

**Translation of
Financial Statements of**

**Evotec AG
Hamburg**

31. December 2006

Evotec AG, Hamburg

Balance Sheet as of December 31, 2006

Assets

	31.12.2006		31.12.2005	
	EUR	EUR	EUR	EUR
A. Outstanding contributions		0,00		25.977,05
B. Fixed Assets				
I. Intangible Assets		65.836,66		88.368,76
II. Property, plant and equipment				
1. Land, land rights and buildings including buildings on third party land	953.858,01		1.112.547,69	
2. Technical equipment and machines	2.812.780,51		3.766.225,79	
3. Other equipment, factory and office equipment	581.707,79		635.411,82	
4. Payments in advance	2.500,00	4.350.846,31	43.792,18	5.557.977,48
III. Financial Assets				
1. Shares in affiliated companies	66.439.053,17		65.744.053,17	
2. Participations	32.500,00		32.500,00	
3. Other financial assets	55.937,00	66.527.490,17	53.812,00	65.830.365,17
		70.944.173,14		71.476.711,41
C. Current Assets				
I. Inventories				
1. Raw materials and supplies	1.803.774,65		2.036.346,61	
2. Work in process	341.453,82	2.145.228,47	119.808,00	2.156.154,61
II. Receivables and other assets				
1. Trade accounts receivable	882.688,87		1.013.624,90	
--thereof due within one year EUR 882,688.87 (2005: EUR 1,013,624.90)--				
2. Accounts receivable due from affiliated companies	20.927.827,70		14.671.284,89	
--thereof trade accounts receivables EUR 1,479,472.73 (2005: EUR 811,438.95)-- --thereof due after one year EUR 0.00 (2005: EUR 0.00)--				
3. Accounts receivable from enterprises with which participations are held	11.361,91		11.361,91	
4. Other assets	3.158.310,25		265.062,34	
--thereof due after one year EUR 1,985,151.98 (2005: EUR 5,151.98)--		24.980.188,73		15.961.334,04
III. Investments				
Treasury shares		63.993,24		0,00
IV. Cash and cash equivalents		56.015.661,71		19.571.340,06
		83.205.072,15		37.688.828,71
D. Prepaid expenses		127.801,74		215.078,66
		154.277.047,03		109.406.595,83

Shareholder's equity and liabilities

	31.12.2006	31.12.2005
	EUR	EUR
A. Stockholder's equity		
I. Share capital	68.078.819,00	62.759.424,00
--conditional Capital EUR 5,122,996.00 (2005: EUR 5,228,699.00)--		
II. Additional paid-in capital	128.619.837,16	115.236.924,44
III. Reserve for treasury shares	63.993,24	0,00
IV. Net loss carried forward	-83.234.628,55	-70.145.464,80
V. Net income (2005: loss) for the year	2.044.559,58	-13.089.163,75
	115.572.580,43	94.761.719,89
B. Accrued liabilities		
1. Pension accrual	64.362,00	61.247,00
2. Other accrued expenses	3.663.804,10	2.271.200,00
	3.728.166,10	2.332.447,00
C. Liabilities		
1. Bank loans	1.277.107,79	4.361.537,59
--thereof due within one year EUR 1,277,107.79 (2005: EUR 3,084,429.80)-- --thereof due from one to five years EUR 0.00 (2005: EUR 1,277,107.79)--		
2. Advances received	413.318,02	298.811,56
--thereof due within one year EUR 413,318.02 (2005: EUR 298,811.56)--		
3. Trade accounts payable	888.588,32	521.620,32
--thereof due within one year EUR 888,588.32 (2005: EUR 521,620.32)--		
4. Accounts payable due to affiliated companies	6.082.544,56	5.805.642,73
--thereof trade accounts payable EUR 862,244.18 (2005: EUR 578,177.75)-- --thereof due within one year EUR 862,244.18 (2005: EUR 605,642.73)-- --thereof due from one to five years EUR 5,220,300.38 (2005: EUR 5,200,000.00)--		
5. Other liabilities	25.497.629,64	411.618,03
--thereof due within one year EUR 23,517,629.64 (2005: EUR 411,618.03)-- --thereof due from one to five years EUR 1,980,000.00 (2005: EUR 0.00)-- --thereof taxes EUR 218,161.82 (2005: EUR 225,099.72)-- --thereof social security EUR 0.00 (2005: EUR 106,478.42)--		
	34.159.188,33	11.399.230,23
D. Deferred income	817.112,17	913.198,71
	154.277.047,03	109.406.595,83

Evotec AG, Hamburg

Income Statement for the period from January 1 to December 31, 2006

	2006		2005	
	EUR	EUR	EUR	EUR
1. Revenues		10.201.070,29		11.695.961,43
2. Increase (2005: Decrease) in inventories		221.645,82		-729.058,40
3. Other operating income		12.386.479,09		4.568.005,96
4. Cost of materials				
a) Raw materials and supplies	-1.927.234,53		-1.483.100,54	
b) Costs of services	-771.542,94	-2.698.777,47	-4.566.837,48	-6.049.938,02
5. Personnel costs				
a) Salary	-6.116.260,04		-6.029.435,67	
b) Social security expenditure	-805.364,82	-6.921.624,86	-869.556,64	-6.898.992,31
--thereof pension costs				
EUR 3,115.00 (2005: EUR 3,179.00)--				
6. Depreciation				
a) of intangible assets and fixed assets	-1.730.746,31		-2.007.912,04	
b) of current assets to the extent that they	-39.958,47		-6.202.444,82	
exceed provisions normally recorded by				
the company		-1.770.704,78		-8.210.356,86
7. Other operating expense		-10.792.043,00		-7.970.640,77
8. Income from investments		5.043,07		0,00
--thereof from subsidiaries				
EUR 0.00 (2005: EUR 0.00)--				
9. Other interest income		1.805.823,70		1.329.394,20
--thereof from subsidiaries				
EUR 982,157.30 (2005: EUR 1,080,355.17)--				
10. Amortisation of financial assets		-4.100,00		-323.670,00
11. Other interest expense		-385.472,25		-489.471,31
12. Operating result		2.047.339,61		-13.078.766,08
13. Other taxes		-2.780,03		-10.397,67
14. Net income (2005: loss) for the year		2.044.559,58		-13.089.163,75
15. Net loss carried forward		-83.234.628,55		-70.145.464,80
16. Accumulated deficit		-81.190.068,97		-83.234.628,55

Evotec AG, Hamburg

Notes to the Financial Statements 2006

I. General Information

Evotec AG, henceforth referred to as „Evotec” or „the company”, counts due to its capital market orientation as a large incorporated firm as laid down in section 267 paragraph 3 of the German Commercial Code HGB („Handelsgesetzbuch”).

With regard to financial reporting and valuation practices, the company complies with sections 242 et seq. HGB, with sections 264 et seq. HGB (which specifically apply to incorporated firms) as well as to the regulations of the German Stock Corporation Act AktG („Aktiengesetz”).

The statement of operations is presented in the total expenditure format (section 275 paragraph 2 HGB).

All amounts are shown in thousands of Euros unless otherwise stated.

From February 11, 2003, the company has been listed in the German Stock Exchange’s TecDAX index, having formerly been listed in the Neue Markt index from November 10, 1999 onwards.

II. Basis of Presentation, Accounting and Valuation Practices

The presentation system applied for the balance sheet and the income statement in the preceding financial year 2005 have been maintained.

Outstanding contributions presented in the 2005 balance sheet are recorded at nominal value.

Intangible assets and Property, plant and equipment are recorded at historical cost or manufacturing cost less scheduled straight-line depreciation or amortisation over their useful lives. Non-real-estate fixed assets are depreciated on a monthly basis. Low-value fixed assets are fully depreciated in the year of acquisition and are recorded as retirements in the fixed asset movement schedule.

Financial assets are recorded at maximum historical cost or, on the basis of information calculated by the insurer, in regard to the actuarial reserve plus surplus dues.

Inventories are recorded at historical cost or manufacturing cost less purchase price reductions, taking into account the principle of the lower of cost or market.

Current assets are recorded at nominal value or at lower attributable value.

Cash and cash equivalents are recorded at nominal value.

Accrued liabilities make allowance for all risks and contingent liabilities that are identifiable with sound business judgement. **Pension accruals and similar commitments** are recorded at current worth in accordance with tax law, taking into account Professor Dr. Klaus Heubeck's reference tables („Richttafeln G 2005") issued in 2005.

Liabilities are recorded at the amount repayable.

Foreign currency assets, all of which are short-term, are recorded on the basis of the period-end exchanges rates, taking into account the principle of the lower of cost or market.

III. Notes to the Balance Sheet

1. Fixed assets

The development of the fixed assets is specified in the fixed asset movement schedule (see page 4 and 5), and includes gross cost, historic cost and manufacturing cost of items.

Financial assets

As of the balance sheet date December 31, 2006, Evotec held direct equity investments in the following companies:

	per cent of the nominal share capital
Evotec (UK) Ltd, Abingdon, UK	100.00
Evotec Technologies GmbH, Duesseldorf	88.58
ENS Holdings Inc., Delaware, USA	100.00
DIREVO Biotech AG, Cologne	22.70
KeyNeurotek AG, Magdeburg	0.06

Fixed Assets Movement Schedule for the year 2006

	Acquisition and manufacturing costs				31.12.2006
	1.1.2006	Additions	Disposals	Releases	
	EUR	EUR	EUR	EUR	EUR
I. Intangible Assets	2.527.680,00	60.460,00	0,00	0,00	2.588.140,00
II. Property, plant and equipment					
1. Land, land rights and buildings including buildings on third party land	1.991.287,08	0,00	0,00	0,00	1.991.287,08
2. Technical equipment and machines	15.791.865,09	302.992,64	106.316,00	33.442,40	16.021.984,13
3. Other equipment, factory and office equipment	3.772.360,12	218.524,24	9.645,31	0,00	3.981.239,05
4. Payments in advance and plants under construction	43.792,18	0,00	7.849,78	-33.442,40	2.500,00
	21.599.304,47	521.516,88	123.811,09	0,00	21.997.010,26
III. Financial Assets					
1. Shares in affiliated companies	65.744.053,17	699.100,00	0,00	0,00	66.443.153,17
2. Participations	356.858,04	0,00	0,00	0,00	356.858,04
3. Other financial assets	53.812,00	2.125,00	0,00	0,00	55.937,00
	66.154.723,21	701.225,00	0,00	0,00	66.855.948,21
	90.281.707,68	1.283.201,88	123.811,09	0,00	91.441.098,47

Depreciations			Net book value		
1.1.2006	Additions	Disposals	31.12.2006	31.12.2006	31.12.2005
EUR	EUR	EUR	EUR	EUR	EUR
2.439.311,24	82.992,10	0,00	2.522.303,34	65.836,66	88.368,76
878.739,39	158.689,68	0,00	1.037.429,07	953.858,01	1.112.547,69
12.025.639,30	1.216.836,26	33.271,94	13.209.203,62	2.812.780,51	3.766.225,79
3.136.948,30	272.228,27	9.645,31	3.399.531,26	581.707,79	635.411,82
0,00	0,00	0,00	0,00	2.500,00	43.792,18
16.041.326,99	1.647.754,21	42.917,25	17.646.163,95	4.350.846,31	5.557.977,48
0,00	4.100,00	0,00	4.100,00	66.439.053,17	65.744.053,17
324.358,04	0,00	0,00	324.358,04	32.500,00	32.500,00
0,00	0,00	0,00	0,00	55.937,00	53.812,00
324.358,04	4.100,00	0,00	328.458,04	66.527.490,17	65.830.365,17
18.804.996,27	1.734.846,31	42.917,25	20.496.925,33	70.944.173,14	71.476.711,41

2. Inventories

The Inventories include raw materials and supplies amounting to TEUR 1,804 (2005: TEUR 2,036) and work in process TEUR 341 (2005: TEUR 120). The work in process essentially consists of order based research and development work.

3. Accounts receivable and other assets

Trade accounts receivable amounted to TEUR 883 (2005: TEUR 1,014) and are due within less than one year.

Accounts receivable from affiliated companies are relevant with respect to Evotec Technologies GmbH with TEUR 17,108 (2005: TEUR 14,005) on balance sheet day. The entire amount is due within one year. Also included are accounts receivable from EVOTEC NeuroSciences GmbH with TEUR 3,810 (2005: TEUR 666), which are due within one year, accounts receivable from Evotec Technologies Inc. amounting to TEUR 2 (2005: TEUR 0). Further there are accounts receivable from Evotec Neurosciences AG included amounting to TEUR 7 (2005: TEUR 0). All this accounts receivable are due within one year.

Accounts receivable from enterprises with which participations are held relate to DIREVO Biotech AG, with an amount of TEUR 11 (2005: TEUR 11). The residual term of the receivable is less than one year.

Other current assets include accounts receivables of TEUR 427 (2005: TEUR 110) from tax authorities. Thereof TEUR 143 (2005: TEUR 0) pertain Value Added Tax (VAT), TEUR 284 (2005: TEUR 77) Capital Yields Tax and TEUR 0 (2005: TEUR 33) wage tax. Furthermore, the other current assets include TEUR 5 (2005: TEUR 5) accounts receivable from paid deposits, which are due in more than one year. The other current assets include also an amount of TEUR 1,980 concerning to the sale of Evotec Technologies. This amount is part of the whole selling price and it is paid into a trust account until 2008.

4. Stocks

The company bought 19,751 treasury shares by a nominal value of EUR 19,751.00 in 2006. The shares were bought with a rate of EUR 4.21 on April 5, 2006 and were shown in the balance sheet 2006 with the market rate of EUR 3.24 from December 29, 2006. The treasury shares represent 0.03 % of the nominal capital. The company bought the shares as part of the payment to the supervisory board.

5. Equity

Due to a decision of the management board in 2006 and approval from the supervisory board, a share capital increase of EUR 5,228,701.00 to EUR 67,973,116.00 was accomplished in terms of a contribution in kind. The entry in the commercial register dated April 28, 2006. Within the capital increase the company issued 5,228,701 shares with a nominal value of EUR 1.00.

Another increase of the capital in kind by the exercise of stock-options amounted to EUR 105,703.00. The entry in the commercial register will be in 2007.

The capital reserve increased by EUR 12,719,992.31 to EUR 128,619,837.16. Additionally the company built a reserve for treasury shares of EUR 63,993.24.

The conditional capital amounted to EUR 5,122,996.00 at the balance sheet date. It was created to give stock options to employees and members of the management board of the company or affiliated companies.

On December 31, 2006 the approved capital amounted to EUR 33,986,558.00 equal to 33,986,558 shares.

TVM V Life Science Ventures GmbH & Co KG Munich informed according to Section 21 (1) WpHG that its investments in Evotec fell below the 10% hurdle on February 24, 2006 and amounted to 9.71%.

ROI Verwaltungsgesellschaft mbH Duesseldorf informed according to Section 21 (1) WpHG that its investments in Evotec (a) fell below the 10% hurdle on April 28, 2006 and amounted to 9.71% and (b) crossed the 10% hurdle on May 22, 2006 and amounted to 10.002%, respectively.

6. Pension accruals

Pension accruals amount to TEUR 64 (2005: TEUR 61). They were set up according to a calculation by Mercer Human Resource Consulting GmbH and pertain to a former director of Evotec Biosystems GmbH, of which Evotec AG is the legal successor in title.

7. Other accrued expenses

Other accruals are composed mainly of bonuses TEUR 1,089 (2005: TEUR 788). Further the accruals include special payments to employees of an affiliated company amounting to

TEUR 401 (2005: TEUR 0). The accruals also included accruals for unclaimed vacation TEUR 234 (2005: TEUR 258) and outstanding invoices TEUR 1,258 (2005: TEUR 811). Contained in the accruals for outstanding invoices is a reserve of TEUR 593 (2005: TEUR 0) regarding the sale of Evotec Technologies GmbH, a reserve of TEUR 199 (2005: TEUR 192) for supervisory board remuneration and a reserve of TEUR 340 (2005: TEUR 2) for the payment to inventors.

8. Liabilities

The liabilities to banks comprise at December 31, 2006 a loan of TEUR 1,277 (2005: TEUR 4,362) which is due within one year. The loan will be repaid by June 30, 2007. The interest rate is 5.84 % per annum. The loan is secured by way of security of fixed assets. The ERP-Loan of TEUR 639 at the beginning of the financial year was repaid in March and September 2006.

Liabilities owed to affiliated companies relate to Evotec (UK) Ltd. by the sum of TEUR 6,083 (2005: TEUR 5,806), TEUR 883 (2005: TEUR 606) of which are due within one year. The remaining TEUR 5,220 (2005: TEUR 5,200) have a maturity between one and five years.

The other liabilities essentially consist of liabilities regarding to a partial payment of the price of sale of Evotec Technologies GmbH, amounted TEUR 22,167, which become legally effective on January 01, 2007. This liability is due within one year.

IV. Notes to the Income Statement

1. Revenues

Service Division recorded revenues of TEUR 10,201 (2005: TEUR 11,696) through services, of which TEUR 1,601 were through business with affiliated companies (2005: TEUR 2,962).

Revenues can be broken down geographically as follows: United Kingdom TEUR 455 (2005: 2,665), the United States TEUR 3,064 (2005: TEUR 2,512), Japan TEUR 1,037 (2005: TEUR 588), Germany TEUR 2,042 (2005: TEUR 3,433), Switzerland TEUR 592 (2005: TEUR 604), Canada TEUR 308 (2005: TEUR 767) and other European countries TEUR 1,080 (2005: TEUR 1,127). The classification is based on where the headquarters are located.

2. Other operating income

Other operating income comprises TEUR 19 (2005: TEUR 95) of purpose-tied public grants as well as TEUR 5,999 (2005: TEUR 3,514) of income from costs charged to affiliated companies.

Further the other operating income includes TEUR 5,900 from the correction of the last year depreciation of current assets.

Income unrelated to the accounting period resulted mainly from the reversal of accruals (TEUR 143; 2005: TEUR 371).

3. Depreciation

The depreciation includes depreciation of intangible and fixed assets. The assets were straight-line depreciated according to their useful life.

The useful lives are estimated as follows:

	Years
Buildings	10-15
Plant, machinery and equipment	5-10
Furniture and fixtures	5-10
computer equipment	3

The depreciation of current assets are TEUR 40 (2005: TEUR 6,202) in 2006.

4. Other operating expenses

Other operating expenses substantially consist of consultancy expenses with TEUR 2,147 (2005: TEUR 592), rental expenses including related costs with TEUR 1,576 (2005: TEUR 1,539), patent costs with TEUR 330 (2005: TEUR 364), maintenance costs with TEUR 587 (2005: TEUR 584) and transaction costs with TEUR 727 resulting from the capital increase.

Other operating expenses comprise TEUR 0 of expenses unrelated to the accounting period (2005: TEUR 57).

5. Remuneration of the Auditor

In 2006, remunerations of KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft are shown as expenses for auditing with TEUR 148, other consultancy and valuation with TEUR 16, tax consultancy with TEUR 26 and other services with TEUR 49.

V. Other Disclosures

Employees

In 2006, the average employee count was 83 (2005: 95).

As part of the stock option plan, employees of the company and its affiliates received a total of 818,196 options (2005: 739,400) as well as the management board received 150,000 options (2005: 150,000).

Other financial obligations

The other financial obligations for 2007 are mainly obligations from service contracts, rent and leasing and add up to TEUR 2,299 (thereof to affiliated companies TEUR 0). The sum of all existing obligations until the year 2010 is TEUR 6,463 and of obligations with a longer reach TEUR 3,977.

Guarantees and Other Commitments

In order to prevent over-indebtedness of Evotec Technologies GmbH by TEUR 4,546 (2005: TEUR 5,919), Evotec AG issued an unlimited letter of subordination in 2002. In this letter of subordination, Evotec AG concedes not to recover its claims against the affiliate as long as a partial or complete recovery of its claims would lead to over-indebtedness of the affiliate. In order to prevent over-indebtedness of Evotec NeuroSciences GmbH TEUR 12,607 Evotec AG issued letter of awareness in 2006.

The Company has, in the sale and purchase agreement regarding all shares in Evotec Technologies GmbH, provided certain guarantees customary for such agreements.

Corporate Governance Code

Both the Management Board and the Supervisory Board have issued a statement in accordance with section 161 AktG, which has been made available to all shareholders on Evotec's Internet-Site.

Share Property

	Total Equity	Share interest	Net income/ loss
	TEUR	%	TEUR
1. Evotec Technologies GmbH, Duesseldorf	-4,546	88.58	6,930
2. ENS Holdings Inc., Wilmington, USA*,	27,297	100.00	-236
3. EVOTEC NeuroSciences GmbH, Hamburg (indirectly through 2 nd)	-12,607	100.00	-27,846
4. Evotec (UK) Ltd, Abingdon, UK,	50,533	100.00	2,801
5. Evotec Scotland Ltd. Glasgow , UK, (indirectly through 4 th)	4,179	100.00	1,913
6. Evotec Inc., Delaware, USA* (indirectly through 4 th)	152	100.00	21
7. Oxford Diversity Ltd., Abingdon, UK*, (indirectly through 4 th)	3	100.00	0
8. Oxford Asymmetry Employee Shares Trust Ltd., Abingdon, UK*, (indirectly through 4 th)	4	100.00	0
9. DIREVO Biotech AG, Cologne*,	2,193	22.70	-5,016
10. KeyNeurotek AG, Magdeburg*,	-2,677	0.06	-6,400
11. Evotec Neurosciences AG, Zurich (indirectly through 2 nd)	173	100.00	48
12. Prolysis Ltd., Oxford, UK*, (indirectly through 4 th)	-960	2.10	-3,452
13. Evotec Technologies, Inc., Ohio, USA*, (indirectly through 1 st)	98	88.58	47

With regard to companies whose annual statements were set up in a foreign currency, the exchange rate on recording day was used for equity, and the average exchange rate for annual profit or loss.

Management Board

Jörn Aldag, Business Executive, Hamburg (President and CEO) and

Dr. Dirk H. Ehlers, Physicist, Wohltorf (Chief Financial Officer).

The remuneration paid to the members of the Management Board in the financial year totalled TEUR 917 (2005: TEUR 628), of which TEUR 243 (2005: TEUR 0) was variable remuneration. Fixed remuneration includes base salaries, contributions to personal pension plans, premiums for accident and accidental death insurances as well as the benefit derived from the use of company cars. The variable remuneration of the Management Board is based on a bonus scheme designed by the Remuneration committee of the Supervisory Board and is then approved by the Supervisory Board. The variable portion of the remuneration in 2006, payable on the achievement of certain strategic targets for the business year 2005, was based on the following criteria: 40% based on the achievement of defined corporate milestones, 40% on the achievement of budget financial targets and 20% on the achievement of personal objectives. The scheme for the variable portion of the remuneration in 2007 relating to the business year 2006 is based on the following criteria: 30% based on the achievement of defined corporate milestones, 30% on the achievement of share price targets, 30% on the achievement of budget financial targets and 10% on the achievement of personal objectives. Under the Company's stock option plans, the members of the Management Board received in 2006 150,000 (2005: 150,000) options. The options granted in 2006 and 2005 are subject to the stipulation of the Option Plan 2005 and may be exercised after three years if the conditions of this plan are met.

	2006			
	Fixed remuneration	Variable remuneration	Stock options	Fair Value stock options
	T€	T€		T€
Jörn Aldag	364	145	90,000	110
Dr. Dirk Ehlers	310	98	60,000	73
Total	674	243	150,000	183

The individual contracts of the Management Board contain a change-of-control clause, which would allow Management to terminate their current contracts in the event of a change of control. A change-of-control exists when a major portion of the shares of the company is held by a new investor. The resulting severance entitlement is one year base salary and bonus calculated on the basis of the prior year's remuneration. The Company has a Directors and Officers (D&O) insurance policy in place for the Management Board. The insurance expense amounted to T€84 in total in 2006, and was paid by the Company.

Jörn Aldag is member of the „Monopolkommission der Bundesrepublik Deutschland“.

Supervisory Board

Prof. Dr. Heinz Riesenhuber, former Federal Minister of Research and Technology, Frankfurt am Main (Chairman);

Peer Schatz, Chief Executive Officer Qiagen N.V., Duesseldorf (Vice Chairman);

Dr. Hubert Birner, General Partner of Techno Venture Management GmbH, Landsham/Pliening;

Dr. Peter Fellner, Executive Chairman Vernalis plc., Oxfordshire, UK;

Dr. William J. Jenkins, Pharmaceuticals Consultant (from 8 June 2006), Basel, CH;

Mary Tanner, Financial Advisor, New York, USA;

Dr. Alfred Oberholz, Member of the management board Degussa AG, Duesseldorf (until 8 June 2006).

The remuneration paid to the members of the Supervisory Board in the financial year amounted to TEUR 199 (2005: TEUR 192). The members of the Supervisory Board were members of the following other Supervisory Boards, Committees and Bodies according to section 125 paragraph 1 clause 3 AktG:

Prof. Dr. Heinz Riesenhuber

Chairman of the supervisory board of Kabel Deutschland GmbH, Unterfoehring, D

Member of the supervisory board:

Altana AG, Bad Homburg, D; Frankfurter Allgemeine Zeitung GmbH, Frankfurt am Main, D; Henkel KGaA, Duesseldorf, D; VfW AG, Cologne, D; Vodafone Deutschland GmbH, Duesseldorf, D.

Member of the board of administration of HBM BioVentures AG, Baar, CH.

Peer Schatz

Member of the supervisory board:

Mulligan BioCapital AG, Hamburg, D

Non-Executive Chairman of the Board of Directors:

GenoVision Inc, West Chester, USA; Qiagen AS, Oslo, NOR; Qiagen Canada Inc, Montreal, CAN; Qiagen Inc, Valencia, USA; Qiagen Ltd, Crawly West Sussex, UK; Qiagen North American Holdings, Inc, Valencia, USA; Qiagen Pty Ltd, Clifton Hill, Victoria, AUS; Qiagen S.A., Courtaboeuf Cedex, FRA; Qiagen S.p.A., Milan, IT; Qiagen Sciences, Inc, Germantown, USA; Qiagen Synthetic DNA, Inc, Alameda, USA; Xeragon, Inc, Germantown, USA.

Non-Executive Member of the Board of Directors:

5 Prime Inc, Boulder, USA (from January 2006); Genaco Biomedical Products, Inc., Huntsville, USA (from October 2006); Gentra Systems, Inc., Minneapolis, USA (from August 2006); PG Biotech Ltd, Shenzhen, CHN (from April 2006); Qiagen Inc, Mississauga, CAN; Qiagen K.K., Tokyo, JPN; Qiagen Malasia Sdn Bhd, Kuala Lumpur, MYS (from April 2006); Research Biolabs Pte. Ltd, SGP (from August 2006); Research Biolabs Technologies Pte. Ltd, SGP (from August 2006).

Dr. Hubert Birner

Chairman of the supervisory board of DIREVO Biotech AG, Cologne, D.

Member of the supervisory board of Jerini AG, Berlin, D.

Non-Executive Chairman of the Board of Directors:

Argos Therapeutics Inc., Durham/North Carolina, USA; Spepharm Holding BV, Amsterdam, NL (from July 2006).

Non-Executive Member of the Board of Directors of BioXell SA, Milan, IT (from March 2006).

Dr. Peter Fellner

Non-Executive Chairman of the Board of Directors:

Astex Therapeutics Ltd, Cambridge, UK; Acambis plc, Cambridge, UK (from October 2006 former Non-Executive Member of the Board of Directors from February 2006).

Non-Executive Member of the Board of Directors:

Acambis plc, Cambridge, UK (from February 2006 until September 2006); Bepak plc, Milton Keynes, UK; Isis Innovation Ltd, Oxford, UK; QinetiQ Group plc, London, UK; UCB SA, Brussels, BE.

Dr. William J. Jenkins

Non-Executive Member of the Board of Directors:

Acambis plc, Cambridge, UK (from December 2006); BTG plc, London, UK; Eurand Pharmaceutical Holding s, N.V., Amsterdam, NL; Mnogram Biosciences, Inc., San Francisco, USA.

Mary Tanner

Non-Executive Member of the Board of Directors:

Ariad Pharmaceuticals, Inc, Cambridge, USA (until January 2007); Alteon, Inc., Parsippany, USA (from July 2006); HaptoGuard, Inc., Fort Lee, USA (until July 2006).

Dr. Alfred Oberholz

Chairman of the supervisory board of Infracor GmbH, Marl, D.

Non-Executive Member of the Board of Directors:

Degussa (China) Co. Ltd., Shanghai, CHN; Degussa Corporation, Parsippany, USA; Degussa Japan Co. Ltd., Tokio, J PN (until February 2006).

Scientific Advisory Board

The Scientific Advisory Board comprises the following seven members:

Dr. Karsten Henco, Duesseldorf, D (Vice);

Prof. Dr. Christoph Hock, Zurich, CH;

Dr. William J. Jenkins, MD, Basel, CH;

Prof. Dr. Hanns Möhler, Zurich, CH;

Prof. Dr. Roger Nitsch, Zurich, CH (Head);

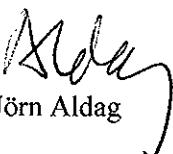
Ian Ragan, Ph.D., London, UK.

During 2006 there were three meetings of the board. The remuneration amounted to TEUR 35 (2005: TEUR 37).

Other Statements

The company has prepared Consolidated Financial Statements that qualify as statutory exempting Consolidated Financial Statements pursuant to section 315a HGB, which will be published in the German Federal Official Gazette („Bundesanzeiger“). It prepares Consolidated Financial Statements for the largest and smallest possible number of companies. These statements can be looked into at the Commercial Register in Hamburg, Germany.

Hamburg, February 23, 2007


Jörn Aldag


Dr. Dirk H. Ehlers

Evotec AG, Hamburg

Management Report for the financial year 2006

I. General Business Description

Company structure and business operations

Evotec AG is a publicly listed stock corporation operating under German law, with all of its shares (68,078,819 as of 31 December 2006) registered for trading on the Frankfurt Stock Exchange with affiliates in Germany, Switzerland, the US and in particular the UK, where it employs the majority of its people. Evotec AG offers integrated and rational discovery biology solutions for third-party biotechnology and pharmaceutical companies and provides administrative and corporate services for the Evotec group.

With its products and services, Evotec AG addresses the global life science market, with many of the world's leading pharmaceutical and biotechnology companies as its partners. The company applies its industrialised platform to provide its customers with a choice of services from biochemical and cellular assay development and screening to 'hit validation', all of which can be provided as individual services or as integrated programmes covering a number of different service lines.

Evotec AG is governed by a dual board structure: managed by its Management Board and controlled by the Supervisory Board. The Management Board is assisted in the strategic and operational management of the Group by a larger Executive Committee. This Committee draws its membership from the senior executives of the Pharmaceuticals and Services Divisions, and through the diverse expertise and experience of these committee members, reflects the complex environment in which the Company operates.

Business and Operating Environment

Global business environment in 2006

A number of topics dominated the economic news in 2006; the rise of energy and commodity prices, and the relentless growth of the "new economies" of China and India, including their growth in private wealth and consumer spending. Companies have reacted in differing ways in different industries, but all seek to reduce their costs by more efficient use of raw materials and energy. Industrialisation of China, India and other Asian countries continues apace, with their increasingly skilled populations now turning to the higher value industries of the traditional developed Western countries for additional growth. This has resulted in the build up of life science service companies in much the same way that the 1990s saw the development of support to the information technology industry, particularly in India. These companies today have limited scale and breadth of capabilities compared to their Western peers, specifically regarding integrated solutions to drug discovery. The expansion of the European Union eastwards in Europe has seen further economic development in these countries, with their workforce adding to the skills and competitiveness in the Western European nations.

There has been continued fall-out from the various corporate scandals of the last five years with the increased regulatory and legal environment, particularly in the US but also in the EU. This is putting added cost and complexity onto businesses, almost irrespective of company size. In addition, many companies in Europe and around the world converted their accounting regime to reporting under IFRS during 2005. In 2006 this was complemented by further local reporting requirements, and some of these changes created increased hurdles for mergers or acquisitions by smaller companies, or for stock listings on additional markets.

Business environment in the biotechnology sector in 2006

For biotechnology companies overall conditions to raise finance were favourable in 2006. This was seen both in venture capital financings, and initial public offerings (IPO) or secondary offerings on the public markets, with the general quality of IPO candidates improving. In addition, 2006 saw significant merger and acquisition activity within and between the various segments and niches of the biotechnology and pharmaceutical industries. As pharmaceutical companies continued to experience a dearth of new product launches combined with continued deterioration of their internal late stage pipeline and a plethora of patent expiries, the pressure to in-licence products continued to escalate. This has resulted in the estimated average cost of in-licensing a late stage drug increasing from around \$70 million in 2000 to more than \$400 million in 2005. Large companies therefore acquired small and mid-sized biotechnology companies owning promising assets in order to complement their development pipelines. In turn, some of the mid-sized and small biotechnology companies also undertook mergers and acquisitions to improve their portfolios. All of these factors supported the positive development in the biotechnology industry: surviving companies increased earlier stage research, commissioned more early stage discovery research with companies like Evotec, advanced their own products, and increased the licensing value of drug candidates. This then helped to fuel share price appreciation of biotechnology companies in the capital markets.

The year ended with the US Dollar weak against Evotec's functional currency (Euro). This impacted unfavourably on companies with the majority of their value creation in Europe, but an important part of their customers in the US. This can only partly be offset by increasing activities in the US or ongoing cost reduction initiatives.

In summary, the market environment for the biotechnology industry as a whole and Evotec in particular continues to be competitive and challenging. There are however significant positive factors supporting Evotec's strategy based on fundamental competitive strengths compared to its peers.

Impact of business environment on Evotec's strategy

Evotec AG, together with its affiliates, has a very strong business presence in drug discovery, despite the challenges in this market segment. Customers for Evotec AG's service offerings demand ever more flexible or specialised solutions, yet there is market pressure on prices due to the increased availability of competitor offerings mainly from China and India. Service providers continue to seek consolidation to achieve scale in their operations or to compensate for lost business. In addition, a number of Western competitors have decided to exit the sector.

In this environment Evotec AG has performed better than planned in 2006, signing several contracts with new and existing customers. Cost is an important but by far not the only consideration in drug discovery. Evotec's reputation for delivering highest quality results within agreed budgets and timescales has been the core to the Company's success. Additionally, together with its affiliates, it is increasingly filling the need of customers to engage in collaborative research programmes providing disease biology expertise as well as its fully integrated drug discovery process know-how. In 2006, Evotec AG supported the group to achieve more higher value, results-driven activities in which the Company shares in its customer's success through royalties and milestones along with substantial research fees. Asian service providers and even many of Evotec's Western competitors lack the scale and breadth of capabilities to be able to take this route, or have chosen to focus on other specific niche areas.

II. Financial Report

Results of operations

Revenues

Evotec AG's revenues in 2006 amount to €10.2m, a decrease of €1.5m or 13% in comparison with the previous year (€11.7m). The key business areas assay development and screening services performed better than in 2005 and improved by €0.7m. The decrease is caused by extraordinary revenues in 2005 when AG benefited from a royalty payment of €0.7m, higher revenues with substances of €0.2m and higher revenues with affiliated companies of €1.2m. Third party sales therefore only decreased by €0.1m from €8.7m (2005) to €8.6m despite a significantly decreased operational personnel (minus 24% vs. 2005). A seasonality of the sales is further on noticeable with nearly 60% of the revenues being recorded in the second half of the year. The geographical spread of revenues for Evotec AG continues to be diverse and matches the sizes of the main markets for its products and services. Europe continues to be the largest market, but the US market and the Japanese market improved. The spread of the revenues remains high and therefore the independency from single customers with the top 3 customers representing only one third of total sales.

Gross profit (Rohhertrag)

The gross profit (Rohhertrag) for 2006 improved by €2.8m to €7.7m (2005: €4.9m). The high level of cost of purchased services was reduced by €3.8m mainly resulting from the termination of the DeveloGen Joint Venture which burdened the gross profit with €2.5m in 2005. A good capacity utilisation of the screening factory generated higher project margins. Fewer Service activities for affiliated companies improved the margin as well. Despite the increase in service activities the cost of materials could be further reduced.

Net income

For the year 2006 Evotec reported a net income of €2.0m (2005: net loss of €13.1m). In 2005 the result was negatively impacted by write-offs of inter-company loans (€ 5.9m) and the impairment of a financial investment (€0.3m). This write-off was reversed in 2006 with the successful search for a new investor in Evotec Technologies. Furthermore the increased gross profit of €2.8m, a lower depreciation on plant and machinery and an improved interest income due to the better cash position contributed to the net loss reduction. Personnel Expenses remained constantly at € 6.9m (2005: € 6.9m) although the average headcount in 2006 decreased significantly in Discovery Biology and only slightly increased in SG&A in comparison with 2005. The reason for that is that no bonus was paid to the Management Board in 2005. The remuneration of the management board as well as for the supervisory board and the scientific advisory board is listed within the notes. Part of the personnel reduction was possible due to reduced platform R&D in our Discovery Biology unit. Remaining R&D projects included library enhancement, high content screening and fragment based screening. SG&A increased but were group related so that they were largely recharged to the Company's affiliates, e.g. early in 2006 the Group engaged an external consulting firm, the majority of the cost being allocated to the Evotec (UK) Ltd and to a lesser degree to EVOTEC NeuroSciences GmbH (ENS) as these are the entities expected to benefit most from the strategic and operational review.

Financing and financial position

Cash and Financing

As per 31 December 2006 Evotec AG's liquid assets of €56.0m were substantially higher than at the end of the previous year (2005: €19.6m), mainly as a result of €22.2m received on 29 December 2006 from the divestment of Evotec's 88.6% shareholding in Evotec Technologies (ET) to PerkinElmer, effective 1 January 2007. Additional future cash proceeds from this transaction will largely be used to pay for accrued transaction related costs as well as possible purchase price adjustments according to the sale and purchase agreement. Furthermore Evotec AG benefited from the capital increase in April 2006 of €18.5m, offset by transaction costs of € 0.7m and net repayments of debt (including loans from affiliates) amounting to €2.8m.

As a matter of policy, the Company does not engage in derivatives trading, market-making or other speculative financial transactions.

Assets and liabilities

Capital structure

Evotec AG increased its share capital during 2006 with the issue of a total of 5.2 million new shares through a capital increase at a price of €3.55 per share. The capital increase generated

cash proceeds of €18.5m. As a result, share capital in the Company increased to €68.1m (2005: €62.8m), and total equity to €115.6m (2005: €94.8m). Only a relatively small number of employees exercised their employee share options during the year, such that the amount of share capital in issue was not significantly affected. Evotec AG ended the year with an equity ratio of 74.9% (2005: 86.6%) The €22.2m payments received as part of the purchase price from the ET divestment are classified as other current liabilities and increase total liabilities and reduce the ratio in short-term because the sale becomes effective on 1 January 2007.

Net assets

The Company owns fixed assets consisting of leasehold improvements, machinery and equipment, furniture and fixtures (predominantly laboratories) and scientific and technical equipment for use in these laboratories. In addition, the Company has offices and information technology used also by its affiliated companies.

Also in 2006 new investments in tangible fixed assets were handled very restrictive. Depreciation exceeded capital expenditures and tangible fixed assets hence decreased from €5.6m in 2005 to €4.4m in 2006.

In 2006 financial assets increased to €66.4m (2005: €65.7m) due to the acquisition of minority shares in Evotec Technologies before the sale. As part of the agreement with PerkinElmer it was contractually agreed that the Company purchased nominal shares of EUR 1,290 from minorities.

As per 31 December 2006 inventories were at the same level as per end of 2005 with €2.1m. Receivables increased to €25.0m (2005: €16.0m) mainly due to the reversal of the write-off of inter-company loans (€5.9m), other assets in relation with the proceeds from the divestment of Evotec Technologies, which will be held in escrow until 2008 (€2.0m) and increased tax receivables.

Evotec AG's liabilities towards financial institutions were reduced to €1.3m as per 31 December 2006 (2005: €4.4m) and have a maturity of less than a year. Trade accounts payable (including affiliates) increased from €6.3m to €7.0m. Other liabilities mainly include the payment from PerkinElmer for the sale of Evotec Technologies which becomes effective on 1 January 2007 and therefore increased from €0.4m to €25.5m.

III. Operations report

Employees

Evotec AG employed on average 83 staff in 2006 compared to 95 in 2005 whereas the reduction affected mainly operations. Over these two years headcount in operations was continuously reduced to improve productivity.

Production and procurement

Evotec AG's Service business largely consists of contract research with a high proportion of personnel expenses and usage of material and equipment accounting for a respective lower portion of costs. Evotec AG itself made use of external services. The largest share of external services was purchased from Evotec (UK) Ltd, in particular in connection with the Joint Venture with DeveloGen AG that was terminated on 23 January 2006 with effective date 31 December 2005.

Work safety and environmental protection

Evotec AG believes that it has an obligation not just to meet, but to exceed, local statutory requirements in protecting its employees and the environment. This ethos is put into daily practice by the continued commitment of its employees – especially the Health and Safety and Environmental Management team. The Company continues to take a proactive approach towards meeting legal requirements. Regular inspections by local environmental protection authorities and by work safety authorities have confirmed Evotec AG's full compliance.

Evotec AG continues to focus on the instruction and ongoing training of its employees in health, safety and environmental awareness matters.

IV. Post balance sheet events

Effective 1 January 2007, Evotec Technologies GmbH (ET), together with its subsidiary Evotec Technologies, Inc., were sold to PerkinElmer in a cash transaction valued at approximately €23m. This transaction is another milestone in Evotec's strategy to focus the Company on its drug discovery and development core business. The resulting changes of investments and of the relating profit and loss impact will be shown in the first quarter of 2007, while the cash impact of this transaction has largely already been seen in 2006. Anticipated purchase price adjustments and transaction related expenditures are expected to be offset and paid for by approximately 10% of the proceeds from the divestment, which will still be held in escrow until 2008, as is customary with such transactions.

The Company expects ET to remain in its current location under the new ownership, and so continue to share Evotec's infrastructure cost at the Hamburg site. As a consequence, the only major contribution of the divestment to AG's financial statements going forward are a balance sheet gain of approximately €4m in the first quarter of 2007, and potential small adjustments in 2008, when the escrow is released.

V. Risk management and risk report

Risk and opportunity management system

To increase the chances of successfully capturing business opportunities, and at the same time limiting the associated risks, Evotec places substantial emphasis on risk management as an ongoing management task. Evotec employs a comprehensive risk management policy and risk management system which forms an integral part of the Group's management processes and complies with the legal requirements as laid out in the German Corporate Sector Supervision and Transparency Act (KonTraG).

According to the Company's **risk management policy**, Evotec engages in businesses only when this is in line with its strategy and with risks common within the industry, and when adequate reward potential is offered. At least once a year the management board defines the Group's specific affinity to financial risk in accordance with the prevailing business and financial condition, including in particular the definition of minimum cash levels and milestones critical to short and mid-term financial performance. Management engages in monthly financial reviews with a strong emphasis on cash and cash forecasts, and key financial performance

drivers such as revenues, order book status and gross margins. Currency exposures are reduced through natural hedges and hedging vehicles, in general with 12 months forward view. It is Company policy not to speculate on foreign exchange movements, but to manage the risks arising from underlying business activities, for example, to gain foreign exchange certainty against the value of signed customer contracts. Financial investments are made in low risk categories (products with financial institutions rated A or better (Standard & Poor's ratings)).

To cover other risks associated with the Company's business, including those that would not have a short-term financial impact, Evotec performs regular commercial, R&D project, and R&D portfolio reviews. Strict application of R&D project and investment approval processes, legal contract review procedures and signing authorities are also standardised procedures. In addition, the Company emphasises its IT security throughout the Group and reviews its insurance coverage regularly. Compliance with the regulatory environment, for example for environment and health and safety, has high priority and corresponding training programmes are in place. This principle also applies to Corporate Governance, where the Company complies with publicly promoted codes of practice.

Evotec's **risk management system** is regularly reviewed in order to adjust to changing environments, risk profiles and business opportunities. Since January 2007 it comprises the following elements:

Through internal Ad Hoc Notifications any risks, that might have a material impact on the Company's financial performance, are raised and reported as they emerge by the manager concerned. The manager compiles a summary and assessment of the specific risk and the counter measures taken and reports the foregoing to the Group Risk Manager and to the responsible superior line management without any undue delay. On a quarterly basis, responsible line managers forward periodical risk reports which (i) give an update on the risks described in the interim Internal Ad Hoc Notifications, (ii) report about any other material risk occurred even when beneath the pre-defined thresholds, and (iii) monitor the success of any measure taken to deal with the previously reported risks. The Group Risk Manager evaluates and summarises the various risk sheets into a quarterly report for the Management Board and Executive Committee. In addition, all regular internal commercial, financial, scientific, legal and further reports and meeting minutes that could be of relevance to important risk categories are formally included in the Company's risk management system (Risk prevention system). This procedure increases general alertness to risk and risk management, and also emphasises the principle of risk prevention across the group.

Change-of-control risk

Evotec's management focuses on value creation, irrespective of the composition of the Company's shareholder base. To that degree, any change-of-control or takeover offer, that realises some of the embedded value of the Company for the benefit of current shareholders, is carefully analysed with regard to the synergies proposed and the future value creation claimed. There are no specific takeover-defence measures in place. All shares are bearer shares and have the same voting rights, and existing stock option schemes do not allow for immediate vesting or additional issuance in the case of a takeover offer. Also, no binding lock-up agreements have been made with any shareholder, and neither stock loans, nor pre-emptive stock purchase rights are known to the Company. No shareholder holds the right to have representatives in the Company's Supervisory Board, or is restricted or bound to specific votes at annual shareholder meetings. Only two organisations, TVM and ROI, together with its affiliates, hold more than 5% and 10% of the shares each respectively as at December 31, 2006. The Management Board is elected by the Supervisory Board, and has been authorised by the last shareholder meeting to repurchase stock only to the degree needed for Supervisory Board compensation, and to issue new stock only up to 50% of existing capital. Additionally, this can be done without pre-emptive purchase rights of existing shareholders only under certain well defined conditions. In summary, current shareholders are free to choose the best route to capture the value of their stock, be it by agreeing to a proposed take over offer or by holding on to it believing in an increased internal value creation of the Company.

Systematic management approach to capturing business opportunities

Evotec's businesses rely on its access to innovation, for example via academic partnerships or in-licensing opportunities from industry partners, and to partnership business with pharmaceutical or biotechnology companies. Identifying and capturing opportunities therefore requires active and systematic management as much as the confinement of the associated risks. The Company has established regular scouting for interesting technologies and projects that might qualify for in-licensing, acquisition or partnering. The Company's business development teams also closely monitor the pharmaceutical and biotechnology industries' R&D needs in order to provide a focused approach to their customers.

Based on solid market intelligence, R&D and revenue budgets and mid range plans are established that then allow maximum entrepreneurial flexibility, to select the individual project content and content portfolio with the best overall risk / return ratio. The management of all these opportunities is made possible through the various processes described above and in addition the high motivation and ambition of the Company's employees. The Executive Committee of the Company and the management bodies dedicated to discovery and collaborative service relationships strive for consensus decisions that will maximise the business opportunities and achieve the Company's long-term aims. Such decision processes are supported by incentive schemes that align with the Company's objectives.

Specific business risks

Evotec's operating segments differ in their specific risk profiles, reflecting their different approaches to value creation within the pharmaceutical R&D sector.

- Evotec Group's **Pharmaceuticals Division** is mainly performed outside Evotec AG. Operational activities in 2006 were the Joint Venture with DeveloGen AG, which was terminated in January 2006 effective 31 December 2005 and two small innovative projects with the aim to access novel drug candidates through collaborations with small biotechnology companies or academic partners.

- Evotec's Discovery Biology as part of the group's **Services Division** is well established within the industry. The continuous drive for increasing research efficiency, combined with superior service quality, allows Evotec to generate value through positive cash contributions and building customer networks. However, in this context business specific risks also need to be managed:
 - The market environment is marked by pricing pressures, originating from funding restrictions of some biotechnology customers and from evolving and strengthening competition in individual drug discovery disciplines in low cost countries. Therefore, firm cost management, continuous enhancement of capabilities and technologies, careful market positioning and sales from high value results-based contracts are mandatory. In addition, Evotec continues to explore ways to capture some of the cost advantages in countries like India.
 - Evotec intends to employ increasing parts of its capacity for results-based deals, with the goal to increase average margins. This strategy has been validated to date with only a few customers, and the positive experiences might not be transferable to other customers and contracts.
 - Even when exhibiting growth, fluctuating capacity utilisation and resource allocation between different parts of the business can significantly decrease profitability, unless these are carefully and flexibly adjusted. In addition, dependence on individual larger customer contracts needs to be carefully monitored. To date, Evotec AG's revenues are fairly well split amongst a large number of customers. In 2006, the largest volume generated with one single customer was 15%.
 - Some of the service contracts contain scientific or technical delivery risks, which can be mitigated only with high quality project work.
 - With a relative high proportion of sales denominated in US Dollar currency exposure creates a risk to Evotec AG's profitability.

Separate business risks from Evotec Technologies (ET) have been exited through the divestment of ET to PerkinElmer. The surviving risks here are limited to customary guarantees given to PerkinElmer as well as the risk of PerkinElmer terminating existing sublease and administrative service agreements with Evotec AG. The Company believes that these are limited and existing pre-cautionary measures are sufficient.

Overall the Company's success depends on its ability to attract and retain highly skilled staff and to recognise and adapt to changing technologies and market environments as well as customer expectations. If Evotec AG fails to retain its key people and to adapt to market needs, its ability to create longer term value could suffer, a risk that is mitigated only by the Company's strong corporate culture.

Management summary risk assessment

The Company's *management believes* that the business opportunities outweigh the foreseeable risks and that it is able to maintain a highly competitive services business. With the Company's efficient infrastructure and its high level and breadth of skills, supported by adequate risk and opportunity management systems, Evotec is well prepared to deliver on its strategy.

This self assessment is supported by the *perception of relevant participants in the financial markets*. Equity investors have repeatedly supported Evotec's strategy through their participation in capital increases, most recently in April 2006. Management believes that this generally positive attitude of the equity capital markets will continue, whilst Evotec's corporate milestones are being met, in particular the progression of the majority of its proprietary drug candidates through clinical development.

VI. Outlook

In 2006 Evotec AG proved its strengths in an unchanged challenging market. Operating in an environment with a continuously weak dollar, slow market recovery and competition from the Asian suppliers, Evotec AG has focused on high value and high quality contract research in close customer collaborations. Multi-year partnerships such as those with Boehringer Ingelheim and CHDI are a strong validation for the Company's ability to deliver. Evotec AG will continue to look for ways to improve profitability through technology, innovation and productivity and will create superior know-how and expertise in areas such as fragment based drug discovery.

Sales

For 2007, the contract pipeline for the Services business is better filled today than it was for 2006 at the same time last year. Also the demand of subsidiaries of Evotec AG is expected to grow due to an increased number of proprietary projects where the Evotec group itself holds rights to drug candidates. Nevertheless, Evotec AG is still precautious and will only start to adjust capacity if the market environment improves sustainable for early stage discovery outsourcing. Mid-term prospects depend on the attitude of the capital market with respect to early stage discovery as well as on the development of discovery investments from academic institutions. The company plans for slow growth in this segment over the next two years if the demand from academic institutions rises.

Results

While Evotec Group result will be largely driven by its Pharmaceuticals Division, Evotec AG's result will operationally depend on the financial performance of parts of the Group's Services Business. The Company intends to adapt capacity to market needs, with the goal to generate profits. Negative contributions will originate from corporate cost not chargeable to the affiliates.

Evotec AG's financial situation will improve in 2007 due to non-operating profits from the divestment of Evotec's 88.6% shareholding in Evotec Technologies (ET) to PerkinElmer effective 1 January 2007.

It has to be noted that planned revenues and results may differ from the actual development.

Dividends

The payment of dividends in the future is dependent on Evotec AG's financial situation and liquidity requirements, the general market conditions, as well as statutory, fiscal and regulatory requirements. Evotec AG currently intends to retain any profits generated and to use them to further develop the company and to enhance shareholder value.

Hamburg, February 23, 2007


Jörn Aldag


Dr. Dirk H. Ehlers

7 Audit Opinion

We have rendered our unqualified audit opinion in German as set out in Appendix B5 which was translated as follows:

„Auditor's Report

We have audited the annual financial statements comprising the balances sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of Evotec AG, Hamburg, for the business year from January 1 to December 31, 2006. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Section 317 HGB [„Handelsgesetzbuch“: „German Commercial Code“] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

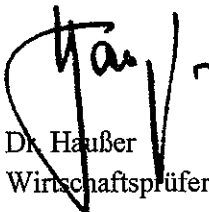
Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development."

Hamburg, February 26, 2007

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft


Schadeck
Wirtschaftsprüfer


Dr. Haüßer
Wirtschaftsprüfer

