GENERAL REMARKS

This report contains the disclosures required for the Non-financial Group report in accordance with section 289c and section 315c German Commercial Code (HGB). It was reviewed by the Supervisory Board of Evotec AG and adopted on 22 March 2018. The option to apply a general framework for reporting on topics relating to sustainability as orientation for the Separate Non-financial Group Report was discussed within Evotec. After screening the relevant frameworks it was decided to not make use of this option due to the highly specific business model. At Evotec, the sustainability reporting is at present in the development stage and a possible application will be reviewed at later point in time.

BUSINESS MODEL

For a large number of severe illnesses there is currently no cure. The ensuing direct and indirect costs of treating patients are enormous, particularly in view of the effects of an ever older population in many industrialised countries. The life science industry therefore makes a very important contribution to the health and well-being of our society.

Evotec is a drug discovery and development company that offers its drug discovery solutions and services to pharmaceutical and biotech businesses, academic institutions, foundations and non-profit organisations. In its research activities, the company focuses on fighting not only the symptoms of diseases, but also their causes. Evotec has many leading scientific experts, state-of-the-art technology platforms and key expertise in the following core therapeutic areas:

- Neuronal diseases
- Diabetes and its complications
- Pain and inflammation
- Oncology
- Infectious diseases
- Fibrosis
- Respiratory diseases

In these core indications, Evotec strives to develop first-in-class and best-in-class therapeutics and to build innovative new business models with pharmaceutical and biotech companies, as well as other healthcare providers, like foundations and academic institutions. Its objective is always to accelerate the research activities, the development process for drug candidates towards clinical development and ultimately marketing of the candidates.

As of 31 December 2017 Evotec had a total of 2,178 employees. The company is headquartered in Hamburg (Germany); other operating sites are located in Abingdon and Macclesfield (UK), Goettingen and Munich (Germany), Toulouse (France), Verona (Italy) and Basel (Switzerland) as well as in Branford, Princeton and Watertown (USA).

In the opinion of the management, there are no aspects of Evotec’s business model that conflict with its shareholders’ interest in sustainable investment.

SUSTAINABILITY WITHIN EVOTEC’S SPHERE OF INFLUENCE

Sustainability is of vital importance to the Evotec Group and is an essential component of all the company’s business processes. For Evotec, sustainability means combining economic success with ecological and social activities. In this way Evotec assumes responsibility for current and future generations and so secures simultaneously the basis for its long-term commercial success.

At Evotec the entire Executive Board, under the leadership of the Chief Executive Officer, is responsible for the implementation of the company’s sustainability activities and standards across the group. They form part of corporate planning and cover operations at all the company’s locations. The company’s code of conduct, its framework for corporate governance and business ethics, describes how they impact the daily work of every employee.

The code of conduct is published in the “Investing” section of Evotec’s website (www.evotec.com). It covers such topics as the use of company funds, correct accounting, dealing with personal conflicts of interest and insider trading, compliance legal requirements of anti-corruption and anti-trust law, the working environment, occupational health and safety, minimising adverse environmental effects and the confidential treatment of intellectual property and company secrets. Evotec’s code of conduct also forms the framework for responsible and correct dealings with business partners. Employees receive training on the code of conduct.

Since 2017 sustainability has also been a fixed element in the assessment of Evotec’s suppliers. The established self-assessment process was expanded to include questions on the three criteria; environmental standards (e.g. ISO 14001), CSR standards (e.g. UN Global Compact or ISO 26000) and sustainable engagement (e.g. fair trade, Rainforest Alliance). Each supplier is given a points-based rating derived from the self-assessment and other criteria such as quality, reliability and pricing. Out of a maximum of 100 points, 15 relate to sustainability. No supplier can achieve the highest rating of Top Performer without scoring a minimum number of points for the above mentioned sustainability criteria.

DETERMINING THE MAIN TOPICS FOR THE SEPARATE NON-FINANCIAL REPORT

The main topics were determined in a four-stage process in the period from May to December 2017.

SEPARATE NON-FINANCIAL GROUP REPORT 2017
The analysis process confirmed the assumption that the main topics for Evotec’s Separate Non-financial Report relate to the areas of employee concerns, human rights and anti-corruption. In terms of environmental and social concerns, however, no topics were identified as being material in terms of the legal standards.

**RISKS IN CONNECTION WITH NON-FINANCIAL MATTERS**

Evotec sees the management of risks and opportunities as the permanent task of identifying, analysing and evaluating the range of potential and actual developments within the company and in its operating environment. This also includes material circumstances for Evotec that fall within the new statutory standards for non-financial reporting, such as human resources or compliance risks. For further information we therefore refer to the section “Risk and opportunities management” in the Group Management Report for the 2017 financial year.

**EMPLOYEE CONCERNS**

Evotec’s commercial success is based on the competence, creativity and enthusiasm of its employees. Their performance and conduct are key to continuous innovation and sustainable growth. In a highly dynamic market environment, characterised by intense competition for the best talent, Evotec’s human resources strategy is aimed at developing a highly motivated and qualified team that works together under safe conditions at all times to achieve the company’s objectives.

The global rollout of EVOconnect was launched in mid-2017, with the aim of further encouraging regular constructive dialogue between managers and employees and strengthening the company’s feedback culture. In future, quarterly discussions, known as EVOtalks, will replace the previous practice of annual performance reviews. In day-to-day work they will be accompanied by frequent, informal feedback talks.
These much shorter feedback cycles and the generally more frequent and at the same time less formal exchanges between managers and their staff are intended to address promptly both good aspects of performance or conduct and those requiring improvement, to maintain a sharper focus on the jointly agreed development goals over the course of the year and to foster mutual trust by means of an open dialogue. To accompany the rollout, training courses on “Giving and Receiving Constructive Feedback” were held worldwide, to which all managers and their staff were invited.

— FINDING AND RETAINING TALENT —

Evotec’s company and revenue growth is highly correlated with the growth of its workforce. The company’s rate of growth is therefore determined to a very large extent by its ability to attract qualified employees to Evotec and to retain them over the long term. This being the case, various steps were taken in the reporting period to optimise the recruiting process at Evotec.

Sites with a high, recurring need for new talent now have their own recruiting teams, which can act faster, more efficiently and are closer to the market. In 2018, a new recruiting process is also to be applied, which aims among other things to cut response times to applicants significantly and to give all candidates a qualified feedback.

At the start of 2018, the career section of the company’s website was also overhauled. In addition to an expanded and more relevant range of information about the diverse professional development opportunities at Evotec, the transparency of the application process was improved. Alongside the website, company employees have an important role as ambassadors when it comes to approaching and attracting potential new colleagues. As part of the “Refer-a-Friend” programme they are now being asked explicitly to make vacant positions and career perspectives at Evotec known within their personal networks. If this results in a recruitment, the referring employee receives a bonus after the trial period has been completed successfully.

Another new recruiting instrument is to be introduced in 2018: the external talent pool. It will contain all those applicants for whom no suitable position has been found following the initial contact, but whose qualifications and personality are fundamentally a good fit for Evotec. If a suitable position becomes free at a later date, these applicants can then be approached again and directly.

Another promising way of meeting future recruiting needs at Evotec’s sites in Germany is the system of apprenticeships. The number of apprenticeships on offer is therefore to be increased, especially in view of imminent vacancies for laboratory jobs. Meanwhile in the United Kingdom a partnership with the University of Bath was renewed, with the aim of building close contacts to talented students from an early stage and supporting them in their career development. Evotec gives interested young academics there the opportunity of completing a doctorate in association with the company. The range of scientific training courses available to graduates was also expanded again.

— SEIZING DIVERSITY AS AN OPPORTUNITY —

Evotec works in a globalised industry and has an international customer base. The company is convinced that it needs a diverse team in every respect in order to understand its customers’ different demands and to work together effectively across borders.

Employees of almost 60 different nationalities are already working for Evotec today. Their working environment is defined by respect, cooperation and flexibility in the way they think and act. Whether in recruiting, staff development, promotion or pay – Evotec practices equality of opportunity regardless of gender, ethnic origin, sexual orientation or age. 266 new employees were recruited worldwide in 2017. In Germany and the UK about a quarter of the new recruits came from outside the country. The development of the workforce from a diversity perspective is actively monitored and tracked by means of various indicators, including the proportion of women in senior management. In 2017, this figure was 30%. Evotec meets its own targets for the percentage of women in management positions, in accordance with the Act on Equal Access for Men and Women to Management Positions (FüPoG), which came into effect in 2015.

Although the status quo is very good, one of the explicit aims of the human resources strategy is to keep advancing diversity at Evotec in all areas and across all levels of the hierarchy. One instrument that is becoming more and more important is the posting of employees to sites in other countries. Experience shows that such postings have a significantly positive effect on both the functional and personal development of the employees. In the years ahead the international rotation of staff members is therefore to be further intensified in all areas of the company.

Employees by nationality as of 31 December 2017

- 26% Italian
- 20% German
- 17% French
- 25% British
- 4% American
- 8% Others
In Germany a comprehensive plan of action was adopted in the reporting period and implementation has begun: the “Health & Safety Programme 2017-2020”, which will benefit every single employee. The core objectives of the action plan are

- to ensure continuous and transparent communication with all employees on health and safety subjects,
- to make managers unequivocally responsible for eliminating safety risks, regularly reviewing company equipment and monitoring the activities of contractors and visitors, and
- to roll out the “Health@work” initiative piloted in Hamburg in 2017 to all sites in Germany.

The “Health@work” programme stands for an all-round evaluation of the working environment in terms of risks to the mental health of employees. An interdisciplinary team of managers, health and safety experts, the company doctor and members of the Works Council identifies potential stress factors, possibly resulting from overwork or inadequate working hours, for instance, and develops countermeasures. Initial results have already been presented in Verona and steps have been taken that will be continued in 2018. So with “Health@work” Evotec is taking effective action to address the fact that in today’s world, occupational health risks increasingly have psychological causes.

Overall responsibility for the health and safety of employees lies with the heads of the respective sites, who report on this subject directly to the Executive Board of Evotec. In turn, every manager is responsible for the health and safety of their staff and any other individuals within their area.

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Evotec’s employees worldwide should be able to carry out their work in safe and healthy conditions at all times. This approach is expressed in the slogan “Make Safety your Priority”. It implies that health and safety matters are handled across the group with the same competence and professionalism as the core operating business.

HUMAN RIGHTS

Although “classical” aspects of human rights such as working and social conditions play a minor role in Evotec’s business model, its activities as a drug discovery and development company do entail specific challenges. They relate particularly to the use of human tissue and cells, as well as to the use of animals in experiments.

RESPONSIBLE HANDLING OF HUMAN TISSUE SAMPLES

The use of human tissue enables Evotec to test its innovative therapeutic approaches for efficacy at an early stage of their research and development. The company purchases human cells, body fluids and tissue from licensed commercial providers, alliance partners and consortia. Evotec bases its handling of human samples on applicable national legislation and European directives. Documentation of origin, the consent of the patient or trial participant to the scientific use of the samples and the related data protection have the highest priority.
All the employees concerned are trained and protected for the handling of human samples. Normally only human material that has been tested negative for the main risks of human infection is used. Potentially infectious samples are tested for pathogens before their scientific use and only approved for experiments when they pose no threat. Employees also work under special safety conditions. Human samples are stored and processed strictly separately from samples from other species in order to rule out all potential contamination.

Embryonic stem cells play an important role in medical research. They are obtained from five-day old embryos. They grow very quickly and can develop into any kind of body tissue or organ – with the exception of the placenta. However, the use of embryonic stem cells is very controversial from an ethical perspective. Some sections of the public see a five-day old embryo as already a human being and so consider “destructive” research to be ethically unacceptable.

For some years what are known as induced pluripotent stem cells (iPSCs) have been available as an alternative to embryonic stem cells, since they can also differentiate into any cell in the human body. They are derived from easily available human skin or blood cells, which are "reprogrammed" in the laboratory by introducing transcription factors and can then be propagated indefinitely. Evotec already differentiates iPSCs into a wide range of different cell types (e.g. nerve cells, insulin-producing beta cells). It is the company's declared aim to build new disease models based on cultures of iPS cells from many different patients and to use them in drug discovery projects. This will improve significantly the chances of success for developing medicines and sharply reduce the volume of animal experiments. Evotec will issue further groupwide guidelines for the handling of human tissue and bodily fluids in 2018.

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**TOP STANDARDS IN ANIMAL PROTECTION**

As part of its research activities at several European sites Evotec carries out experiments on animals that are scientifically necessary or required by law. Experiments that cannot be conducted in-house are outsourced to specialised, carefully selected and tested contract research institutes. The animals used in experiments are mostly rodents (e.g. mice and rats), but also non-rodents (e.g. non-human primates).

All animal experiments are performed exclusively with regulatory approval and on the basis of applicable national legislation (e.g. Animal Protection Act, Medicines Act). This requires justifying in every individual case why a project cannot be carried out without resorting to animal experiments. Furthermore, the number of animals used must be kept to the minimum consistent with achieving the aim of the experiment. The competent national authorities consult an expert commission when evaluating applications, which is made up of specialised experts with experience of animal experiments as well as representatives of animal rights associations. Evotec’s work is also regularly reviewed by the competent local veterinary authorities. Internal committees have been established at all sites, which meet regularly to discuss animal welfare aspects and adapt them to the current legislation and best practice for animal experimentation. All sites also have employees designated as animal protection officers, who advise, support and audit the research departments and provide instructions on animal rights compliance.

To ensure that best practice for animal testing is followed, Evotec implements from an animal rights view recommendations from laboratory animal science associations (GV-SOLAS, FELASA) and the German Veterinary Association for Animal Welfare (TVT). In addition, the research sites in Hamburg, Toulouse, Verona and Göttingen have applied for accreditation on a voluntary basis by the internationally acknowledged animal protection organisation AAALAC International (Association for Assessment and Accreditation of Laboratory Animal Care International) and have been accredited in full. The accreditation took place after an in-depth review of the conditions and programmes for keeping and using the laboratory animals, as well as the professional qualifications of their keepers and the scientific staff. A re-accreditation of the sites takes place every three years, in Hamburg e.g. the re-accreditation was achieved again in the first quarter of 2018.

Evotec also undertakes to apply the principle of the 3Rs when using animals for research, which refer to the replacement of animals where possible, the reduction of numbers used and the refinement of experimental methods. The 3R principle aims to ensure the welfare of laboratory animals and is an integral part of Evotec's research and development processes. In aiming to minimise the use of animals for research and development as far as possible, the company already uses a broad range of in vitro pharmacological experiments as part of its drug discovery process. These experiments, which are conducted in test tubes, test a wide range of parameters in human cell lines and tissues. Using the latest technologies, such as imaging and increasingly also non-invasive methods (e.g. light sensors), refined techniques and advice from biostatisticians are also in the spirit of the 3R principle.

Evotec generally obtains its laboratory animals from certified breeders, which are audited regularly and must keep health certificates for the animals. If laboratory animals from academic partners are of interest, they must come with a clean health certificate. Only qualified staff who undergo regular professional training are deployed to care for the animals on a daily basis. The health of the laboratory animals is measured at regular intervals in line with FELASA (Federation of European Laboratory Animal Science Associations) guidelines. Evotec not only uses these standards internally, but also applies them to its suppliers.

Alongside its ethical obligation for the animals’ welfare, Evotec is interested in the quality of the data generated in animal experiments. Only when the animals feel comfortable, are subjected to as little stress as possible and are kept in good, standardised conditions can high-quality experimental results be obtained.

In addition to its aim of accrediting all its sites conducting in vivo pharmacological work in line with AAALAC, Evotec will continue to work to develop more animal-free, less stressful and non-invasive methods. Since 2016 a global team of vets has worked on the improvement and harmonisation of standards between the different sites. Global
guidelines and standards are currently being drafted in consultation with representatives of company management and the quality assurance team. Once they have been adopted they are also intended to apply to contract research institutes and other business partners.

ANTI-CORRUPTION

Evotec’s corporate culture is committed to the highest standards of transparency, integrity and accountability. One key aspect of integrity is compliance with applicable legislation and internal company guidelines. Evotec does not tolerate any infringement of applicable law or internal policies.

The compliance programme at Evotec AG is monitored by the company’s compliance officer; an independent and objective function that reviews and assesses compliance matters within the group. Training is provided regularly using a groupwide electronic compliance training program, which is tailored to the company’s specific compliance requirements and the associated risks. The aim of the training program is to achieve permanent awareness of compliance aspects in all business processes, to ensure that every decision meets Evotec’s compliance obligations and to minimise compliance risks. It is mandatory for all members of the Executive Board and Supervisory Board and for all employees. The company’s compliance officer monitors participation in this training program at regular intervals.

Evotec’s commitment to a compliance-oriented corporate culture is manifested in the company’s code of conduct, which defines binding ethical principles such as integrity and professionalism that apply equally to members of the Executive Board and Supervisory Board and to all employees. The code of conduct also governs compliance with anti-corruption legislation and the related internal policies, as well as a whistleblowing charter: an obligation to report any suspicion that the policies have been breached. As in all other areas of compliance, the company’s target in terms of corruption is zero incidents.

No company employee may sign a contract or enter into an agreement on the basis of a commission obtained, a kick-back, a consultancy or service contract, a bribe or the extortion of a payment. It is also forbidden, if the person is aware or can assume that an unreasonable direct or indirect payment is expected for decisions or actions in Evotec’s favour.

The term “unreasonable payment or compensation” includes money or other gifts by a third party in excess of a certain value that have not been approved by the manager. So for instance, certain products, especially if they are free, as well as services, travel or holiday accommodation at the expense of other companies, are just as much unlawful compensation as a direct cash payment. An action which is otherwise dubious is not allowed simply because it is customary in a particular place or in a particular area of commercial activity.

Another aspect of anti-corruption law is the avoidance of transactions with individuals or organisations on international sanction lists. As of late 2017 a systematic approach is being pursued by Evotec to ensure that such individuals or organisations are identified before any transactions are completed.

Another important aspect of accountability and transparency is giving all Evotec employees the opportunity to express their misgivings responsibly and effectively. Potential breaches of compliance obligations can be reported to the relevant manager, the company’s compliance officer or the global compliance hotline (whistleblowing hotline), which is available 24 hours a day, seven days a week. Reports to the hotline can also be made anonymously. No reports of active or passive corruption were received by the central compliance hotline in 2017. Neither were any cases of active or passive corruption detected by any other means.

OUTLOOK

Evotec has a clear commitment to further strengthen its own sustainability activities, security measures and standards in the years to come. Evotec will continue to further develop and refine its sustainability and security activities and integrate them into its business processes. For that reason, the Company regularly invests in employee trainings and other courses as well in the provision of sufficient capacities, software and platforms to address relevant key topics.

For further enquires, please contact

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