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Evotec Announces Full Year 2005 Financial Results

Hamburg, Germany | Oxford, UK – Evotec AG (Frankfurt Stock Exchange: EVT, TecDAX 30) today announced financial results for the year ended 31 December 2005.

2005 Highlights:

Rapidly progressing CNS pipeline:

- First proof-of-principle Phase I/II study completed, demonstrating the potential for EVT 201 as a novel treatment for insomnia; Phase II expected to start in H2 2006
- EVT 301, a Phase I compound with the potential to reduce symptoms progression in Alzheimer's disease in-licensed from Roche; on track to enter Phase II at the end of 2006
- Phase I study for Alzheimer's disease compound EVT 101 initiated, Single Ascending Dose Study (SAD) completed with positive results

Reinforced customer relations successfully:

- Already sizeable programme with Boehringer Ingelheim doubled and extended to the end of 2008; two milestones achieved in May 2005 and in March 2006
- Strategic collaboration with Roche extended and expanded
- Strong performance in chemical and pharmaceutical development services:
 - Three customer compounds in development for commercial manufacture
 - Strong sales in formulation business, now fully integrated into Evotec's service offering
- First milestone in Alzheimer's disease collaboration with Takeda

Financials:

- Group revenues increased by 10% to EUR 79.8 m (2004: EUR 72.7 m); Q4 revenues up 5% to EUR 26.5 m (2004: EUR 25.3 m)
- Strong performance in Services Division, exceeding expectations:
 - Revenues up 12% to EUR 61.0 m (2004: EUR 54.5 m)
 - Operating result excluding amortisation charges positive at EUR 1.5 m (2004: EUR (9.9) m)
- Group operating result improved by 58%; operating result before amortisation and impairment improved by 31% to EUR (8.1) m in line with increased gross profit
- Acquisition of full ownership interest in Evotec Neurosciences and PIPE in May/June 2005 provided EUR 47 m in cash to develop CNS pipeline
- Year-end cash position of EUR 53.5 m

“In 2004, we embarked on a major strategic expansion of our business by increasing our focus on building a product pipeline in the Central Nervous System (CNS) therapeutic area. We began our implementation of this strategy by acquiring full ownership of Evotec Neurosciences, and now have three compounds in clinical trials – with two of these having already successfully completed several Phase I studies. In addition, by executing on a major productivity and efficiency plan, we have weathered the challenging economic environment in which our Services Division operates, and have profitably grown this business by 12%”, **said Joern Aldag, President and Chief Executive Officer of Evotec.** “In summary, we have over-performed on each of our major goals for 2005. We are particularly excited about the rapid progress in building our pipeline. With Phase II clinical trials for two of our compounds expected to start this year, 2006 will be another exciting and challenging year in our development.”

Financial review

Total Group **revenues** increased by 10% to EUR 79.8 million (2004: EUR 72.7 million) against guidance of “0 to 5%” growth. Q4 performance was again strong with revenues up 5% to EUR 26.5 million (2004: EUR 25.3 million).

Growth was driven by a strong performance in Evotec’s *Services Division*. Services revenues grew by 12% to EUR 61.0 million (2004: EUR 54.5 million), significantly outperforming our conservative guidance of approximately EUR 54 million. This is particularly pleasing given the continued market pressures in contract research services and the continued relative weakness of the US Dollar against Evotec’s operating currencies of the Euro and UK Pound. Growth has been seen across all product lines. Chemical and pharmaceutical development services were particularly in demand from customers in 2005. Revenues in Evotec’s *Pharmaceuticals Division* increased to EUR 3.2 million (2004: EUR 0.9 million). Evotec achieved the first milestone from its collaboration with Takeda for a novel Alzheimer’s disease target. The *Tools & Technologies Division (Evotec Technologies)* achieved revenues of EUR 17.0 million (2004: EUR: 19.3 million). Its Q4 revenues were again strong but as expected they could not match the above average performance in Q4 2004, which included a significant revenue contribution from the sales of an EVOscreen® system.

R&D costs for 2005 amounted to EUR 14.1 million, marginally higher than in 2004 (2004: EUR 13.5 million). A substantial increase in costs for internal programmes in the Pharmaceuticals Division were partially offset by a reduction in platform R&D expenditure in both Services (52% reduction) and Evotec Technologies (16% reduction). For the Group, there was considerable year on year cost reduction in Q1 and Q2 2005. However, following

the acquisition of Evotec Neurosciences in May 2005 and the subsequent acceleration of internal development programmes, there was a planned increase in R&D expenditure such that R&D in Q4 was EUR 5.1 million (including EUR 3.8 million R&D in the Pharmaceuticals Division) versus EUR 3.8 million in Q4 2004.

SG&A costs of EUR 19.9 million for 2005 increased only slightly compared to last year (2004: EUR 19.4 million), despite an additional 4 months of full consolidation of SG&A cost of ENS in 2005, higher compensation expenses from stock options and extraordinary consultancy costs. These effects over-compensated the underlying rationalisation of the cost of the businesses support services.

The Group **operating loss excluding impairment charges and amortisation** improved by 31% to EUR 8.1 million (2004: EUR 11.7 million), in line with increased gross profit. The majority of the Group operating loss arises from the Pharmaceuticals Division due to the Company's focused investments in its proprietary research programmes. The Services Division showed a positive operating result of EUR 1.5 million before amortisation, exceeding the 2005 break-even target, as a result of the strong revenue increase and the cost and efficiency savings seen. Consequently, with focused capital expenditure, the Services Division was cash generative in 2005, as planned.

The Group **operating loss including impairment and amortisation** decreased significantly to EUR 35.7 million (2004: EUR 85.6 million). Goodwill and asset impairment were high in 2004 when impairment charges and amortisation amounted to EUR 73.9 million. In 2005, there was only a smaller impairment of intangible assets acquired with Evotec Neurosciences (EUR 18.5 million). Such impairment is common practice for pharmaceutical R&D or related goodwill. As a result impairment charges and amortisation decreased to EUR 27.6 million.

Consequently, **net loss** for the year (EUR 33.6 million) is also significantly lower than the previous year (2004: EUR 77.8 million). Excluding the impairment and amortisation charges, net loss amounted to EUR 6.0 million (2004: EUR 3.9 million). 2005 deferred tax credits decreased to EUR 4.7 million (2004: EUR 9.7 million) due to reduced regular amortisation and lower capital tax allowances in the year. Adjusted for this deferred tax effect, net result improved by 21% - despite the increasing emphasis on internal drug discovery and development in the Pharmaceuticals Division.

At 31 December 2005, Evotec's position in **cash and cash equivalents** amounted to EUR 53.5 m.

Outlook

The Evotec Group continues its transformation into a drug discovery and

development company with a strong proprietary pipeline of drug candidates. As of March 2006 Evotec has three compounds in Phase I clinical testing, all of which are on schedule to be in Phase II trials by 2007. In addition, dependent on scientific results and availability of funding, Evotec plans to progress additional products into clinical development during 2007 at which time out-licensing deals will also be contemplated. The CNS portfolio may be further supplemented by in-licensing or acquisition of selected compounds.

Evotec's Services Division returned to growth and profitability in 2005. Its strong brand and market position should now allow Evotec to benefit from any further recovery of the outsourcing markets, which however is difficult to predict, as well as from any further consolidation in this industry. For 2006, the contract pipeline for the Services business is on the same high level as at the same time last year, despite continued market weakness on the discovery side. As of the end of February 2006, the Sales and Order Book for 2006 totalled approximately EUR 37 million (2005: EUR 34 million). Evotec believes that with the capacity adjustments made, and in the absence of a renewed significant weakening of the US Dollar, this business can be managed to operating profitability and cash generation.

Evotec's Tools & Technologies business Evotec Technologies (ET) is expected to show significant improvements of its financial performance due to last year's restructuring and the success of its new products. It remains non-core for the Group as Evotec continues its transition into a drug discovery and development company.

Guidance

For the full year 2006, the Evotec Group expects revenues to grow by 0% to 5% over 2005. Revenues and profitability in the Company's Services Division are expected to remain similar to the strong 2005 performance. In line with increasing investment into internal drug development within the Pharmaceuticals Division R&D spend is expected to increase significantly. This increase is primarily related to higher clinical trial expenses for the three lead programmes EVT 101, EVT 201 and EVT 301, as well as to potential low single digit million milestone payments which will become due, typically upon Phase II initiation. In addition, the purchase costs of acquired or licensed assets (e.g. the upfront payment on EVT 301) are accounted for under R&D. As a consequence, the Company expects Group R&D spend in 2006 to be in the range of EUR 30 million to EUR 35 million. Based on this guidance, Evotec's liquidity position at the end of 2006 is targeted to exceed EUR 30 million.

Webcast / Conference Call

Evotec is going to broadcast today's analyst and press conference in Frankfurt on the occasion of the publication of its fiscal year 2005 results starting at 10.30 am CET (09.30 am BST) live on the internet. It will be followed by an R&D update and seminar starting at 12.30 pm (11.30 am GMT/05.30 am EST) which will also be broadcast live. Both events will take place in English.

To join the webcast and access the presentation slides you will find a link on our home page: www.evotec.com.

For those who prefer to listen to the presentation via telephone, please dial:

From Europe: +49.(0)69.58 999 0701 (Germany)
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From the US: +1.303.262 2137

About Evotec AG

Evotec is a leader in the discovery and development of novel small molecule drugs. Both through its own discovery programmes and through contract research partnerships, the Company is providing highest quality research results to its partners in the pharmaceutical and biotechnology industries.

In proprietary projects, Evotec specialises in finding new treatments for diseases of the central nervous system (CNS). Evotec has three Phase I clinical programmes: EVT 201, a GABA_A modulator for the treatment of insomnia, EVT 101, a subtype selective NMDA receptor antagonist for the treatment of Alzheimer's disease and EVT 301, a selective and reversible inhibitor of MAO-B for the treatment of Alzheimer's disease.

In contract research, Evotec has established itself as the partner of choice for pharmaceutical and biotechnology companies worldwide. The Company provides innovative and often integrated solutions from drug target to clinic through an unmatched range of capabilities, including early stage assay development and screening through to medicinal chemistry and drug manufacturing.

In 2005, Evotec has generated sales of EUR 80 million with 604 people located in Hamburg, Germany and near Oxford and in Glasgow, UK.

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