Half-year Interim REPORT '17

PUBLICATION DATE 10 AUGUST 2017

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I. MANAGEMENT REPORT – EXECUTE ON INNOVATE

- *VERY STRONG OPERATIONAL AND FINANCIAL PERFORMANCE IN H1 2017*
- *CONTINUED FOCUS ON ACCELERATING INNOVATION: NEW PROJECTS, COLLABORATIONS AND STRATEGIC INVESTMENTS*

HIGHLIGHTS

FINANCIAL PERFORMANCE – FINANCIALS REFLECTING STRONG BUSINESS

- Consolidated Group revenues grew by 37% to € 103.4 m (H1 2016: € 75.5 m); base revenues up 31% to € 90.1 m
- Continued revenue growth in both operating segments: EVT Execute revenues up 26% to € 100.4 m; EVT Innovate revenues up 78% to € 21.1 m
- Adjusted Group EBITDA positive and significantly increased to € 26.0 m (H1 2016: € 15.8 m); adjusted EBITDA of € 28.4 m for EVT Execute (H1 2016: € 22.5 m)
- Slight decrease in R&D expenses of 5% to € 8.5 m following the reallocation of projects to the Celgene collaboration portfolio (recognised in costs of revenue)
- Strong liquidity position of € 187.0 m, also due to capital increase with Novo Holdings A/S

EVT EXECUTE – CONTINUING STRONG GROWTH

- New and extended integrated drug discovery agreements (e.g. Dermira, Asahi Kasei Pharma, Blackthorn Therapeutics, STORM Therapeutics (after period-end))
- Significant progress within ongoing alliances (e.g. milestone in/extension of endometriosis alliance with Bayer)
- Re-organisation for optimal US footprint (e.g. closure of Kalamazoo site, Princeton site to become new US headquarters)
- Strong start for Cyprotex and integration on track

EVT INNOVATE – NEW PARADIGMS SHOWING MOMENTUM

- Important milestone achievements (e.g. kidney disease alliance with Bayer, diabetes alliance with Sanofi)
- Continued strong focus on iPSC through strategic collaboration with Censo Biotechnologies
- BRIDGE model gaining momentum (e.g. second funding round in LAB**282** projects)
- Unique biobank approach through NURTuRE consortium in kidney diseases
- Grant from IFB Hamburg in immunotherapy/immuno-oncology

CORPORATE

- New long-term investor: Novo Holdings A/S invested € 90.3 m
- Change in Supervisory Board in June 2017: Michael Shalmi, Novo Holdings A/S
- Continued strategic investment activities (e.g. Forge Therapeutics, Facio Therapies)

GUIDANCE 2017 CONFIRMED

FINANCIAL HIGHLIGHTS

The following tables provide an initial overview of Evotec's financial performance in the first half of 2017 and 2016. More detailed information can be found on page 5 of this half-year report.

Key figures of consolidated income statement & segment information

Evotec AG & subsidiaries – First six months of 2017

In T€	***EVT Execute***	***EVT Innovate***	***Evotec Group H1 2017***	***Evotec Group H1 2016***
External revenues	82,317	21,079	103,396	75,454
Intersegment revenues	18,042	–	–	–
Gross margin in %	29.4	46.1	35.8	34.5
R&D expenses	(342)	(10,368)	(8,542)	(9,033)
SG&A expenses	(12,365)	(3,425)	(15,790)	(11,757)
Impairment of intangible assets	–	–	–	(1,417)
Other operating income (expenses), net	4,420	1,133	5,553	4,592
Operating result	**21,173**	**(2,939)**	**18,243**	**8,389**
Adjusted EBITDA*	***28,413***	***(2,403)***	***26,010***	***15,833***

** Before contingent considerations, income from bargain purchase and excluding impairments on goodwill, other intangible and tangible assets as well as the total non-operating result*

EBITDA is defined as earnings before interest, taxes, depreciation, and amortisation of intangibles as reported in the consolidated financial statements of the Group. More details are described in the notes to the unaudited interim condensed consolidated financial statements on page 17 of this half-year report.

OPERATIONAL HIGHLIGHTS

EVT EXECUTE – CONTINUING STRONG GROWTH

New and extended integrated drug discovery agreements and progress in ongoing alliances

The strong operational performance in the first quarter of 2017 successfully continued into the second quarter of 2017. Numerous integrated drug discovery agreements were signed in the first half of 2017, e.g. with Dermira, Asahi Kasei Pharma and Blackthorn Therapeutics. Shortly after period-end, the existing agreement with STORM Therapeutics was extended. All of these agreements are supporting the value the market places on Evotec's comprehensive drug discovery platform. Evotec's multi-year, integrated drug discovery collaboration with Blackthorn Therapeutics is focused on delivering best-in-class small molecules that modulate novel targets expressed in key brain regions for the regulation of behavioural disorders and on ultimately selecting a pre-clinical development candidate. Evotec's alliance with STORM Therapeutics focuses on new small molecule epigenetic drugs for oncology and other diseases. Evotec and STORM have been collaborating since 2016 with high-throughput screening and structural biology to identify hits against two of Storm's RNA modulating targets. The agreement has been expanded to support STORM's chemistry efforts on additional novel targets.

Furthermore, strong progress was achieved in Evotec's existing alliances. In the first six months of 2017, a significant pre-clinical milestone was reached in its alliance with Bayer in the field of endometriosis. Furthermore, a clinical milestone was reached in this collaboration after period-end for the progression of a programme from the alliance portfolio into Phase I clinical development. Due to its strong performance, this five-year alliance, which was started in 2012, has been extended by one year until 2018.

Re-organisation of sites to increase customer focus

After the acquisition of Cyprotex in December 2016, the Cyprotex business operations are on track with regard to the successful integration into Evotec's existing operations and demonstrated a strong performance in the first six months of 2017. In addition, to streamline processes and services, Evotec is consolidating its US footprint. Compound management facilities are being transferred from San Francisco to the Branford site and the Kalamazoo (ex-Cyprotex) site is being closed. Both tasks will be completed in Q3 2017. Furthermore, Evotec's existing Princeton site will become the US headquarters.

EVT INNOVATE – NEW PARADIGMS SHOWING MOMENTUM

Important milestone achievements within existing alliances

EVT Innovate started strongly in 2017 with multiple important milestones achieved in its alliances. In April 2017, Evotec announced that its strategic alliance (Target*BCD*) with Sanofi in the field of diabetes reached an important milestone for achieving pre-clinical proof-of-concept, triggering a payment of € 3.0 m to Evotec. Also in the first quarter of 2017, Evotec was able to reach two important milestones in its kidney disease alliance with Bayer.

Strong progress continues to be achieved within the strategic iPSC-based alliance with Celgene in neurodegeneration. Evotec continues to invest into the further development and expansion of its iPSC platform. To this end, the Company entered into a collaboration with Censo Biotechnologies Ltd. at the end of the second quarter 2017 to source additional patient-derived induced pluripotent stem cell lines to support Evotec's broad iPSC platform.

BRIDGE model gaining momentum

Evotec's BRIDGE model has been set up to cover the funding gap between early drug discovery in Academia and large Pharma companies. LAB**282**, Evotec's strategic academic BRIDGE with Oxford University which was launched at the end of 2016, has already made two rounds of awards in 2017 to support promising life sciences ideas emerging from the University. The awards are used to validate and translate highly promising approaches into industry-standard drug discovery projects. The significant interest in LAB**282** by Oxford University principal investigators indicates this is a highly innovative partnership and novel framework to advance early-stage projects by bridging a more general funding gap.

Unique biobank approach through NURTuRE consortium in kidney diseases

Alongside its patient-centric approach to kidney disease, Evotec joined the NURTuRE consortium in June 2017. NURTuRE (**N**ational **U**nified **R**enal **T**ranslational **R**esearch **E**nterprise) is one of the largest registries worldwide and will initially focus on chronic kidney disease and nephrotic syndrome. This alliance provides Evotec with access to patient samples including kidney biopsies, blood, serum and urine for an in-depth histological and molecular analysis to identify and validate targets and biomarkers.

Grant from IFB Hamburg in immunotherapy/immuno-oncology

At the end of the first six months of 2017, Evotec was awarded a 'Programm für Innovation' grant for a period of two years from the Hamburgische Investitions- und Förderbank ("IFB Hamburg"), the central development institution of the Free and Hanseatic city of Hamburg, to identify and develop therapeutic antibodies directed against novel immune-checkpoints on T-cells to improve future cancer treatments. This financial support enables both Evotec and the University Medical Center Hamburg-Eppendorf to transfer and strengthen important know-how in developing an innovative antibody-based cancer therapy.

CORPORATE

New long-term investor: Novo Holdings A/S

On 09 February 2017, Evotec announced that it resolved on a capital increase from its authorised capital against cash. In this private placement capital increase, Novo Holdings A/S (previously: Novo A/S) invested € 90.3 m to subscribe 13,146,019 Evotec shares at a price of € 6.87 per share. The placement was made at a zero discount to the XETRA closing auction price of the Evotec stock on 09 February 2017. Novo Holdings A/S's investment allows Evotec to accelerate its strategy to expand and invest in its best-in-class platform and outsourcing services and to build and invest in promising Cure *X* and Target *X* initiatives together with top academic partners and biotech.

Continued strategic investment activities

As part of Evotec's EVT Innovate strategy, Evotec continued to participate in strategic investments in the first six months of 2017 with the aim of developing assets to next value inflection points. Evotec further expanded its relationship with Forge Therapeutics ("Forge") by participating in Forge's latest funding round (Series A). Furthermore, Evotec signed an agreement for a strategic investment as part of Facio Therapies' 2017 funding round together with Australian, European and North American members of the Facioscapulohumeral dystrophy community (Total volume: € 4.8 m), which became effective in Q3 2017. Through this type of strategic investments, Evotec demonstrates its willingness to accelerate innovation also by taking equity stakes in companies to ideally balance risks and rewards.

A. OPERATIONS

Changes in Group structure, corporate strategy and objectives, product offering and business activities

The Company continues to be managed in line with the corporate objectives and strategy described in Evotec's Annual Report 2016 on pages 27 and 28.

B. REPORT ON THE FINANCIAL SITUATION AND RESULTS

Note: The 2016 and 2017 results are not fully comparable. The difference stems from the acquisition of Cyprotex PLC ("Cyprotex"), effective 14 December 2016. The results from Cyprotex are only included from 14 December 2016 onwards. The accounting policies used to prepare this half-year report are the same as those used to prepare the audited consolidated financial statements for the year ended 31 December 2016.

1. Results of operations

Evotec's **Group revenues** for the first half of 2017 grew to € 103.4 m, a significant increase of 37% compared to the same period of the previous year (H1 2016: € 75.5 m). This increase is due to a strong performance in the base business, the Cyprotex contribution (€ 12.3 m) as well as increased milestone achievements. The total revenues from milestones, upfronts and licences for the first half of 2017 amounted to € 13.3 m and increased by 93% over the same period of the previous year (H1 2016: € 6.9 m).

Geographically, 60% of Evotec's revenues were generated with European customers, 38% with customers in the USA and 2% with customers in the rest of the world. This compares to 57%, 42% and 1%, respectively, in the same period of the previous year.

Costs of revenue for the first half of 2017 amounted to € 66.4 m (H1 2016: € 49.5 m) and included the amortisation of the Cyprotex customer list (€ 1.3 m) until 30 June 2017 due to the finalisation of the purchase price allocation of Cyprotex in Q2 2017, yielding a gross margin of 35.8% which improved over the first half of 2016 (H1 2016: 34.5%). The margin increase over 2016 is mainly attributable to higher milestone achievements. As has previously been stated, gross margins in the future may be volatile due to the dependency of the financial results on the receipt of potential milestone or out-licensing payments.

R&D expenses for the first half of 2017 slightly decreased by 5% to € 8.5 m (H1 2016: € 9.0m) mainly due to the reallocation of projects to the Celgene collaboration portfolio, which is recognised in costs of revenue.

SG&A expenses for the first half of 2017 increased by 34% to € 15.8 m (H1 2016: € 11.8 m). SG&A expenses in the first six months of 2017 were mainly impacted by six months expenses of Cyprotex including move costs and integration. In addition, Evotec increased its headcount also in business development and administrative functions in response to the strong Company growth. Furthermore, the Company continued the further development of a professional feedback culture by providing trainings to its employees worldwide. The costs were recorded as expenses of the Human Resources department.

Other operating income and expenses, net in the first six months of 2017 amounted to € 5.6 m (H1 2016: € 4.6 m) and resulted from higher research and development tax credits in the UK and France in the amount of € 5.6 m (H1 2016: € 4.3 m), which are recorded as other operating income.

Consequently, Evotec's **operating income** for the first half of 2017 amounted to € 18.2 m (H1 2016: € 8.4 m).

The **total non-operating result** in the first half of 2017 was negatively impacted by a foreign currency exchange loss of € 3.7 m, net, mainly due to the strengthening of the Euro against the Pound Sterling and the US dollar. Evotec's share in the net result of Topas Therapeutics and Eternygen is included in the position "Share of the loss of associates accounted for using the equity method".

Adjusted Group EBITDA in the first six months of 2017 significantly increased by 64% to € 26.0 m (H1 2016: € 15.8 m).

The **net result** in the first half of 2017 amounted to € 10.1 m (H1 2016: € 2.7 m).

Earnings per share for the first half of 2017 were € 0.07 (H1 2016: € 0.02).

2. Operating segments EVT Execute and EVT Innovate

Revenues from the EVT Execute segment amounted to € 100.4 m in the first half of 2017, an increase of 26% compared to the same period of the previous year (H1 2016: € 79.8 m). This increase is primarily attributable to a strong growth of the base business and the Cyprotex contribution for the first six months of 2017. Included in this amount are € 18.1 m of intersegment revenues (H1 2016: € 16.2 m). The EVT Innovate segment generated revenues in the amount of € 21.1 m consisting entirely of third-party revenues (H1 2016: € 11.8 m). The increase in EVT Innovate revenues primarily resulted from milestone achievements in the first half of 2017 and the new Celgene collaboration.

The EVT Execute segment recorded costs of revenue of € 70.9 m in the first six months of 2017 (H1 2016: € 56.8 m), resulting in a gross margin of 29.4%, which slightly improved compared to 2016 (28.8%). The EVT Innovate segment reported costs of revenue of € 11.4 m (H1 2016: € 5.9 m), resulting in a gross margin of 46.1% compared to 50.0% in the prior-year period.

R&D expenses for the EVT Innovate segment slightly decreased from € 11.9 m in the first six months of 2016 to € 10.4 m in the first six months of 2017. This decrease is primarily due to the reallocation of projects to the Celgene collaboration portfolio, which is recognised in costs of revenue.

In the first six months of 2017, the adjusted EBITDA of the EVT Execute segment was strong at € 28.4 m and significantly improved compared to the same period of the previous year (H1 2016: € 22.5 m) mainly due to the strong growth in revenues at higher gross margin. The EVT Innovate segment reported an adjusted EBITDA of € (2.4) m (H1 2016: € (6.6) m).

3. Financing and financial position

Cash provided by operating activities for the first half of 2017 amounted to € 2.5 m (H1 2016: cash used in operating activities of € 2.7 m). This increase compared to the same period of the previous year results from the higher net income in the first six months of 2017 which was partly offset by the increase in working capital resulting primarily from higher deferred revenues mainly due to the Celgene payment in 2016.

Cash used in investing activities for the first half of 2017 amounted to € 69.6 m compared to cash provided by investing activities of € 22.8 m in the same period of the previous year. In the first half of 2017, Evotec issued 13,146,019 new shares in a capital increase with Novo Holdings A/S. As a consequence, a portion of these proceeds were invested in longer maturities so that the purchase of current investments (€ 78.8 m) exceeded the proceeds from the sale of current investments (€ 20.7 m) in the first six months of 2017. The purchase of investments in associated companies and other long-term investments in the first six months of 2017 included Eternygen (€ 1.5 m), Forge (€ 2.8 m) and Panion (€ 0.4 m). Capital expenditures amounted to € 6.9 m (H1 2016: € 3.9 m). The higher investments in the first half of 2017 resulted from the expansion of existing sites (Princeton and Branford) as well as the UK site of Cyprotex, which was acquired in 2016 and moved into a new building in Alderley Park (Manchester area, UK) in Q1 2017.

Cash provided by financing activities for the first half of 2017 amounted to € 70.1 m (H1 2016: cash used in financing activities of € 4.0 m) and was mainly impacted by the proceeds from the capital increase in the amount of € 90.2 m, net, and the repayment of loans.

The exchange rate difference amounted to € 1.1 m compared to the prior-year period (H1 2016: € (2.6) m).

Liquidity, which includes cash and cash equivalents (€ 87.9 m) and investments (€ 99.1 m) amounted to € 187.0 m at the end of June 2017 (31 December 2016: € 126.3 m).

4. Assets, liabilities and stockholders' equity

Assets

Investments increased to € 99.1 m (31 December 2016: € 42.3 m) mainly due to the capital increase.

Higher other current financial assets of € 3.6 m (31 December 2016: € 1.6 m) are mainly attributable to higher accrued revenues and embedded derivatives.

Prepaid expenses and other current assets increased to € 8.9 m (31 December 2016: € 7.2 m) primarily due to prepayments made at the beginning of the year.

The increase in investments accounted for using the equity method and other long-term investments as of 30 June 2017 to € 5.9 m (31 December 2016: € 3.9m) is mainly attributable to the participation of Evotec in Forge's latest funding round (Series A).

The increase in intangible assets, excluding goodwill to € 30.0 m (31 December 2016: € 22.5 m) results from the finalisation of the Cyprotex purchase price allocation, which was only partly offset by amortisation and a lower US dollar FX rate. The updated purchase price allocation of Cyprotex and FX rates also impacted the goodwill, which decreased to € 83.7 m (31 December 2016: € 93.2 m).

Non-current tax receivables increased to € 9.1 m (31 December 2016: € 6.0 m) mainly due to higher R&D tax credits in France.

Changes in liquidity are explained above under "Financing and financial position".

The Company was not involved in any off-balance-sheet financing transactions.

Liabilities

The decrease in loan liabilities mainly results from the repayment of short-term loans, which were mainly related to interim-financing of the Cyprotex acquisition.

The decrease in current provisions to € 13.6 m (31 December 2016: € 15.5 m) mainly results from payments for annual bonuses in March 2017.

The decrease in other current liabilities to € 3.7 m (31 December 2016: € 6.0 m) was mainly due to VAT liabilities in France.

Non-current deferred revenues decreased to € 35.2 m (31 December 2016: € 41.1 m). This related primarily to the recognition of revenues in the first six months 2017 from the Bayer and Celgene collaborations.

Stockholders' equity

As of 30 June 2017, Evotec's capital structure changed compared to the end of 2016. In February 2017, the share capital was increased by 13,146,019 shares against cash contribution. In this private placement capital increase, Novo Holdings A/S invested € 90.3 m to subscribe shares of Evotec at a price of € 6.87 per share, representing a zero discount to the XETRA closing auction price of the Evotec stock on the day of the transaction, 09 February 2017. Due to the capital increase plus the exercise of stock options and share performance awards, there were in total 146,670,491 shares issued and outstanding with a nominal value of € 1.00 per share as of 30 June 2017. Included in this amount as of 30 June 2017 were 249,915 treasury shares.

Evotec's equity ratio as of 30 June 2017 therefore increased to 74.5% (31 December 2016: 60.9%).

More details are described in the notes to the unaudited interim condensed consolidated financial statements on page 19 of this half-year report.

5. Human Resources

Employees

At the end of June 2017, 1,316 people were employed within the Evotec Group (31 December 2016: 1,238 employees).

Stock-based compensation

In the first six months of 2017, no stock options were granted to Evotec employees and a total of 315,000 options were exercised. As of 30 June 2017, the total number of options available for future exercise amounted to 394,408 (approximately 0.3% of shares in issue).

In 2012 and 2015 the Company implemented a share performance plan. The Annual General Meeting 2017 approved the Share Performance Plan 2017, which replaces the Share Performance Plans 2012 and 2015. However, this does not affect subscription rights issued before 14 June 2017. During the first half of 2017, no share performance awards were granted to members of the Management Board and other key employees and through the exercise of share performance awards 157,733 shares were issued. As of 30 June 2017, the total number of share performance awards available for future exercise amounted to 3,970,544 (approximately 2.7% of shares in issue).

Options and share performance awards have been accounted for under IFRS 2 using the fair value at the grant date. In the first six months of 2017, no options and no share performance awards held by employees of the Company continued to be valid after termination of the relating employment.

Shareholdings of the Boards of Evotec AG

Number of shares

	01 Jan 17	*Additions*	*Sales*	*30 June 17*
Management Board				
Dr Werner Lanthaler	546,494	93,000	–	639,494
Enno Spillner	–	–	–	–
Dr Cord Dohrmann[1)]	46,218	–	–	46,218
Dr Mario Polywka	60,000	–	–	60,000

[1)] Dr Cord Dohrmann received his shares in Evotec through a transfer from an escrow account in accordance with the share purchase agreement in July 2010 in exchange for his share in DeveloGen

Number of stock options

	01 Jan 17	*Additions*	*Exercise*	*Expired options*	*30 June 17*
Management Board					
Dr Werner Lanthaler	840,000	–	250,000	78,186	511,814
Enno Spillner	–	–	–	–	–
Dr Cord Dohrmann	340,000	–	50,000	78,186	211,814
Dr Mario Polywka	78,186	–	–	78,186	–

Number of Share Performance Awards

	01 Jan 17	*Additions*	*Exercise*	*30 June 17*
Management Board				
Dr Werner Lanthaler	1,062,951	–	–	1,062,951
Enno Spillner	53,212	–	–	53,212
Dr Cord Dohrmann	423,721	–	20,000	403,721
Dr Mario Polywka	431,980	–	52,313	379,667

The Supervisory Board of Evotec AG does not hold any stock options or Share Performance Awards.

Pursuant to Article 19 of the European Market Abuse Regulation (EU-Marktmissbrauchverordnung), the above tables and information list the number of Company shares held and rights for such shares granted to each board member as of 30 June 2017 separately for each member of our Management.

C. RISKS AND OPPORTUNITIES MANAGEMENT

The risks and opportunities described in Evotec's Annual Report 2016 on pages 58 to 65 remain unchanged. At present, no risks have been identified that either individually or in combination could endanger the continued existence of Evotec AG.

D. SUBSEQUENT EVENTS

After period-end on 30 July 2017, Evotec announced a definitive agreement under which Evotec will acquire Aptuit, a partner research organisation for integrated outsourced drug discovery and development solutions for $ 300 m (approx. € 256 m; €/$ fx rate of 1.17) in cash. The acquisition will be accretive to Evotec's revenues, make a significant contribution to Evotec's EBITDA and is expected to close in Q3 2017.

E. GENERAL MARKET AND HEALTHCARE ENVIRONMENT

Global economic development

Overall, the global economy has been recovering from stagnant global trade, damped investments and increasing policy uncertainty in the first six months of 2017, which characterised 2016. Instead, more advanced economies benefit from improving labour markets, the recent decline in energy prices and still accommodative monetary policy conditions as well as tightened interest rates, indicating economic recovery. In Europe, the BREXIT is still a persistent theme. The exact outcomes of BREXIT negotiations remain uncertain and may also impact commercially relevant criteria such as currency movements.

Trends in the pharmaceutical and biotechnology sector

In the first half of 2017, there were no material changes to the overall trends in the pharmaceutical and biotechnology sector described in Evotec's Annual Report 2016 on page 39. Please see Evotec's Annual Report 2016 for further information.

F. FINANCIAL OUTLOOK

Guidance 2017 confirmed

All elements of the guidance 2017 provided in Evotec's Annual Report 2016 on page 67, which was published on 28 March 2017, are confirmed in this report. Please see the table below for further details.

	Guidance 2017	*Actual 2016*
Group revenues[1)]	More than 15% growth	€ 164.5 m
Adjusted Group EBITDA[2)]	Improve significantly compared to 2016	€ 36.2 m
R&D expenses	Approx. € 20 m	€ 18.1 m

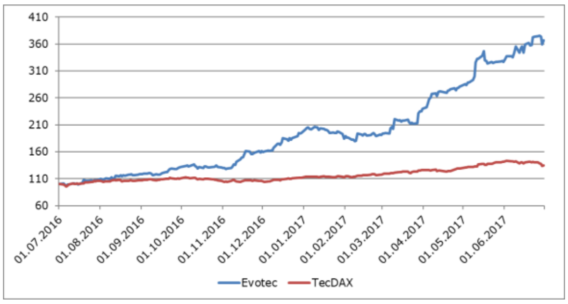
[1)] Revenue guidance from 2017 onwards will be based on total Group revenues and not on base revenues (excluding milestones, upfronts and licences)
[2)] Before contingent considerations, income from bargain purchase and excluding impairments on goodwill, other intangible and tangible assets as well as the total non-operating result

G. EVOTEC SHARE

Performance of the Evotec share over the past twelve months

The DAX index closed the first half of 2017 up 8% at 12,325 points, mainly due to the continuing recovery of the German and the European economy, which are showing stable growth. Evotec's share price ended the first half of 2017 at € 13.99 after reaching a 16-year-high at € 14.53 on 26 June 2017. This represents an increase of 88% compared to its opening price for 2017 (€ 7.46).

The main benchmark index for the Evotec share, the TecDAX, gained about 21% in the first six months of 2017.



II. UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Evotec AG and Subsidiaries

Consolidated interim statement of financial position as of 30 June 2017

in T€ except share data	*footnote reference*	*as of 30 June 2017*	*as of 31 December 2016*
ASSETS			
Current assets:			
— Cash and cash equivalents		87,999	83,940
— Investments	7	99,050	42,330
— Trade accounts receivables		26,279	27,448
— Accounts receivables from related parties		1,677	852
— Inventories		4,436	4,305
— Current tax receivables		1,329	1,528
— Other current financial assets		3,554	1,592
— Prepaid expenses and other current assets	8	8,907	7,240
Total current assets		**233,231**	**169,235**
Non-current assets:			
— Investments accounted for using the equity method and other long-term investments	9	5,882	3,885
— Property, plant and equipment		43,924	43,421
— Intangible assets, excluding goodwill	10	29,985	22,454
— Goodwill	11	83,717	93,227
— Deferred tax asset		11,848	10,592
— Non-current tax receivables		9,110	5,967
— Other non-current financial assets		83	83
— Other non-current assets	12	3,702	2,502
Total non-current assets		**188,251**	**182,131**
Total assets		**421,482**	**351,366**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
— Current loan liabilities	13	1,285	21,413
— Current portion of finance lease obligations		116	190
— Trade accounts payable		12,360	11,997
— Advanced payments received		214	552
— Provisions	14	13,569	15,539
— Deferred revenues		14,586	15,355
— Current income tax payables		855	802
— Other current financial liabilities		172	1,503
— Other current liabilities	15	3,703	6,039
Total current liabilities		**46,860**	**73,390**
Non-current liabilities:			
— Non-current loan liabilities		6,530	7,194
— Long-term finance lease obligations		–	30
— Deferred tax liabilities		2,694	1,115
— Provisions		15,249	14,801
— Deferred revenues	16	35,243	41,129
— Other non-current financial liabilities		694	771
Total non-current liabilities		**60,410**	**64,040**
Stockholders' equity:			
— Share capital		146,670	133,052
— Additional paid-in capital		776,704	698,069
— Accumulated other comprehensive income		(27,595)	(25,152)
— Accumulated deficit		(582,577)	(592,934)
Equity attributable to shareholders of Evotec AG		**313,202**	**213,035**
Non-controlling interest		1,010	901
Total stockholders' equity		**314,212**	**213,936**
Total liabilities and stockholders' equity		**421,482**	**351,366**

Evotec AG and Subsidiaries

Consolidated interim income statement for the period from 01 January to 30 June 2017

in T€ except share and per share data	***Six months ended 30 June 2017***	***Six months ended 30 June 2016***	***Three months ended 30 June 2017***	***Three months ended 30 June 2016***
Revenues	103,396	75,454	53,212	37,975
Costs of revenue	(66,383)	(49,450)	(34,981)	(24,442)
Gross profit	**37,013**	**26,004**	**18,231**	**13,533**
Operating income and (expenses)				
— Research and development expenses	(8,542)	(9,033)	(3,891)	(4,647)
— Selling, general and administrative expenses	(15,790)	(11,757)	(8,476)	(6,390)
— Impairment of intangible assets	–	(1,417)	–	–
— Other operating income	12,529	11,095	5,823	6,692
— Other operating expenses	(6,976)	(6,503)	(3,163)	(3,543)
Total operating expenses	**(18,779)**	**(17,615)**	**(9,707)**	**(7,888)**
Operating income	**18,234**	**8,389**	**8,524**	**5,645**
Other non-operating income (expense)				
— Interest income	566	497	313	270
— Interest expense	(375)	(864)	(136)	(430)
— Share of the loss of associates accounted for using the equity method	(614)	(248)	(381)	(195)
— Other income from financial assets	50	287	50	287
— Other expense from financial assets	(374)	(157)	(172)	(156)
— Foreign currency exchange gain (loss), net	(3,709)	(623)	(3,326)	1,451
— Other non-operating income	19	6	2	6
Total non-operating income (expense)	**(4,437)**	**(1,102)**	**(3,650)**	**1,233**
Income before taxes	**13,797**	**7,287**	**4,874**	**6,878**
— Current tax expense	(3,738)	(4,419)	(1,594)	(2,911)
— Deferred tax income (expense)	59	(147)	(46)	(74)
Total taxes	**(3,679)**	**(4,566)**	**(1,640)**	**(2,985)**
Net income	**10,118**	**2,721**	**3,234**	**3,893**
thereof attributable to:				
Shareholders of Evotec AG	10,357	3,306	3,296	4,067
Non-controlling interest	(239)	(585)	(62)	(174)
Weighted average shares outstanding	**143,068,464**	**132,380,544**	**146,382,976**	**132,426,779**
Net income (loss) per share (basic)	**0.07**	**0.02**	**0.02**	**0.03**
Net income (loss) per share (diluted)	**0.07**	**0.02**	**0.02**	**0.03**

Evotec AG and Subsidiaries

Consolidated interim statement of comprehensive income for the period from 01 January to 30 June 2017

in T€	*Six months ended 30 June 2017*	*Six months ended 30 June 2016*	*Three months ended 30 June 2017*	*Three months ended 30 June 2016*
Net income	**10,118**	**2,721**	**3,234**	**3,893**
Accumulated other comprehensive income				
Items which have to be re-classified to the income statement at a later date				
— Foreign currency translation	(4,528)	(5,461)	(4,482)	(1,540)
— Revaluation and disposal of available-for-sale securities	2,085	(158)	1,382	(211)
Other comprehensive income	**(2,443)**	**(5,619)**	**(3,100)**	**(1,751)**
Total comprehensive income	**7,675**	**(2,898)**	**134**	**2,142**
Total comprehensive income (loss) attributable to:				
— Shareholders of Evotec AG	7,914	(2,313)	196	2,316
— Non-controlling interest	(239)	(585)	(62)	(174)

Evotec AG and Subsidiaries

Condensed consolidated interim statement of cash flows for the six months ended 30 June 2017

in T€	***Six months ended 30 June 2017***	***Six months ended 30 June 2016***
Cash flows from operating activities:		
— Net income	10,118	2,721
— Adjustments to reconcile net income to net cash provided by operating activities	10,308	10,272
— Change in assets and liabilities	(17,910)	(15,721)
Net cash provided by (used in) operating activities	**2,516**	**(2,728)**
Cash flows from investing activities:		
— Purchase of current investments	(78,801)	(15,237)
— Purchase of investments in associated companies and other long-term investments	(4,644)	(2,000)
— Purchase of property, plant and equipment	(6,941)	(3,918)
— Proceeds from sale of property, plant and equipment	65	–
— Proceeds from sale of current investments	20,714	43,929
Net cash provided by (used in) investing activities	**(69,607)**	**22,774**
Cash flows from financing activities:		
— Proceeds from capital increase	90,248	–
— Proceeds from option exercise	880	478
— Proceeds from issuance of loans	–	5,000
— Repayment finance lease obligation	(100)	–
— Repayment of loan notes	(203)	–
— Repayment of loans	(20,758)	(9,500)
Net cash provided by (used in) financing activities	**70,067**	**(4,022)**
Net increase in cash and cash equivalents	**2,976**	**16,024**
— Exchange rate difference	1,083	(2,609)
— Cash and cash equivalents at beginning of year	83,940	44,497
Cash and cash equivalents at end of the period	**87,999**	**57,912**

Evotec AG and Subsidiaries

Interim consolidated statement of changes in stockholders' equity of the six months ended 30 June 2017

	Share capital			*Income and expense recognised in other comprehensive income*					
in T€ except share data	*Shares*	*Amount*	*Additional paid-in capital*	*Foreign currency translation*	*Re-valuation reserve*	*Accu-mulated deficit*	*Stockholders equity attributable to the Share-holders of Evotec AG*	*Non-con-trolling interest*	*Total stock-holders' equity*
Balance at 01 January 2016	**132,584,082**	**132,584**	**693,740**	**(25,250)**	**6,740**	**(622,312)**	**185,502**	**1,592**	**187,094**
— Exercised stock options	214,464	214	263	–	–	–	477	–	477
— Stock option plan	–	–	1,792	–	–	–	1,792	–	1,792
Total comprehensive income (loss)				**(5,461)**	**(158)**	**3,306**	**(2,313)**	**(585)**	**(2,898)**
Balance at 30 June 2016	**132,798,546**	**132,798**	**695,795**	**(30,711)**	**6,582**	**(619,006)**	**185,458**	**1,007**	**186,465**
Balance at 01 January 2017	**133,051,739**	**133,052**	**698,069**	**(31,562)**	**6,410**	**(592,934)**	**213,035**	**901**	**213,936**
— Capital increase	13,146,019	13,146	77,102	–	–	–	90,248	–	90,248
— Exercised stock options	472,733	472	407	–	–	–	879	–	879
— Stock option plan	–	–	1,126	–	–	–	1,126	–	1,126
— Capital increase of a subsidiary with non-controlling interest			–	–	–	–	–	348	348
Total comprehensive income (loss)				**(4,528)**	**2,085**	**10,357**	**7,914**	**(239)**	**7,675**
Balance at 30 June 2017	**146,670,491**	**146,670**	**776,704**	**(36,090)**	**8,495**	**(582,577)**	**313,202**	**1,010**	**314,212**

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of presentation

The accompanying unaudited interim condensed consolidated financial statements of Evotec have been prepared in accordance with IAS 34 on interim reporting in conjunction with International Financial Reporting Standards (IFRS) and their interpretations as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union (EU). The interim consolidated financial statements have been prepared on cost basis, except for derivative financial instruments as well as available-for-sale financial instruments, which are measured at fair value. 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 2016. Income tax income and expense is recognised in interim periods based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

The interim consolidated financial statements do not include all of the information and footnotes required under IFRS for complete financial statements according to IAS 1. As a result, these interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended 31 December 2016. In the opinion of the management, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation have been included.

2. Principles of consolidation

Effective 14 December 2016, Evotec acquired 100% of the shares in Cyprotex PLC, Manchester, UK. This acquisition has been fully consolidated since that date.

Due to this acquisition, the interim condensed consolidated financial statements for the first six months of 2016 and 2017 are not fully comparable.

3. Use of estimates

In the interim condensed consolidated financial statements for the six months ended 30 June 2017, the Company has used the same estimation processes as those used to prepare the audited consolidated financial statements for the year ended 31 December 2016.

4. Recent pronouncements, not yet adopted

For information about the recent pronouncements other than IFRS 15 please refer to the consolidated financial statements for the year 2016.

IFRS 15: Evotec is going to apply this standard retrospectively in the financial year 2018 hence the comparison period will be presented according to IFRS 15. Changes in the total amount of revenue generated by a customer contract are currently expected to be minimal. Evotec has made the following analyses for the specific respective sort of revenue:

- Revenue for delivered goods and deliverable kind of services: Under IFRS 15, a part of the revenues for delivered goods and deliverable kind of services will be realisable in earlier periods. Depending on the status of project relating to delivered goods and deliverable kind of services at each balance sheet date, the impact on revenues will vary. Evotec is currently assessing the impact on revenues in the consolidated financial statements 2017 to be in the range of less than € 0.5 m.
- Milestone fees: There will be no impact on the realisation of milestones, as a change in accounting policies (realisation on target achievement and confirmation of the contract partner) has a high risk of correction of revenues and is therefore not realisable according to IFRS 15.
- Discounts: Very rarely arrangements are made regarding future discounts. Evotec is going to amend the accounting policies but is not expecting any material impact on revenues in the consolidated financial statements 2017.

- Further, Evotec is expecting changes in the balance sheet and additional disclosures in the notes to the consolidated financial statements.

5. Segment information

EVT Execute and EVT Innovate have been identified by the Management Board as operating segments. The segments' key performance indicators are used monthly by the Management Board to evaluate the resource allocation as well as Evotec's performance.

Intersegment revenues are valued with a price comparable to other third-party revenues. The evaluation of each operating segment by the management is performed on the basis of revenues and adjusted EBITDA. The adjusted EBITDA is calculated without non-operating income (expense). For the EVT Innovate segment, R&D expenses are another key performance indicator.

The segment information for the first six months of 2017 is as follows:

in T€	*EVT Execute*	*EVT Innovate*	*Intersegment eliminations*	*Evotec Group*
External revenues	82,317	21,079	–	103,396
Intersegment revenues	18,042	–	(18,042)	–
Costs of revenue	(70,899)	(11,358)	15,874	(66,383)
Gross profit	**29,460**	**9,721**	**(2,168)**	**37,013**
Operating income and (expenses)				
— Research and development expenses	(342)	(10,368)	2,168	(8,542)
— Selling, general and administrative expenses	(12,365)	(3,425)	–	(15,790)
— Other operating income	9,543	2,986	–	12,529
— Other operating expenses	(5,123)	(1,853)	–	(6,976)
Total operating income (expenses)	**(8,287)**	**(12,660)**	**2,168**	**(18,779)**
Operating income (loss)	**21,173**	**(2,939)**	**–**	**18,243**
— Interest result				191
— Share of the loss of associates accounted for using the equity method				(614)
— Other income (expense) from financial assets, net				(324)
— Foreign currency exchange gain (loss), net				(3,709)
— Other non-operating income				19
Income before taxes				**13,797**
Adjusted EBITDA	**28,413**	**(2,403)**	**–**	**26,010**

The EBITDA adjusted for the first six months 2017 is derived from operating income (expense) as follows:

in T€	*EVT Execute*	*EVT Innovate*	*Intersegment eliminations*	*Evotec Group*
Operating income (expense)	**21,173**	**(2,939)**	–	**18,234**
plus depreciation of tangible assets	5,452	348	–	5,800
plus amortisation of intangible assets	1,788	188	–	1,976
Adjusted EBITDA	**28,413**	**(2,403)**	–	**26,010**

The segment information for the first six months of 2016 is as follows:

in T€	***EVT Execute***	***EVT Innovate***	***Intersegment eliminations***	***Evotec Group***
External revenues	63,623	11,831	–	75,454
Intersegment revenues	16,189	–	(16,189)	–
Costs of revenue	(56,795)	(5,910)	13,255	(49,450)
Gross profit	**23,017**	**5,921**	**(2,934)**	**26,004**
Operating income and (expenses)				
— Research and development expenses	(46)	(11,921)	2,934	(9,033)
— Selling, general and administrative expenses	(9,345)	(2,412)	–	(11,757)
— Impairment of intangible assets	–	(1,417)	–	(1,417)
— Other operating income	8,924	2,171	–	11,095
— Other operating expenses	(5,668)	(835)	–	(6,503)
Total operating income (expenses)	**(6,135)**	**(14,414)**	**2,934**	**(17,615)**
Operating income (loss)	**16,882**	**(8,493)**	**–**	**8,389**
— Interest result				(367)
— Share of the loss of associates accounted for using the equity method				(248)
— Other income from financial assets				287
— Other expense from financial assets				(157)
— Foreign currency exchange gain (loss), net				(623)
— Other non-operating income				6
Income before taxes				**7,287**
Adjusted EBITDA	**22,473**	**(6,640)**	**–**	**15,833**

The EBITDA adjusted for the first six months of 2016 is derived from operating income (expense) as follows:

in T€	***EVT Execute***	***EVT Innovate***	***Intersegment eliminations***	***Evotec Group***
Operating income (expense)	**16,882**	**(8,493)**	–	**8,389**
plus depreciation of tangible assets	4,581	292	–	4,873
plus amortisation of intangible assets	1,010	144	–	1,154
plus impairment of intangible assets	–	1,417	–	1,417
Adjusted EBITDA	**22,473**	**(6,640)**	–	**15,833**

6. Acquisitions

Evotec acquired 100% of the shares in Cyprotex PLC, Manchester, UK, effective 14 December 2016. The purchase price amounted to T€ 49,670 in cash. This acquisition strengthened Evotec's drug discovery platform.

The initial accounting for the acquisition of Cyprotex was finalised in the second quarter 2017 according to IFRS 3. As a result, a customer list has been recorded with a fair value on the date of the acquisition in the amount of T€ 11,433 which was estimated based on net present value modelling. Related deferred tax liabilities of T€ 2,822 were recorded as well. Additionally, fair values of individual acquired assets and liabilities in the closing balance sheet were adjusted. The final goodwill resulting from the acquisition amounts to T€ 47,481. The goodwill and the customer list was allocated to the EVT Execute segment.

The breakdown of the fair value of Cyprotex at the date of the acquisition is shown in the table below:

in T€	***13 December 2016 Fair value***
Cash and cash equivalents	9,085
Trade accounts receivables	3,320
Inventories	1,100
Prepaid expenses and other current assets	4,102
Property, plant and equipment	5,717
Customer list	11,433
Deferred tax asset	538
Trade accounts payable	(1,513)
Provisions	(1,698)
Other current liabilities	(910)
Finance lease obligation	(237)
Loan notes	(25,890)
Deferred tax liabilities	(2,858)
Net assets acquired	**2,189**
Goodwill	47,481
Cost of acquisition	**49,670**
Less cash and cash equivalents acquired	(9,085)
Cash outflow from acquisition	**40,585**

7. Investments

The investments as of 30 June 2017 increased compared to 31 December 2016 primarily due to the cash provided by the capital increase from Novo Holdings A/S (previously Novo A/S).

8. Prepaid expenses and other current assets

Prepaid expenses and other current assets as of 30 June 2017 increased compared to 31 December 2016 primarily due to prepaid expenses relating to the collaboration with Harvard in the amount of T€ 1,626 (2016: T€ 0).

9. Investments accounted for using the equity method and other long-term investments

The increase in the investments accounted for using the equity method and other long-term investments derive from the long-term investment in Forge Therapeutics in the amount of T€ 2,629.

10. Intangible assets, excluding goodwill

In the first quarter of 2017, developed technologies resulting from the acquisition of Panion Ltd., London, UK, did not show promising data in a pre-clinical study in pain. Evotec reviewed the relating developed technologies in a different indication for impairment and concluded that no impairment had to be recorded. Furthermore, developed technologies resulting from the acquisition of Evotec International GmbH showed a timely delay in the project. Evotec reviewed the relating developed technologies for impairment and concluded that no impairment had to be recorded.

11. Goodwill

In the second quarter of 2017, a decision was taken to close the Kalamazoo (ex-Cyprotex) site in the USA. This decision did not result in an impairment of the goodwill OAI/Evotec International Execute.

The goodwill OAI/Evotec International Execute was reduced compared to 31 December 2017 as a result of the finalization of the initial accounting for the acquisition of Cyprotex PLC in the second quarter 2017 (see note 6 of this report).

12. Other non-current assets

Other non-current assets as of 30 June 2017 consist of payments to Haplogen GmbH.

13. Current loan liabilities

The decrease in current loan liabilities as of 30 June 2017 in comparison with 31 December 2016 mainly relates to the repayment of short-term loans relating to the financing of the acquisition of Cyprotex in the amount of T€ 20,115.

14. Current provisions

The decrease in provisions as of 30 June 2017 in comparison with 31 December 2016 primarily relates to the payment of the yearly bonuses paid in March 2017.

15. Other current liabilities

Other current liabilities decreased as of 30 June 2017 in comparison with 31 December 2016 primarily due to social security liabilities included at 31 December 2016 relating to the employees in Cyprotex in the amount of T€ 1,609.

16. Non-current deferred revenues

The decrease in non-current deferred revenues primarily relates to revenues recognised in the first six months of 2017 from the upfront payments received from Celgene.

17. Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet as of 30 June 2017 and 31 December 2016, are as follows:

	30 June 2017		*31 December 2016*	
in T€	*Carrying amount*	*Fair value*	*Carrying amount*	*Fair value*
Cash and cash equivalents	**87,999**	**87,999**	**83,940**	**83,940**
Available-for-sale financial assets				
— Investments	99,050	99,050	42,330	42,330
Total available-for-sale-financial assets	**99,050**	**99,050**	**42,330**	**42,330**
Financial assets measured at fair value				
— Derivate financial instruments	617	617	–	–
— Other non-current financial assets	83	83	83	83
Total financial assets measured at fair value	**700**	**700**	**83**	**83**
Loans and receivables				
— Trade accounts receivables	26,279	26,279	27,448	27,448
— Other current financial assets	3,554	3,554	1,592	1,592
Total loans and receivables	**29,833**	**29,833**	**29,040**	**29,040**
Financial liabilities measured at amortised cost				
— Current loan liabilities	(1,285)	(1,285)	(21,413)	(21,413)
— Non-current loan liabilities	(6,530)	(6,527)	(7,194)	(7,194)
— Current portion of finance lease obligations	(116)	(116)	(190)	(190)
— Long-term finance lease obligations	–	–	(30)	(30)
— Trade accounts payable	(12,360)	(12,360)	(11,997)	(11,997)
— Other current financial liabilities	(172)	(172)	(1,503)	(1,503)
Total financial liabilities measured at amortised cost	**(20,463)**	**(20,460)**	**(42,327)**	**(42,327)**
Financial liabilities measured at fair value				
— Contingent consideration	(3,894)	(3,894)	(3,705)	(3,705)
Total financial liabilities measured at fair value	**(3,894)**	**(3,894)**	**(3,705)**	**(3,705)**
	193,225	**193,228**	**109,361**	**109,336**
Unrecognised (gain)/loss		**(3)**		**25**

The following tables allocate financial assets and financial liabilities as of 30 June 2017 and 31 December 2016, respectively to the three levels of the fair value hierarchy as defined in IFRS 13:

	30 June 2017			
in T€	*Level 1*	*Level 2*	*Level 3*	*Total*
Available-for-sale financial assets	99,050	–	–	99,050
Financial assets measured at fair value	–	700	–	700
Financial liabilities measured at fair value	–	–	(3,894)	(3,894)

	31 December 2016			
in T€	*Level 1*	*Level 2*	*Level 3*	*Total*
Available-for-sale financial assets	42,330	–	–	42,330
Financial assets measured at fair value	–	83	–	83
Financial liabilities measured at fair value	–	–	(3,705)	(3,705)

The following tables show the movement of the fair values at level 3 for the six months period ending 30 June 2017 and the financial year 2016, respectively:

in T€	*January to June 2017 Contingent consideration*
Balance at 01 January 2017	3,705
Exchange rate differences	–
Consumption	–
Included in other operating income	
— Changes in fair value, unrealised	–
Included in interest expense	
— Interest change in net present value, unrealised	189
Balance at 30 June 2017	**3,894**

in T€	*January to December 2016 Contingent consideration*
As of 01 January 2016	15,872
Exchange rate difference	(161)
Consumption	(764)
Included in other operating income	
— Changes in fair value, unrealised	(12,413)
Included in interest expense	
— Interest change in net present value, unrealised	1,171
As of 31 December 2016	**3,705**

The levels of the fair value hierarchy and its application to Evotec's financial assets and financial liabilities are described below:

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data.

18. Related party transactions

Except for the transactions described in Evotec's Annual Report 2016 on page 114, no other material transactions with related parties were entered into in the first six months of 2017.

19. Subsequent events

For further information on subsequent events refer to page 9 of this report.

Financial calendar 2017

28 March 2017	Annual Report 2016
10 May 2017	Quarterly Statement Q1 2017
14 June 2017	Annual General Meeting 2017
10 August 2017	Half-year 2017 Interim Report
08 November 2017	Quarterly Statement 9M 2017

FORWARD-LOOKING STATEMENTS

Information set forth in this report contains forward looking statements, which involve a number of risks and *uncertainties. The forward-looking statements contained herein represent the judgement of Evotec as of the date of this report. Such forward-looking statements are neither promises nor guarantees, but are subject to a variety of risks and uncertainties, many of which are beyond our control, and which could cause actual results to differ materially from those contemplated in these forward-looking statements. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any such statements to reflect any change in our expectations or any change in events, conditions or circumstances on which any such statement is based.*