

11 May 2006

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Evotec Announces Q1 2006 Financial Results

Hamburg, Germany | Oxford, UK – Evotec AG (Frankfurt Stock Exchange: EVT, TecDAX 30) today announced financial results for the first quarter 2006.

Q1 Highlights:**Rapidly progressing CNS pipeline:**

- EVT 301, a Phase I compound with the potential to reduce symptoms progression in Alzheimer's disease, in-licensed from Roche
- One month tolerability study for EVT 301 started end of April; EVT 301 on track to enter Phase II at the end of 2006
- Second proof-of-principle Phase I/II study and first repeat dose study for insomnia drug candidate EVT 201 started; EVT 201 on track for start of Phase II in Q3 2006
- Phase I Single Ascending Dose Study (SAD) for Alzheimer's disease compound EVT 101 provided positive results

Strong quarter for the Services Division:

- Second milestone with Boehringer Ingelheim achieved in March 2006 led to above average sales growth and profitability
- Already sizeable collaborative programme with Boehringer Ingelheim doubled and extended to the end of 2008
- Additional new and repeat business signed with partners including Celgene, Curis, Oxagen, Panacos, Roche and Vertex

Financials:

- Q1 Group revenues up 12% to EUR 17.8 m (2005: EUR 15.9 m)
- Group R&D expenses increased to EUR 9.9 m (2005: EUR 2.3 m), including a significant upfront payment for the acquisition of the MAO-B inhibitors from Roche
- Group operating loss mainly driven by high R&D expenses mentioned above
- Strong Q1 performance in the Services Division supported by milestone payment from Boehringer Ingelheim:
 - Revenues up 14% to EUR 15.4 m (2005: EUR 13.6 m)
 - Gross margin improved to 37% (2005: 30%)
 - Operating result positive at EUR 1.4 m (2005: EUR (2.8) m)
- Period end cash position of EUR 45.4 m
- Sales and order book for 2006 increased to EUR 60 m as of April (April 2005: EUR 56 m)

“Evotec have started well in 2006. In January, we licensed, from Roche, two Phase I MAO-B inhibitor compounds with disease modifying potential in Alzheimer’s disease. Including one of them we now have three compounds in clinical development. We have initiated three clinical studies since the beginning of the year and are proud to have four studies running in parallel. As communicated in March, our goal for 2006 is to start Phase II studies for two of our compounds, EVT 201 for the treatment of insomnia and EVT 301 for the treatment of Alzheimer’s disease. We remain on track to achieve this target”, **said Joern Aldag, President and Chief Executive Officer of Evotec.** “Based on our successes in in-licensing compounds and on encouraging results from initial clinical trials, we now have more opportunities to expand our CNS programmes internally. To address these opportunities we raised an additional EUR 18.5 million in April. This increases our flexibility to develop our projects and target higher value creation before partnering.

Our Services Division also had a strong quarter. Revenues in this division grew by 14%. Chemical Development and Formulation Services performed particularly strongly, and we achieved the second milestone in our discovery collaboration with Boehringer Ingelheim. Gross margin was strong at 37%. Segment operating result was positive at EUR 1.4 million.”

Financial review

Evotec **revenues** for the first quarter 2006 increased by 12% to EUR 17.8 million (2005: EUR 15.9 million). Growth was mainly driven by the strong Q1 performance in the Services Division.

Revenues in our *Services Division* increased by 14% to EUR 15.4 million (2005: EUR 13.6 million). In Discovery Services, the achievement of the milestone with Boehringer Ingelheim and, in Chemical and Pharmaceutical Development, mainly the strong sales performance in Pilot Plant as well as Formulation Services were the main contributors.

Revenues in our *Pharmaceuticals Division* from our target discovery collaboration with Takeda amounted to EUR 0.5 million (Q1 2005: nil). In 2005, revenues with Takeda were not consolidated before 26 May.

Our *Tools and Technologies Division (Evotec Technologies (ET))* experienced a traditionally weak Q1 following strong 2005 year-end business. Third-party revenues amounted to EUR 2.0 million (2005: EUR 2.3 million) and mainly consist of revenues from service & maintenance contracts. Going forward, demand for products from ET’s growing cell biology business remains strong. Since the beginning of the year, ET received a \$ 2.8 million order from the University of Cincinnati and Cincinnati Children’s Hospital Medical Center as well as several Opera™ orders from pharmaceutical customers and academic institutions. On this basis, Evotec continues to expect an improvement of ET’s financial performance for 2006.

Cost of revenue for the first quarter of 2006 was EUR 10.8 million. This translates into an increased gross margin of 39.4% (2005: 33.6%).

The significant margin improvement is driven by the strong performance of Evotec's Services Division which mainly results from the Boehringer Ingelheim milestone payment. Margins in the Services Division are expected to come back to lower levels in subsequent quarters without similar milestone payments.

R&D expenditure in the first quarter 2006 was EUR 9.9 million (2005: EUR 2.3 million) with the vast majority originating from Evotec's Pharmaceuticals Division (EUR 8.3 million). The biggest single contributor was the cost of in-licensing the MAO-B inhibitors. The first and main tranche occurred during the quarter and has been fully expensed as R&D. As a consequence, R&D spend is expected to be lower in the two following quarters of 2006. Nevertheless, full year R&D costs will increase significantly over 2005 as there will also be higher clinical trials expenses for the development of our pipeline projects.

R&D expenses in the other divisions were driven down, both in Services and in Evotec Technologies (ET). In Services, Evotec's fully integrated platform requires a lower level of investment going forward, and ET's upgrade of the cell analyser Opera™ has been completed and therefore reduced R&D levels in that unit.

For the first quarter of 2006, **SG&A** costs increased by 37% to EUR 6.3 million (2005: EUR 4.6 million). Primarily three effects caused the increase: a) Evotec Neurosciences (ENS) was not fully consolidated in Q1 of the previous year, b) we performed a strategic review of the Services Division with a leading consulting firm and c) US sales activities of Evotec Technologies increased. To that extent SG&A expenses in the other quarters of 2006 are expected to be lower than in Q1 and to show less pronounced increases over the previous year.

The **operating result** amounted to EUR (10.6) million (2005: EUR (4.7) million). The increased loss was driven by the high R&D expenses related to the acquisition of two Phase I MAO-B inhibitors from Roche. Operating result in our Services Division was positive at EUR 1.4 million.

Operating result excluding amortisation charges amounted to EUR (9.6) million.

In line with operating result, **net loss** amounted to EUR 10.4 million (2005: EUR 5.0 million). **Net loss per share** for the first quarter of 2006 was EUR 0.17 (2005: EUR 0.13).

Cash and cash equivalents at the end of March amounted to EUR 45.4 million (end of December 2005: EUR 53.5 million). This reduction reflects the extraordinary R&D expense from in-licensing cost.

Guidance for 2006 confirmed. We remain positive with regard to our ability to meet financial targets for 2006 and confirm the guidance given on 28 March 2006. For the full year 2006, the Evotec group expects revenues to

grow by 0% to 5% over 2005. Revenues and profitability in absolute terms for the Company's Services Division are expected to remain similar to the strong 2005 performance. The sales and order book for 2006 has increased to EUR 60 million as of April (April 2005: EUR 56 million) and is supporting our targets.

In line with increasing investment into internal drug development within the Pharmaceuticals Division R&D spend is expected to increase significantly for the full year. This increase will primarily be related to clinical trial expenses for the three lead programmes EVT 101, EVT 201 and EVT 301, as well as to potential milestone payments which will become due, typically upon Phase II initiation, and the purchase costs for EVT 301. As a consequence, the Company expects Group R&D spend in 2006 to be in the range of EUR 30 million to EUR 35 million. Based on this guidance, and including proceeds from the capital increase in April, Evotec's liquidity position at the end of 2006 is targeted to exceed EUR 48 million.

Conference Call

Evotec will hold a conference call today at 03.00 p.m. CET (02.00 p.m. BST/09.00 a.m. US time East Coast) to discuss Q1 results. Joern Aldag, President & CEO, Dr Dirk Ehlers, CFO, and Dr John Kemp, Executive Vice President Research & Development Pharmaceuticals Division, will lead the call.

Conference call numbers (listen only):

Europe: +49.(0)69.2222 2219 (Germany)
+44.(0)20.7138 0832 (UK)
US: +1.718.354 1360
Webcast: www.evotec.com

A replay of the conference call will be available for 24 hours and can be accessed in Europe by dialing +49.(0)69.22222 0418 (Germany) or +44.(0)20.7806 1970 (UK) and in the US by +1.718.354 1112. The access code is 2249167#. The on-demand version of the webcast will be available on our website: www.evotec.com - Investors – Financial Reports.

About Evotec AG

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

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

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

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

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