuals. However, as rewarding as the past year's performance and growth have been, we regard our accomplishments as only the beginning.

Our success in 2001 was demonstrated in many ways, as we achieved every major objective set before us. Product sales in 2001 were more than double those of 2000 due to dramatic growth in prescriptions for our three key products. We made strategic moves to strengthen our PROVIGIL franchise and GABITRIL business with two separate international acquisitions. We established a significant foothold in Europe with the acquisition of Laboratoire L. Lafon. In R&D, our work on kinase inhibitors continues to lead the field, and our three primary compounds in development, CEP-701, CEP-7055 and CEP-1347, continued to advance in the clinic. We set aggressive objectives, recruited top talent into the organization, expanded our sales teams, and trained and challenged our employees.

Clearly, 2001 was our best year ever.

FRONT
J. Kevin Buchi
Senior Vice President &
Chief Financial Officer

Frank Baldino, Jr., Ph.D.
Chairman & Chief Executive Officer

Peter E. Grebow, Ph.D.
Senior Vice President,
Business Development

Robert P. Roche, Jr.
Senior Vice President,
Pharmaceutical Operations

BACK
John E. Osborn, Esq.
Senior Vice President,
General Counsel & Secretary

Carl A. Savini
Senior Vice President,
Human Resources

Paul Blake, MB, FRCP, FCP, FFPM
Senior Vice President, Clinical Research
& Regulatory Affairs

Jeffry L. Vaught, Ph.D.
Senior Vice President & President,
Research & Development

STRONG PRODUCT PERFORMANCE

Achieving profitability from operations puts Cephalon in an elite group of biotech companies. We invested early both in the science of molecular biology and in building a sophisticated marketing and sales team. These dual strategic pursuits of innovative science and product commercialization drew attention from partners whose pharmaceutical compounds we either sold ourselves or co-promoted, first in the United States and later in Europe. While waiting for our pipeline to mature, we made ever-larger investments to develop commercial products and to broaden their markets. We launched PROVIGIL in 1999, and by the end of 2001 we had built a profitable, high-growth pharmaceutical business.

To continue building the business, our challenge is to mitigate the time and risk involved in drug discovery and development with aggressive acquisitions and commercialization strategies. Profitability provides Cephalon with the ability to explore new therapeutic indications and identify and develop new markets. It also provides cash flow to fund R&D and to support clinical development, rather than relying solely on the capital markets for funding. In our view, this strategy is the most appropriate use of Cephalon's resources today.

Our primary goal is to continue to maximize the extraordinary growth of PROVIGIL, ACTIQ and GABITRIL sales. These opportunities are especially exciting because they also present the greatest potential for near-term reward for our shareholders. The results inure not only to investors but also may positively impact the quality of life for thousands of patients.

Our lead product, PROVIGIL, is an example of our strategy in action. The drug currently is indicated for treatment of excessive daytime sleepiness associated with narcolepsy. Given its favorable safety profile and proven record of successful clinical use, many U.S. physicians also are prescribing PROVIGIL for treatment of excessive sleepiness and fatigue associated with a number of other clinical disorders. In fact, clinical experience by physicians continues to illuminate potential new therapeutic areas and is helping us set the direction for future clinical work with the drug.

With approximately 40 million Americans suffering from sleepiness associated with an array of clinical disorders, we believe that a broader label for PROVIGIL would permit access to a larger number of patients and lead to a significant expansion of the market. Our emphasis in 2002 is to complete the work required to file for an expansion of the PROVIGIL label in the United States. We have successfully completed clinical studies in narcolepsy and in obstructive sleep apnea, and we are conducting what we believe is a final study in shift work sleep disorder that we plan to complete later this year. If this shift work sleep disorder study is successful, we plan to file a Supplemental New Drug Application with the U.S. Food and Drug Administration at year-end 2002.

As successful as PROVIGIL has been for the company, sales growth of ACTIQ also was impressive, tripling in 2001 compared to the previous year. ACTIQ is a great example of an investment in an under-valued product that has paid off handsomely for Cephalon. We obtained ACTIQ through our acquisition of Anesta Corp. in October 2000. We immediately redefined and broadened the universe of prescribing physicians to include pain care specialists, and we developed a new marketing strategy and sales team targeted at these high-potential prescribers. As a result, we have transformed a small niche product into a business that will approach an estimated $85 million to $90 million in sales in 2002.

This is another example of the excellent results we have come to expect from our outstanding commercial team. With only about 12,000 to 15,000 patients using ACTIQ today, we believe that we are just beginning to penetrate the breakthrough cancer pain market.

Our third key product, GABITRIL, is another exciting opportunity to drive sales growth. GABITRIL prescriptions were up 43 percent in 2001 compared to the previous year and continue to grow steadily. The drug is indicated for treatment of partial seizures associated with epilepsy, but based on its unique mechanism of action, we believe it may have utility in treating a number of other neurological and psychiatric disorders as well as neuropathic pain. This year we have embarked on a comprehensive clinical program to define the drug's potential application in new therapeutic areas including generalized anxiety disorder and neuropathic pain. Should the drug prove successful in treating any of these other disorders, it would represent another large market opportunity.

Strong sales of PROVIGIL, ACTIQ and GABITRIL enabled us to distinguish Cephalon among its biotechnology peers in 2001. What is most exciting, however, is that we have attained profitability while these three key products are in their early stages of growth. This bodes well for Cephalon as we work to develop the full potential of these products in the years to come.

ADVANCING SCIENTIFIC INNOVATION

Our goal in research and development has been nothing short of finding compounds and developing products that will change the course of human disease. Our primary R&D focus has evolved over the years to the science of kinase inhibitors where we have built an extensive library of proprietary compounds, three of which are currently in human clinical trials. We have had great success in identifying kinase targets that may be involved in human disease and in synthesizing selective and potent inhibitors of these targets.

Our science is widely published and internationally recognized. We have worked with many of the world's leading medical centers including Duke University, Johns Hopkins School of Medicine, Harvard Medical School, Washington University and the Karolinska Institute in Sweden. Our kinase library has broad utility across a variety of potential therapeutic targets in addition to neuroscience and oncology. These kinase inhibitors have become the basis for a very productive collaboration with Johnson & Johnson Pharmaceutical Research & Development for the discovery of products that may be useful in areas beyond our current therapeutic focus.

Clearly, innovative R&D remains a high-risk proposition, and creating partnerships is one way to mitigate a portion of that risk. By leveraging the expertise of quality partners – such as H. Lundbeck A/S and Sanofi-Synthélabo – we have enhanced the likelihood that the opportunities in our pipeline will lead to successful products. Various clinical trials with CEP-701, CEP-7055 and CEP-1347 will be initiated or completed in 2002. Like you, we are eager to obtain the results.

EXPANDING GROWTH OPPORTUNITIES

Innovation takes place at every level in our business, not just in R&D or in commercial operations but also in the discipline of mergers and acquisitions. One measure of our M&A success today is that each of our past acquisitions has become rapidly accretive to Cephalon's earnings.

Our M&A strategy is to find growth products that are under-valued in today's market and acquire and commercialize them. We executed that strategy successfully in 2001 as we negotiated the acquisition of worldwide rights to GABITRIL and completed the acquisition of the French pharmaceutical company Laboratoire L. Lafon. Both acquisitions will be accretive to earnings in 2002.

The acquisition of Lafon provided us with an important benefit by significantly improving the gross margin of PROVIGIL. This will become even more meaningful to earnings in the future as PROVIGIL sales continue to grow. In addition, we added a successful French pharmaceutical business, a portfolio of products, an experienced sales team, and manufacturing capability that will support our U.S. and European business in the years ahead.

Our initial foray into Europe began in 1994. Our mission then was a simple one. We sought to better understand the European markets we intended to serve and the unique cultural requirements needed to succeed. We started small, with modest sales and infrastructure in France, Germany, Austria, Switzerland and the United Kingdom. We have come a long way since the early years, and we have built a profitable European business.

Now, with the addition of international rights to GABITRIL and the acquisition of Lafon, we have a product portfolio and infrastructure that allows us to capitalize on other European opportunities and to grow product sales. We remain opportunistic, looking for promising products and companies that can augment our portfolio or extend our global reach or do both.

A PROMISING FUTURE

There has been tremendous investment in biotech over the past two decades, and the industry has responded by commercializing many innovative products. Cephalon's performance over the past few years is reminiscent of the paths forged by the pioneering companies in our industry. By example, Cephalon now is leading the way for the next generation to follow. Our plan is to leverage all of our resources and the experience that we have gained and create an even stronger global biopharmaceutical company.

We have been touched by many testimonials from patients describing how our products have meaningfully improved their lives. We hear from people who were excessively sleepy and severely fatigued who now, for the first time in years, are able to enjoy their families, remain gainfully employed and reach their full potential. That is what we set out to do when we started the company, and we are overwhelmed by the impact of our efforts.

Of which accomplishments are we most proud? We are most proud that our products improve the quality of life for many patients, that we are rewarding investors and that we are providing great jobs that empower employees.

We appreciate the support and encouragement of our many shareholders over the years, and we thank you for your continuing commitment to our company.

Frank Baldino, Jr., Ph.D
Chairman & Chief Executive Officer

Rapid Growth

2001

Product growth | Broader therapeutic applications | New market opportunities | Improving patients' lives

CURRENT POSITION

PROVIGIL is approved for marketing in North America and throughout Europe as a treatment for excessive daytime sleepiness associated with narcolepsy.

The American Academy of Sleep Medicine recognizes the drug as a standard for the treatment of excessive daytime sleepiness associated with narcolepsy.

In the United States, physicians wrote approximately 685,000 PROVIGIL prescriptions in 2001, a 98 percent increase over the previous year.

THE OPPORTUNITY

We are in the early stages of growth for this unique wake-promoting agent. The U.S. National Sleep Foundation estimates that there are approximately 40 million Americans who suffer from excessive sleepiness associated with a clinical disorder, and we believe that many of them may be candidates for PROVIGIL.

Physician confidence in PROVIGIL is demonstrated by their prescribing activity and the studies they are conducting. It is widely recognized that when physicians in the United States become comfortable with the safety and efficacy of a drug, they often pioneer new uses for the product through their clinical research efforts. Physicians who are conducting small clinical studies are sharing their knowledge about the broader utility of PROVIGIL. In addition, U.S. physicians may prescribe PROVIGIL to treat the symptoms of excessive sleepiness and fatigue associated with a number of other clinical disorders. We continue to use these clinical data and physician experiences as input to help guide the direction of our own clinical work. This clinical experience with PROVIGIL points to an expanding variety of potential therapeutic targets.

We believe our clinical research program will demonstrate the safety and effectiveness of PROVIGIL in the treatment of symptoms of excessive sleepiness and fatigue in additional disease states in the years ahead.

THE GOAL, 2002

Continue broad clinical research to demonstrate the effectiveness of PROVIGIL in treating the symptoms of excessive sleepiness and fatigue associated with a variety of diseases.

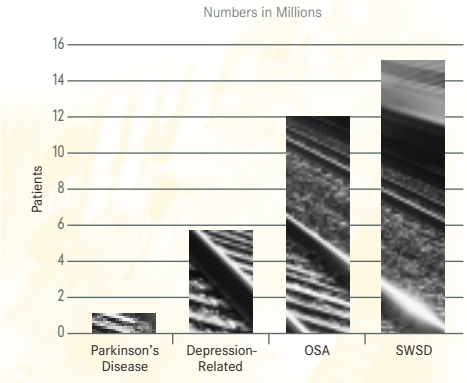
Complete our shift work sleep disorder clinical trial and submit a Supplemental New Drug Application (sNDA) to the U.S. Food and Drug Administration seeking to expand the label of PROVIGIL to treat the symptom of excessive sleepiness beyond narcolepsy.

Use our clinical data to support opportunities to broaden the PROVIGIL label in Europe.

Improve the quality of life in people who have disorders where excessive sleepiness is a major symptom.

Sleepiness and Fatigue Market Opportunity

Numbers in Millions



OSA - Obstructive Sleep Apnea
SWSD - Shift Work Sleep Disorder

PROVIGIL (modafinil) Tablets [C-IV]

PROVIGIL is a drug that can produce life-changing and life-enhancing benefits for patients with excessive daytime sleepiness associated with narcolepsy. PROVIGIL is a unique therapy that promotes daytime wakefulness without affecting nighttime sleep. It enables patients to feel awake and alert and has a proven record of successful clinical use in tens of thousands of patients in the United States and Europe over the past several years.

FACT

In 2001, PROVIGIL surpassed 1 million filled prescriptions.

Sales of PROVIGIL grew to $150 million in 2001, a 108% increase over 2000.

Product growth | Broader therapeutic applications | New market opportunities | Improving patients' lives

CURRENT POSITION

ACTIQ is the first and only product specifically approved for marketing to treat breakthrough cancer pain–a sporadic and sudden flare of severe pain that "breaks through" the pain relief provided by chronic pain medication. The drug also is approved for the same indication in 16 European countries, including the United Kingdom and France.

ACTIQ utilizes our patented oral transmucosal delivery system (OTS™). Taking the form of a lozenge on a handle, ACTIQ is rubbed by the patient on the inside of the cheek, permitting rapid absorption of the active ingredient fentanyl citrate, a potent and effective pain-relieving medication. The ease of use and convenience of ACTIQ provides patients with the ability to effectively manage their own pain and dramatically improve their quality of life.

Physicians wrote approximately 74,000 ACTIQ prescriptions in 2001, a 180 percent increase over the previous year.

THE OPPORTUNITY

In the United States alone, there are approximately 800,000 people suffering from breakthrough cancer pain. Although the number of ACTIQ prescriptions has risen dramatically, our market penetration into this patient group is still very low.

Since Cephalon acquired ACTIQ in October 2000, we significantly improved sales by broadening the target audience to include anesthesiologists and pain specialists. We believe the number of prescriptions will continue to grow as we continue to educate the prescribing population on the great benefits of ACTIQ.

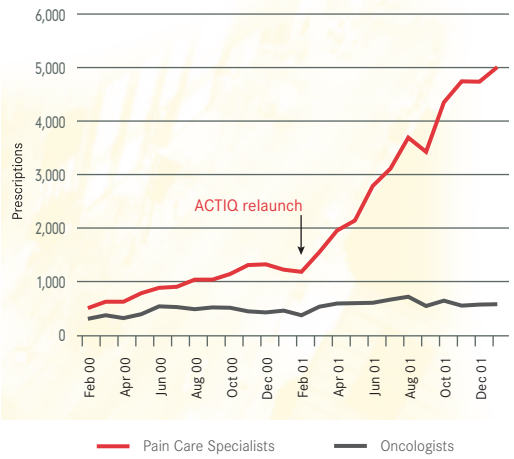
The significant increase in prescriptions in 2001 suggests that ACTIQ has great potential. The active ingredient in ACTIQ has been used in many opioid-tolerant patients. In 2001, we saw growing awareness of the importance of this pain control medicine as physicians increasingly prescribed ACTIQ as a pain therapy.

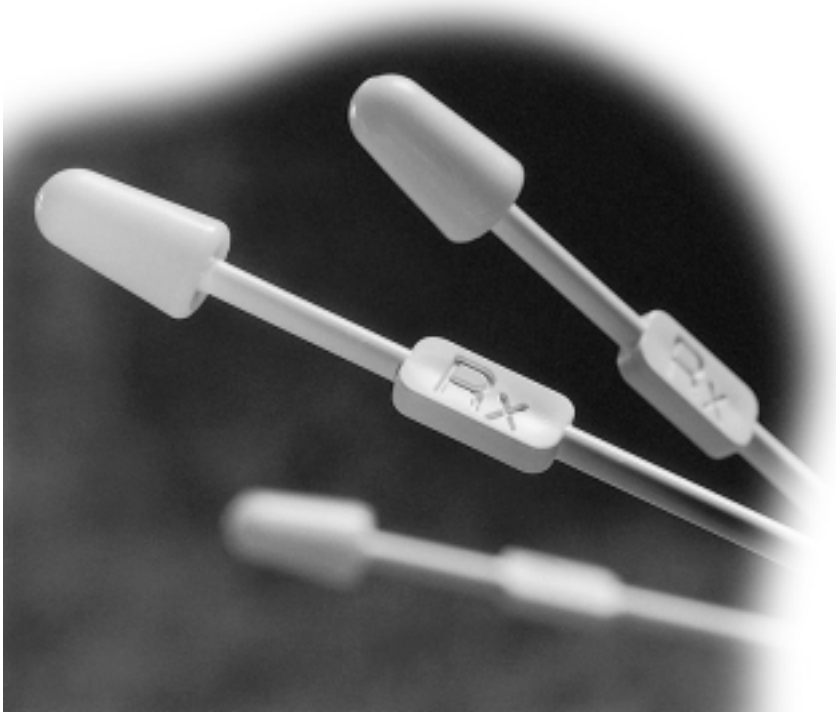
THE GOAL, 2002

Our goals are to establish ACTIQ as the ideal first-line therapy for breakthrough cancer pain, continue to enhance physician awareness of the product's key features, and educate physicians on its proper use. We must deliver these messages consistently and drive ACTIQ's use among target audiences, including anesthesiologists, pain specialists and oncologists.

Our results since acquiring this product have been exceptional. We believe that ACTIQ presents an even larger market opportunity as additional patients benefit from its unique pain control characteristics.

ACTIQ Prescription Growth by Specialty Group





ACTIQ (oral transmucosal fentanyl citrate) [C-II]

Effective relief of breakthrough cancer pain can improve patient functionality and quality of life. Due to its unpredictability, rapid onset and severity, breakthrough pain can be difficult to treat. With its unique delivery system, ACTIQ provides a powerful pain medication that is rapidly absorbed into the blood to provide patient pain relief. The convenient, easy-to-use analgesic lozenge on a handle is rubbed by the patient on the inside of the cheek when needed, providing personal control over pain symptoms.

FACT

ACTIQ permits rapid absorption into the blood of a potent and effective pain-relieving medication.

Sales of ACTIQ grew to $51 million in 2001, a 238% increase over 2000.

Product growth | Broader therapeutic applications | New market opportunities | Improving patients' lives

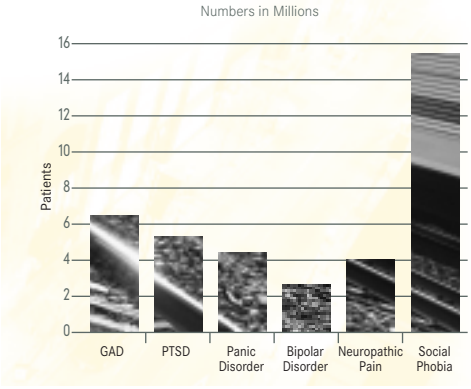
CURRENT POSITION

GABITRIL is the first and only selective GABA reuptake inhibitor (SGRI) on the market.

GABITRIL is approved for marketing throughout the world for the treatment of partial seizures associated with epilepsy. The drug has a proven record of successful clinical use and can be prescribed in combination with many other medications due to its low potential for drug interactions.

U.S. physicians wrote approximately 208,000 GABITRIL prescriptions in 2001, a 43 percent increase over the previous year.

GABA-Related Disorders Market Opportunity



GAD - Generalized Anxiety Disorder
PTSD - Post Traumatic Stress Disorder

THE OPPORTUNITY

Partial seizures affect 50-70 percent of the 2.3 million Americans who have epilepsy, a disease that is diagnosed in more than 140,000 new patients in the United States each year.

Known to be the most important inhibitory neurotransmitter in the central nervous system, GABA is distributed through all regions of the brain and has an effect on seizures, emotion, mood, thinking, memory, depression and pain. Because GABITRIL works selectively on the GABA system, it offers potential opportunity in treating other disorders caused by low GABA levels such as those related to anxiety and neuropathic pain.

There have been preclinical studies and several independent case series reports showing positive results with GABITRIL in treating a number of these psychiatric disorders. Reports by prescribing physicians were the impetus for Cephalon to initiate clinical trials in these new therapeutic areas.

THE GOAL, 2002

Complete our comprehensive clinical program in 2002 to define the drug's utility as a possible treatment for generalized anxiety disorder and neuropathic pain.

Continue to increase sales by strengthening the awareness of GABITRIL as the only approved SGRI, and work to improve physicians' understanding of GABA.

GABITRIL (tiagabine hydrochloride)

With its novel mechanism of action, GABITRIL is the only commercially available SGRI. It enhances the activity of GABA (gamma-amino butyric acid) by blocking its reuptake. GABITRIL has a proven record of successful clinical use, which makes it a very attractive product for physicians to prescribe.

Clinical studies in the areas of anxiety disorder and neuropathic pain are underway. If the clinical trials are successful, these new therapeutic areas represent large market opportunities for GABITRIL.

FACT

GABITRIL is the first and only selective GABA reuptake inhibitor (SGRI) on the market.

GABITRIL prescriptions grew by 43% over 2000.

Accelerating Profitability 2001

| PROVIGIL, ACTIQ and GABITRIL drive profitability |

In 2001, Cephalon achieved profitability for the first time in its history. We are proud of the people and the products that made this achievement possible. By adhering to our growth strategy, we are poised to continue on this path of profitability for the foreseeable future.

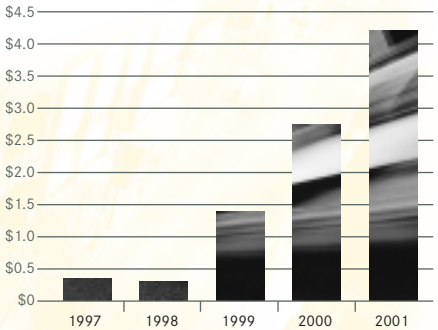
Several facts make this achievement notable. First, profitability is not easily attained. There are approximately 1,200 biotech companies, but only about two dozen have achieved profitability. Second, our profitability is based upon product sales. Few other biotech companies have achieved profitability from product sales. Third, we attained this goal in less than three years since the launch of PROVIGIL in February 1999. Fourth, all three of our key products, PROVIGIL, ACTIQ and GABITRIL, are still in their early stages of growth. This presents us with an excellent opportunity to develop the full potential of these products and drive earnings growth for many years to come.

Cephalon has taken a different path than most biotech companies. We have not relied on a single technology or a single product. We invested early in developing a sophisticated marketing organization and experienced specialty sales teams in neurology and oncology. This investment enabled us to build a successful business based upon product sales, and we now let profitability fund our innovative science.

Investors demand and reward innovation and a high level of sales and earnings growth. The companies that achieve profitability driven by product sales are on a path of success that is less affected by the vagaries of the market, and have greater control over their future. Cephalon will strive to continue to drive innovation from a sound business base of sales and earnings.

Market Capitalization

Numbers in Billions



Cephalon's international presence grew dramatically in 2001, and the acquisition of products and companies continues to be part of the company's growth strategy. In 2001, Cephalon acquired additional rights to GABITRIL and completed the acquisition of Laboratoire L. Lafon, a major pharmaceutical company in France. Each of these acquisitions is expected to be rapidly accretive to earnings at Cephalon and serve not only to broaden our product portfolio but also our global reach.

Lafon brings immediate tangible benefits to our company. Most importantly, the acquisition gives us worldwide control over PROVIGIL, our novel wake-promoting drug. Cephalon now controls manufacturing of the product, and the acquisition has significantly improved PROVIGIL's gross margin. Cephalon is now in the position of influencing worldwide marketing strategies for PROVIGIL and leveraging clinical development of the compound. The benefits to our PROVIGIL franchise created by this 2001 acquisition are potentially enormous.

The Lafon acquisition also provides us with opportunities to grow internationally by leveraging our enhanced French pharmaceutical business to capitalize on other European opportunities and to grow product sales. We believe we can increase sales of PROVIGIL in France where it is sold under the trade name MODIODAL® with a broader indication than in the United States. We are launching OTRASEL® in France for the treatment of Parkinson's disease and plan to launch ACTIQ later this year. As part of the acquisition, Cephalon also acquired a viable portfolio of mature pharmaceutical products – including SPASFON®, an anti-spasmodic medicine and well-known French therapeutic brand.

Lafon's "Lyoc" delivery technology, which is used to create rapid-dissolve tablets, complements Cephalon's oral transmucosal technology being developed in our Salt Lake City facility. Research and development activities at Lafon complement Cephalon's R&D focus. The acquisition adds a sophisticated chemical process development plant, which will improve development of early-stage compounds. Downstream, Lafon adds manufacturing, packaging and distribution facilities that Cephalon can utilize throughout Europe.

In 2001, we acquired expanded rights to GABITRIL from Sanofi-Synthélabo and Novo Nordisk A/S. These agreements give us the right to market GABITRIL worldwide (excluding Canada, Latin America and Japan) and allow us to better leverage our investments in clinical development and marketing.

These recent transactions clearly contribute to Cephalon's prospects for success. We will diligently pursue additional acquisition opportunities that are accretive and that expand our product portfolio and market reach.

Driving Innovation

2001

Our path to innovation at Cephalon includes the science of kinase inhibitors. We know that kinases play a key role in a variety of pathological conditions. Our scientists are leaders in this field. We also are working with researchers from both the academic and corporate sectors to leverage our knowledge, advance the science and, most importantly, develop new drugs. Our goal is to develop the next generation of drugs for the treatment of neurological disorders and cancer, including disease-modifying agents for Parkinson's disease or Alzheimer's disease and oral tumor-specific compounds for the treatment of cancer.

Cephalon has invested heavily in the biology, chemistry and associated technologies needed for rapid identification and development of kinase inhibitors as potential drug candidates. The synthetic chemistry component is of particular importance. We have thousands of compounds in a library, allowing us to assess chemical approaches to current and future kinase targets. We also have developed assay systems, animal models and formulation strategies that have become an important part of Cephalon's intellectual property and contribute to our knowledge in pharmaceuticals. To protect our research, we have developed an extremely broad patent portfolio that provides us with the freedom to operate in this arena. As testament to the success of such efforts, three kinase inhibitors currently are in human clinical testing.

Although we are firmly committed to the utility and feasibility of kinase inhibitor approaches to treat neurodegenerative diseases and cancer, it is also important to have a diversity of therapeutic approaches and molecular targets in our research and development portfolios. Therefore our current discovery efforts also include additional types of molecular targets where we share the same degree of scientific enthusiasm and optimism for clinical success.

In the neurosciences, Cephalon is focused on molecules that block the activity of kinases that lead to cell death in response to a variety of insults including oxidative damage, amyloid toxicity, excitotoxicity or growth factor deprivation. In this way, we hope to impact the course of neurodegenerative diseases such as Parkinson's and Alzheimer's diseases. The lead molecule in this program, CEP-1347, is a specific inhibitor of apoptosis in nerve cells, targeting the MLK family of kinases. We have completed two small and successful Phase II studies looking at the safety and tolerability of this compound. In 2002, we will begin a Phase II/III study in Parkinson's disease in conjunction with our corporate partner, H. Lundbeck A/S. Meanwhile, key academic collaborators at Columbia University and Washington University in St. Louis are helping us to understand the full breadth of the biology imparted by such innovative molecules.

In oncology, Cephalon has several active programs. The most advanced program targets the TRK family of kinases, which have been shown to play a very important role in the survival and growth of prostate and pancreatic tumor cells. Our collaborators at the Johns Hopkins Kimmel Cancer Center have been instrumental in the comprehensive evaluation of molecules in this program. We recently discovered that the lead molecule in this program, CEP-701, is also a potent inhibitor of the kinase FLT-3, which appears to be responsible for the most aggressive forms of Acute Myelogenous Leukemia (AML). CEP-701 is an orally-active tyrosine kinase inhibitor that is currently in Phase II studies in AML and in pancreatic cancer in combination with gemcitabine.

A second major oncology program is directed toward discovering and developing inhibitors of the VEGFR-2 (vascular endothelial growth factor receptor) kinase, which is critically involved in a process known as angiogenesis, in which the body creates new blood vessels to feed a tumor. By choking off the tumor's blood supply, we anticipate that this will have a positive anti-tumor effect. We are collaborating with our corporate partner, Sanofi-Synthélabo, on the development of our angiogenesis inhibitor lead molecule, CEP-7055. This orally-active compound is currently in Phase I clinical evaluation.

Cephalon Marketed Products and Compounds in Development 2001

PRODUCT / COMPOUND	INDICATION / THERAPEUTIC TARGET	Phase 1	Phase 2	Phase 3	Marketed in USA	Marketed in Europe
PROVIGIL®	Excessive Daytime Sleepiness Associated with Narcolepsy				✪	✪
PROVIGIL®	Excessive Sleepiness Associated with Clinical Illnesses			✪		
ACTIQ®	Breakthrough Cancer Pain				✪	✪
GABITRIL®	Partial Seizures in Epilepsy				✪	✪
GABITRIL®	Exploratory Studies in Generalized Anxiety Disorder and Neuropathic Pain		✪			
ANAFRANIL® (UK)	Depression & Obsessive Compulsive Disorder (OCD)					✪
APOKINON® (France)	Parkinson's Disease					✪
FONZYLANE® (France)	Cardiovascular Disorders					✪
LIORESAL® (UK)	Spasticity					✪
OLMIFON® (France)	Central Nervous System Stimulant and Antidepressant					✪
OTRASEL® (France)	Parkinson's Disease					✪
RITALIN® (UK)	Attention Deficit Hyperactivity Disorder (ADHD)					✪
SPASFON® (France)	Antispasmodic Therapy					✪
TEGRETOL® (UK)	Epilepsy					✪
XILOPAR® (Germany)	Parkinson's Disease					✪
10 OTHER DRUGS (France)	Various Indications/Laboratoire L. Lafon					✪
CEP-1347 Mixed Lineage Kinase Inhibitor	Parkinson's Disease		✪			
CEP-701 Tyrosine Kinase Inhibitor	Pancreatic Cancer Acute Myelogenous Leukemia		✪			
CEP-7055 VEGFR Inhibitor	Solid Tumors	✪				

"Through the application of sophisticated medicinal chemistry, Cephalon has been able to create a specific kinase inhibitor library for a variety of molecular targets in oncology. The value of these compounds is that they are both relatively selective and orally active. Not only can you potentially shrink the tumor and leave healthy tissue intact, but you also could do it with a tablet instead of with hours of intravenous infusion. Cephalon is meeting a significant need through its strategy of rational drug development by letting the intellectual proof drive the development of these compounds."

John Isaacs, Ph.D.
Professor of Oncology and Co-Director of Experimental Therapeutics
Johns Hopkins University

"I have been studying the mechanisms of neuronal cell death for many years. We have evaluated several compounds that can effectively stop neuronal cell death in our tissue culture models. However, in all my years of research, I have never found a compound like Cephalon's kinase inhibitor CEP-1347, which not only blocks cell death, but also prevents and reverses the loss of metabolic function of the cell in tissue culture models of apoptosis."

Eugene M. Johnson, Ph.D.
Strupp Professor of Neurology
Washington University

Moving Ahead

2001

Growth | Profitability | Innovation

"Nobody can really guarantee the future. The best we can do is size up the chances, calculate the risks involved, estimate our ability to deal with them and then make our plans with confidence."

Henry Ford II

We are often asked to identify our competitors or a company comparable to Cephalon. The reality is that we compete against ourselves, against our past. We seek to build upon it and better it. That is our mission at Cephalon.

- How can we exploit the full sales potential of our current products?
- How many illnesses have excessive sleepiness as a major symptom, which PROVIGIL could treat?
- What other clinical disorders are influenced by levels of GABA in the brain that GABITRIL might be able to address?
- What other patient populations require rapid pain relief and might benefit from the patient-controlled delivery system of ACTIQ?
- What disease states can we alter or stop with additional understanding of our kinase inhibitors and their impact on cell life and cell death?

These are some of the questions that we will strive to answer. We are confident that as we work in the lab and in the clinic, with our own specialists and with those from leading institutions around the world, we will be able to fulfill the potential of PROVIGIL, ACTIQ and GABITRIL, and find solutions for important medical problems.

Cephalon's portfolio of products and compounds offers enormous potential to our many stakeholders.

The excitement of further developing this portfolio make Cephalon a great place to work.

The safety and efficacy of our products makes Cephalon a great partner for physicians treating patients with challenging medical problems.

The promise and potential of our products makes Cephalon a great investment.

2001 FINANCIALS

This report may contain forward-looking statements that provide the company's expectations or forecasts of future events. These statements involve risks and uncertainties associated with our business, and you are cautioned not to rely on such statements as our actual performance may differ from these expectations and forecasts. For a full description of our business and its associated risks and uncertainties, please refer to our Annual Report on Form 10-K on file with the U.S. Securities and Exchange Commission, portions of which are included in this report.

TABLE OF CONTENTS

COMPANY PROFILE

Cephalon is a leading biopharmaceutical company specializing in drugs to help treat and manage neurological and sleep disorders as well as cancer and pain. Committed to providing patients and the medical community with innovative treatments that improve quality of life, Cephalon diligently pursues opportunities for growth through its own proprietary research and acquisitions.

Cephalon employs approximately 1,200 people in the United States and Europe. U.S. sites include the company's headquarters in West Chester, Pennsylvania, and offices and manufacturing facilities in Salt Lake City, Utah. Cephalon's major European offices are located in Guilford, England, and at Laboratoire L. Lafon in Maisons-Alfort, France. Founded in 1987, Cephalon has evolved into one of the world's fastest growing biotech companies.

DIRECTORS

Frank Baldino, Jr., Ph.D.
Chairman & Chief Executive Officer
Cephalon, Inc.

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Managing General Partner
Burr, Egan, Deleage & Company

Robert J. Feeney, Ph.D
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Former Chairman & CEO
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Horst Witzel, Dr.-Ing
Former Chairman
Schering AG

EXECUTIVE OFFICERS

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Chairman & Chief Executive Officer

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& Regulatory Affairs

J. Kevin Buchi
Senior Vice President & Chief Financial Officer

Peter E. Grebow, Ph.D.
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John E. Osborn, Esq.
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Secretary

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Senior Vice President, Pharmaceutical
Operations

Carl A. Savini
Senior Vice President, Human Resources

Jeffry L. Vaught, Ph.D.
Senior Vice President & President, Research
& Development

SCIENTIFIC & MEDICAL ADVISORY BOARD

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Yale University School of Medicine

CORPORATE HEADQUARTERS

Cephalon, Inc.
145 Brandywine Parkway
West Chester, PA 19380
610-344-0200

INVESTOR RELATIONS

Cephalon invites stockholders, security analysts, representatives of the financial community and members of the business media to contact:

investorrelations@cephalon.com
610-738-6376
145 Brandywine Parkway
West Chester, PA 19380 USA

Interested parties may obtain news and information about the company and its financial performance on the Internet at www.cephalon.com.

SEC FORM 10-K

The company's Form 10-K as filed with the U.S. Securities and Exchange Commission is available without charge by contacting Cephalon's Investor Relations office at 610-738-6376.

COMMON STOCK LISTING AND PRICE RANGE

The common stock of Cephalon is traded on the Nasdaq National Market System under the symbol CEPH. The following table lists the high and low trading prices for Cephalon common stock as reported by Nasdaq.

	2001		2000	
	High	Low	**High**	Low
4th Quarter	**$78.40**	$47.05	**$63.38**	$40.13
3rd Quarter	**73.92**	43.40	**83.63**	36.50
2nd Quarter	**72.80**	39.50	**66.88**	32.50
1st Quarter	**64.50**	36.38	**74.38**	29.88

There were 679 stockholders of record on March 20, 2002.

TRANSFER AGENT AND REGISTRAR

Stock Trans, Inc.
44 W. Lancaster Avenue
Ardmore, PA 19003
www.stocktrans.com
610-649-7300

Cephalon's transfer agent offers a variety of stockholder services, including:
-Change of address
-Lost stock certificates
-Stock transfer
-Account consolidation

ANNUAL MEETING

Cephalon stockholders are invited to attend our annual meeting, which is scheduled to be held at 9:30 a.m. on May 15, 2002, at Cephalon's Corporate Headquarters, 145 Brandywine Parkway, West Chester, Pennsylvania.

INDEPENDENT AUDITORS

Arthur Andersen LLP
1601 Market Street
Philadelphia, PA 19103

DIVIDENDS

The company has not paid any cash dividends on the common stock since its inception.

TRADEMARKS

PROVIGIL is a registered trademark of Genelco, S.A., a subsidiary of Cephalon, Inc.

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Cephalon