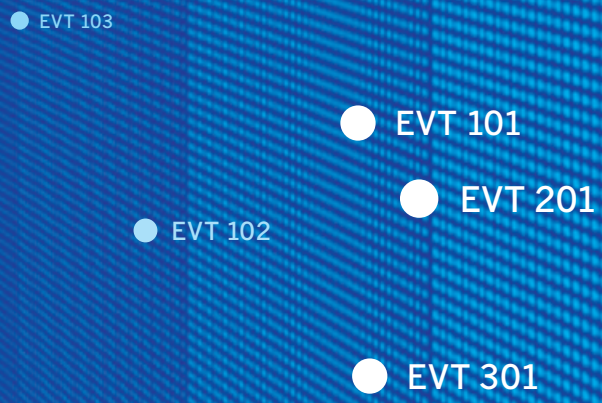
evotec

Evotec AG Annual Report 2005

First in man

Evotec transitions into a clinical stage drug development company with promising products in human testing



Pipeline
Three candidates in the clinic

Roche
Increased scope of collaboration

Performance
Exceeding expectations

Revenues 2005

+10 %

Evotec has exceeded revenue guidance of "nil to 5%" growth for the year driven by a 12 % revenue increase in the Services Division. Growth was reported in each quarter with Q4 again being particularly strong.

R&D expenses 2005

+4 %

R&D expenses increased only slightly over 2004 with increased internal drug development costs being offset by a reduction in platform R&D expenditures in both Services (–52 %) and ET (–16 %). In 2006, clinical trial expenses are expected to increase.

Operating result 2005 [1)]

+31%

This significant improvement is in-line with increased gross profit which comes as a result of cost and efficiency improvements in all divisions, strong performance in chemical and pharmaceutical development services and a milestone payment from Takeda.

[1)] Before amortisation and impairment

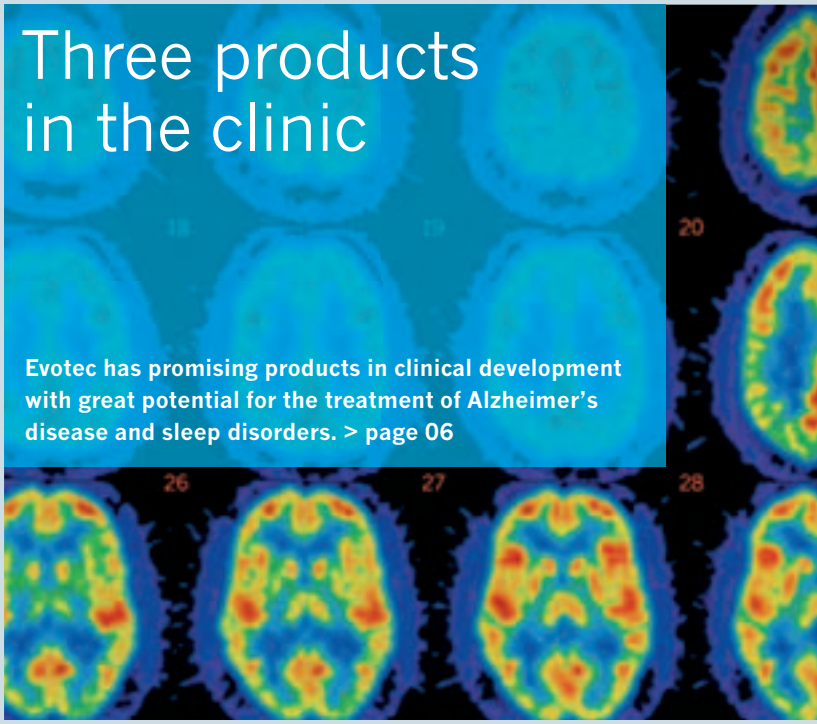
Condensed key figures Evotec AG (IFRS)

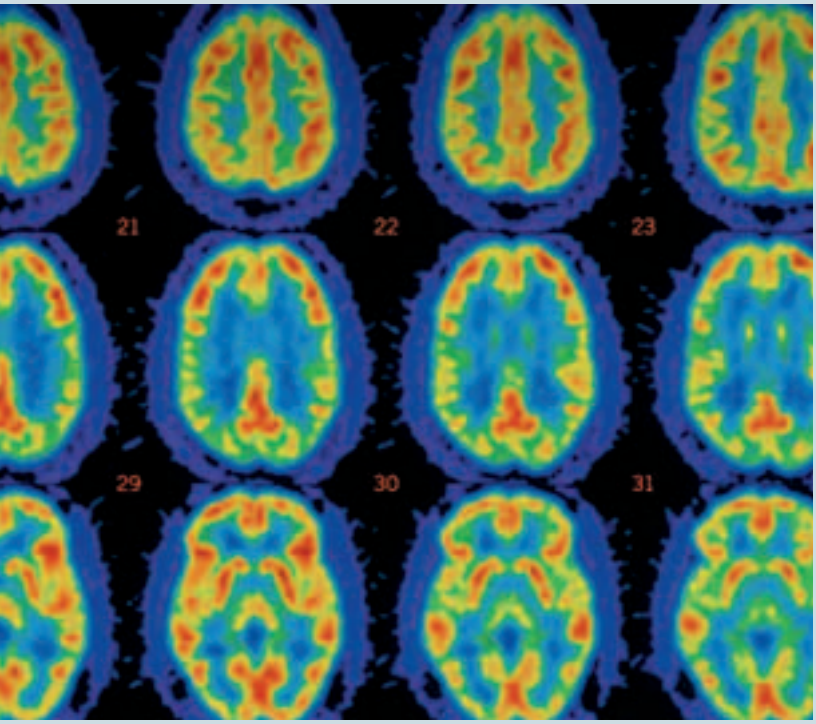
	Page		2004	2005	Δ 05/04 in %
Results:					
Revenue	32	T€	72,730	79,785	9.7
R&D expenses	33	T€	13,490	14,088	4.4
Operating result[1)]	34	T€	(11,697)	(8,105)	30.7
Net income	35	T€	(77,812)	(33,583)	56.8
EBITDA	35	T€	(2,932)	(1,699)	42.1
Cash flow	36	T€	(3,624)	37,141	–
Balance sheet data:					
Stockholders' equity	38	T€	110,508	148,669	34.5
Capital expenditure[2)]	36	T€	1,942	7,553	288.9
Cash	37	T€	15,277	53,520	250.3
Balance sheet total	37	T€	146,544	186,111	27.0
Personnel data:					
Employees as of 31.12.	39		646	604	(6.5)
Per share:					
Result	35	€	(2.12)	(0.65)	69.3

[1)] Before amortisation and impairment
[2)] Cash relevant purchase of fixed and intangible assets, excluding finance leases

Evotec is an emerging drug discovery and development company. We have an evolving CNS pipeline with three clinical candidates focused on Alzheimer's disease and insomnia, underpinned by an established, profitable services business which supplies over 120 customers including many of the world's leading global pharmaceuticals companies.

Content





Proof-of-principle demonstrated in insomnia

Evotec has completed a first Phase I/II proof-of-principle study demonstrating the potential of EVT 201 as a novel sleep agent. > page 13

Boehringer Ingelheim collaboration successfully progressing

The companies achieved their first project milestone in June 2005 and doubled their already sizeable programme in January 2006. > page 22

Our performance 2005

2005 was a strong year with group revenue increasing 10 % to € 80 m and with profitable growth in the Services Division. > page 31

To Our Shareholders

2005 was a very successful year for our company, both strategically and operationally. Measured against all relevant performance indicators, we exceeded expectations.

In 2004, we embarked on a major strategic expansion of our business model by increasing our focus on building a product pipeline in the Central Nervous System (CNS) therapeutic area. We began our implementation of this strategy by acquiring full ownership of Evotec Neurosciences, and now have three compounds in clinical trials – with two already having completed several Phase I studies. In addition, we have weathered the challenging economic environment in which our Services Division operates, and have grown this business by 12 %. We have implemented significant productivity and efficiency measures which have led to substantial improvements in our performance. The dedication and passion of our people, a clear strategic focus, and determined management, continue to be the key drivers of our success.

Last year's highlights include:

> Initiation of clinical development in our Alzheimer's disease and insomnia programmes within the Pharmaceuticals Division. We initiated a Phase I study for our Alzheimer's compound, EVT 101, as promised, and successfully completed a Phase I/II proof-of-principle sleep study for EVT 201, the compound we in-licensed from Roche earlier in the year for the treatment of insomnia. In addition, we successfully concluded in-licensing negotiations for EVT 301, a compound close to entering Phase II development and which has the potential to reduce the progression of Alzheimer's disease.

> 10 % revenue growth for the Group in 2005 against guidance of "nil to 5 %".

> 12% revenue growth in our Services Division and operational profitability before amortisation of intangible assets.
> Increase in cash by approximately € 47 m from € 15 m at the end of 2004 through the acquisition of Evotec Neurosciences and a PIPE transaction (Private Investment in a Public Entity); at year end 2005 the cash position was € 53 m.

We enter 2006 with confidence and expect strong performance both in Pharmaceuticals and Services.

Rapidly progressing CNS pipeline

In March 2005, we signed the acquisition of the remaining equity of Evotec Neurosciences (ENS) through a share-for-share transaction. ENS has brought a promising portfolio of drug candidates to treat CNS disorders into the Group, which we have the capabilities to develop. At the same time, we attracted a leading group of investors who committed, in a PIPE transaction, to fuel the expansion of our newly acquired pipeline and to support the development of these programmes through Phase II development. We closed the deal in June 2005 securing Evotec € 28.4 m. Our development strategy is to create critical mass in our pipeline through organic growth from internal projects, in-licensing and possibly acquisitions. We intend to license or partner for co-development so that, based on revenues and current cash, we have a number of options to fund the Company.

Our goal for 2005 in this division was to progress our most advanced compound, EVT 101, into clinical development. EVT 101, in-licensed from Roche at the end of 2003, is a NR2B selective NMDA receptor antagonist with a proven biological mechanism of action in development for the symptomatic treatment of Alzheimer's disease. It has made great progress during the year and entered clinical trials in November as planned. Phase I studies are now almost complete. In line with our strategy, we in-licensed, in March 2005, another compound from Roche, EVT 201, a $GABA_A$ receptor partial positive allosteric modulator, for the treatment of insomnia. A Phase I/II proof-of-principle clinical trial showed a strong profile for accelerated sleep onset, improved sleep maintenance and lack of next day hangover effects. Finally, in December of 2005, we completed negotiations to in-license two MAO-B inhibitors from Roche. In global, one-year Phase III trials, a compound acting on the same target (MAO-B) demonstrated encouraging signs of slowing sympton progression in Alzheimer's disease.

All in all, we exceeded expectations on the development of our pipeline, moving faster and further down the value chain than we had planned. We aim to have two compounds in Phase II clinical trials by the end of 2006.

Services Division returned to growth and profitability

From the beginning of 2005 the services business started to build momentum. We have had four quarters of consecutive sales growth in what continues to be a challenging market environment. Taking advantage of the current market need for the manufacture of drug candidates for clinical trials, our chemical development activities in Abingdon and our formulation business in Glasgow showed strong growth.
Operating in an environment with a continued weak dollar, slow market and competition from the Asian suppliers, we have focused on high value and high quality contract research. Together with significant improvements in productivity and efficiency, we have significantly reduced the Services Division P&L cost base. Our multi-year collaborations with Roche, Boehringer Ingelheim and others are a strong validation for our ability to deliver high value contract research. We will continue to look for ways to improve our efficiency through technology, innovation and productivity.

In summary, we have executed on all our major goals for 2005: we have returned our Services Division to growth and profitability, our order book for 2006 is stronger than at the same time last year and we are excited about the rapid progress in building our pipeline in the Pharmaceuticals Division. With Phase II clinical trials expected to start this year, 2006 will be another exciting year in our development and we look forward to our programmes maturing.
We thank our shareholders, stakeholders, customers and dedicated employees for their continued support. We look forward to updating you throughout the year on the progress we have made delivering on our exciting strategic direction.

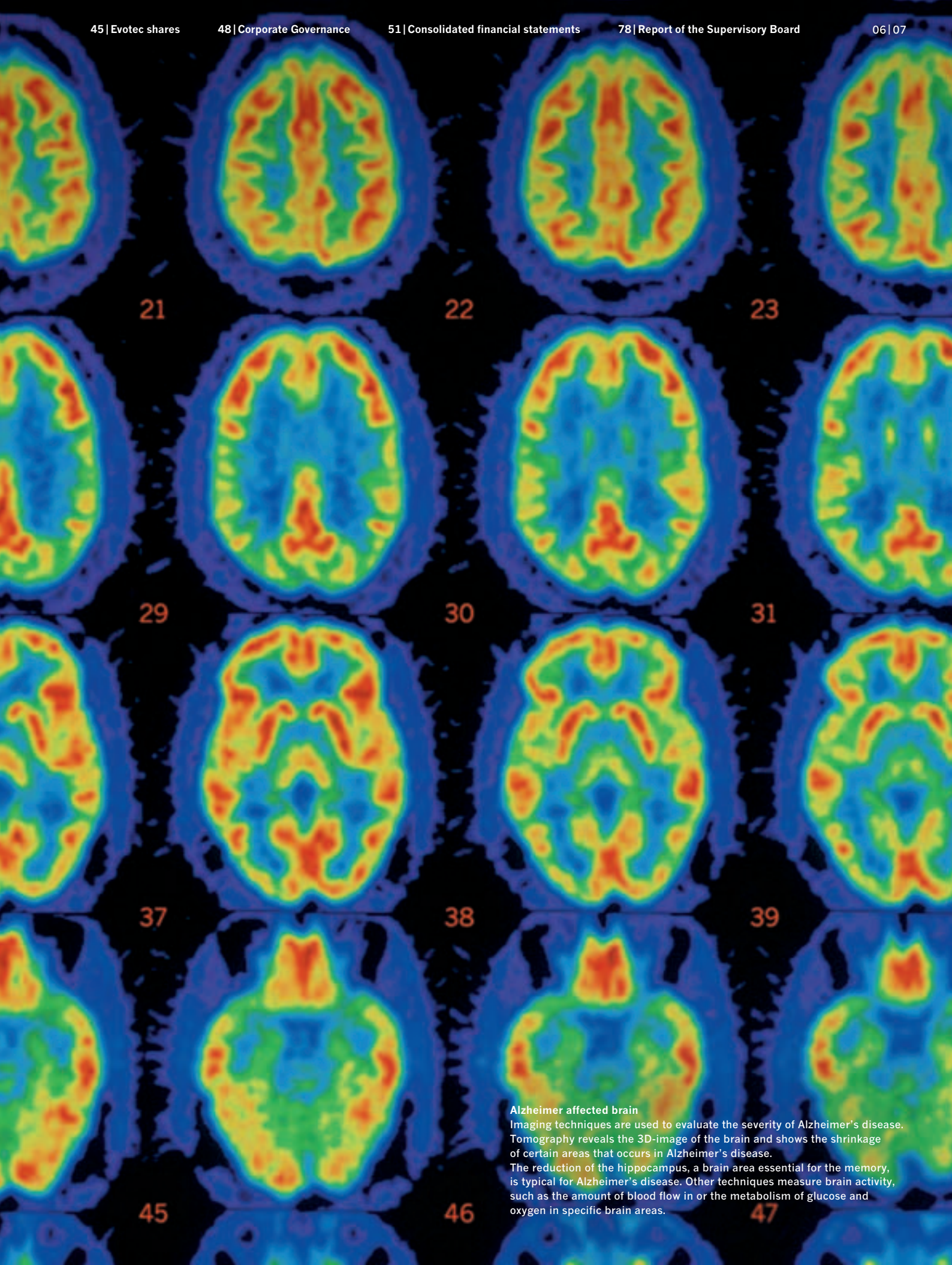
Joern Aldag
President & Chief Executive Officer

Dr Dirk H Ehlers
Chief Financial Officer

Pharmaceuticals Division

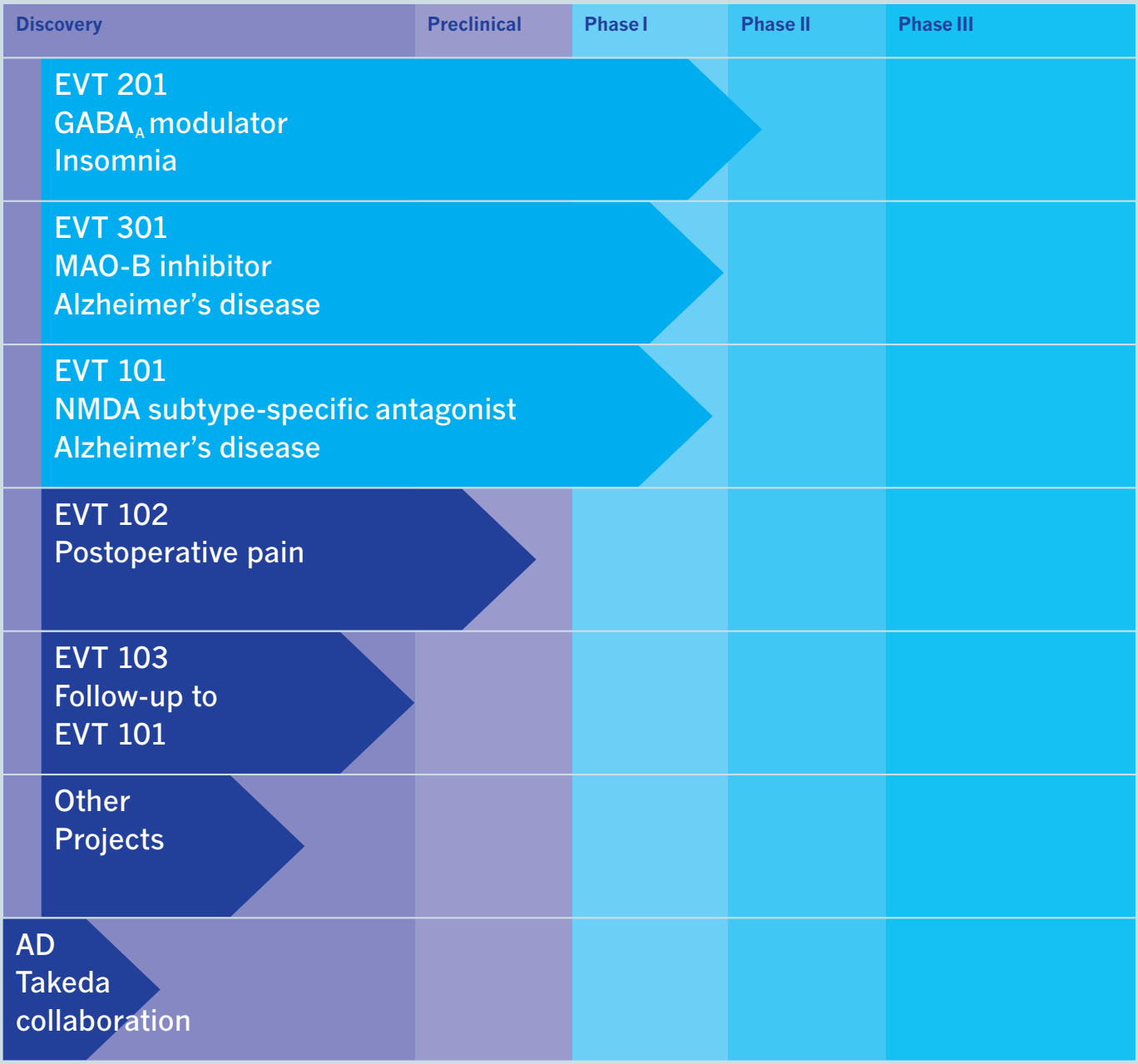
Three candidates in the clinic

Alzheimer's disease (AD) and sleep disorders are rapidly growing markets. Current medications provide only limited benefits, in particular in AD. Evotec has very promising products in clinical development with differentiated modes of action. They have great potential for the improvement of treatment in both conditions. Read more to learn about Evotec's novel approaches.



Alzheimer affected brain
Imaging techniques are used to evaluate the severity of Alzheimer's disease. Tomography reveals the 3D-image of the brain and shows the shrinkage of certain areas that occurs in Alzheimer's disease.
The reduction of the hippocampus, a brain area essential for the memory, is typical for Alzheimer's disease. Other techniques measure brain activity, such as the amount of blood flow in or the metabolism of glucose and oxygen in specific brain areas.

Our product pipeline: Focus on diseases of the central nervous system



Discovery
Phase of drug discovery from target identification to the search for and optimisation of chemical compounds with desired properties

Preclinical
Regulatory studies required prior to clinical trials

Clinical Phase I
Clinical trial conducted in a small number of healthy volunteers, used to determine pharmacokinetics, preferred route of administration, and safe dosage range of a drug

Clinical Phase II
Phase II trials are performed on patients and are designed to assess the clinical efficacy of the therapy. In addition, the assessment of safety continues in a larger group

Clinical Phase III
Clinical trial involving a larger number of patients, designed to assess safety, effectiveness and optimum dosage of a drug as administered in a treatment setting

Clinical progress over delivered: Three products in the clinic

> Novel Phase I compound with disease modifying potential in Alzheimer's disease

> Subtype-selective cognitive and functional enhancer entered Phase I in AD

> First clinical Phase I/II study successfully completed in insomnia

In its Pharmaceuticals Division, Evotec specialises in finding new treatments for diseases of the central nervous system (CNS), one of the largest therapeutic areas with a large unmet medical need. In 2005, the Company made rapid progress in building an attractive early CNS pipeline. Evotec has advanced three programmes into clinical development: EVT 201, a $GABA_A$ receptor modulator for the treatment of insomnia; EVT 101, a subtype-selective NMDA receptor antagonist; and EVT 301, a selective and reversible inhibitor of MAO-B, both for the treatment of Alzheimer's disease.

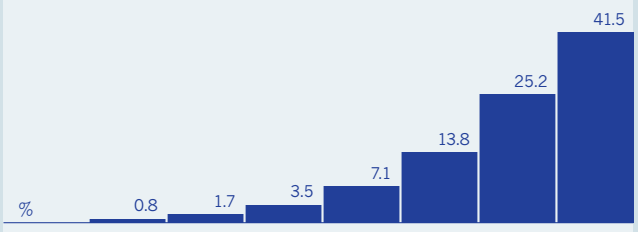
The Alzheimer's disease (AD) market is one of the fastest growing CNS markets. Aided by a growing elderly population, the introduction of the first drug approved for moderate-to-severe AD, 'memantine', has seen a compound annual growth rate in global revenues increase at over 35% between 2001 and 2004, to $2.5 billion. AD patients are growing in number, but treatment options remain limited in both quantity and quality. Today only four drugs are marketed for the treatment of AD and there is still no treatment available that can actively slow the progression or cure AD. Cholinesterase inhibitors and the recently launched NMDA receptor antagonist 'memantine' (not subtype-selective) provide only moderate and temporary symptomatic benefit and the drugs are typically only effective for up to three years before losing their therapeutic benefit. In addition, around 60% of AD patients do not respond to first-line therapy and all current treatments are associated with side effects. In summary, current treatments are far from perfect and clear opportunities exist for novel alternatives.

Dr Alois Alzheimer
The term 'Alzheimer's disease' dates back to the case record of a 51-year old female patient (Auguste D.) who had been admitted to a Frankfurt hospital in 1901 with signs of dementia. In 1906, Dr Alois Alzheimer, medical doctor, reported on this patient: 'On a peculiar disorder of the cerebral cortex'. Later on, presenile dementia was designated 'Alzheimer's disease'.

Alzheimer's disease— tragically normal

Alzheimer's disease (AD) is a progressive, degenerative, irreversible disease of the brain that affects both cognition and behaviour. It is the most common form of dementia in older people and dementia is not a normal part of aging. AD is characterised by a loss of short-term memory and deterioration in behaviour and intellectual performance. The exact pathophysiology of the disease is still debated. Prevalence rates increase sharply with age, roughly doubling every five years at least until the age of 85. As a result, around 5% of individuals over 65 years of age are affected with AD, loosely split into mild, moderate and severe stages, depending on the patient's level of functioning. The number of individuals with AD across the seven major global markets today amount to roughly five million, excluding individuals with questionable AD. As a result of the aging population, this number is expected to increase three-fold by 2050.

Prevalence of Alzheimer's disease in the US (female)[1)]

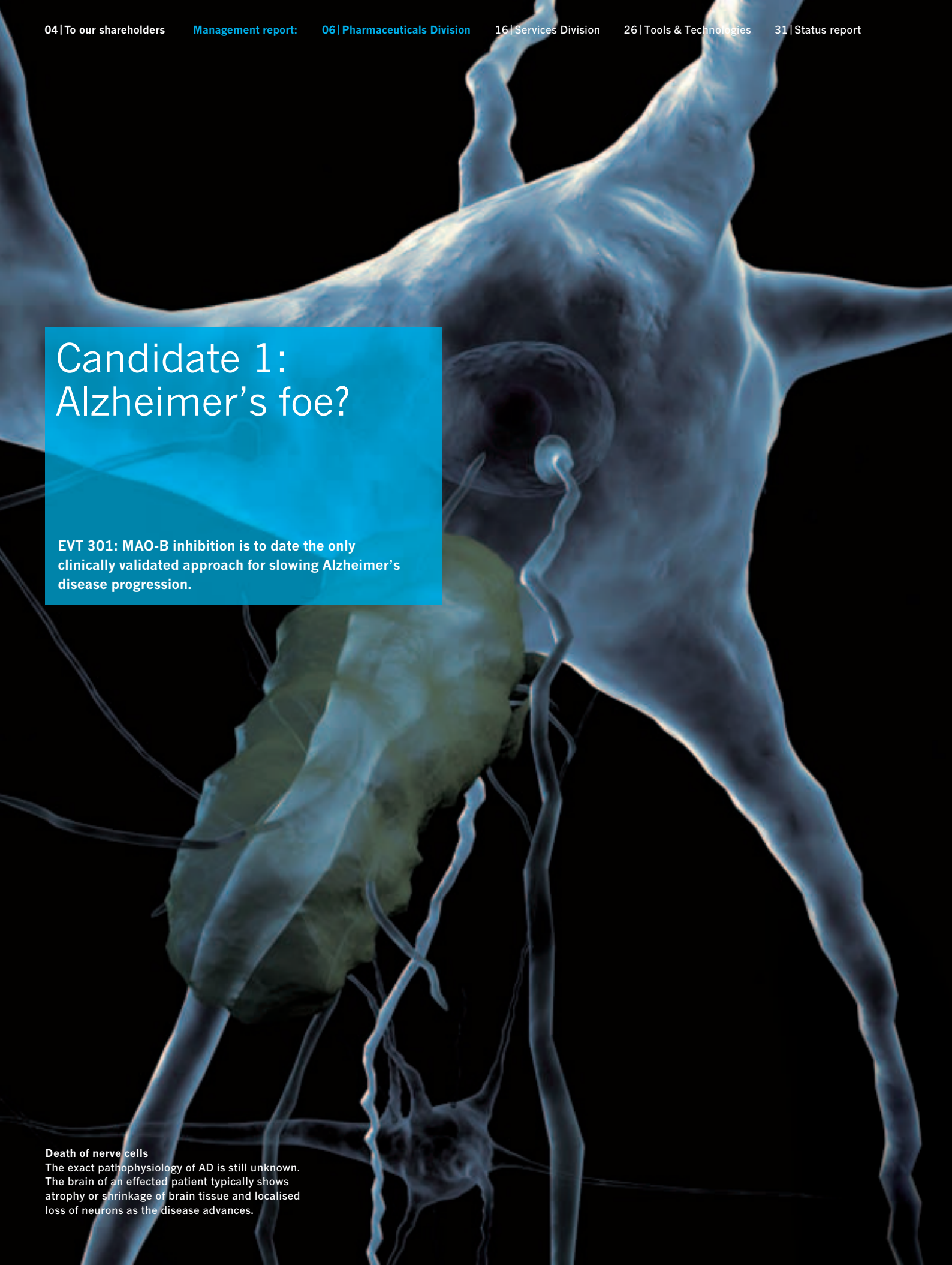


[1)] There is some tendency for prevalence to be greater for women than for men.

Source for AD market data: Datamonitor, Pipeline and Commercial Insight: Alzheimer's Disease, 10/2005

Candidate 1: Alzheimer's foe?

EVT 301: MAO-B inhibition is to date the only clinically validated approach for slowing Alzheimer's disease progression.



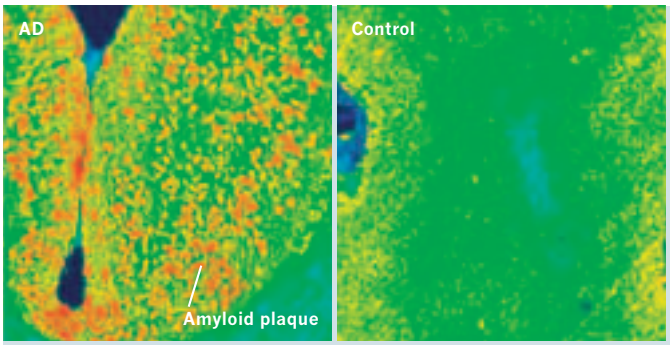
Death of nerve cells
The exact pathophysiology of AD is still unknown. The brain of an effected patient typically shows atrophy or shrinkage of brain tissue and localised loss of neurons as the disease advances.

Promising drug candidates for Alzheimer's disease

Evotec has today two class leading AD compounds in clinical development which are complementary to each other: EVT 301, with potential to slow disease progression, and EVT 101 for symptomatic treatment.
Importantly, the potential mechanism of action for both compounds has clinical validation. This is critical to balance the development risk in a complex research area like AD. Regarding EVT 101, the subtype-selective NMDA receptor antagonist, a non-selective compound targeting the same receptor is successfully marketed for the treatment of AD, validating the fundamental mechanism of action. With regard to EVT 301, an earlier compound in this class provided some encouraging findings in multinational late stage clinical trials of a major pharmaceutical company, as discussed below.

EVT 301 — Novel potentially disease modifying Alzheimer's treatment

EVT 301 is an orally active, potent, selective and reversible inhibitor of monoamine oxidase B (MAO-B). Evotec in-licensed the compound from Roche in January 2006. Earlier unpublished data from a one year multinational Phase III trial of a first generation MAO-B inhibitor demonstrated encouraging signs of slowing symptom progression. Development was, however, subsequently stopped due to isolated reports of safety issues. EVT 301 is from a chemically distinct series and was developed as a follow-up based on the positive clinical findings above. It has a desirable preclinical and clinical profile, was well tolerated and showed good pharmacokinetic properties in Phase I studies. If in further Phase I studies no issues on tolerability and safety arise, Evotec plans to begin a Phase II trial for EVT 301 in the second half of 2006.



MAO-B is highly overexpressed around amyloid plaques in AD

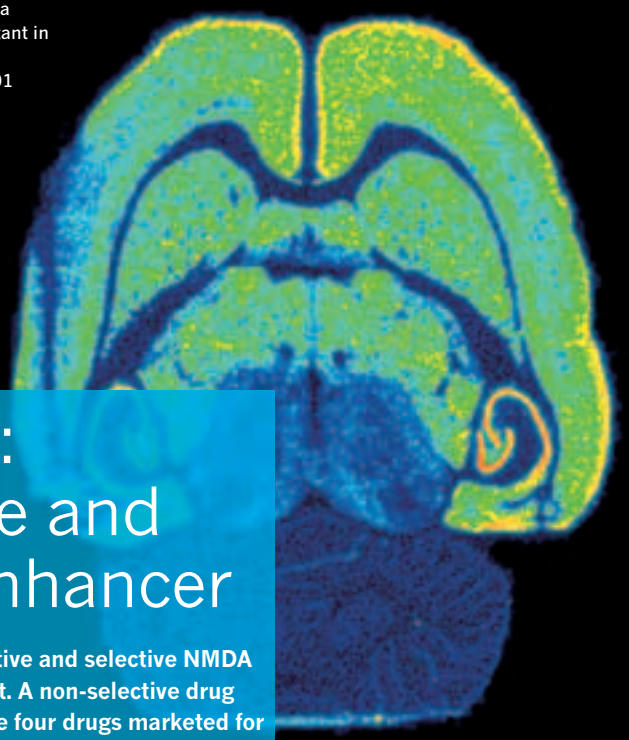
Increased MAO-B activity in Alzheimer brain leads to nerve cell damage

The activity of the enzyme monoamine oxidase B (MAO-B) generates hydrogen peroxide, a reactive oxygen species which crosses membranes and produces the highly reactive, and toxic, hydroxyl radical (HO•). This toxic radical is able to cause nerve cell damage. Comparative studies show a clearly increased activity of MAO-B in Alzheimer affected brains. Increased MAO-B activity is therefore thought to contribute to the progression of AD and hence blocking MAO-B activity may reduce disease progression.

Permanent over-excitation kills brain cells

The function of the brain is largely dependent upon the communication between individual nerve cells. Nerve cell communication takes place through certain messenger substances, known as neurotransmitters. They are released from the transmitting cell at the junction of two nerve cells, called the synapse, into the synaptic gap and bind to specific receptors, on the receiving cell, like a key to a lock. The neurotransmitter glutamate plays an integral role in nerve cell communication associated with learning and memory. When glutamate binds to a cell surface docking site called the NMDA receptor, calcium may flow freely into the cell. It is believed that glutamate is released in excess amounts by cells damaged by AD. Sustained elevation of glutamate leads to chronic overexposure to calcium which in turn leads to cell degeneration. NMDA receptor antagonists may prevent this destructive sequence by limiting glutamate docking. Furthermore, NMDA antagonists, and particularly NR2B subtype-specific antagonists, appear to facilitate glutamate synaptic transmission mediated through other types of receptors (AMPA) in brain areas important for cognitive function through a mild disinhibitory effect mediated by a reduced excitation of inhibitory neurones. This probably underlies the symptomatic benefit produced by NMDA antagonists in Alzheimer's disease.

Slice through a rat brain
The NR2B subtype of the NMDA receptor has a distribution in brain restricted to areas important in Alzheimer's disease, Parkinson's disease and neuropathic pain (green fluorescence). EVT 101 inhibits the NR2B subunit selectively.



Candidate 2: The cognitive and functional enhancer

EVT 101 is one of the few orally active and selective NMDA antagonists in clinical development. A non-selective drug of this compound class is one of the four drugs marketed for AD and is on its way to becoming a blockbuster. Due to its non-selectivity, however, treatment benefit is limited offering clear opportunities for novel alternatives.

EVT 101 — Selectivity may offer clinical advantages over current AD therapies

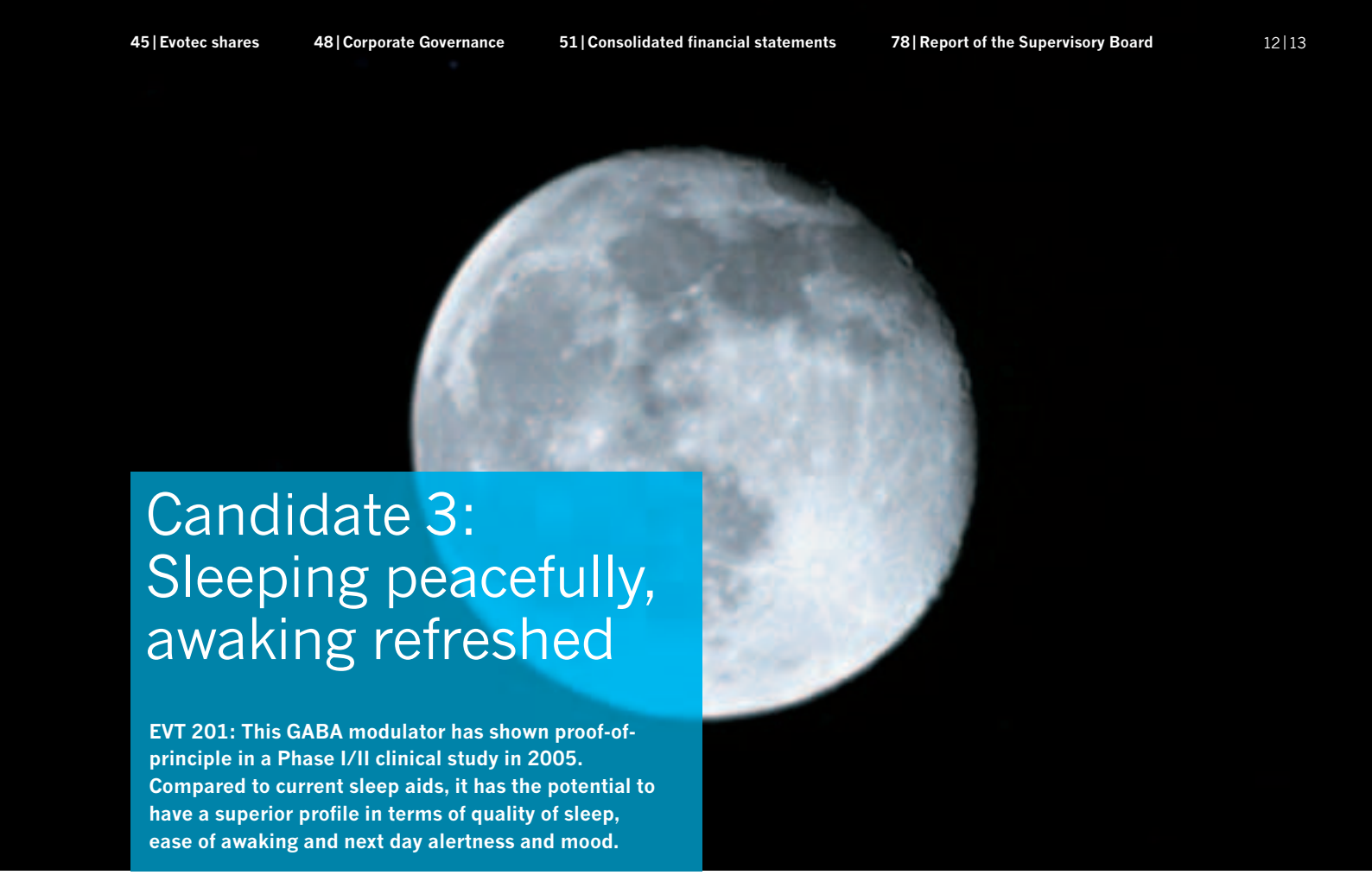
Extensive studies over the past 15 years have proven that NMDA (N-methyl-D-aspartate) receptors are important players in Alzheimer's disease, Parkinson's disease and neuropathic pain. The NMDA receptor antagonist 'memantine' is currently marketed for the treatment of moderate to severe AD and is on its way to becoming a blockbuster drug. This is true despite 'memantine' having some unfavourable side effects at high dosage and a limited effect on AD symptoms relief in some patients.

In the early 1990's it was found that multiple NMDA subtypes exist which contain different NR2(A-D) subunits. Compounds selectively targeting the NR2B subunit-containing receptors are thought to retain many of the beneficial effects of non-selective compounds such as 'memantine' but with much improved side effect profiles.

EVT 101 is a highly potent and selective antagonist of the NR2B subunit-containing NMDA receptors. Evotec plans to initially develop EVT 101 for the symptomatic treatment of AD. The compound shows strong efficacy and a favourable side effect profile in preclinical studies compared to non-selective NMDA receptor antagonists. It also has good oral bioavailability and in vivo pharmacokinetics and was well tolerated in Phase I single ascending dose clinical trials, showing no adverse effects and good exposure and pharmacokinetic profile. EVT 101 is expected to be ready to enter Phase II in H2 2006. As Roche holds a buy-back option after Phase I, there are two possible development scenarios: either Roche takes the compound back or Evotec might continue with Phase II studies later in 2006/early 2007.

Takeda chooses first Alzheimer target

Evotec has achieved the first milestone in its four-year drug discovery collaboration with Takeda. The collaboration is aimed at jointly identifying and validating novel targets relating to different aspects of the causes and progression of Alzheimer's disease, with the goal of developing innovative small molecule therapeutics. Over the past two years the companies have made excellent progress in building substantial expertise and IP around novel Alzheimer's disease targets. Evotec has now granted Takeda exclusive rights in a novel Alzheimer's target, triggering a milestone payment of more than a million Euro. Importantly, Evotec is eligible for further substantial milestone payments on the successful clinical development of compounds acting on the selected target. Further work within the collaboration is rapidly and productively progressing.



Candidate 3: Sleeping peacefully, awaking refreshed

EVT 201: This GABA modulator has shown proof-of-principle in a Phase I/II clinical study in 2005. Compared to current sleep aids, it has the potential to have a superior profile in terms of quality of sleep, ease of awaking and next day alertness and mood.

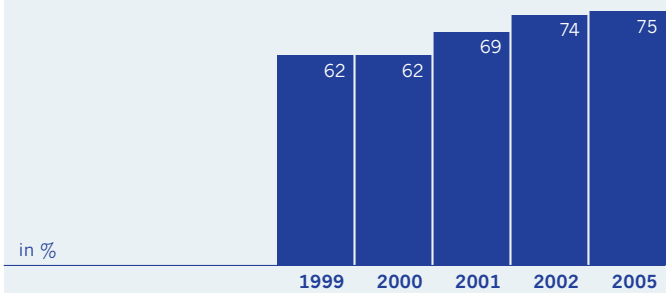
A clear market need for better sleep drugs

Evotec is also actively pursuing the treatment of insomnia. The sleep market is large, growing and, most importantly, poorly served. According to the National Sleep Foundation's 2005 Sleep in America Poll 73 % of adults reported symptoms of insomnia at least a few times a month. However, only 14 % of respondents reported using a prescription or OTC sleep aid. This may be due to the limitations of current treatment options or the negative reputation of older generations of sleep medications. There is clearly a market need for better sleep drugs. Clinical drivers in their development will be lack of next-day hang-over while improving sleep quality. In addition, the demonstration of reduced tolerance and addiction liabilities in long-term use would be useful.

EVT 201 — Proof-of-principle demonstrated in insomnia

EVT 201 is a partial positive modulator of the $GABA_A$ receptor complex. Compared to many currently marketed sleep drugs it appears to have a differentiated preclinical profile and mechanism of action. Preclinically, it showed no tolerance/dependence liabilities in the studies performed and showed no interactions with alcohol. The compound was well tolerated in a Phase I study with 65 subjects, undertaken by Roche when originally targetting a different indication. In 2005, Evotec conducted a small Phase I/II proof-of-principle study in subjects with induced insomnia to prove its potential as a novel sleep agent. The study was completed with encouraging results. EVT 201 was well tolerated, showed significant efficacy in duration and quality of sleep and only minimal residual effects the following morning. Subjects fell asleep quickly, didn't wake up during the night and felt they had a good night sleep. Encouragingly, they woke up feeling more alert than subjects taking placebo and were in a better mood. An additional Phase I/II study is underway to determine the optimum dose for a Phase II study in patients which is expected to start in the second half of 2006.

Report of symtoms for a sleep problem (a few nights per week or more) is on a rise



Source: 2005 Sleep in America Poll, National Sleep Foundation

Pharmaceutical Management Team
Evotec's team consists of industry experts with distinguished track records of successful drug discovery and development

(from left to right)

Dr John Kemp, EVP Research & Development
> 22 years pharmaceutical industry experience in CNS drug discovery at Roche and Merck
> Head of CNS Preclinical Research and Therapy Area Head for Neurodegenerative Diseases at Roche
> Member of CNS Therapy Area Strategic Team and Global Research Portfolio Committee

Dr Tim Tasker, MD, EVP Clinical Development
> Over 20 years pharmaceutical industry experience in drug development, including significant CNS experience, at GSK
> VP, Global Clinical Pharmacology Units, Clinical Pharmacology and Discovery Medicine
> VP, European Clinical Pharmacology & Member of Neuroscience Therapy Area Team

Jesper Wiklund, SVP Business Development
> 12 years industry experience at Wyeth, Elan and DeveloGen

Dr Andrea Cesura, Director of Neuropharmacology
> Pharmacologist with 17 years pharmaceutical industry experience in CNS drug discovery at Roche and Serono
> Project leader for MAO-B projects at Roche

Dr John Pohlner, VP Project & Alliance Management
> Co-founder of Evotec Neurosciences
> Over 10 years industry experience
> Project leader of Alzheimer collaboration with Takeda

Dr David Hallet, Head of Medicinal Chemistry
> Medicinal chemist with over 8 years experience of CNS drug discovery at Merck, including leadership of Alzheimer projects

Prof Dr Ian Hunneyball, Director, Corporate Projects
(not on photograph)
> Executive Director of R & D at BASF Pharma U.K.
> Brought Sibutramine from research to market

Pharmaceutical Scientific Advisory Board

Prof Dr Roger Nitsch, MD, Chairman
Chair of Psychiatry Research, University of Zurich

Dr Karsten Henco, Vice-Chairman
Co-founder of Evotec, Co-founder of Qiagen

Prof Dr Christoph Hock, MD
Professor of Biological Psychiatry, University of Zurich

Dr William Jenkins, MD
Former Head of Medicine and Clinical Development worldwide at Novartis

Prof Dr Hanns Moehler, MD
Chair of Institute of Pharmacology, ETH Zurich

Dr Ian Ragan
Former European Head of Neuroscience at Eli Lilly

Financial discussion

Milestone with Takeda drives revenue growth

Despite revenues not being the division's short-term value driver and focus, revenues in Evotec's Pharmaceuticals Division increased markedly to € 3.2 m. Revenues were driven by achievement of the first milestone from the four-year collaboration with Takeda for a novel Alzheimer's disease target. In addition, in 2005, revenues from Takeda were consolidated from 26 May onwards and, in 2004, for the first quarter only. This is a consequence of the initial reduction of Evotec's shareholding in Evotec Neurosciences (ENS) and the subsequent acquisition of full ownership interest. Excluding this consolidation effect, revenues generated with Takeda amounted to € 5.0 m in 2005 and € 4.0 m in 2004.

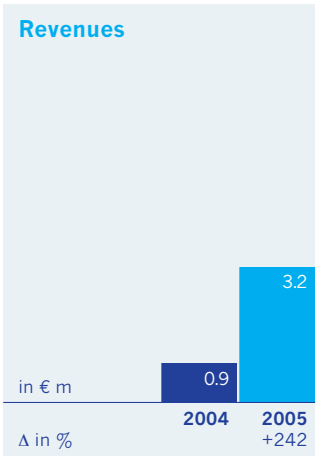
Start of clinical development programmes increases R&D expenses

R&D expenses in the Pharmaceuticals Division increased as planned, from € 0.9 m to € 6.0 m in 2005 due to initiation of the first clinical studies for EVT 201 and EVT 101. As in the past, they do not include the research expenses dedicated to the Metabolic disease programme with DeveloGen (€ 1.8 m booked as net loss from equity investments under non-operating expenses). Following the full acquisition of ENS, division SG&A costs increased by 144 % to € 4.0 m. Operating loss including amortisation charges amounted to € 28.1 m. Evotec amortised goodwill associated with the acquisition of ENS through a one time write-off charge amounting to € 18.5 m. The accounting treatment of goodwill from the ENS acquisition adequately reflects the risks and uncertainties inherent in early drug development. Excluding any amortisation of intangible assets, operating loss increased to € 7.7 m, in line with increased R&D for clinical development.

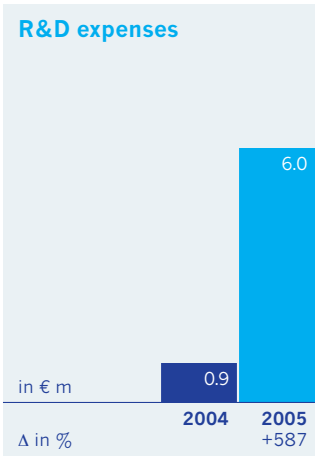
Condensed key figures Pharmaceuticals Division

		2004	2005
Revenues	T€	944	3,231
– Thereof 3rd party	T€	925	3,231
Gross margin	%	38.8	68.1
R&D expenses	T€	867	5,957
SG&A expenses	T€	1,628	3,974
Operating result before non-cash amortisation and impairment	T€	(2,129)	(7,732)
Operating result	T€	(2,220)	(28,086)
– Thereof depreciation and allowances	T€	249	328
Employees (31 | 12, without overhead)		5	35

Revenues



R&D expenses



Advancing two candidates into Phase II in 2006

In the Pharmaceuticals Division Evotec is committed to building a portfolio of drug compounds that provide potential for higher-value return from out-licensing or other partnering. The Company is excited about the rapid progress in building its pipeline in 2005. During 2006, Evotec expects to start Phase II clinical trials for two of its compounds and enter Phase I studies with EVT 102, its parenteral NMDA receptor antagonist. The CNS portfolio may be further supplemented by in-licensing selected compounds or M&A activities. In line with increased clinical development and in-licensing fees (including EVT 301) R&D costs in the division are expected to increase significantly. In summary, 2006 will be another exciting year in Evotec's development and the Company is looking forward to its programmes progressing.

Services Division

Growth through powerful partnerships

The market for drug discovery and development outsourcing showed signs of recovery in 2005. This is particularly being driven by pharmaceutical and biotech customers collaborating with companies like Evotec to support them in advancing their compounds through clinical development and, ultimately to the market. Partnerships built on performance and trust are critical in this business and have proven to be Evotec's key to success.

Unrivalled research engine
Evotec has developed one of the most productive and efficient platforms for the discovery and development of small molecule drugs. It covers the entire process from assay development and screening through lead compound optimisation and finally development and scale-up of processes for the production of the large volumes of compound needed for clinical trials and to support commercialisation.

Services Division revenues 2005

+12 %

Evotec significantly outperformed its original guidance of unchanged service revenues over 2004 driven by a strong performance in chemical development and, in particular, an outstanding contribution from the formulations business.

Financial discussion
Recovering growth

The market for contract research and development remained challenging in 2005; however, it did show signs of recovery over 2004. Evotec is proud that continued high quality delivery and close relationships with its customers translated into a strong performance for 2005. Revenues in the Services Division grew by 12 % over 2004 to € 61.0 m, significantly outperforming our original guidance of approximately € 54 m. Growth has been seen across all product lines, and was predominantly driven by chemical and pharmaceutical development. In particular, Evotec's drug formulation business almost doubled sales over 2004.

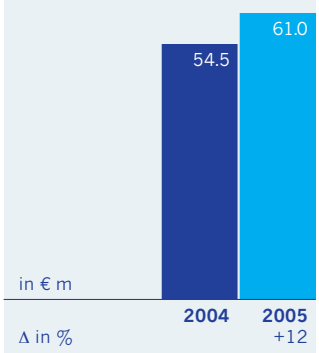
Improved cost structure

After a challenging 2004, in which worldwide outsourcing markets declined, Evotec implemented a significant productivity and efficiency plan to improve its performance. As a result, gross margins improved from 29.3% to 31.1 %, and SG&A decreased in 2005 by 19 % to € 11.4 m. In addition, Evotec has focused its efforts on platform R&D resulting in a reduction of 52 % to € 3.9 m, whilst still being able to deliver its core R&D needs. In 2005, research activities mainly focused on building the corporate library, optimising and exemplifying the proprietary fragment based screening platform and enhancing the Company's high-content screening expertise. In summary, Evotec's Services Division has reduced its operating expenses by € 8.4 m in 2005.

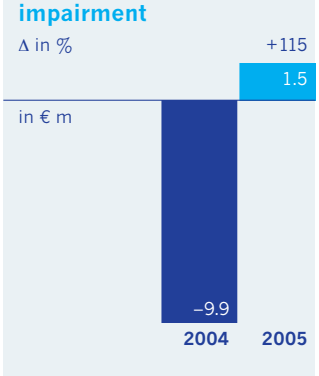
Segment operating result before amortisation positive

Based on strong revenue growth, enhanced capacity utilisation in chemical development and streamlining processes, operating result improved strongly in this division. Excluding charges for the regular amortisation of intangible assets, which will no longer occur in 2006, and excluding a partial unimpairment of pilot plant assets, the Services Division reached € 1.5 m for the full year 2005. Evotec thereby exceeded its original break-even target. With focused capital expenditure, the Services Division was cash generative in 2005, as planned.

Revenues



Operating result before amortisation and impairment



Condensed key figures Services Division

		2004	2005
Revenues	T€	54,508	60,961
– Thereof 3rd party	T€	54,123	60,884
Gross margin	%	29.3	31.1
R&D expenses	T€	8,117	3,864
SG&A expenses	T€	14,125	11,434
Operating result before non-cash amortisation and impairment	T€	(9,851)	1,506
Operating result	T€	(83,616)	(5,226)
– Thereof depreciation and allowances	T€	9,441	6,893
Employees (31 | 12, without overhead)		450	387

Excellent customer network

Selection 2005

ACHILLION
AFFECTIS
ALIZYME
Almirall
ALTANA
ALTANA Pharma AG
AnorMED
astex
AstraZeneca
biogen idec
Bio Image
Boehringer Ingelheim
Celgene
Chroma
CONGENIA
CURIS
GRUNENTHAL
MERCK
NOVARTIS
OXAGEN
OXIGENE
Panacos
Pfizer
point Therapeutics
PROLYSIS
RECORDATI
Roche
sanofi aventis
SEIKAGAKU CORPORATION
serono biotech & beyond
Solvay Pharmaceuticals
Vernalis
VERTEX

Evotec selected for Roche partner programme

"Roche has found a reliable cost-effective partner in Evotec. In our five years of experience with Evotec they have proven to be a partner who meets deadlines on time, usually delivering more than they have committed to. We therefore continually look to develop the relationship further."

Operating segment income before amortisation

Positive!

Strong sales performance and improved efficiency has led to a significant improvement in operating result, exceeding guidance and market expectations.

Unmatched research and development engine

Over recent years Evotec has built an innovative, efficient and powerful, world class platform for the identification and development of novel small molecule drugs, serving a great many pharmaceutical and biotech companies. The key services carried out with the Company's collaborators are compound library design and synthesis, biological screening and hit generation, lead compound identification and optimisation including secondary screening and pharmacokinetic evaluation, followed by all preclinical and clinical scale-up capabilities through to commercial production of active pharmaceutical ingredients (APIs) and parenteral drug formulation.
Evotec has a proven track record of delivering high quality solutions for individual aspects of drug discovery and development. In addition, the critical mass and scope of its operation gives another clear competitive advantage: it makes Evotec an attractive partner to pharmaceutical companies to engage into longer term collaborative research collaborations.

Excellent customer relations
Contracts continued and expanded

Evotec has further built on its ongoing customer relations during the year. In discovery services, its contract with Merck Inc. has continued to deliver high-quality compound libraries and the large chemistry collaboration with Roche continues to add value. Assay development and screening projects were performed for a large number of companies, including Boehringer Ingelheim, Congenia and a large US biotech company. In development, Evotec carried out a range of different projects with Serono and Celgene, which include lab-scale production as well as pilot plant manufacturing and extended its contract with Novartis. The Company was also involved in the validation and/or manufacturing of three APIs from AnorMED, Point Therapeutics and an undisclosed large US biotech company—products for which it has developed processes over many years.
In discovery, it extended contracts with Solvay, Panacos, Chroma Therapeutics and Elixir. Importantly in April the Company announced a 12 months extension of its large, global chemistry contract with Roche. Evotec is also proud to have secured substantial new business during 2005. New contracts were signed with Procter & Gamble Pharmaceuticals, Almirall and two Japanese companies, among others. In development, Evotec signed new agreements with Allergan, Astex, OxiGene and for process research with UCB.

Boehringer Ingelheim/Evotec project team

Moving up the value chain with Boehringer Ingelheim: Providing a service and sharing in success

Cooperating with prestigious pharmaceutical companies such as Boehringer Ingelheim is central to Evotec's success. Evotec and Boehringer Ingelheim started working together in September 2004. Bringing together complementary strengths and expertise in one single team, the companies have established a powerful partnership for the discovery of promising new medicines. In June 2005, less than one year after the start of the research collaboration, the companies entered into lead optimisation for a priority target of this collaboration triggering the first financial milestone. Achieving preclinical project milestones is essential in result-based contracts like this one, as this allows for a good average gross margin during the contract period. Short-term margins are expected to be low, but in return for sharing in the initial risk the long-term margins and revenue streams are expected to be strong through pre-agreed project milestones. In addition, the contract provides substantial long-term upside through potential payments for successful milestone achievements during clinical development and royalties when new drugs reach the market. Further projects within the multi-target collaboration are progressing on schedule.

Following this extremely successful start of the collaboration Evotec and Boehringer Ingelheim significantly expanded their drug discovery collaboration at the start of 2006, effectively doubling the already sizeable programme. At the same time, the collaboration that was originally projected to end in August 2007 was extended to the end of 2008. In addition, Boehringer Ingelheim placed further fee-for-service contracts with us. In November, Boehringer Ingelheim's research sites at Biberach (Germany) and at Laval (Canada) have chosen Evotec as a partner for assay development and screening services.

Boehringer Ingelheim collaboration

Doubled!

In January 2006, Evotec and Boehringer Ingelheim doubled their already sizeable drug discovery programme. At the same time, it was extended to the end of 2008.

The Roche-Evotec partnership: Built on trust

In 2001, Roche began its collaboration with Evotec. In the early days of the relationship, activities were focused on a chemistry collaboration centred on the synthesis of chemical libraries. This deal has been extended a number of times. Roche has, to date, entered into a total of nine different programmes with Evotec, including medicinal chemistry optimisation to support Roche's oncology therapeutic area, electrophysiological side effect testing of specific compounds on cardiac ion channels and a large global agreement providing Roche with medicinal chemistry support. Scientists across all of Roche's research facilities in Switzerland, Germany, the United States and Japan are gaining direct access to the innovation, creativity and productivity of Evotec's scientists. An excellent working relationship has been forged between the two partners and this has led to the inclusion of Evotec within Roche's Ambassador Partner Programme, publicly acknowledging the expertise and support of Evotec.

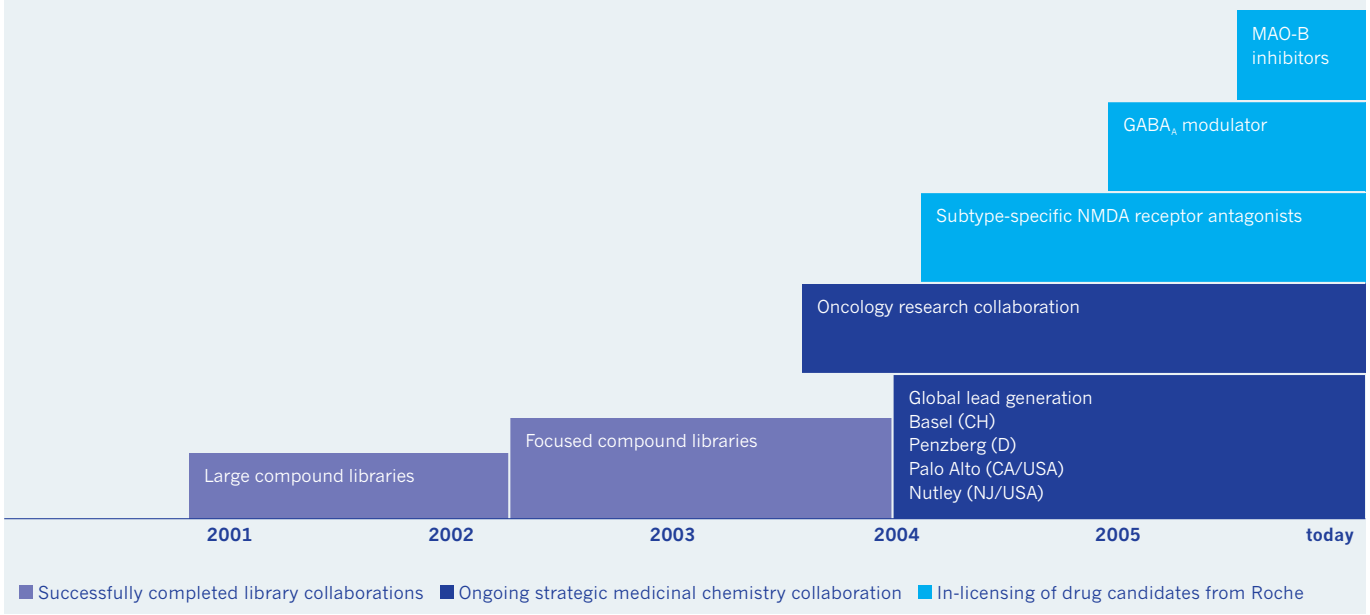
As Evotec's business has evolved to incorporate expertise in developing drugs for the treatment of central nervous system diseases (CNS) alongside its services business this positive relationship has clearly helped Evotec to in-license three promising development programmes from Roche (see Pharmaceuticals Division, pages 6–15). This is just one example of the synergies between both sides of Evotec's business.

Roche

Rapidly expanding deal volume

Evotec's track record in providing Roche with high quality research support has paved the way for them to out-licence three promising CNS programmes to Evotec's Pharmaceuticals Division (see pages 6–15).

Roche—Evotec contract record (illustrative)



Three compounds in development for commercial manufacture

Extending key contracts through the development process has led to a strong year and outlook for Evotec's chemical development services.

Full-range service contracts with Procter & Gamble Pharmaceuticals

In June 2005, Evotec entered into a broad integrated new relationship with Procter & Gamble Pharmaceuticals, Inc. (P&GP) involving many disciplines of pharmaceutical drug discovery. On the basis of several signed contracts P&GP has accessed a wide range of discovery and preclinical expertise offered by Evotec, ranging from biological assay development and screening to medicinal, computational and scale-up chemistry services.

Commercial manufacture for AnorMED, Point Therapeutics and another US biotech company leads to steady production business

Sales performance in chemical and pharmaceutical development has been particularly strong through 2005. Evotec's biotechnology and pharmaceutical customers continue to make extended use of its full range of development capabilities from preclinical synthesis to commercial API manufacture. In 2005, Evotec was the commercial supplier of a number of APIs. The Company completed the validation of the process for commercial manufacture of AnorMED's Phase III compound AMD3100 and supplied significant quantities for a second of their compounds, AMD070, for use in clinical trials. In addition, Evotec worked closely with Point Therapeutics, supplied significant quantities of their anti-cancer drug talabostat for use in mid to late stage clinical trials and started validating the talabostat process for commercial manufacture. For the commercial manufacture of a recently approved compound from a long-term US biotech partner a supply agreement was signed and several batches produced during the year. In summary, this has the effect of giving steady production business for Evotec's pilot plants improving capacity utilisation, typically an issue in any manufacturing environment.

Synergies drive integration of rapidly growing formulation business

Evotec's formulation business, based in Glasgow, Scotland, nearly doubled sales and showed impressive margin growth in 2005. As of September 2005, on purchase of the final outstanding equity from Strathclyde University, it has been fully integrated into the Evotec brand. In line with this, the name changed from ProPharma Ltd to Evotec (Scotland) Ltd. This business is now a wholly owned subsidiary of Evotec.
By adding its expertise in pharmaceutical formulation development and the small-scale sterile manufacture of pharmaceuticals for use in clinical trials, Evotec now offers a more comprehensive range of integrated services to its clients along the late preclinical and clinical value chain.

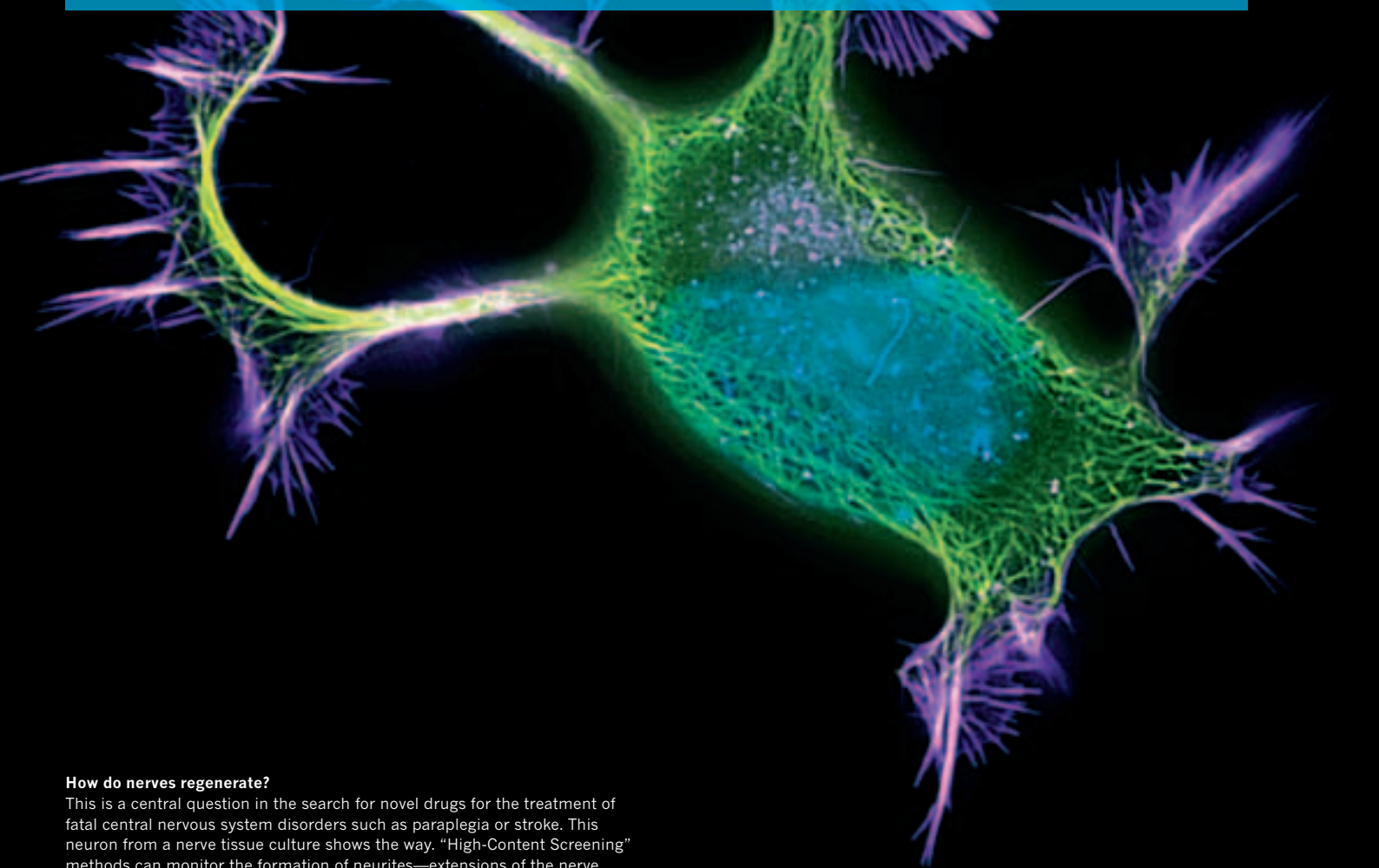
Markets expected to remain challenging

In 2005, Evotec's Services Division returned to growth and operating profitability in a continued challenging market. Operating in an environment with a continued weak dollar, slow market recovery and competition from low cost suppliers, Evotec has focused on high value and high quality contract research in close customer collaborations. Multi-year partnerships such as those with Roche and Boehringer Ingelheim are a strong validation of the Company's ability to deliver. The development service business continues to be promising, starting the year, as in 2005 with a good order book which is the result of long-term projects having moved all the way through to commercial manufacture. Also the formulations business continues to look strong.

Tools & Technologies (Evotec Technologies | ET)

Growth market Cell Biology

The area of Cell Biology is having a major impact on the discovery of novel drugs. There is tremendous value in technologies which enable scientists to get a deeper understanding of the interactions of molecules within their real physiological environment. Evotec Technologies is developing cutting edge cell handling and cell imaging systems and software for this growing market.



How do nerves regenerate?
This is a central question in the search for novel drugs for the treatment of fatal central nervous system disorders such as paraplegia or stroke. This neuron from a nerve tissue culture shows the way. “High-Content Screening” methods can monitor the formation of neurites—extensions of the nerve cell axon via which nerve cells communicate.

> Ramp up of Opera™ sales supported by attractive extended features
> Pick-up in customer support sales following Zeiss uHTS acquisition
> Academic market increasingly important

Bottlenecks in Cell Biology drive the need for innovative technologies

Scientists increasingly study the complete biological system in which natural processes occur. The object they are looking at is the whole cell. This field of research is referred to as Cell Biology. The instruments and technologies applied in Cell Biology are becoming more sophisticated. They enable the researcher to handle and manipulate cells, detect mechanisms within whole cells, both primary cells and cell lines, and automate the process around the analysis and handling of cells. Increasing use of primary cells to gain functional data, together with the growth of stem cell research, requires novel solutions for isolation, purification and sorting of these cells. In addition, there are enormous and increasing amounts of data to be handled and analysed.
Cell Biology is already a multi billion dollar tools market today, growing by over 10 % annually. With its high-performance solutions (see section "Focused product development") Evotec Technologies (ET) has evolved as a leading provider of tools for high-content analysis and handling of cells.

Focused product development

ET has a growing network of long-term collaborations with customers such as Pfizer and GlaxoSmithKline. Based on discussions with such prominent partners, ET identified the increasing trend towards whole Cell Biology early on and decided to leverage its technologies and expertise in detection, automation, software and biology to satisfy unmet needs.
ET has become a world leading provider of high-end confocal detection devices and ultra-high-throughput screening (uHTS) systems. The Company's outstanding expertise in detection coupled with sophisticated automation skills makes ET a clear leader for automated cell analysis. Already today, ET's market share in uHTS imaging exceeds 50 %.
The Company has taken over the leading position in high-end instrumentation for high-content cellular assays with the Opera™. The Opera™ is a flexible imaging platform that is significantly faster than any other system on the market, without compromising high resolution. A new release of the product provides more colours and detectors as well as environmental control for live cell investigation. The integration of Opera™ and other detection systems into ET's automation platforms EVOscreen® or plate::explorer™ enables the convenient analysis of biological systems in high-throughput mode.
Generating huge amounts of imaging data, novel software solutions for data processing are therefore required to translate this into meaningful results. ET's answer: Acapella™. The Acapella™ data analysis framework is a highly flexible and powerful data processing engine adaptable to a broad spectrum of bio-pharmaceutical applications and data formats. It is able to quickly extract a broad spectrum of information out of a high-content data set.
In addition to performing high-content cell analysis, ET is expanding into emerging markets, which require cell manipulation and single cell analysis such as mammalian cell cloning, gene expression analysis and stem cell research. It therefore has developed Elektra™, a device for Image Activated Cell Selection (IACS) and single cell recovery. First sales of this device as well as the Cytocon™, the semi-automated version of this technology, already demonstrate the enormous potential of the underlying "CellProcessor" technology.

30th Opera™ sold

The growth trend for ET's Opera™ business remains intact. Following the launch of the new release of this cell imager, Q4 sales increased significantly. The 30th instrument was sold before year end 2005.

ET portfolio: Generating high-content data in high-throughput mode

Handling and detection devices for cellular analysis

Insight Cell
Combined methods of single molecule detection and cell imaging

Opera™
High-speed confocal cell imaging detector

Elektra™
Bench-top device for automated single cell selection and recovery

plate::vision™
Ultra-fast multi mode reader

Automation platforms to allow analysis in high-throughput mode

EVOscreen®
Integrated ultra-high-throughput screening platform

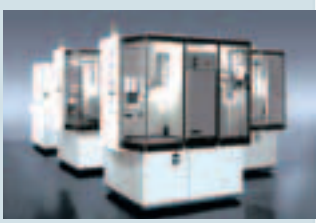


plate::explorer™
A modular and scalable solution for high-performance automation

Seamless solutions through networking

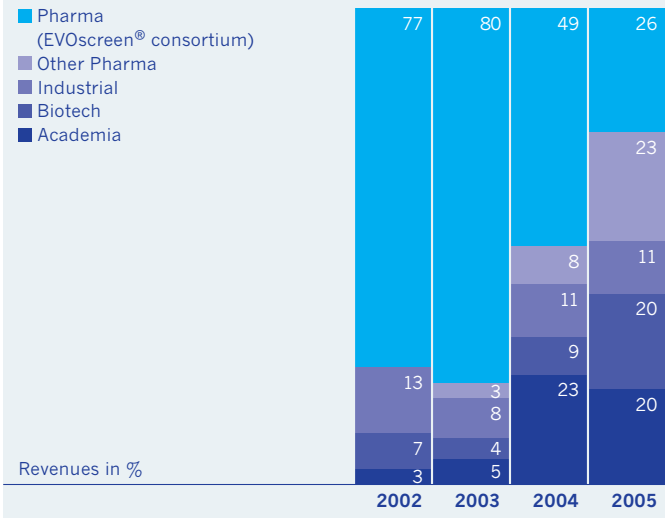
ET continuously expands its network of partnerships through development cooperations, co-marketing and license agreements. With the growing importance of Cell Biology, industry wide strategies to build seamless automated processes for fast cellular analysis increasingly replace large stand-alone efforts of individual tools suppliers.
Early 2006 (after period end), ET announced the extension of the application portfolio of its Opera™ system through a license agreement with Cellomics, to include specific classes of high-content screening assays such as cytoplasm-nuclear translocation, characterisation of cellular toxicity, and receptor internalisation. In an agreement with BioImage A/S, ET extended the portfolio towards redistribution assay technologies. The Company also signed a license agreement with CSIRO to integrate their software solution for automated imaging of neurons and quantification of neurite formation into ET's Acapella™ software platform. In September 2005, ET and Genedata announced that they would jointly promote ET's automated screening instrumentation (EVOscreen® and plate::explorer™) and data analysis software (Acapella™) with Genedata's software system Genedata Screener®, to provide a complete solution for generation and interpretation of high-precision imaging and kinetic experiments. One joint application will be the prediction of pharmacological properties in early phases of the drug discovery process.

Two years ago, ET was heavily dependent on a few large pharmaceutical customers, in particular Pfizer, Novartis and GSK who together represented 80 % of ET's 2003 revenues. ET's strategy has been to reduce this dependence by developing

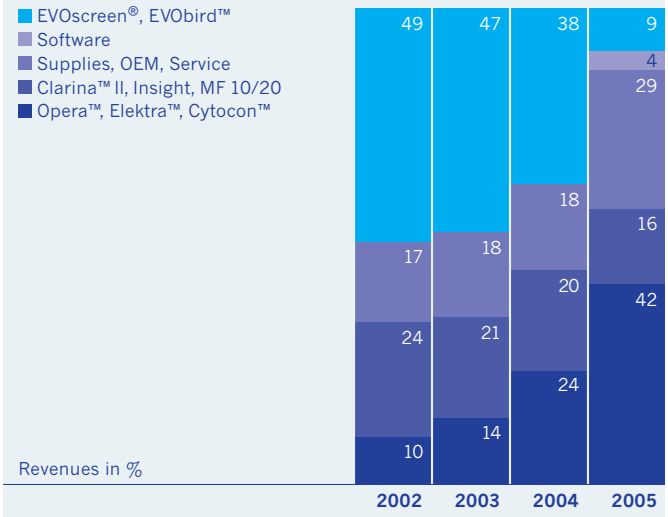
Evotec Technologies' product installations
A global market presence

■ 21 screening platforms installed at 14 sites
■ More than 60 bench-top systems (Opera™, Elektra™, Cytocon™, Clarina™ II)
In addition more than 50 Insight readers.

Customer mix;
Strong growth of new customer base



Product mix:
Cellular business and customer support on the fast track



high-content analysis and Cell Biology-based products for new customer segments, and to grow service and support contracts by also maintaining the installed base of systems at existing customers. The three-year instrumentation supply, technology development and product enhancement contract with Pfizer has been successfully completed and all milestones achieved. Pfizer and ET have signed a global service and maintenance agreement covering the entire ET instrumentation range across all Pfizer sites. In 2005, ET's revenues from outside the Pfizer, Novartis and GSK partnerships (EVOscreen® consortium) have grown by 27 % over 2004 and now make up 74 % of ET's revenues. The following events have been particularly significant:

Building on synergies after Zeiss uHTS acquisition

In May 2005, ET announced the acquisition of the uHTS business from Carl Zeiss Jena, with ET receiving exclusive rights to build and commercialise Zeiss' uHTS product portfolio including the plate::vision™ reader and the plate::explorer™ uHTS system. In addition, ET assumed the service responsibility for the installed base of these Zeiss instruments, including ten uHTS systems that are in operation at leading pharmaceutical companies. This acquisition helped ET to gain long-term service relationships with additional top-ten pharmaceutical companies.

Growing number of academic partners

ET's customer base in pharma and biotech now covers a sizable portion of the industry. In addition, academic institutes are moving towards drug discovery and have become an increasingly important customer. There are four promising characteristics of this highly innovative academic market:

> the academic community operates in networks, hence supporting the spread of a chosen technology,
> there is a strong scientific focus on cell-based applications,
> in comparison to the pharmaceutical industry, the spectrum of cell-based applications is much wider, and
> in addition to searching drug candidates, researchers in academia also have a strong interest in identifying molecular probes that can be used to modulate the systems they are investigating.

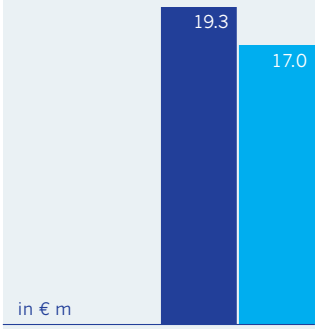
The common need is automation and intelligent data analysis, both areas where ET has an unparalleled expertise.

Financial discussion

Strong underlying bench-top business for Cell Biology

Evotec Technologies (ET) achieved revenues of € 17.0 m. As expected, the launch of the new generation of the Opera™ has led to a significant increase in orders during the course of the year. Orders were received from pharmaceutical, biotech and academic institutions worldwide. Sales were concentrated in the second half of the year, in particular in Q4 2005, where they amounted to € 7.3 m. As expected, they could, however, not match the above average performance in Q4 2004, which included a significant revenue contribution from the sale of an EVOscreen® system.

Revenues



Streamlining operations

As planned, ET's R&D expenses declined in 2005 compared with 2004. They were reduced by 16 % to € 5.2 m. This is a reflection of the advanced development stage of the Opera™ and Elektra™ platforms, which resulted in capitalisation of some software upgrade developments according to IFRS (€ 0.7 m). R&D efforts in 2005 focused on the continued enhancement and expansion of applications for both of ET's core Cell Biology devices. For the Opera™, ET has added further excitation sources and detection devices, developed new software to integrate the bench-top instrument into proprietary as well as third-party automation devices, and developed an integrated environmental control chamber to keep cells under natural conditions. For Elektra™, novel applications were developed to meet the particular requirements of modern stem cell research. In addition, ET completed its performance enhancement programme for EVOscreen® with Pfizer.

SG&A expenses increased by 28 % to € 4.8 m primarily due to further investments in building a stronger international presence. Operating result before amortisation fell to € (2.4) m, largely due to an extraordinary restructuring charge. The Company decided to close its Duesseldorf operations and transfer most of the corresponding activities to Hamburg. This will streamline operations and enhance its offering by more closely integrating the development of assay applications, technologies and software.

Condensed key figures Tools & Technologies

		2004	2005
Revenues	T€	19,315	17,003
– Thereof 3rd party	T€	17,683	15,670
Gross margin	%	51.0	50.4
R&D expenses	T€	6,164	5,175
SG&A expenses	T€	3,788	4,832
Restructuring expenses	T€	0	917
Operating result before non-cash amortisation and impairment	T€	(98)	(2,362)
Operating result	T€	(961)	(3,638)
– Thereof depreciation and allowances	T€	843	1,819
Employees (31 | 12, without overhead)		91	92

Academic research to drive future growth

In 2005, ET has experienced growing interest and orders from academic research institutes around the world, a trend which it expects to continue in 2006. At the beginning of 2006, ET received a substantial order from the University of Cincinnati Genome Research Institute. With the integration of the Zeiss instrument portfolio ET has further tailored its offering to respond to the automation needs in the academic market. The modular architecture of those devices allows adequate solutions for fully automated analysis of cellular assays. In addition, the stem cell initiative in the US is also expected to further boost demand for ET's devices.

Status Report 2005

Content
(Numbering according to German Accounting Standards)

Financial Report (figures according to IFRS)

Business and operating environment (1)
Continued challenging markets

Evotec continues to operate in a challenging contract research environment where the market for outsourced drug discovery continues to be restricted by the lack of discovery funding in the biotech industry. Driven by continued pressure from investors to focus on more advanced product opportunities and to realise quicker gains, the funding available has been largely channelled into clinical development. This has benefited Evotec's chemical and pharmaceutical development services which grew substantially during the year. Also pharmaceutical customers have continued to focus their R&D priorities on advancing clinical candidates that are closer to market to maintain growth through new product launches. At the same time, to increase the number of new pipeline drugs these companies accelerate their in-licensing activities of their pre-clinical and clinical candidates.
In 2005, Evotec began to build its pipeline of clinical development compounds in the CNS field which the Company intends to partner with pharmaceutical companies before or in Phase III clinical trials. Evotec's close relationship with Roche has enabled it to in-license three promising clinical products, two for Alzheimer's disease and one for insomnia. Evotec's increasing R&D expenditure in the Pharmaceuticals Division reflects the expense associated with running clinical trials.

Results of operations (2)

Detailed business segment performance, including description of its respective products and services, market and competitive advantages as well as activities in research and development, is discussed on pages 6 to 30. It should be noted that the definition of the segments has been modified in 2005, following the acquisition of Evotec Neurosciences (ENS) and the higher emphasis on proprietary drug development. The new segment structure impacts the Services Division (formerly: Discovery and Development Services) and the Pharmaceuticals Division (formerly: Discovery Programs Division). The Tools and Technologies segment (Evotec Technologies) is unchanged. In particular, work for proprietary development programmes is no longer shown as Services revenues. The detailed P&L shown in the respective separate segment reports reflects this change. 2004 numbers have been restated accordingly.

Revenues:
Solid revenue growth

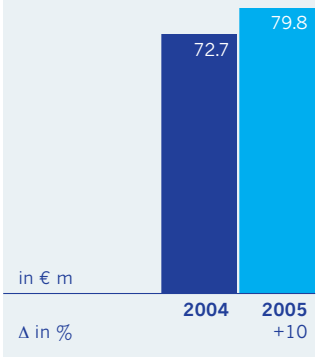
Total group revenues increased by 10 % to € 79.8 m (2004: € 72.7 m). Organic growth, i.e. not including additional contribution from full consolidation of ENS, was 7 %. Also, year on year growth was recorded in each quarter of the year. Revenue continued to exhibit its historical pattern of seasonality with Q4 being particularly strong (33 % of annual revenues; 2004: 35 %). Currency effects continued to be evident in 2005 with the US Dollar being especially volatile. However, across the year as a whole, the average rate of exchange of the Euro against the US Dollar remained the same as in 2004 at € 1.00 to $ 1.24. Due to volatility, currency effects contributed 0.4 %-points to the growth reported.
Services Division revenues have shown consistent recovery throughout 2005 after the decline seen in 2004, and are now 12 % ahead of 2004. This is particularly pleasing given the continued market pressures in contract research services and the continued relative weakness of the US Dollar against Evotec's operating currencies of the Euro and UK Pound. Chemical and pharmaceutical development services were particularly in demand from customers in 2005.
Tools and Technologies Division (Evotec Technologies) revenues ended the year with a strong Q4 but this was not sufficient to compensate for the 2004 sale of an EVOscreen® system which had produced above average performance in Q4 2004. The Division ended 2005 with third party revenues 11 % below 2004. What is notable, however, is that the Division has successfully made the transition from being a supplier of predominant-

Revenues 2005

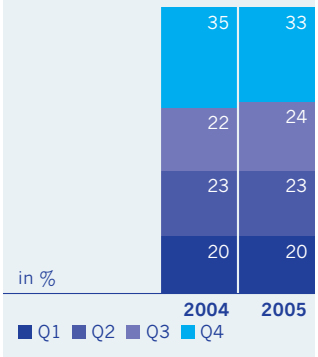
+10 %

Growth was reported in each quarter with Q4 again being particularly strong. Overall growth was mainly driven by a 12 % revenue increase in the Services Division where chemical and pharmaceutical development services were particularly in demand from customers.

Revenues



Percentage of total revenues in each quarter



Revenues by regions

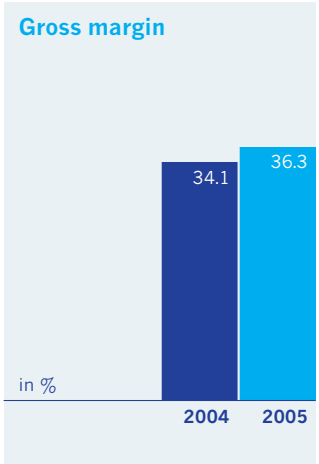
ly larger screening machines (EVOscreen®) to a limited customer group to the broader supply of high-end bench-top analysis and cell handling equipment such as Opera™ and Elektra™.
The Pharmaceuticals Division is focused on mid to longer term added value through the partnering of internal programmes; however, the division also recorded growing revenues in 2005 through the collaboration with Takeda amounting to € 3.2 m (2004: € 0.9 m). This collaboration has been shown in Evotec's group accounts since consolidation of ENS in May of 2005, while in 2004 it was shown for the first quarter only, i.e. until Evotec temporarily lost majority ownership to venture capitalists.
The geographical spread of revenues for the Group continues to be diverse. Europe continues to be the largest market with 51 % of total revenues (2004: 46 %), and the US market being second at 37 % (2004: 42 %).

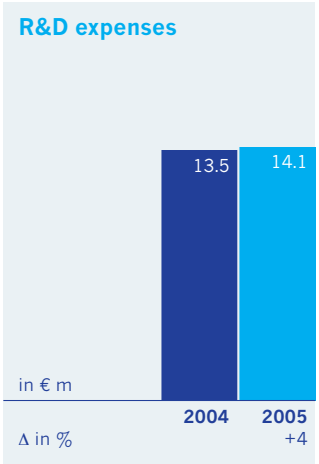
Gross margin: Improvement through cost control and increased efficiency

The Group's overall gross margin for 2005 was 36.3 % (2004: 34.1 %) with cost of revenues amounting to € 50.8 m (2004: € 47.9 m). This improvement comes as a result of a programme of cost and efficiency improvements across all divisions together with changing market demands which have improved the revenue mix. In the Services Division, the much improved utilisation of the Pilot Plant and the continued strong performance of the formulations business have benefited the margins. In the Pharmaceuticals Division, the milestone payment from Takeda significantly contributed.
Efficiency programmes saw a managed headcount reduction in the services operations to align skill sets with demand and focus increased effort on customer-facing activities. In the same vein, Evotec Technologies announced the closure of the Duesseldorf site. Whilst the US Dollar continues to be weak and therefore affects the Company's pricing and gross margin versus competitors with US based operations, the average US Dollar exchange rate was the same in 2005 as in 2004, and therefore currency effects have had less of an impact on the year on year comparisons. In total, currency contributed 0.6 %-points to the margin improvement.

Research & Development costs: Focus on proprietary programmes

Research & Development (R&D) costs for 2005 amounted to € 14.1 m, increased only slightly over the 2004 figure (2004: € 13.5 m). This is due to increase in costs in internal programmes in the Pharmaceuticals Division offset by a reduction in platform R&D expenditure in both Services (52 % reduction) and Evotec Technologies (16 % reduction). For the Group, there was considerable year on year cost reduction in Q1 and Q2 2005. However, following the acquisition of Evotec Neurosciences in May 2005 and the subsequent acceleration of internal research programmes with a proprietary drug dis-





covery and development focus, there was a planned increase in R&D expenditure such that R&D in Q4 2005 was € 5.1 m versus € 3.8 m in Q4 2004.

Selling, general and administration costs: Efficiency gains offset by ENS acquisition

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

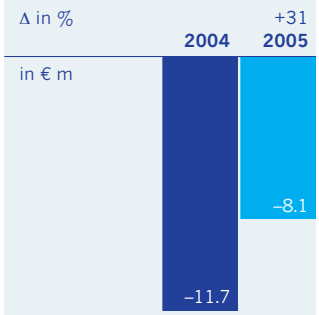
Operating result: Significant improvement; Services Division positive before amortisation

The operating loss for the Group decreased significantly to € 35.7 m (2004: € 85.6 m). Both 2005 and 2004 included impairment charges and amortisation of € 27.6 m and € 73.9 m respectively (for a more detailed explanation see page 38). Excluding these items, the comparable position would be a decrease in operating loss to € 8.1 m (2004: € 11.7 m), in line with the improved gross profit.

Other operating costs from planned unused capacity in the Services Division decreased to € 2.2 m (2004: € 3.6 m). Through the revenue increase and cost and efficiency savings seen, Services shows a positive operating position of € 1.5 m before the inclusion of the non-cash amortisation.

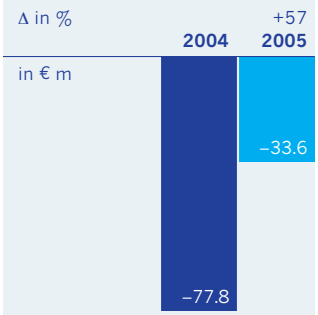
Evotec Technologies ended the year with an operating loss before the inclusion of amortisation charges of € 2.4 m, after a restructuring charge of € 0.9 m in context with the closure of the Duesseldorf site. The majority of the Group operating loss both before and after amortisation arises from the Pharmaceuticals Division due to the Company‘s focused investments in its proprietary research programmes.

Operating result[1)]



[1)] before amortisation and impairment

Net income



Net loss: Improved operating result, lower amortisation charges

The net loss for the year of € 33.6 m is significantly lower than the previous year (2004: € 77.8 m). This is mainly a result of the substantial goodwill and asset impairment seen in 2004. In 2005, there was a smaller impairment, resulting largely from the acquisition of Evotec Neurosciences (ENS). The change to reporting under IFRS has resulted in distinct changes to the methodology of determining the impairment which have also resulted in the 2004 impairment under IFRS being lower than under previously reported US-GAAP figures (see also page 38 and the Notes to the Financial Statements No. (2)). Factors that have impacted the net loss position below the operating line include a foreign exchange loss for the year of € 0.7 m (2004: gain of € 0.9 m) resulting from transactions that protected our US Dollar budget rate but were at adverse value to the volatile, but more favourable currency markets at certain points in the year. R&D investments in Evotec's Metabolic disease joint research programme with DeveloGen and in ENS prior to re-acquisition were reported as a non-operating cost and classified as "net loss from equity investments", totalling € 2.6 m (2004: € 3.5 m). Neither investments will be shown under non-operating cost from January 2006 onwards, as the joint venture structure has now been dissolved (see page 43). 2005 deferred tax credits decreased to € 4.7 m (2004: € 9.7 m) due to reduced regular amortisation and lower capital tax allowances in the year. Excluding the impairment and amortisation charges, net loss amounted to € 6.0 m (2004: € 3.9 m). Adjusted for the deferred tax effect, net result improved by 21 % despite the increasing emphasis on internal drug discovery and development programmes following the integration of ENS into the Pharmaceuticals Division.

The total net loss per share of Evotec was € 0.65 (2004: € 2.12). The weighted average number of shares used in calculating basic earnings per share (EPS) increased by 15.357.573 shares to 51.987.921 following the issue of additional shares for the ENS acquisition in May and for the capital increase in June 2005.

EBITDA

Earnings before interest, tax, depreciation and amortisation (EBITDA) for the Group ended the year at € (1.7 m) (2004: € (2.9 m)). This improvement is a direct result of the cost reductions achieved and the improved performance of the Services Division.

EBITDA calculation

T€	2004	2005
Net income	(77,812)	(33,583)
– Interest income	451	856
+ Interest expense	847	729
– Tax benefits	9,777	4,513
+ Amortisation	10,074	9,733
+ Impairment	63,851	17,835
+ Depreciation and allowances	10,336	8,956
= EBITDA	(2,932)	(1,699)

Financing and financial position (3)

Cash flow:
Positive cash flow from operations

Cash flow from operating activities was € 1.9 m (2004: € (3.9 m)). A number of factors have contributed to this improved performance including the improved operating result and a reduction in receivables of € 2.1 m compared to the previous year.

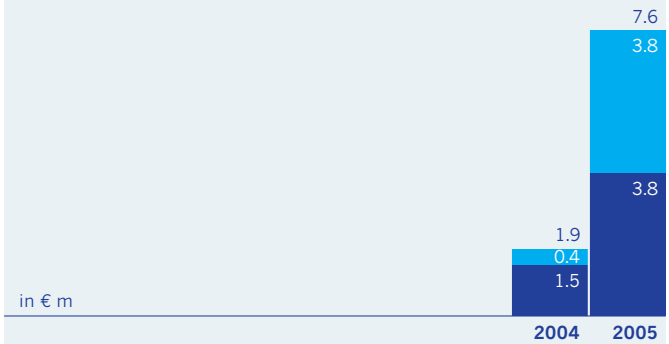
Cash flow from investing activities was positive in 2005 (€ 9.0 m) as a result of a net inflow of cash from the acquisition of Evotec Neurosciences of € 19.2 m, more than offsetting the cash investing activities of € 10.3 m. Purchase of capital equipment amounted to € 3.8 m, the main item of which being the capacity expansion with new clean rooms for the formulation business Evotec (Scotland) Ltd in Glasgow. In September 2005, further investment was made in acquiring the remaining minority stake in this business, held by the University of Strathclyde, for Evotec (UK) Ltd to achieve 100 % ownership of this subsidiary. Other investments included that into our Joint Venture with DeveloGen and other capitalised R&D cost, as well as various intangibles acquired by Evotec Technologies, in particular the Zeiss uHTS-business and a license from Cellomics.

Net cash flow from financing activities increased to € 26.3 m (2004: € 5.2 m). This was predominantly the result of the Company's secondary offering in June 2005 providing proceeds of € 28.4 m offset by a net repayment of bank loans of € 2.2 m. The proceeds are expected to be used predominantly to finance the clinical development of drug candidates within the Pharmaceuticals Division, until partnering or out-licensing will pay for their further development.

Condensed cash flow statement

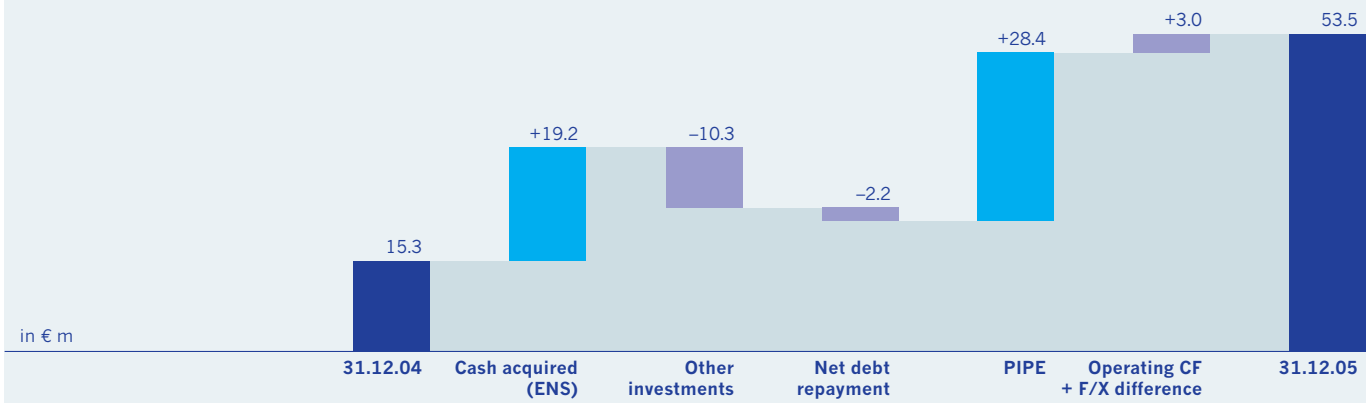
T€	2004	2005
Net cash provided by (used in)		
– operating activities	(3,859)	1,910
– investing activities	(4,964)	8,980
– financing activities	5,199	26,251
Net increase | decrease in cash		
and cash equivalents	**(3,624)**	37,141
Exchange rate difference	138	1,102
Cash and cash equivalents		
– at beginning of year	18,763	15,277
– at end of year	15,277	53,520

Capital expenditure*



*without finance lease

Cash development



Cash 2005

€ 53.5 m

Evotec closed the year with a strong liquidity position. The cash increase over 2004 resulted from the acquisition of ENS in May and Evotec's secondary offering in June 2005. Operating cash flow was also positive.

Liquidity and hedging: Low risk strategies used for cash and foreign exchange

The Group closed the year with € 53.5 m of cash and cash equivalents, and holds 63% as liquid investments with a maturity of less than three months. Our investment policy defines that investments are only made in products and with financial institutions rated A or better (Standard & Poor ratings). € 7.0 m are held in UK Sterling and the remainder (€ 46.5 m) in € currency. Evotec has a high proportion of revenues from US clients denominated in US Dollar and a large proportion of its total cost base in the UK (denominated in UK Sterling). To limit the risk associated with currency movements in the US Dollar, particularly against UK Sterling, the Company uses foreign exchange financial instruments such as options and futures. It is Company policy not to speculate on foreign exchange movements, but to hedge the risks arising from underlying business activities.

The foreign exchange gain or loss shown in the financial statements is derived from the transaction gains and losses on transactions denominated in a currency other than the local currency, the change in the value of foreign currency assets and liabilities retranslated into local currency at the balance sheet date, and fair value adjustments relating to financial instruments held.

The 2005 exchange loss includes a charge of € 0.3 m relating to fair value adjustments (2004: € 0.3 m credit). The notional amounts of currency related financial instruments held at 31 December 2005 were $ 10.0 m (2004: $ 10.5 m).

Evotec makes use of long term bank loans and asset finance, primarily for the Services Division, with only small new asset finance for Evotec Technologies, and the sum of these debt elements – including their current portions – remained relatively stable at € 13.3 m (2004: € 13.7 m) with some repayment finance offset by new asset finance agreements. Currency split of debt was € 3.2 m in UK Sterling and € 10.1 m in €.

Balance sheet (4)

Capital structure: Capital increases in May and June 2005

Evotec increased its share capital during 2005 with the issue of a total of 24.7 million new shares through both a capital increase against contribution in kind (14.3 million new shares for acquisition of all ENS shares not already owned) and a secondary offering at a price of € 2.72 per share. The offering provided net cash proceeds of € 28.4 m. As a result, share capital in the Company increased to € 62.8 m (2004: € 38.0 m), and total equity to € 148.7 m. Only a very small number of employee share options were exercised and this did not significantly affect the amount of share capital in issue. Evotec ended the year with an equity ratio of 80% (2004: 75%) due to the generally low amount of debt held by the Group.

Equity ratio 2005

80 %

Due to the generally low amount of debt the equity ratio of Evotec continued to be strong.

Condensed balance sheet

T€	2004	2005
Cash, cash equivalents and securities	15,277	53,520
Inventories	10,099	10,502
Other current assets	19,493	17,951
Property, plant and equipment	37,762	38,163
Intangible assets	60,714	65,921
Other non-current assets	3,199	54
Total assets	**146,544**	**186,111**
Provisions	5,994	6,563
Other current liabilities	15,518	23,109
Long-term liabilities	12,598	7,770
Deferred tax liabilities	1,926	0
Total stockholders' equity	109,934	148,669
Minority interest	574	0
Total liabilities and stockholders' equity	**146,544**	**186,111**

Net assets: Strong asset base

The Company owns fixed assets consisting of property (not land) and capitalised leasehold improvements to property, predominantly through laboratory fit outs, and scientific and technical equipment for use in these laboratories. In addition, the Company has offices and information technology to support both operational and overhead areas.

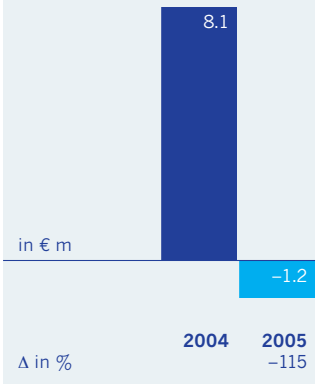
Regular group (fixed asset) depreciation exceeded investments in new assets slightly. However, a small reversal of impairment of pilot plant fixed assets under IFRS resulted in an increase of total fixed assets to € 38.2 m (2004: € 37.8 m).

The Company has performed its annual regular review of tangible and intangible assets for impairment under IFRS in the same way as has previously been performed under US GAAP. Whilst the principles are similar, the exact methodology of valuation is different and has resulted in a smaller impairment in 2004 and a slight reversal of impairment in 2005 (€ (0.6) m) of assets related to the Services Division. The 2005 review has resulted in no further impairment of goodwill related to the acquisition of Oxford Asymmetry International (OAI) five years ago. In 2005, however, intangibles acquired with Evotec Neurosciences (ENS) have been impaired (€ 18.5 m) as is common practice for pharmaceutical R&D or related goodwill.

Customer related intangibles in ENS and in the uHTS business acquired by Evotec Technologies (ET) from Zeiss, as well as customer list and technologies acquired with OAI are being regularly amortised. In 2005, this amortisation amounted to € 1.8 m for ENS, € 0.3 m for uHTS and € 7.3 m for OAI. The amortisation associated with OAI ended in September 2005. Also, under IFRS a total of € 1.2 m of ET's R&D expenses were capitalised, € 0.7 m thereof in 2005. These will be amortised over four years. Total group intangible assets (including goodwill) amounted to € 65.9 m at the end of 2005 (2004: € 60.7 m).

The working capital for the Group decreased significantly during 2005 to € (1.2) m (2004: € 8.1 m) as a result of improved collection and timing of trade accounts receivable, maintenance of inventory at levels in line with revenues, and in particular due to the increased proportion of debt with short-term maturity.

Working capital



Human resources
A year of change

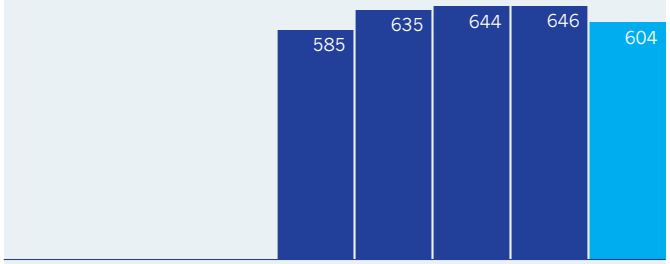
During 2005, Evotec's headcount decreased for the first time in the Company's history. This was used to reduce headcount in overhead areas and to improve productivity in areas of direct labour. The total employee count at 31 December 2005 stands at 604 compared to 646 at the same time in 2004. These numbers also include the integration of the 29 staff acquired when Evotec Neurosciences (ENS) rejoined the Group in May and the expansion of the formulation business in Glasgow, Scotland.

With the acquisition of ENS we saw the expansion and consolidation of the previous Discovery Programs Division into the Pharmaceuticals Division, and Evotec has now started to add critical clinical development skills to this part of the business. During the year the Company also consolidated its operations in Evotec Technologies with the announcement of the closure of the small Duesseldorf site and the redeployment of some of the staff to Hamburg. Nine employees will leave the Company.

Evotec has retained its commitment to employee communications during the year by holding regular face-to-face meetings and through written communication on a wide variety of topics.

The Company has continued to seek ways to improve the value and cost effectiveness of its benefit package to employees in its largest headcount area, the UK, through the introduction of improved pension facilities and the tax effective Salary Pension Arrangement. Evotec continued to support staff with the use of coaching, training, finance for conference attendance and management development initiatives.

Employees as of 31 December



Headcount analysis by area and qualification as of 31 December 2005

	Total	Male	Female	Biologists, Biochemists	Chemists	Physicists	Physicians, Pharma-cologists	Engineers (R&D), IT experts	Others
Services Operations	**387**	**252**	**135**	**18**	**232**	**2**	**1**	**9**	**125**
– Discovery Hamburg	54	25	29	9	6	2	1	9	27
– Discovery Abingdon	192	128	64	9	124	0	0	0	59
– Chemical & Pharma-ceutical Development (Abingdon & Glasgow)	141	99	42	0	102	0	0	0	39
Pharmaceuticals Operations	**35**	**16**	**19**	**10**	**4**	**0**	**4**	**0**	**17**
Evotec Technologies	**92**	**71**	**21**	**12**	**3**	**19**	**0**	**48**	**10**
Overhead	**90**	**45**	**45**	**13**	**15**	**1**	**0**	**18**	**43**
– Sales & Administration	82	42	40	12	15	0	0	18	37
– Corporate	8	3	5	1	0	1	0	0	6
Grand Total	**604**	**384**	**220**	**53**	**254**	**22**	**5**	**75**	**195**

Risk Report, Risk Management and Environmental Protection

Risk report (6)

Business risks and future development chances

Evotec's businesses each show different potentials for value creation, while also showing different risk profiles.

Evotec's **Pharmaceuticals Division** engages in selected discovery and development activities which promise significant returns when such programmes are successful, but also carry higher business, scientific and financial risk. The more significant returns will materialise with upfront and milestone payments and/or royalties from future sale of drugs. We expect to achieve this when any one of the drug candidates will either be out-licensed to pharmaceutical or biotech companies, or when Evotec decides to partner while still retaining some marketing rights. The associated risks are those inherent to the biotech and drug development industry in general:

> Even if Evotec identifies promising targets and compounds, or in-licenses or otherwise acquires promising drug candidates for development, any such project could fail or it could take several years before the Company could sell, partner or license any clinical candidates, if at all. To reduce the dependence on the success of individual projects Evotec attempts to build a broader and more balanced portfolio of drug candidates, to the degree affordable.

> Evotec's expenditures on internal development programmes or related acquisitions of technologies or intellectual property rights are likely to reduce its short- to mid-term operating income and cash reserves. Evotec intends to reduce part of this financial exposure through early partnering agreements, to the degree possible and advisable while trying to maximise returns. In addition, the option to improve the financing situation through capital increases, be it against cash or acquired assets, e. g. as part of an in-licensing agreement, is always being considered. The Company does not intend to engage in projects or project phases unless appropriate funding is allocated or secured.

> The dependence on individual larger out-licensing or partnering events will increase the dependence from individual pharmaceutical or biotech customers. At the same time it deepens the relationship with such partners and hence increases the chances for further high value deals.

> The competitive landscape for licensing and licensed compounds, as well as the regulatory and reimbursement environment, in general or for individual treatments, might change while engaging in individual projects. The timing and commercial values of, or financial proceeds from partnering individual projects could hence deviate significantly from earlier projections, for better or worse. The Company believes, however, that overall the market value of compounds with favourable clinical results will increase rather than significantly decrease.

> Finally, Evotec's intellectual property might be challenged by, depend on or be restricted by third parties, or, when built internally, it might fail to be accepted for patent protection. This could result in sizable additional expenses, project delays and absorption of management attention, and in a dramatic reduction of project values or even in full project cancellation. To reduce such risks Evotec puts high emphasis on patent protection and patent monitoring.

Evotec's **services business** is well established within the industry, and has shown strong growth again in 2005, after a very difficult year in 2004. 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 beneficial to all its businesses, e. g. the in-licensing of drug candidates in the Pharmaceuticals Division. However, in this business specific risks also need to be managed:

> Even when exhibiting growth, fluctuating resource and capacity utilisation between different parts of the business can significantly decrease profitability, unless carefully and flexibly adjusted. In addition, dependence on individual larger customer contracts needs to be carefully monitored. In 2005, the largest revenue contribution from one single customer was 9 %.

> Some of the service contracts contain technical delivery risks, which can be mitigated only with high quality project work.

> Pricing pressures originate from funding restrictions of some of Evotec's customers as well as to some extent from evolving competition in low cost countries. Therefore, firm cost management, continuous enhancement of capabilities and technologies, careful market positioning and high value sales are mandatory.

> With a high proportion of sales denominated in US Dollar currency exposure, in particular relative to the UK Sterling, creates a risk to the Evotec's profitability. The Company reduces this exposure through hedging techniques during such contract work (see page 37 and Notes to the Financial Statements No. (18)).

Evotec Technologies (ET) is dependent upon significant capital expenditure by its customers. These capital expenditure budgets have been generally reduced in the past years, but there have recently been signs of recovery in instrument spending. Also, ET has shifted its business focus towards high interest areas like Cell Biology. Here it has been creative in constantly seeking innovative new products and applications for its product line, to provide solutions to research bottlenecks. However, even when identifying growth segments of the market, pricing pressures, IP protection and aggressive marketing by competition could threaten ET's further development. In addition, the life science tools industry has seen increasing consolidation over the past years, resulting in an ever stronger peer group. ET tries to reduce such risks through product focus, license and co-marketing arrangements and emphasis on solid customer relations with long-term product support and upgrade schemes.

Overall and across all businesses, the Company's success also depends on its ability to attract and retain highly skilled staff and to adapt to changing technologies and market environments as well as customer expectations. If Evotec fails to adapt to market needs, its ability to create value and grow could seriously suffer.
In summary, Evotec expects to be able to create long-term value through building its own pipeline of drug candidates and maintaining a highly competitive services business. With the Company's efficient infrastructure, its high level and breadth of skills and high quality international reputation, Evotec believes it is well prepared to deliver on its strategy. This is being supported by appropriate management systems and risk management practices.

Risk management: Comprehensive and reliable systems in place

To increase the chances of value and business opportunities, and at the same time limiting the associated risks, Evotec puts important emphasis on risk management as an ongoing management task within all three business segments.
Evotec is continuously reviewing its business and R&D portfolios, and performs regular commercial and R&D project reviews. Management engages in monthly financial reviews with a strong emphasis on cash and cash forecasts, and key performance drivers such as revenues, order book status and gross margins. Currency exposures are reduced through hedging vehicles (see page 37). In addition, strict application of R&D project and investment approval processes, legal contract review procedures and signing authorities are also standardised procedures. Moreover, the Company continues to emphasise its IT security throughout the Group and reviews its insurance coverage regularly. Compliance with the regulatory environment, e.g. for environment and health and safety, is being emphasised. This principle also applies to Corporate Governance, where the Company complies with publicly promoted codes of practice. The scope and procedures of the risk management system are being regularly reviewed, in order to adjust to changing environments, risk profiles and business opportunities.

In summary, Evotec believes that its current internal controls and risk management systems operate at an appropriate level for its businesses. The structure and mode of operation of Evotec's risk management system complies with the requirements of the Corporate Sector Supervision and Transparency Act (KonTraG).

Occupational safety and environmental protection: Proactive protection

Evotec 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 practice by the continued commitment of its employees – especially the Health and Safety and Environmental Management teams at each of its operating sites. At Evotec's Hamburg site the Company continues to take a proactive approach towards meeting legal requirements. Regular inspections by the local environmental protection authority and the office for industrial safety have confirmed its full compliance.

At Abingdon, work continues with ISO 14001 as this standard requires "continual improvement" to be demonstrated. Although the standard only relates to the operation of the two Pilot Plants, many practices are implemented throughout the site, especially with regard to recycling and energy consumption. In January 2005, the Pilot Plants initiated a scheme for the recovery of solvents via a third party distillation company, and their re-use within the chemicals sector. By the end of 2005, the Company had recovered approximately 50 % of solvents used during the year.

In July, under the UK Government's scheme to encourage businesses to become more energy efficient, a second Climate Change Levy Agreement was signed. The agreements now cover the majority of buildings on the Abingdon site. Under these agreements, Evotec is entitled to financial rebates on utility costs for showing ongoing improvements in energy efficiency.

At all operating sites Evotec continues to focus on the induction and ongoing training of its employees in health, safety and environmental awareness matters.

Post-Balance Sheet Events and Outlook

Post-balance sheet events (5)

On 6 January 2006 Evotec in-licensed two MAO-B inhibitors from Roche, which triggered a mid single digit million Euro up-front payment in cash to Roche. Both compounds are in Phase I studies and hence significantly strengthen Evotec's pipeline.
On 23 January 2006 Evotec terminated its Joint Venture with DeveloGen, in which it worked on four discovery projects in the field of Metabolic diseases. This termination is effective 31 December 2005. Evotec will retain all rights on two of the four projects.

Outlook (7)

The Evotec Group is expected to increasingly transform into a drug discovery and development company with a strong proprietary pipeline of drug candidates. As of February 2006 Evotec has three compounds in Phase I clinical testing, all of which are on schedule to be in Phase II trials by 2007. In addition, dependent on scientific results and availability of funding Evotec plans to progress additional products into clinical development during 2007 at which time out-licensing deals will be contemplated.
Evotec's tools and technologies business Evotec Technologies (ET) is expected to show significant improvement of its financial performance due to last year's restructuring and the success of its new products. At the same time it is increasingly becoming a non-core activity for the Group as Evotec transitions into a drug discovery and development company. Hence, management has initiated a search for strategic or marketing partners for ET. In this context, the Company might consider further reducing its shareholding in ET. In addition, ET intends to sell parts of its patent rights and licenses that are not directly associated with ET's business focus.

Services performance may benefit from market position and potential market upswing

The services business is considered to be instrumental in supporting Evotec's strategy, through its critical mass, customer network and cash flows. The division has shown a significant operating improvement in 2005 despite continued challenging conditions for discovery outsourcing. Its strong brand and market position should now allow Evotec to benefit from any further recovery of the outsourcing markets, which, however, is difficult to predict, as well as from any further consolidation in this industry. Its broad product line positions Evotec as an outstanding "one-stop-shop" in discovery and development contract services.
For 2006, the contract pipeline for the services business is on the same high level as at the same time last year, despite continued market weakness on the discovery side. As of the end of January 2006, the sales and order book for 2006 totalled approximately € 34 m (2005: € 31 m). Evotec believes that with the capacity adjustments made, and in the absence of a renewed significant weakening of the US Dollar, this business can be managed to operating profitability and cash generation.

Pipeline investments and success in partnering will drive group results

Total Group operating and net results are expected to be primarily driven by increasing investment into internal drug development within the Pharmaceuticals Division. If all current programmes proceed on schedule, the three lead compounds EVT 101, EVT 201 and EVT 301 are expected to be in Phase II clinical testing by 2007. As a result, clinical trial expense for these three programmes alone could total in excess of € 20 m over the two year period 2006/2007. Additional, low single digit milestone payments will become due, typically upon Phase II initiation. In the absence of partnering or licensing revenues this would result in negative, double digit Euro million operating result in the Pharmaceuticals Division and in the Group in both 2006 and 2007. Although Roche has accepted payment of the EVT 301 Phase II milestone in new Evotec shares, Evotec's 2006 cash position is expected to largely reflect and mirror its clinical development investments.
Evotec does not intend to start new projects or project phases unless necessary funding is in place (see page 40). Such funding could originate from cash flows from the Services Division, proceeds from the disposal of non-core assets, M&A, new share offerings and other capital measures, or from partnering or licensing revenues. Partnering is expected to be the preferred cash source of choice in the mid-term, as it allows funding of new projects while reducing dilution to shareholders and still retaining product equity. Evotec anticipates a licensing agreement on at least one of its programmes before the end of 2008, which could immediately trigger a multi-million Euro upfront payment, on top of substantial milestones and royalties dependent on future success.

Dividends: Short-term profits will be invested in long-term value creation

The payment of dividends in the future is dependent on Evotec's financial situation and liquidity requirements, the general market conditions, and statutory, tax and regulatory requirements. Evotec currently intends to retain any profits generated within its divisions, and to re-invest them to increase shareholder value. Evotec does not expect to report positive net income in 2006.

Evotec Shares

For European equities, 2005 proved to be a surprisingly bright year with all major indices gaining significantly. However, most biotechnology stocks failed to follow suit. Evotec shares closed the year down 5%, even though the Company had exceeded its guidance for 2005 in all important areas: It managed to get not one compound into clinical trials, but two, and its Services Division grew quarter on quarter. It has taken until early 2006 for these achievements to translate into share price gains. The first two months of 2006 saw Evotec shares increase by 64%.

Record highs for European stock markets, modest gains in the US

The strong performance of European equities in 2005 surprised many observers. Despite rising interest rates, high oil prices and sluggish economic growth the German DAX index climbed to 5408 points, an increase of 27%. Second-line stocks also made headway, with the MDAX and TecDAX gaining 36% and 15% respectively. The European STOXX50 index rose by 21%. The general perception that European companies are undervalued and the announcement of General Elections in Germany in May had put investors in buying mood. In contrast, Wall Street investors had little to cheer about. The Dow Jones (–1%) and the NASDAQ Composite Index (+1%) ended the year more or less where they had set off.

Evotec shares 2005

Xetra	High (03.03.)	€	3.46
	Low (29.04.)	€	2.45
	Average share price	€	2.75
	Average daily trading volume[1)]	pcs.	162,581
	Price decrease	%	5
	Closing price as at 31.12.	€	2.50
	Market capitalisation as at 31.12.	€ m	156.9
	Number of shares as at 31.12.	pcs.	62,759,424
Key share data	Earnings	€	(0.65)
	Dividend	€	0.00

ISIN: DE 000 566 480 9
German securities identification number: 566480
Ticker symbol: EVT

[1)] Based on the trading volumes of all German stock exchanges

Development of Evotec share price 2005 (indexed)

European biotech stocks not amongst the winners

European biotech stocks, especially the small caps, were unable to benefit from the positive mood in the market, with 60% of them losing ground. The European biotech sector as a whole shed 2% of its market capitalisation. Within biotech the big companies captured the limelight in 2005, especially in the US. Investors shifted funds away from pharma and towards large biotech companies, as evidenced by the AMEX biotech index's leap upwards by 25%, while the NASDAQ biotech index merely edged forward by 3%.

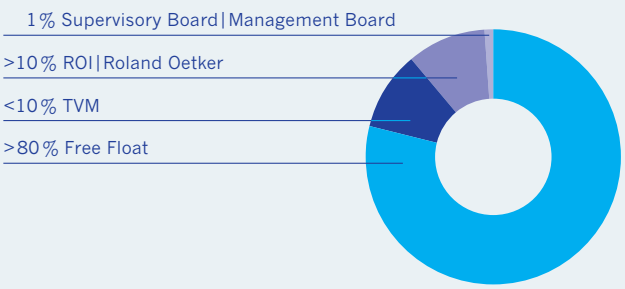
Evotec share price initially unaffected by the Company's progress and the stock market euphoria

2005 turned out to be a year for Evotec's management and shareholders to be patient. Despite the upbeat mood of Europe's stock markets and the excellent news from Evotec on the Company's progress, the share price remained flat for most of the year and closed 2005 down 5%. Although this was largely in line with the biotech sector's overall performance, it did not reflect Evotec's progress with regards to the development of both its Services Division and its proprietary pipeline of drug candidates. However, in early 2006, Evotec shares have begun to rise dramatically, rocketing up 64% to € 4.09 by the end of February.

Number of shares rose to 63 million due to capital increases which yielded € 47 m for pursuance of strategies

Evotec increased its share capital in 2005 by issuing a total of 24.7 million new shares, in part against contribution in kind (14.3 million new ordinary shares for the acquisition of the outstanding shares in Evotec Neurosciences not already owned), and partly through a capital increase against contribution in cash with pre-emption rights for existing shareholders, at the fixed price of € 2,72 per share. Through these capital increases Evotec secured approximately € 47 m in proceeds, which it intends to use to advance and expand the Company's proprietary pipeline of drug candidates for the treatment of diseases of the central nervous system (CNS). Concomitantly, the number of shares increased to 62,759,424 (2004: 38,010,130).

Shareholder structure



Source: Evotec 02 | 2006

Stock option programme

In 2005, Evotec granted its staff a total of 889,400 stock options. In the first quarter, 120,000 of these were issued at an exercise price of € 3.61. A further 25,000 were granted on 11 July 2005 at an exercise price of € 2.82, 610,000 on 30 August 2005 at exercise prices of € 2.71 and € 2.80 and 134,400 more on 16 December 2005 at exercise prices of € 2.59, € 2.60 and € 2.73. During the course of the year, Evotec's employees exercised 15,009 share options granted in previous years. As of 31 December 2005 a total of 3,126,635 options were available for future exercise, equivalent to approximately 5 % of the Company's share capital. A list of the stock options that have been issued can be found in the Notes on page 69.

Continuity in Evotec's investor relations work, with a stronger focus on the US market

Evotec places great emphasis on communicating with professionals in the financial sector. In 2005, as the Company expanded its pipeline of drug candidates for treatment of diseases of the central nervous system, it was especially important to communicate proactively with investors and analysts as a means of getting across the Company's strategy, of pointing to progress being made and of explaining the potential of Evotec's pipeline of drug candidates, with its associated opportunities and risks.

To an even greater degree than before, in 2005 the management entered into dialogue with professionals in the financial sector, giving approximately 130 one-to-one presentations at 18 national and international investor conferences, at the Company's offices in Hamburg, Germany, and Oxford, UK as well as at 20 roadshows in key financial centres across Europe and the US. As the importance of Evotec's own drug pipeline has grown, the Company has, since mid-2005, increased its investor relations activities in the US. The expertise of American biotech investors has proved very useful in conveying the potential of Evotec's development programmes to the broad spectrum of potential investors. In addition, at Evotec's Annual Shareholder Meeting in June 2005, shareholders showed great interest in how the Company was implementing its research and development strategy. A total of 270 shareholders were present, representing 51 % of the share capital (2004: 38 %). In addition to the specific investor relations events for the Company's key followers, Evotec places significant emphasis on its internet site, which it updates and expands on a regular basis as part of its commitment to "Fair Disclosure of Information". Investors not only have the opportunity to read and download financial reports and press releases, but also to tune in live to telephone conferences regarding financial reporting, analyst conferences and numerous presentations given at international investor conferences, as well as to the opening of the Annual Shareholder Meeting and the CEO's address. A replay of these events is regularly available.

Financial institutions which report on Evotec

Bank Vontobel AG
BHF-Bank
Cazenove Equities
Credit Suisse
DZ Bank AG
equinet Institutional Services AG
Landesbank Baden-Württemberg
Sal. Oppenheim jr. & Cie. KGaA
SES Research GmbH

Corporate Governance

Evotec has always been committed to responsible and value-driven corporate management. The Company complies with all but one (see declaration of compliance) of the Corporate Governance recommendations as defined by the German Corporate Governance Code as published in the Federal Gazette as well as with most of the suggestions the Code contains.

Declaration of compliance

In December 2005, the Management Board and the Supervisory Board of Evotec stated in accordance with § 161 German Stock Corporation Act (AktG):

"Evotec AG intends to comply with the recommendations of the Governmental Commission on the German Corporate Governance Code as published in the official section of the electronic Federal Gazette and has complied with such Code in 2005 with the following exception:
The stock option programmes in place are based on binding resolutions of several Annual General Meetings. While the exercise of these options requires an increase in the share price, the exercise is not related to other comparison parameters as recommended in Section 4.2.3 of the Code."

Remuneration of the Supervisory Board

The members of Evotec's Supervisory Board are entitled to a fixed and a performance-related remuneration. Chair and Deputy Chair positions in the Supervisory Board as well as the chair and membership in committees are considered in determining the fixed remuneration of the individual members.

Besides the fixed remuneration and in accordance with the suggestions of the Code, the members of the Supervisory Board receive a remuneration based on the Company's long-term performance: if the shareholders receive a dividend, every Supervisory Board member will receive an extra € 500 for every cent that the dividend per share exceeds 15 cents. The 2005 Annual General Meeting has introduced an additional element of the remuneration to be made in shares of the Company in order to further align the interests of the individual Supervisory Board members and the development of Evotec's share price.

For their contribution in 2005, the individual members of the Evotec Supervisory Board received the following compensation:

Compensation of the Supervisory Board 2005

Names of members	Period of office Supervisory Board	Period of office committee	Remuneration: Supervisory Board in Euro	Remuneration: Remuneration and Audit Committee in Euro	Equity-based compensation in Euro	Total in Euro
Prof Dr Heinz Riesenhuber	01.01.-31.12.	RC 01.01.-31.12.	30,000.00	7,500.00	15,000.00	52,500.00
Peer Schatz	01.01.-31.12.	RC 01.01.-07.06.	22,500.00	9,113.01	11,250.00	42,863.01
		AC 01.01.-31.12.				
Dr Hubert Birner	07.06.-31.12.	RC 07.06.-31.12.	8,547.95	2,455.49	4,273.97	15,277.41
		AC 01.12.-31.12.				
Dr Peter Fellner	07.06.-31.12.	RC 07.06.-31.12.	8,547.95	2,136.99	4,273.97	14,958.91
Dr Alfred Oberholz	07.06.-31.12.	AC 07.06.-30.11.	8,547.95	1,818.49	4,273.97	14,640.41
Mary Tanner	19.01.-31.12.	AC 07.06.-31.12.	14,260.27	2,136.99	7,130.14	23,527.40
Dr Pol Bamelis	01.01.-07.06.	AC 01.01.-07.06.	6,452.05	1,613.01	3,226.03	11,291.09
Dr Karsten Henco	01.01.-07.06.	–	6,452.05	0.00	3,226.03	9,678.08
Dr Edwin Moses	01.01.-11.04.	AC 01.01.-11.04.	4,150.68	1,037.67	2,075.34	7,263.69
Totals			**109,458.90**	**27,811.65**	**54,729.45**	**192,000.00**

RC = Remuneration Committee | AC = Audit Committee

Detailed report on remuneration of Management Board in the Notes

Evotec reports on the remuneration of every member of the Management Board separately in note 22 (f) of the Notes to consolidated financial statements (see page 75). In accordance with the suggestions of the Code, the remuneration paid to Management Board members contains both a portion contingent on the Company attaining set goals, such as revenue and profit targets, and a portion contingent on each member's success in achieving his or her individual objectives for the year in question. In addition, Management Board members receive long-term incentives in the form of share options as a further variable portion of their remuneration with inherent risks.

Ownership of shares and options by Board members

The share ownership of members of the Management Board and of the Supervisory Board on 31 December 2005 was as follows:

Ownership as of 31 December 2005

Management Board	No. of shares	No. of stock options
Joern Aldag	298,056	312,600
Dr Dirk H Ehlers	4,540	171,500
Supervisory Board	**No. of shares**	**No. of stock options**
Prof Dr Heinz Riesenhuber	132,480	0
Peer Schatz	3,892	0
Dr Hubert Birner	0	0
Dr Peter Fellner	0	0
Dr Alfred Oberholz	0	0
Mary Tanner	46,690	0

Directors' Dealings continuously reported

Evotec AG continuously reports the purchase or sale of shares in the Company by members of the Management Board, the Supervisory Board and other key employees as foreseen in Section 6.6 of the Code.
In 2005, in context with Management or Supervisory Board members participating in the secondary offering in June with pre-emption rights to Evotec shareholders the following Directors' Dealings were reported:

Directors' Dealings 2005

Date	Person and function	Type of transaction	No. of shares	Share price
23 June	Prof Dr Heinz Riesenhuber, Chairman of the Supervisory Board	Purchase	22,080	2.72 €
23 June	Mary C Tanner, Member of the Supervisory Board	Purchase	46,690	2.72 €
23 June	Dr John Kemp, Executive Vice President Research & Development Pharmaceuticals Division	Purchase	45,000	2.72 €
24 June	TVM V Life Science Ventures GmbH & Co. KG, Munich/D, to be published according to § 15a paragraph 3 sentence 2 WpHG due to the function of Dr Hubert Birner, Member of the Supervisory Board of Evotec AG	Purchase	2,490,159	2.72 €

Suggested actions also generally complied with

In addition to complying with the recommendations of the Corporate Governance Code as described above, the Company also conforms to most of the suggestions laid down in the Code.

Best possible support and transparency at Annual General Meetings

Evotec offers shareholders who are unable to attend Annual General Meetings the opportunity to access key parts of the event live on the Internet (Section 2.3.4). The Company also encourages non-attendees to exercise their voting rights by arranging Company independent proxies.

Supervisory Board committees set up in accordance with the Code

Evotec has set up an Audit Committee with a spectrum of tasks comprising financial reports, risk management and guaranteeing the auditors' independence. The Company has also set up a Remuneration Committee (Sections 5.1.2 and 5.3.3 of the Code), which, among other things, prepares the appointment of new members to the Management Board. As suggested in Section 5.1.2 of the Code each appointment is effective for a maximum of three years. Evotec also makes sure that neither the Chairman of the Supervisory Board nor a former member of the Management Board serve as Chair of the Audit Committee (Sections 5.2 and 5.3.2). In addition, the Company complies with the suggestion for Supervisory Board members to hold occasional separate preliminary discussions (Section 3.6).

Evotec's IR publications in both English and German

Evotec is committed to "Fair Disclosure of Information". It is the Company's prime concern in its corporate communication strategy that the same information is made available to all relevant target groups at the same time, and this implies communicating in both English and German. The Company's publications are readily available on its website for viewing or downloading.

Additional information relevant to Corporate Governance can be found in the report of the Supervisory Board (page 78). Information on professional affiliations of Board members, on related party transactions as well as on stock-based compensation and on consolidated subsidiaries and equity investees are available on pages 80, 73, 69 and 75.

Consolidated Financial Statements According to IFRS

Content

Auditors' Report

We have rendered the audit opinion in German, which was translated as follows:

We have audited the consolidated financial statements prepared by the Evotec AG (formerly Evotec OAI AG), Hamburg, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2005. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a par. 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB (Handelsgesetzbuch "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (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 consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group 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 consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluation the overall presentation of the consolidated financial statements and the group 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 consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a par. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hamburg, February 28, 2006

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Schadeck
German Public Auditor
(Wirtschaftsprüfer)

Dr. Haußer
German Public Auditor
(Wirtschaftsprüfer)

Evotec AG (formerly: Evotec OAI AG) and Subsidiaries
Consolidated balance sheets according to IFRS

T€ except share data	Footnote reference	31 Dec 2005	31 Dec 2004	Δ 05/04 in%[1]
Assets				
Current assets:				
– Cash and cash equivalents	(4)	53,520	15,277	250.33
– Trade accounts receivable	(5)	12,758	14,689	(13.15)
– Accounts receivable due from related parties		840	1,035	(18.84)
– Inventories	(6)	10,502	10,099	3.99
– Current tax receivables		531	620	(14.35)
– Prepaid expenses and other current assets		3,822	3,149	21.37
Total current assets		**81,973**	**44,869**	82.69
Non-current assets:				
Long-term investments	(7)	–	3,048	(100.00)
Property, plant and equipment	(8)	38,163	37,762	1.06
Intangible assets, excluding goodwill	(9)	10,927	7,963	37.22
Goodwill	(9)	54,994	52,751	4.25
Deferred tax assets	(13)	–	99	(100.00)
Other non-current assets		54	52	3.85
Total non-current assets		**104,138**	**101,675**	2.42
Total assets		**186,111**	**146,544**	27.00

	Footnote reference	31 Dec 2005	31 Dec 2004	Δ 05/04 in%[1]
Liabilities and stockholders' equity				
Current liabilities:				
– Current maturities of long-term loans	(10)	6,042	1,240	387.26
– Current portion of finance lease obligations	(11)	1,702	786	116.54
– Trade accounts payable		8,105	6,353	27.58
– Accounts payable to related parties		6	117	(94.87)
– Advanced payments received		801	609	31.53
– Provisions	(12)	6,563	5,994	9.49
– Deferred revenues		4,417	4,833	(8.61)
– Current tax payables		125	7	–
– Other current liabilities		1,911	1,573	21.49
Total current liabilities		**29,672**	**21,512**	37.93
Non-current liabilities:				
Long-term loans	(10)	3,399	9,591	(64.56)
Long-term finance lease obligations	(11)	2,130	2,055	3.65
Deferred tax liabilities	(13)	–	1,926	(100.00)
Deferred revenues		726	845	(14.08)
Provisions	(12)	1,515	107	–
Total non-current liabilities:		**7,770**	**14,524**	(46.50)
Stockholders' equity:				
– Share capital[2]	(15)	62,759	38,010	65.11
– Additional paid-in capital		596,525	552,360	8.00
– Reserve		(36,207)	(39,611)	(8.59)
– Retained deficit		(474,408)	(440,825)	7.62
– Minority interests		–	574	(100.00)
Total stockholders' equity		**148,669**	**110,508**	34.53
Total liabilities and stockholders' equity		**186,111**	**146,544**	27.00

[1] Ratios unaudited
[2] 94,131,629 and 53,210,130 shares, 1€ nominal amount, authorised at 31 December 2005 and 2004, respectively
62,759,424 and 38,010,130 shares issued and outstanding in 2005 and 2004, respectively

See accompanying notes to consolidated financial statements.

Evotec AG (formerly: Evotec OAI AG) and Subsidiaries
Consolidated statements of operations according to IFRS

T€ except share data and per share data	Footnote reference	2005	2004	Δ 05/04 in%[1)]
Revenue:				
– Drug discovery products & development of technologies		15,945	17,808	(10.46)
– Drug discovery services		63,840	54,922	16.24
Total revenue		79,785	72,730	9.70
Costs of revenue:				
– Drug discovery products & development of technologies		7,987	8,955	(10.81)
– Drug discovery services		42,833	38,979	9.89
Total costs of revenue		50,820	47,934	6.02
Gross profit		28,965	24,796	16.81
Operating costs and expenses:				
– Research and development expenses		14,088	13,490	4.43
– Selling, general and administrative expenses		19,902	19,419	2.49
– Amortisation of intangible assets	(9)	9,733	10,074	(3.38)
– Impairment of goodwill	(9)	18,478	45,328	(59.23)
– Impairment of tangible assets	(8)	(643)	18,523	(103.47)
– Restructuring expenses		917	–	100.00
– Other operating expenses		2,163	3,584	(39.65)
Total operating costs and expenses		64,638	110,418	(41.46)
Operating loss		(35,673)	(85,622)	(58.34)
Other non-operating income (expense)				
– Interest income		856	451	89.80
– Interest expense		(729)	(847)	(13.93)
– Loss from equity investments	(7)	(2,552)	(3,452)	(26.07)
– Foreign currency exchange gain (loss), net		(731)	915	(179.89)
– Other non-operating income		940	875	7.43
Total non-operating income		(2,216)	(2,058)	7.68
Loss before taxes and minority interests		(37,889)	(87,680)	(56.79)
– Current tax income (expense)	(13)	(235)	83	(383.13)
– Deferred tax benefit	(13)	4,748	9,694	(51.02)
– Minority interests		(207)	91	(327.47)
Net loss		(33,583)	(77,812)	(56.84)

Weighted average shares outstanding	51,987,921	36,630,348
Net loss per share	(0.65)	(2.12)

[1)] Ratios unaudited

See accompanying notes to consolidated financial statements.

Evotec AG (formerly: Evotec OAI AG) and Subsidiaries
Consolidated statements of cash flows according to IFRS

T€	31 Dec 2005	31 Dec 2004
Cash flows from operating activities:		
Net loss	(33,583)	(77,812)
Adjustments to reconcile net loss to net cash used in operating activities:		
– Depreciation of property, plant and equipment	7,187	9,203
– Amortisation of intangible assets	9,733	10,074
– Depreciation of current assets	1,769	1,133
– Impairment of tangible assets	(643)	18,523
– Impairment of goodwill	18,478	45,328
– Impairment of investment in affiliates	324	–
– Net loss from equity investments	2,228	3,452
– Stock compensation expense	749	284
– Loss on sale of property, plant and equipment	12	71
– Deferred tax benefit	(4,753)	(9,694)
– Minority interests	207	(91)
Decrease (increase) in:		
– Accounts receivable	2,192	(8,081)
– Inventories	(1,903)	(769)
– Other assets	(228)	1,165
Increase (decrease) in:		
– Accounts payable	1,585	2,175
– Advanced payments received	192	(308)
– Deferred revenues	(2,515)	1,113
– Provisions	659	165
– Current taxes payable	246	79
– Other liabilities	1,060	1,021
Cash paid during the year for:		
– Interest	(760)	(756)
– Taxes	(326)	(134)
Net cash provided by (used in) operating activities	**1,910**	**(3,859)**
Cash flows from investing activities:		
– Acquisition costs	(366)	–
– Purchase of long-term investments	(2,369)	(3,861)
– Purchase of property, plant and equipment	(3,757)	(1,488)
– Purchase of intangible assets	(3,796)	(454)
– Cash acquired	19,244	–
– Proceeds from sale of property, plant and equipment	24	107
– Proceeds from sale of marketable securities	–	732
Net cash provided by (used in) investing activities	**8,980**	**(4,964)**
Cash flows from financing activities:		
– Proceeds from capital increase	28,460	7,500
– Proceeds from increase of loans	6,206	5,459
– Repayment of loans	(8,415)	(7,760)
Net cash provided by financing activities	**26,251**	**5,199**
Net increase (decrease) in cash and cash equivalents	37,141	(3,624)
Exchange rate difference	1,102	138
Cash and cash equivalents at beginning of year	**15,277**	**18,763**
Cash and cash equivalents at end of year	**53,520**	**15,277**

See accompanying notes to consolidated financial statements.

Evotec AG (formerly: Evotec OAI AG) and Subsidiaries
Supplemental disclosures of cash flow information

T€	31 Dec 2005	31 Dec 2004
Supplemental schedule of non-cash activities:		
– Acquisition of long-term investments	40,802	–
– Additions to finance leases	1,590	1,257
– Share capital in ENS Holdings, Inc.	–	5,475

See accompanying notes to consolidated financial statements.

Evotec AG (formerly: Evotec OAI AG) and Subsidiaries
Consolidated fixed asset movement schedule according to IFRS

	Acquisition and manufacturing costs					
T€	01 Jan 2005	Foreign exchange	Additions	Disposals	Reclass	31 Dec 2005
I. Intangible assets						
1. Patents and licences	3,061	–	3,190	–	–	6,251
2. Goodwill	52,751[3]	1,513	19,208	18,478	–	54,994
3. Capitalised development expenses	518	–	659	–	–	1,177
4. Developed technology	29,389	778	577	–	–	30,744
5. Customer list	19,775	567	8,416	–	–	28,758
	105,494	**2,858**	**32,050**	**18,478**	**–**	**121,924**
II. Tangible fixed assets						
1. Buildings and leasehold improvements	26,884	761	18	–	–	27,663
2. Plant, machinery and equipment	53,198	1,247	3,465	1,013	267	57,164
3. Furniture and fixtures	10,947	258	943	143	(68)	11,937
4. Purchased software	1,264	–	91	–	–	1,355
5. Finance leases	3,900	112	648	–	1,093	5,753
6. Assets under construction	33	–	1,301	–	(1,292)	42
	96,226	**2,378**	**6,466**	**1,156**	**–**	**103,914**
III. Financial assets						
1. Long-term investments	3,484	–	1,780	4,504	–	760
2. Other financial assets	52	–	2	–	–	54
	3,536	**–**	**1,782**	**4,504**	**–**	**814**
	205,256	**5,236**	**40,298**	**24,138**	**–**	**226,652**

[1] calculated at the yearly average foreign exchange rate results in a decrease of T€ 346
[2] calculated at the yearly average foreign exchange rate results in a decrease of T€ 395
[3] net of accumulated amortisation as of 31 December 2001 of T€ 162,195 and impairment as of 2002 and 2004 of T€ 109,389 and T€ 55,824, respectively

See accompanying notes to consolidated financial statements.

Evotec AG (formerly: Evotec OAI AG) and Subsidiaries
Consolidated statements of changes in stockholders' equity according to IFRS

	Share capital			Reserve		
T€ except share data	Shares	Amount	Additional paid-in capital	Unearned compensation	Foreign currency translation	Revaluation reserve
Balance at 01 January 2004	**35,510,130**	**35,510**	**540,035**	**(150)**	**(40,046)**	**744**
Capital increase	2,500,000	2,500	5,000	–	–	–
Share capital in ENS Holdings, Inc.	–	–	5,475	–	–	–
Stock option plan	–	–	1,850	(1,566)	–	–
Foreign currency translation	–	–	–	–	1,041	–
Revaluation	–	–	–	–	–	366
Net loss	–	–	–	–	–	–
Minority interests	–	–	–	–	–	–
Balance at 31 December 2004	**38,010,130**	**38,010**	**552,360**	**(1,716)**	**(39,005)**	**1,110**
Acquisition of ENS Holdings, Inc.	14,276,883	14,277	26,266	–	–	–
Capital increase 24 June	10,457,402	10,457	17,880	–	–	–
Capital increase (stock options)	15,009	15	19	–	–	–
Stock option plan	–	–	–	749	–	–
Stock option plan acquired	–	–	–	(655)	–	–
Foreign currency translation	–	–	–	–	3,149	–
Revaluation	–	–	–	–	–	161
Net loss	–	–	–	–	–	–
Minority interests	–	–	–	–	–	–
Balance at 31 December 2005	**62,759,424**	**62,759**	**596,525**	**(1,622)**	**(35,856)**	**1,271**

See accompanying notes to consolidated financial statements.

	Depreciation, amortisation and writedowns						Net book value	
01 Jan 2005	Foreign exchange	Additions	Disposals	Reclass	Revaluation	31 Dec 2005	31 Dec 2005	31 Dec 2004
2,611	–	637	–	–	–	3,248	3,003	450
–	–	–	–	–	–	–	54,994	52,751
44	–	119	–	–	–	163	1,014	474
25,317	665	4,262	–	–	–	30,244	500	4,072
16,808	479	5,061	–	–	–	22,348	6,410	2,967
44,780	**1,144**	**10,079**[1)]	**–**	**–**	**–**	**56,003**	**65,921**	**60,714**
12,397	382	1,418	–	–	(213)	13,984	13,679	14,487
35,387	911	3,865	982	(24)	(540)	38,617	18,547	17,811
8,231	219	1,257	126	–	14	9,595	2,342	2,716
1,068	–	133	–	–	–	1,201	154	196
1,381	40	909	–	24	–	2,354	3,399	2,519
–	–	–	–	–	–	–	42	33
58,464	**1,552**	**7,582**[2)]	**1,108**	**–**	**(739)**	**65,751**	**38,163**	**37,762**
436	–	324	–	–	–	760	–	3,048
–	–	–	–	–	–	–	54	52
436	**–**	**324**	**–**	**–**	**–**	**760**	**54**	**3,100**
103,680	**2,696**	**17,985**	**1,108**	**–**	**(739)**	**122,514**	**104,138**	**101,576**

Retained deficit	Minority interests	Total stockholders' equity
(363,013)	**665**	**173,745**
–	–	7,500
–	–	5,475
–	–	284
–	–	1,041
–	–	366
(77,812)	–	(77,812)
–	(91)	(91)
(440,825)	**574**	**110,508**
–	–	40,543
–	–	28,337
–	–	34
–	–	749
–	–	(655)
–	–	3,149
–	–	161
(33,583)	–	(33,583)
–	(574)	(574)
(474,408)	**0**	**148,669**

Evotec AG and Subsidiaries
Notes to consolidated financial statements

(1) Business Description and Basis of Presentation

Evotec AG (formerly Evotec OAI AG) and subsidiaries ("Evotec" or the "Company") is a biotechnology group dedicated to the discovery and development of novel small molecule drugs through both its own discovery programmes and through contract research partnerships. The Company provides innovative and often integrated solutions from target to clinic through an unmatched range of capabilities, including early stage assay development and screening through to medicinal chemistry and drug manufacturing. In proprietary projects, Evotec specialises in finding new treatments for diseases of the central nervous system (CNS). The Company's instrument business is focused on high-end technologies for automated cell biology.

The Company was founded on 8 December 1993 as EVOTEC BioSystems GmbH. Evotec completed an initial public offering in Germany on 10 November 1999.

All amounts herein are shown in thousands of Euro ("T€"), unless indicated otherwise.

(2) Summary of Significant Accounting Policies

According to Section 315a HGB (German Commercial Law) the Company's consolidated financial statements of 31 December 2005 are prepared in accordance with International Financial Reporting Standards (IFRS). The following is a summary of significant accounting policies followed in the preparation of the accompanying consolidated financial statements and in preparing opening consolidated financial statements at 1 January 2004 for the purpose of transition to IFRS.

Transition to International Financial Reporting Standards
The following is an explanation of how the transition from U.S. GAAP to IFRS has affected the Company's consolidated financial statements and financial position. The main subjects are discussed.

1. Property, plant and equipment – under U.S. GAAP the depreciation method as well as the useful lives of property, plant and equipment are determined at the time of purchase. Under IFRS the useful lives as well as the depreciation method have to be checked at least once a year. Differences that arose from the first time application of IFRS shall be accounted as revaluation.
2. Impairment (goodwill) – under U.S. GAAP impairment is determined by comparing the value of the cash generating unit (reporting unit) to which goodwill is attributed using after tax cash flows discounted at an after tax discount rate, to the fair value of the assets of that reporting unit. Under IFRS no fair value adjustments are made and pre-tax cash flows and pre-tax discount rates are used.
3. Impairment (property, plant and equipment) – under U.S. GAAP, where there is an indication of an impairment of a fixed asset, the impairment is calculated by determining the value of the asset to the business using non-discounted cash flows and comparing this to the carrying value. Under IFRS a similar method to that of goodwill impairment is used. Asset impairments under IFRS may be reversed if conditions change.
4. Accrued liabilities – under U.S. GAAP unrecorded liabilities are shown under accrued liabilities. Under IFRS unrecorded liabilities are part of other liabilities.
5. Transaction costs – under U.S. GAAP transaction costs for equity transactions are expensed. According to IFRS those costs that are directly attributable to the equity transaction are subtracted from equity.
6. Stock compensation – under U.S. GAAP the Company has elected to apply the provisions of Accounting Principles Board Opinion ("APB") No. 25, in accounting for options granted under its stock option plan. Compensation cost is measured using the intrinsic value method and is charged to expense over the vesting period. Starting 1 July 2005 the Company has adopted SFAS 123R. Under IFRS 2 compensation cost is measured using the fair value method at the measurement date and is charged to expense over an estimated service period.
7. Research and development – under U.S. GAAP research and development costs are expensed as incurred. Under IFRS expenses have to be capitalised if several criteria set out in IAS 38 are met.

Equity reconciliation in T€	31 Dec 2004 U.S. GAAP	Reconciliation prior years	Reconciliation 2004	31 Dec 2004 IFRS
Inventories	10,080	–	19	10,099
Current deferred tax assets	99	(76)	(23)	–
Long-term investments	2,796	–	252	3,048
Property, plant and equipment	41,545	744	(4,527)	37,762
Intangible assets, excluding goodwill	7,507	222	234	7,963
Goodwill	41,685	–	11,066	52,751
Non-current deferred tax assets	–	76	23	99
Adjustments to total assets		966	7,044	
Trade accounts payable	4,679	1,439	235	6,353
Accrued liabilities	7,042	(1,452)	404	5,994
Deferred tax liabilities	2,466	-	(540)	1,926
Additional paid-in capital	550,533	1,850	(23)	552,360
Reserve	(39,082)	(1,106)	577	(39,611)
Retained deficit	(447,451)	235	6,391	(440,825)
Total adjustments to liabilities and stockholders' equity		966	7,044	

Reconciliation to IFRS of 2004 results in T€	
Net loss according to U.S. GAAP	(84,203)
Costs of revenue	(125)
Research and development expenses	282
Selling, general and administrative expenses	(95)
Amortisation of intangible assets	(44)
Impairment of goodwill	10,496
Impairment of tangible assets	(4,888)
Interest expense	(27)
Net loss from equity investments	252
Deferred tax benefit	540
Net loss according to IFRS	(77,812)

The definition of cash flows did not change due to the transition to IFRS. The changes to the cash flow resulted from the above mentioned accounting differences.

Principles of Consolidation

The consolidated financial statements have been prepared in accordance with IFRS adopted by the International Accounting Standards Board, London (IASB) in consideration of interpretations of the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC) and include the accounts of Evotec AG and all companies which are under its control. All intercompany transactions and balances have been eliminated in consolidation. The basis of consolidation changed as of 26 May 2005. From this date ENS Holdings, Inc. (ENS) has been a 100 % owned subsidiary and therefore fully consolidated. As of 31 March 2004 ENS Holdings, Inc. was accounted for using the equity method. Therefore, the consolidated financial statements of 2005 are not fully comparable to the ones of 2004. The following unaudited pro forma information is based on the assumption that the investment in ENS Holdings, Inc. occurred as of 1 January 2004:

T€ except per share data	2005	2004
Pro forma revenues	81,707	74,135
Pro forma net loss	34,437	78,668
Pro forma net loss per share	0.66	2.15

The total assets of ENS amounted to T€ 22,457 and the total liabilities were T€ 2,703 as of the date of acquisition.
Investments where Evotec does not have a controlling interest, but is in a position to influence the operating or capital decisions of the investee are carried at equity.

Cash and Cash Equivalents

The Company considers all highly liquid short-term investments with original maturities of three months or less to be cash equivalents.

Derivative financial instruments

In accordance with IAS 39, the Company has classified all of its debts and equity securities as available-for-sale and states them at fair value as determined by the most recently traded price of each security at the balance sheet date. Any resulting unrealised gains or losses are included in the revaluation reserve, a separate component of stockholders' equity.
Realised gains and losses from the sale of available-for-sale securities are determined based on specific identification of the cost of securities sold and are reported in other non-operating income and expense.

Inventories

In accordance with IAS 2 inventories are valued at the lower of cost or net realisable value, cost being generally determined on the basis of an average method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Cost consists of purchased component costs and manufacturing costs, which are comprised of direct material and labour costs and certain indirect costs. Costs are removed from inventories to costs of revenue based on specific identification.

Property, Plant and Equipment

Property, plant and equipment acquisitions, including leasehold improvements, are recorded at cost less any vendor rebates. Depreciation of leasehold improvements is calculated using the straight-line method over the shorter of the related lease term or the estimated useful life. Leased property, plant and equipment meeting certain criteria are capitalised and the present value of the related lease payments is recorded as a liability. Depreciation of property, plant and equipment, which includes depreciation of assets under finance leases, is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and leasehold improvements	11–35 years
Plant, machinery and equipment	3–20 years
Furniture and fixtures	3–15 years
Computer equipment and software	3– 5 years

The depreciation period and method is reviewed at each balance sheet date and potential differences are recognised in the revaluation reserve. Differences from previous estimates shall be accounted for as a change in an accounting estimate in accordance with IAS 8. The costs included in property, plant and equipment related to assets under construction are not depreciated until the assets are placed into service by the Company. Upon sale or retirement, the costs and the related accumulated depreciation are removed from the respective accounts, and any gain or loss is included in other operating income and expense. Maintenance and repairs are expensed as incurred.

Intangible Assets, excluding Goodwill

Intangible assets, excluding goodwill, consist of separately identified intangible assets such as developed technologies, customer lists and patents which were acquired in business combinations, purchased licenses and patents, as well as capitalised development expenditures according to IAS 38.

Intangible assets with definite useful lives are recorded at cost and are amortised using the straight-line method over the estimated useful lives of the assets:

Developed technologies	3–5 years
Customer list	3–5 years
Patents and licenses	15 years or shorter life
Capitalised development expenditures	4–5 years

The amortisation period and method is reviewed at each balance sheet date.

Goodwill

Goodwill acquired in a business combination represents the exceeding amount of a payment made by the Company in anticipation of future economic benefits not capable of being individually identified and separately recognised. The Company recognises separately the acquired identifiable assets, liabilities and contingent liabilities at the acquisition date.

The goodwill results mainly from the acquisition of Oxford Asymmetry International plc. in October 2000 and the acquisition of the remaining shares in ENS Holdings, Inc. in May 2005. Additional goodwill has arisen from the acquisition of the remaining minority interests in Evotec (Scotland) Limited (formerly ProPharma Limited) from the founding directors in May 2004 and the University of Strathclyde in September 2005.

The acquisition of the remaining shares in ENS Holdings, Inc. was made on a share for share basis. The Company issued 14,276,883 shares to acquire the outstanding shares in ENS Holdings, Inc. Since then ENS Holdings, Inc. is a 100 % owned subsidiary and therefore a fully consolidated company. The purchase price was allocated to the assets acquired as well as to goodwill (T€ 18,478).

In May 2004 the Company acquired 19,000 shares in Evotec (Scotland) Limited from the founding directors for the initial sum of T€ 362. In addition to the initial sum, further consideration is payable based on the financial performance of the Company between May 2004 and December 2006. The deferred consideration is estimated at T€ 1,193 and T€ 573 in 2005 and 2004, respectively. In respect of this share purchase, goodwill of T€ 117 was recognised on the date of purchase. Goodwill was increased to T€ 663 based on the estimate at the balance sheet date 2004 of the consideration due to be paid at year end 2006. This estimate was revised at the balance sheet date 2005 increasing goodwill to T€ 1,258.

In September 2005 the Company purchased the remaining 18,000 shares in Evotec (Scotland) Limited for the sum of T€ 586. This acquisition resulted in additional goodwill amounting to T€ 153 in 2005.

Revenue Recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Company based upon the performance requirements of the respective agreements. Advance payments received in excess of amounts earned are recorded as deferred revenue. Revenue under long-term collaborative agreements includes but is not limited to the following:

1. Database Access Fees – Revenue from database access fees is recognised rateably over the related contract period.
2. Research Payments – Revenue from research payments finances both direct costs incurred in connection with the Company‘s ongoing research and development activities and indirect costs incurred as part of an allocation of certain other administrative expenses. Revenue from research payments is recognised rateably over the related forecasted research period as services are provided.
3. Success Payments – Revenue contingent upon the attainment of certain milestones is recognised in the period the milestone is successfully achieved. This usually occurs when the contract partner agrees that the requirements stipulated in the agreement have been met.

Revenues from the sale of systems, equipment and devices are recognised when the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Company. For the recognition of revenue Evotec has transferred to the buyer the significant risks and rewards of ownership of the goods and retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold. The costs incurred or to be incurred in

respect of the transaction can be measured reliably. Revenues from the sale of systems, equipment and devices are recorded at the time of delivery, title transfer or upon final acceptance by the customer as required by agreement. Advance payments received are recorded as prepayments received.
Product and chemical compound sales are recorded as revenue upon delivery if the Company has received a customer order, the price is determinable and collectibility is reasonably assured. The Company assesses collectibility based on a number of factors, including past transaction history with the customer and their credit-worthiness.
Service revenues generated from contracted services are recognised as the services are rendered. Revenue from compound access fees is recognised rateably over the related forecasted service period. Payments for contracted services are generally paid in advance and recorded as deferred revenue until earned. Some contracted services are settled in part by non-monetary payments. Due to the relatively insignificant portion of the contract value which is represented by the non-monetary portion, revenues derived from these particular contracts are recognised on the same basis as that used in monetary transactions.
The Company has entered into multiple-element contracts and carefully determined whether the different revenue-generating elements are sufficiently separable and whether there exists sufficient evidence of their fair values to separately account for some or all of the individual elements of the contracts. Only if an element is considered to meet these criteria it represents a separate unit of accounting.
Under the terms of various contractual arrangements, Evotec receives royalty payments which are incremental to the other company's respective product sales. Royalty income of T€ 1,062 and T€ 586 is included in product revenue for 2005 and 2004, respectively.

Derivative policy
The Company does not engage in derivatives trading, market-making or other speculative activities. The Company periodically enters into agreements to obtain foreign currencies at specified rates based on expected future cash flows for each currency.

Income Taxes
Under the liability method, deferred tax assets and liabilities are recognised for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases as well as for tax loss carry forwards. Deferred tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realised or settled based on enacted or substantially enacted tax rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in the period that includes the date of enactment or substantially enactment. In assessing the recoverability of deferred tax assets, management considers whether it is probable that some portion or all of the deferred tax assets will not be realised. Deferred tax assets are reduced to the extent that it is not probable that the related tax benefit will be realised.

Research and Development
Research and development costs that are internally generated are capitalised or expensed depending on whether the expenditure incurred falls under the classifications of research or development expenditure given by IAS 38. When it is not certain that research and development projects will generate probable future economic benefits, the costs are expensed as incurred. Those projects which are expected to generate probable future economic benefits are capitalised as an intangible asset and amortised if several criteria set out in IAS 38 are met. This principle is also used for the accounting of developed software. The software included in property, plant and equipment consists only of purchased software.
The Company receives grants from government authorities for the support of specific research and development projects. The grants are requested when qualifying expenses have been incurred and are recognised as a reduction of research and development expense when they are received. The amounts recognised as a reduction of the Company's research and development expense were T€ 1,483 and T€ 1,514 in 2005 and 2004, respectively. Under the terms of the grants, the governmental agencies generally have the right to audit the submitted qualifying expenses of the Company.

Translation of Foreign Operations and Foreign Currency Denominated Transactions
The assets and liabilities of foreign subsidiaries with functional currencies other than the Euro are translated into Euro using period-end exchange rates, while the revenues and expenses of such subsidiaries are translated using average exchange rates during the period. Gains or losses resulting from translating foreign functional currency financial statements are reported as a separate component of stockholders' equity. Transactions in foreign currencies are translated into Euro using the foreign exchange rate ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Euro using period-end exchange rates. Gains or losses resulting from foreign currency denominated transactions are included in other non-operating income and expense.

Impairment of Long-Lived Assets and Goodwill
The Company reviews long-lived assets (tangible and intangible assets including goodwill) for impairment in accordance with IAS 36 and as part of a business combination IFRS 3. An impairment review is performed annually for intangible assets and goodwill, or whenever events or changes in circumstances indicate that the carrying amount of an asset or assets may not be recoverable.
An impairment loss is recognised if an asset (or a group of assets when considering a cash generating unit) carrying amount in the accounts exceeds the greater of its fair value less costs to sell or value in use. The value in use for an asset or cash generating unit is calculated by estimating the pre-tax net present value of future cash flows arising from that asset or cash generating unit. The pre-tax discount rate used to calculate the value in use is determined to reflect the risks inherent for each asset or cash generating unit. Considerable management judgement is necessary to estimate discounted pre-tax future cash flows.

Any impairment is reported as a separate component of operating costs and expenses in the consolidated statement of operations. An impairment of tangible assets and intangible assets excluding goodwill is reversed if there has been a change in the estimates used to determine the value in use leading to an increase in value for a previously impaired asset. It is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been previously recognised. Impairments to the carrying amount of goodwill are not reversed.
In line with our policy in previous years concerning the impairment of long-lived assets and goodwill, the company carried out an impairment test in the fourth quarter of 2005 (see note (9)).

Stock Compensation
The Company applies the provisions of IFRS 2 in accounting for options granted under its stock option plan. Compensation cost from the issuance of employee stock options is measured using the fair value method at the measurement date and is charged to expense over an estimated period in which the employee renders the services.

Use of Estimates
The preparation of the accompanying consolidated financial statements requires management to make estimates and assumptions that affect both the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Main estimates and assumptions affect impairment testing, provisions, measurement of compensation expense and the valuation allowance on deferred taxes. Actual results could differ from management's estimates. In addition, changes in the current economic conditions and other events could also have a significant effect on reported amounts.

EBITDA
EBITDA stands for earnings before interest, taxes, depreciation (incl. allowance for accounts receivables and inventories) and amortisation.

(3) Use Restrictions on the Company's Technology

Evotec was subject to certain restrictions concerning technologies arising in the course of its cooperations with Glaxo Smith-Kline (GSK) and Novartis.
A fourth amendment to the contract with GSK, signed in May 2001, allows Evotec to sell detection systems and liquid handling devices, which have a restricted throughput of compounds per day. As part of the amendment, GSK grants Evotec the right to enter into other collaborative agreements with two additional funding partners. In the case such agreements are established before May 2005, GSK will receive a specified amount of credits against future goods depending on the number of additional funding partners. As of May 2005, the Company has not entered into any additional funding partner collaborative agreements.
Furthermore, the sale of the biochemical Mark III to non-funding companies is restricted until the third anniversary of the Mark III delivery date, which is mid of December 2004. The sale of the cell upgrade on the Mark III was restricted until May 2005. This restriction on the sale of cell upgrades on the Mark III was waived by GSK on 17 November 2004. The related future commitment was accrued in 2004.
With regards to the "external target collaborations" under an agreement with Novartis, Evotec must pay royalties equal to 5 % of qualifying revenue to Novartis for a period of ten years expiring on 16 March 2008. The Company has recorded related royalty expenses of T€ 29 and T€ 15 in 2005 and 2004, respectively.
Evotec was subject to certain restrictions concerning intellectual property arising in the course of its cooperation with Takeda. During the period of Takeda's exclusive access to the Target Database, Evotec will not grant access to the Target Database to any third party for purposes of exploration in the field of neurodegenerative disease. The period of exclusive access ends on 28 August 2007.

(4) Cash and Cash Equivalents

On 31 December 2005 and 2004 an amount of T€ 0 and T€ 130, respectively of cash and cash equivalents is pledged as security.

(5) Trade Accounts Receivables

The Company has assessed the non-payment risk of all trade accounts receivables which resulted in an allowance of T€ 322 and T€ 246 in 2005 and 2004, respectively. There are no use restrictions on trade accounts receivable.

(6) Inventories

Inventories consist of the following:

T€	31 Dec 2005	31 Dec 2004
Raw materials	5,515	4,395
Work-in-progress	3,158	4,046
Finished goods	1,829	1,658
Total inventories	**10,502**	**10,099**

Raw materials consist of biological materials and substances, chemicals and components of instruments. Work-in-progress in 2005 primarily consists of costs incurred on customer projects and laboratory equipment which were not completed at year end. Finished goods include finished laboratory equipment and customer projects which are ready for shipment. The Company carries an allowance on raw materials of T€ 1,596 and T€ 1,010, included in the amounts above, as of 31 December 2005 and 2004, respectively. Additionally, an allowance on work-in-progress and finished goods of T€ 868 and T€ 90 in 2005, respectively and of T€ 115 and T€ 35 in 2004 is included in the amounts above. Write-ups of previously written down inventories did not occur.

(7) Long-Term Investments

Long-term investments (unconsolidated) consist of the following:

T€	31 Dec 2005	31 Dec 2004
ENS Holdings, Inc. (at equity)	–	2,725
KeyNeurotek AG	–	–
Sirenade Pharmaceuticals AG	–	323
Prolysis Ltd.	–	–
Vmax Ltd. (at equity)	–	–
DIREVO Biotech AG (at equity)	–	–
DeveloGen Joint Venture (at equity)	–	–
Total long-term investments	**–**	**3,048**

In 2003, Evotec AG transferred its shares in EVOTEC NeuroSciences GmbH to ENS Holdings, Inc. ("ENS") incorporated in Delaware/USA. Evotec sold 781 shares on 30 March 2004 which decreased the investment from 84.7 % to 84.1 %. On 31 March 2004, ENS issued to new investors 142,980 shares of preferred stock. Due to Evotec not participating in this capital increase, Evotec had a voting interest of 42.2 % by virtue of an 84.1 % investment in common stock. With contract dated 6 March 2005, ENS issued to the same investors as in 2004 214,470 shares. This resulted in a further decrease of Evotec's share to a voting interest of 24.15 % in ENS shares, not including ENS share options, which were not transformed into shares prior to the acquisition by Evotec. Thereafter Evotec acquired all shares of ENS that were not already owned by Evotec in a share for share deal. The investment in ENS was accounted for under the equity method of accounting until 26 May 2005. The Company's share of the net loss of ENS amounted to T€ 448 and T€ 580 in 2005 and 2004, respectively.

Evotec acquired a 3.88 % investment in 2002 in the common stock of Prolysis Ltd. as part of a three year drug discovery agreement where Evotec earned the shares by performing services for Prolysis. All shares have been acquired through non-monetary payments. A financing round diluted Evotec's share in Prolysis to 2.38 %. The shares are held as a long-term investment at cost and are subject to a regular fair value impairment review, at least once a year. In December 2004 the value of the investment was fully impaired. As of 31 December 2005 and 2004 the carrying amount of the investment is T€ 0.

Evotec acquired a 5.0 % investment in the common stock of SiREEN AG in January 2002. Due to the participation of Evotec in a capital increase in 2002, the investment increased from 5.0 % to 6.36 %. This investment was partly paid by services provided in a drug discovery agreement between Evotec and SiREEN AG (2005 and 2004: T€ 0). In the context of a merger of SiREEN AG and Nukleotide Analogue Design AG a new company Sirenade Pharmaceuticals AG ("Sirenade") was formed, effective 14 May 2004. Evotec contributed all its shares in SiREEN AG as contribution in kind into Sirenade and originally held an investment of 2.23 % of the company's shares. In June 2005, a financing round diluted Evotec's share in Sirenade to 1.36 %. In November 2005, all shareholders of Sirenade transferred their shares to KeyNeurotek AG ("KeyNeurotek"), Magdeburg in return against shares in this company.

Following this, Evotec is holder of 98 shares in KeyNeurotek AG, Magdeburg, representing a shareholding in this company of 0.06 %. The investment is accounted for at cost. The impairment review in 2005 concluded that the value of the investment is uncertain, and that the investment should be fully impaired, due to financial risks. As of 31 December 2005 the carrying amount of the investment is T€ 0.

Evotec acquired a 46.36 % investment in the common stock of Vmax Ltd. ("Vmax") on 22 August 2002, which is accounted for under the equity method of accounting. Due to a capital increase in 2004 the investment of Evotec decreased from 46.36 % to 30.6 %. Through 31 December 2005 and 2004, Vmax had not generated any revenue. The remaining carrying amount of T€ 8, recorded in long-term investments has already been written down to T€ 0 as of 31 December 2003. The Company's share of the net loss of Vmax therefore amounted to T€ 0 for 2005 and 2004.

Evotec has a 22.72 % voting interest by virtue of a 65.0 % investment in the common stock of DIREVO Biotech AG ("Direvo"), which is accounted for under the equity method of accounting. Due to the redeemable feature of the preferred shares, the Company reduced the investment in Direvo to zero in 2001. The Company's share of the net loss of Direvo amounted to T€ 0 in 2005 and 2004. Our maximum exposure to loss as a result of our involvement with DIREVO Biotech AG is limited to the original investment in DIREVO AG in the amount of T€ 32.

The Company and DeveloGen AG formed a 50:50 Joint Venture in August 2003 to discover, develop and commercialise drug candidates in certain areas of metabolic diseases and to collaborate with pharmaceutical companies for defined projects in these areas. This Joint Venture is consolidated at equity in the financial statements. Evotec's total investment in 2005 amounted to T€ 0 (2004: T€ 0). Research and development expenses of the Company related to the Joint Venture in the amount of T€ 1,780 (2004: T€ 2,872) are shown under net loss from equity investments. This Joint Venture had research and development expenses in the amount of T€ 4,839 in 2005 (2004: T€ 7,983).

The long-term investments of Evotec continue to have losses and therefore do not have undistributed profits.

The Company has recorded revenues in the ordinary course of business with the investments Sirenade Pharmaceuticals AG and Prolysis Ltd. in the amount of T€ 9 and T€ 1,501 in 2005 as well as T€ 0 and T€ 2,001 in 2004, respectively. No further material transactions with investments of the Company were recorded. Transactions with affiliates of investments were notably performed with EVOTEC NeuroSciences GmbH before full consolidation.

(8) Property, Plant and Equipment

Property, plant and equipment consist of the following:

T€	31 Dec 2005	31 Dec 2004
Buildings and leasehold improvements	27,663	26,884
Plant, machinery and equipment	57,164	53,198
Furniture and fixtures	11,937	10,947
Purchased software	1,355	1,264
Finance leases	5,753	3,900
Assets under construction	42	33
Fixed assets, at cost	**103,914**	**96,226**
Less accumulated depreciation		
without impairment and software	48,202	40,253
Plus accumulated adjustment		
of depreciation	(1,271)	(1,110)
Less accumulated impairment	17,619	18,253
Less accumulated depreciation		
of software	1,201	1,068
Total property, plant and equipment	**38,163**	**37,762**

The main additions in 2005 relate to the fitting out of new clean room facilities in Glasgow, UK, upgrades of our screening facility in Hamburg and analytical equipment. Upon completion of the assets under construction, costs are transferred into their respective fixed assets classification. In the acquisition of ENS Holdings, Inc. on 26 May 2005 the Company acquired plant, machinery and equipment with a net book value of T€ 550, furniture and fittings of T€ 53 and software of T€ 24. Depreciation expense amounted to T€ 7,187 and T€ 9,203 in 2005 and 2004, respectively.

As per 31 December 2005 the estimation of useful lifes of some individual identified assets resulted in an adjustment of the depreciation periods and relating depreciation expenses in the amount of T€ 161 (2004: T€ 366). Those changes were recorded in the revaluation reserve under equity. No further revaluation of property, plant and equipment was performed.

In the impairment review according to IAS 36 of 2004, the Pilot Plant cash generating unit located in Abingdon, UK was tested for impairment due to underutilised capacities identified. Following the transition of the Company's accounts from U.S. GAAP to IFRS the value of this impairment of the Pilot Plant operational assets has been recalculated. Under IAS 36, the impairment is calculated based on pre-tax discounted cash flows, compared to an assessment on non-discounted cash flows under U.S. GAAP on the first step. This has resulted in an increase of the asset impairment in 2004 by T€ 4,888 to T€ 14,561.

The Pilot Plant cash generating unit was reassessed for impairment during the 2005 impairment review in accordance with IAS 36, and the value in use found to have increased following improved utilisation during 2005 and revised expectations of future performance. This has resulted in a partial reversal in 2005 of the previous asset impairment of T€ 643.

An additional asset impairment was determined in 2004 in relation to laboratory premises in Abingdon, UK in the amount of T€ 3,962. As permitted under IAS 36, management estimated the asset impairment using a method based on the physical usage of the laboratory premises. The impairment of the laboratory premises assets reflected recognition in 2004 of excess capacity and the likelihood of continuing under utilisation. These assets were reassessed for impairment in the 2005 impairment review with the result that no further impairment, nor any reversal of impairment, is deemed necessary.

The net book values included in the fixed assets, which are held under finance leases, are plant and machinery as well as fixture and fittings of T€ 3,337 and T€ 62 as of 31 December 2005 and T€ 2,519 and T€ 0 as of 31 December 2004, respectively. The related depreciation amounts to T€ 882 and T€ 28 in 2005 and T€ 1,362 and T€ 19 in 2004, respectively.

(9) Other Intangible Assets and Goodwill

Intangible assets, excluding goodwill, consist of the following:

T€	31 Dec 2005	31 Dec 2004
Developed technologies	30,744	29,389
Customer list	28,758	19,775
Capitalised development expenditures	1,177	518
Patents and licenses	6,251	3,061
Intangible assets, at cost	**66,930**	**52,743**
Less accumulated amortisation	56,003	44,780
Total intangible assets excl. goodwill	**10,927**	**7,963**

The main additions in 2005 relate to customer list in connection with the acquisition of ENS Holdings, Inc. (ENS) in the amount of T€ 7,125 as well as to customer list and developed technologies from the acquisition of the uHTS business of Carl Zeiss Jena GmbH (T€ 1,291 and T€ 277, respectively). Amortisation expense of intangible assets amounted to T€ 9,733 and T€ 10,074 in 2005 and 2004, respectively. The remaining years of amortisation for developed technologies and customer list from the acquisition of Oxford Asymmetry International plc. in October 2000 is zero. The customer lists acquired through the acquisition of ENS have remaining years of amortisation of approximately 1.6 and 2.2 years.

In September 2005 the Company purchased the remaining 18,000 shares of Evotec (Scotland) Limited (formerly Pro-Pharma Limited). This acquisition resulted in additional goodwill in the amount of T€ 153. In May 2004 Evotec (UK) Limited (formerly Evotec OAI Limited) acquired a further 19,000 shares in Evotec (Scotland) Limited. This acquisition resulted in additional goodwill in 2004 in the amount of T€ 117. The goodwill associated with Evotec (Scotland) Limited was assessed as part of the annual impairment review under IAS 36 and found not to be impaired.

In May 2005 the Company purchased the outstanding shares in ENS Holdings, Inc.. This acquisition resulted in goodwill in the amount of T€ 18,478 which was fully allocated to the Pharmaceuticals Division. This goodwill was fully impaired due to the risks and uncertainties associated with early drug discovery and development in the acquired business.

Goodwill with a carrying amount of T€ 54,994 at the balance sheet date of the Company has been allocated to the Services Division (formerly discovery and development services segment). The Company has tested its Services Division for impairment on the annual designated test date of 31 October 2005. The pre-tax discount rates considering the risks and rewards of the activities used in the impairment test were in the

range of 15.1 % to 16.1 %. As a result of that test, the Company concluded that no impairment was due for the goodwill carried as of that date. Due to the IFRS transition and the use of different impairment models the amount of goodwill impairment in 2004 decreased by T€ 10,496 to T€ 45,328.
The total amount of foreign exchange differences from goodwills denominated in a foreign currency amounted to T€ 1,494 in 2005 and are recorded in equity.

(10) Long-Term Loans

In February 1998, the Company entered into a T€ 5,113 loan agreement with a bank of which T€ 639 is still outstanding. This loan carries a fixed interest rate of 5 % per annum and is repayable in semi-annual instalments of T€ 320 ending on 30 September 2006. This loan is secured by certain patents, receivables and equipment. The net book values of those assets amounted to T€ 0 as per 31 December 2005.
In July 2002, the Company entered into a T€ 5,000 loan agreement with a bank of which T€ 3,722 is used and outstanding. This loan carries a fixed interest rate of 5.84 % per annum, which is fixed until 30 June 2007 and is to be repaid in monthly instalments of T€ 216 (interest and repayment), starting on 31 August 2005. The repayment is included accordingly in the maturity table below. This loan is secured by certain fixed assets. The net book values of those assets amounted to T€ 425 as per 31 December 2005.
On 4 February 2003 the Company entered into a loan with another bank of T€ 2,937 secured by a charge on buildings and chattels in the UK of which T€ 1,782 is still outstanding. The loan carries an interest rate of 1.35 % over three months Euro LIBOR per annum and is repayable in equal instalments over a period of five years. A further loan facility of T€ 5,812 was agreed on the same date. An amount of T€ 1,816 had been drawn down from this facility as of 31 December 2005. The security of this loan is provided by a fixed charge over the accounts receivable balance of the Company. This loan carries an interest rate of 1.65 % over UK Bank Base rate and is repayable in full by 28 February 2006 or in instalments before that date and is subject to a simple covenant of holding an equal amount in cash investment deposits with the bank. At the year end 2005 the loan covenants have been met. On 18 May 2005 Evotec entered into an unsecured loan of T€ 569. The loan is repayable in equal instalments over a period of three years and carries an interest rate of 1.2 % over three months Euro LIBOR. At 31 December 2005 the total carrying amount of property, plant and equipment which is subject to a charge to secure bank loans amounted to T€ 2,890 (2004: T€ 1,750).
Evotec (Scotland) Limited (formerly ProPharma Limited), a subsidiary of the Evotec AG has debts of T€ 1,058. New loan arrangements have been concluded in order to finance the fitting out of new clean room facilities in Glasgow, UK and bring the financing in line with the rest of Evotec. The loans are repayable in instalments through 2009. Current year maturities include a loan in Evotec (Scotland) Limited of T€ 341 (2004: T€ 0), this loan is secured by Evotec (UK) Limited as part of the group financing facilities.

The annual maturities of these debts are as follows:

T€	
2006	6,042
2007	2,086
2008	1,199
2009	114
2010	–
Thereafter	–
Total	**9,441**

The Company maintains lines of credit totalling T€ 4,124 to finance its short-term capital requirements, of which the entire balance is available as of 31 December 2005. These lines of credit provide for borrowings at various interest rates and have various expiration dates as well as no stated expiration dates.
The fair values of the long-term loans as of 31 December 2005 amount to T€ 3,112.

(11) Finance Lease Obligations

The Company is obligated under finance leases of T€ 3,832 and T€ 2,841 as of 31 December 2005 and 2004, respectively that expire at various dates during the next five years. Property, plant and equipment as well as inventories are held under those finance leases. The future minimum lease payments under finance leases are as follows:

T€	
2006	1,791
2007	1,072
2008	687
2009	344
2010	129
Less interest	(191)
Total principal payable on finance leases	**3,832**

The fair values of the long-term finance lease obligation as of 31 December 2005 amount to T€ 2,017.

(12) Provisions

The provisions consist of the following:

T€	31 Dec 2005	31 Dec 2004
Bonus accruals	2,024	1,298
Contingent considerations	1,493	574
Lease incentives	1,470	1,039
Accrued vacation	793	891
Restructuring expenses	578	–
Other provisions	1,720	2,299
Total provisions	**8,078**	**6,101**

The change of provisions is primarily due to a management's decision to raise the variable component of compensation again after a decrease in 2004.
An amount of T€ 1,470 (2004: T€ 1,039) was included for rent primarily in relation to lease incentives received in the year on property occupied in Abingdon and Glasgow (UK).

The following table summarises the accrued liabilities recorded during 2005:

T€	01 Jan 2005	Consumption	Disposal	Additions	31 Dec 2005
Personnel	2,189	1,249	226	2,103	2,817
Contingent considerations	574	–	–	919	1,493
Lease incentives	1,039	–	–	431	1,470
Other provisions	2,299	2,115	184	2,298	2,298
Total	**6,101**	**3,364**	**410**	**5,751**	**8,078**

The provision for personnel costs may differ from the estimated accrual due to the fact that the actual percentage of the variable portion of the remuneration may differ from the estimated ones. The estimated accrual for the contingent consideration may differ from the actual amounts payable due to the fact that the agreed performance targets are either not met or are exceeded. The consumption of the actual lease incentive may vary from the estimated if the lease period changes.
An amount of T€ 1,515 is expected to be paid after 1 year and therefore is shown under non-current liabilities. This amount mainly derives from lease incentives. The fair values of those non-current liabilities as of 31 December 2005 amount to T€ 995.

(13) Income Taxes

Income taxes comprise the current taxes (paid or owed) on income in the individual countries as well as the deferred taxes. For the calculation of current taxes, tax rates are used which are applicable or announced at the balance sheet date. Loss before income taxes, minority interests and net loss from equity investments is attributable to the following geographic regions for the years ended 31 December 2005 and 2004:

T€	2005	2004
Germany	(27,718)	(9,118)
Foreign	(7,619)	(75,110)
Total	**(35,337)**	**(84,228)**

Income tax benefit (expense) for the years ended 31 December 2005 and 2004 is as follows:

T€	2005	2004
Current taxes:		
– Germany	(209)	(39)
– Foreign	(26)	122
Total current taxes	**(235)**	**83**
Deferred taxes:		
– Germany	2,877	–
– Foreign	1,871	9,694
Total deferred taxes	**4,748**	9,694
Total income tax benefit	**4,513**	**9,777**

The tax rate in the UK for the years ended 31 December 2005 and 2004 amounted to 30 %. For the years ended 31 December 2005 and 2004, the actual combined German federal corporation income and trade tax rate amounted to 40.38 % (2004: 40.38 %). The income tax benefit differed from the expected income tax benefit determined using the combined tax rate of 40.38 % (2004: 40.38 %) as follows:

T€	2005	2004
Expected income tax benefit	13,082	39,661
Non-deductible goodwill impairment and amortisation	(7,523)	(22,542)
Other permanent differences	1,813	1,592
Foreign tax differential	(378)	(3,115)
Effect of tax rate change	–	–
Change in valuation allowance	(2,516)	(5,802)
Other	35	(17)
Actual income tax benefit	**4,513**	**9,777**

Deferred income tax assets and liabilities as of 31 December 2005 and 2004 relate to the following:

T€	2005	2004
Deferred tax assets:		
– Loss carry forward	56,990	47,181
– Intangible assets	1,316	1,636
– Other	385	309
Total	**58,691**	**49,126**
Valuation allowances on deferred tax assets	(47,099)	(42,419)
Total deferred tax assets	**11,592**	**6,707**
Deferred tax liabilities:		
– Property, plant and equipment	6,471	6,100
– Intangible assets	2,630	2,364
– Loans	2,302	–
– Undistributed subsidiaries earnings	94	54
– Other	95	16
Total deferred tax liabilities	**11,592**	**8,534**
Deferred tax liability, net	**–**	**1,827**

Net deferred income tax assets and liabilities are presented in the accompanying balance sheets as of 31 December 2005 and 2004 as follows:

T€	2005	2004
Net deferred tax assets, current:		
– Germany	–	–
– Foreign	–	99
Net deferred tax liabilities, non-current:		
– Germany	–	–
– Foreign	–	(1,926)
Total	**–**	**(1,827)**

For the years ended 31 December 2005 and 2004, Evotec recorded additional valuation allowances with respect to tax benefits of tax losses carried forward of T€ 9,126 and T€ 5,276, respectively. The valuation allowances on the Company's deferred tax assets are not recorded to the extent it is probable

that such tax benefits would be realised in future years. These considerations include, but are not limited to, the ability under respective tax laws to carry forward incurred tax losses indefinitely and thereby offset taxable income in future years, tax planning strategies and estimates of future taxable income. Evotec has not generated taxable income in Germany since the start of operations and does not expect to in the foreseeable future. The rational behind the valuation allowances is based on the potentially unlikely prospect of generating taxable income and, to a significant extent, the questionable nature, availability and benefit of the tax losses carried forward generated prior to material equity transactions in the past. Tax losses carried forward for Germany of T€ 119,898 and the UK of T€ 17,321 do not expire. Due to changes in the German tax law in 2003, the tax losses carried forward can only be offset against an amount of 60 % of future taxable income after exceeding a fully deductible amount of T€ 1,000 per year.
Deferred taxes are accounted for as tax expenses or income in the statements of operations unless they relate to items included in equity in which case they are accounted for as part of equity.

(14) Stock-Based Compensation

The shareholders' meeting on 7 June 1999 established a stock option plan ("Option Plan 1999") and authorised the granting of stock options for up to 1,466,600 shares. The plan is subject to certain restrictions regarding the number of stock awards that may be granted in a year and the allocation of the grants to members of the Management Board, other key management personnel and all other employees. The annual shareholders' meeting in 2000 and 2001 provided for the authorisation of additional 949,000 and 1,129,600 stock options, respectively.
Under the terms of the plan, each option entitles the holder to purchase one share of the Company's stock within ten years of the grant date at a set strike price. For all options granted in 1999, the strike price was the price of the initial public offering of € 13.00 (€ 6.50 after stock split). Options granted in 2000 and 2001 can be exercised at a strike price equal to the closing price of the shares or at a strike price equal to the closing price of the shares plus 5 % on the trading day before the option was granted. Options have a graded vesting: A maximum of one-third of which can be exercised at the earliest after two years, a maximum of further two-thirds after three years and all remaining awarded options after four years. Options can only be exercised within certain specified two week periods starting on the third day after one of the following events: (i) release of the quarterly results, (ii) annual press conference on the financial statements, or (iii) annual shareholders' meeting of the Company. The options can only be exercised if the stock price exceeds the strike price by at least 5 %.
The terms of the stock option plan further provide: A grant of options is allowed if the average closing price of the Company's stock has increased by at least 30 % when comparing the last quarter of the last business year before the grant with the last quarter of the preceeding year. The Supervisory Board, however, has the authority to override this restriction and to authorise the granting of options to employees if such a decision is considered necessary for the interests of the Company.
The shareholders' meeting on 7 June 2005 established a new stock option plan ("Option Plan 2005") and authorised the granting of stock options for up to 1,741,481 shares. The plan is subject to certain restrictions regarding the number of stock awards that may be granted in a year and the allocation of the grants to members of the Management Board, other key management personnel and all other employees. Within one calendar year, no more than 40 % of these options shall be granted. Each option entitles the holder to purchase one share of the Company's stock at a strike price equal to the price of one share at the time of the grant of the option. Options can be exercised after a vesting period of three years after the date of their grant but no later than six years after the respective grant. The Option Plan 2005 stipulates an exercise hurdle of a 33 % price increase against the share price at the time of granting. The option holder may exercise his options only if this hurdle is achieved on the day three years after the respective date of granting. In case the hurdle is not achieved, the same increase after four or five years, respectively, would make the options exercisable.
Options under the Option Plan 2005 can only be exercised within the specific two weeks period relevant also to the other option programmes.
Through the acquisition of ENS Holdings, Inc. the Company acquired a stock option plan under which shares in the amount of 323,749 were granted on the date of consolidation 26 May 2005. Under the terms of the plan, each share which has to be treated as an option entitles the holder to receive one share of the Evotec AG's stock until April or November 2014 at a set strike price of zero. The corresponding new shares are being held in escrow and are released by an individually set amount every quarter as well as on achievement of individual milestones.
A summary of the status of the plans as of 31 December 2005 and 2004, and the changes during the years then ended is presented as follows:

	2005		2004	
pcs. and € per share	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding at beginning of the year	2,579,558	8.34	2,474,176	9.30
Options granted	1,213,149	2.07	361,150	2.95
Options exercised	(52,409)	0.66	–	–
Options forfeited	(129,082)	8.65	(107,925)	10.41
Options waived (re-issueable)	(198,232)	8.43	(147,843)	9.72
Outstanding at end of the year	**3,412,984**	6.21	**2,579,558**	8.34
Thereof exercisable	1,500,141	10.59	1,232,740	12.71

A summary of the stock options outstanding at 31 December 2005 is as follows:

	Outstanding in pcs.	Exercisable in pcs.	Weighted average remaining contractual life in years	Weighted average exercise price € per share
Exercise price 0.00 € per share	286,349	–	8.44	0.00
Exercise price 1.66– 3.61 € per share	1,664,997	301,762	7.31	2.62
Exercise price 5.97– 6.80 € per share	1,014,530	751,271	6.17	6.54
Exercise price 10.15–12.48 € per share	51,100	51,100	5.93	12.39
Exercise price 15.29 € per share	4,500	4,500	5.23	15.29
Exercise price 24.30 € per share	391,508	391,508	4.90	24.30

Evotec's stock option plans result in compensation expense of T€ 1,622 and T€ 1,716 as of 31 December 2005 and 2004, respectively. These amounts were reflected in unearned compensation, a component of stockholders' equity. The Company recognised compensation expense in 2005 and 2004 for all options totalling T€ 749 and T€ 283, respectively, which was reflected as operating costs and expenses in the consolidated statements of operations.
The fair value of each option grant was estimated on the date of grant for the fiscal years ended 31 December 2005 and 2004 using a Binomial model with the following assumptions:

	25.11.2002	03.01.2003	27.01.2003	19.11.2003	06.01.2004	18.11.2004
Risk-free interest rate in%	4.14	3.59	3.59	4.03	3.81	3.30
Volatility in%	103.0	103.9	104.3	69.0	67.1	55.6
Fluctuation in%	15.0	10.0	10.0	10.0–15.0	10.0	10.0
Price range in Euro	2.20–2.31	1.93–2.03	1.66	5.99–6.29	5.97	2.52–2.65

	04.03.2005	07.03.2005	11.07.2005	30.08.2005	16.12.2005
Risk-free interest rate in%	3.32	3.32	2.85	2.79	3.14
Volatility in%	58.4	58.4	56.4	49.1	34.8
Fluctuation in%	10.0	10.0	10.0	10.0	10.0
Price range in Euro	0.00	3.61	2.82	2.71–2.80	2.59–2.73

The expected dividend yield is zero, the expected remaining life 6 years and the expected exercise price in percent of the option price is 200 % in all models.
Due to the transition to IFRS and the related first time adoption of IFRS 2 only stock options which were granted after 7 November 2002 and are not vested on 31 December 2005 are included in the fair value calculation.

(15) Stockholders' Equity

On 31 December 2005, there are 62,759,424 shares issued and outstanding including converted ENS options held in escrow. Furthermore authorised but unissued shares consist of a conditional capital *(bedingtes Kapital)* of 5,228,699 shares available with respect to the stock option plan and an approved capital *(genehmigtes Kapital)*, of 26,143,506 shares.
The annual shareholders' meeting on 18 June 2001 had authorised the Management Board of the Company to issue up to 17,700,000 shares for cash or contributions in kind.
Effective 20 July 2004, the Company increased its stockholders' equity by issuing 2,500,000 new shares against cash out of the approved capital *(genehmigtes Kapital)*. The price per share amounted to € 3.00.
Effective 26 May 2005, the Company increased its stockholders' equity by issuing 14,276,883 new shares against contributions in kind out of the approved capital *(genehmigtes Kapital)*.
The annual shareholders' meeting on 7 June 2005 decided to increase the Company's stockholders' equity by issuing 10,457,402 new shares against cash. This increase was effective 24 June 2005. The price per share amounted to € 2.72.
This annual shareholders' meeting on 7 June 2005 also authorised the Management Board of the Company to issue up to 26,143,506 shares for cash or contributions in kind. Under German law, the shareholders of a stock corporation may empower the Management Board to issue shares in a specified aggregate nominal value not exceeding 50 % of the issued share capital at the time of the shareholder vote, in the form of approved capital *(genehmigtes Kapital)*. The authorisation expires on 6 June 2010. In addition conditional capital had been authorised which has not yet been registered in the trade register.

(16) Segment Information

Segmentation is performed on the basis of risks and opportunities; recognition is based on the internal organisation and management structure as well as on internal management reporting. Therefore the Company's primary segments include three reportable operating segments which are: (i) Pharmaceuticals Division (formerly Discovery Programs Division), (ii) Services Division (formerly Discovery and Development Services) and (iii) Tools and Technologies. Evotec changed the composition of its segments due to the implementation of its strategy of more rapidly growing internal drug discovery and development. Under the new composition of segments the Services Division comprises only business transactions relating to third party contract research (excluding ENS target identification and target validation projects), i.e. no work performed for the Pharmaceuticals Division.

(i) The Pharmaceuticals Division is specialised in finding new treatments for diseases of the Central Nervous System (CNS). It is engaged in selected research and development activities to develop compounds for out-licensing. The strategic objective of this division is to generate or augment proprietary intellectual property that can provide the Company with additional long-term upside through more significant milestones and royalties.

(ii) The Services Division provides integrated contract research support in drug discovery and development to a large group of global customers. It provides innovative and integrated solutions including early stage assay development and screening through to medicinal chemistry and drug manufacturing.

(iii) The Tools and Technologies segment is a provider of confocal detection devices, cell handling devices and ultra-High-Throughput Screening (uHTS) systems. The product portfolio is focused on high-end technologies for automated cell biology. Tools and Technologies provides sophisticated automation skills, integrating hardware, software and bioware modules.

Net sales and operating expenses in the segments include both sales to customers and inter-segment transfers, which are priced to recover cost plus an appropriate profit margin according to the at arms length principle. Internal research and development projects are not part of the inter-segment transfers but directly allocated to the Pharmaceuticals Division.
Revenues in the consolidated statements of operations are differentiated by products and by services. This definition is close to the definition used in the segment reporting. Differences between the revenue splits are mainly due to product deliveries from our service unit, which are reported in the Services segment.
The accounting policies of the segments are equivalent to those described in the summary of significant accounting policies (see note 2).
The following represents segment data of the Company's primary segments for the year ended 31 December 2005:

T€	Pharmaceuticals Division	Services Division	Tools and Technologies	Not allocated	Total 2005
Revenues:					
– Drug discovery products and Technologies	–	275	17,003	(1,333)	15,945
– Drug discovery services	3,231	60,686	–	(77)	63,840
Total revenues	**3,231**	**60,961**	**17,003**	**(1,410)**	79,785
Thereof intercompany	**–**	**77**	**1,333**	**(1,410)**	**–**
Costs of revenue:					
– Drug discovery products and Technologies	–	145	8,440	(598)	7,987
– Drug discovery services	1,032	41,850	–	(49)	42,833
Total costs of revenue	**1,032**	**41,995**	**8,440**	**(647)**	50,820
Gross profit	**2,199**	**18,966**	**8,563**	**(763)**	**28,965**
Research and development expenses	5,957	3,864	5,175	(908)	14,088
Selling, general and administrative expenses	3,974	11,433	4,833	(338)	19,902
Amortisation of intangible assets	1,876	7,375	1,276	(794)	9,733
Impairment of goodwill	18,478	–	–	–	18,478
Impairment of tangible assets	–	(643)	–	–	(643)
Restructuring expenses	–	–	917	–	917
Other operating expenses	–	2,163	–	–	2,163
Operating loss	**28,086**	**5,226**	**3,638**	**(1,277)**	35,673
Interest income	–	–	4	852	856
Interest expense	–	–	1,111	(382)	729
Net loss from equity investment	2,228	–	–	324	2,552
Foreign currency exchange gain (loss), net	–	–	(6)	(725)	(731)
Other non-operating income, net	479	485	506	(530)	940
Net loss before taxes and minorities	**29,835**	**4,741**	**4,245**	**(932)**	37,889
Total assets	6,798	105,575	21,553	52,185	186,111
Total liabilities	4,854	12,876	26,548	(6,836)	37,442
Capital expenditures	30,515	4,447	3,764	(57)	38,669

Not allocated to the Pharmaceuticals and Services Division are mainly loans as well as cash. Depreciation included in the operating loss of Pharmaceuticals Division, Services Division and Tools and Technologies, amounts to T€ 328, T€ 6,383 and T€ 561, respectively (2004: T€ 9,441, T€ 249 and T€ 843, respectively). Segmental capital expenditures in 2004 amount to T€ 146, T€ 2,283 and T€ 555, respectively. Total assets in 2004 in those segments amount to T€ 1,995, T€ 104,646 and T€ 20,728, respectively. Total liabilities in 2004 in those segments amount to T€ 1,471, T€ 10,176 and T€ 21,394, respectively.
The Company's secondary segment split is based on geographical aspects. Revenues can be split, based on customers' locations, in the following geographical regions:

T€	2005	2004
Germany	8,939	7,567
United Kingdom	11,993	11,698
Rest of Europe	19,379	14,536
United States	29,529	30,171
Rest of the world	9,945	8,758
	79,785	72,730

Total assets of T€ 113,299 and T€ 113,899 are located in foreign countries and the remaining amounts of T€ 72,812 and T€ 32,645 are in Germany as of 31 December 2005 and 2004, respectively. Capital expenditures in the amount of T€ 3,686 and T€ 1,681 have been made in foreign countries and the remaining amounts of T€ 34,983 and T€ 1,125 are in Germany as of 31 December 2005 and 2004, respectively.

(17) Financial Instruments

The fair value of cash and cash equivalents, trade accounts receivable and trade accounts payable approximate their carrying values in the consolidated financial statements due to the short-term nature. Financial assets are accounted for at the settlement date. The credit risk in connection with failures by counterparties to discharge their obligations, are assessed by the Company to be immaterial. The fair value of debt is determined using an appropriate discount rate. The fair values of long-term loans closely approximate their carrying values on 31 December 2005 and 2004. The Company is exposed to interest rate risk through variable interest-bearing loans and finance lease liabilities. These interest rate risks are deemed to be not significant.
The Company periodically enters into derivatives including foreign currency forward contracts and options. The objective of these transactions is to reduce the risk of exchange rate fluctuations of its foreign currency denominated cash flows. Evotec does not enter into derivatives for trading or speculative purposes. As of 31 December 2005, the Company held USD forward contracts with Euro equivalent notional amounts of approximately T€ 1,267 and a fair value of T€ 1,267 (2004: T€ 1,503 and T€ 1,509, respectively). Additionally, the Company held USD option contracts with Euro equivalent notional amounts of approximately T€ 7,177 and T€ 3,666 as of 31 December 2005 and 2004, respectively. The fair value of the option contracts is T€ 7,010 at 31 December 2005 (2004: T€ 3,932). Foreign currency contracts are carried at fair value which is determined using quoted market prices or discounted cash flows. The maturity for all foreign currency contracts held by the Company is short term. The carrying amount of the foreign currency contracts is included in current liabilities as per 31 December 2005 and prepaid expense and other current assets as per 31 December 2004. Gains and losses from the fair value accounting related to foreign currency derivatives are included in other non-operating income and expense and amounted to T€ (290) and T€ 267 for the years ended 31 December 2005 and 2004, respectively.

(18) Risks

The Company has credit risks primarily with respect to trade accounts receivables. Concentrations of credit risks with respect to trade accounts receivables are limited by a number of geographically diverse customers and the Company's monitoring procedures.
We expect that our current cash funds, together with operating revenues will be sufficient to finance our operations for at least two to three years, depending on the various scenarios of the Company's investments and strategic development. Our future cash requirements will depend on various factors, including our success in developing existing and new technologies and products, increasing sales of both existing and new products and services, expenses associated with sales growth as well as competition and the general economic situation. Expenditures on internal development programmes or related acquisitions of technologies or intellectual property rights are likely to reduce our short- to mid-term profitability and cash reserves. We intend to reduce part of this financial exposure through early partnering agreements, to the degree possible and advisable when trying to maximise returns. In addition, the option to improve the financing situation through capital increases either against cash or acquired assets, e.g. as part of an in-licensing agreement, is always being considered. The Company does not intend to engage in projects or project phases unless appropriate funding is allocated or secured.
The Company has important collaborations with pharmaceutical and biotechnology companies within all operating segments. Any termination of such collaborations or failure to achieve contracted milestones would probably have adverse impacts on the Company's financial position, results of operations and cash flows.
The Company has further expanded its customer's base. However the three largest customers of Evotec combined represent more than 20 % of the group revenues in 2005. A termination of these business relations could have adverse impacts on the Company's financial results.
With a high proportion of sales denominated in US Dollar currency exposure creates a risk to our profitability, in particular relative to the UK Sterling with the respect to the UK subsidiaries. A weakening of the USD when accompanied by a relative strengthening of the GBP against the Euro will reduce revenues and profitability and constitutes a significant risk to the Company's financial situation. The hedging activities of the Company aim to mitigate the impact on the result before tax.

(19) Pension Plan

The Company operates a defined contribution Group Personal Pension Plan (GPPP) and makes contributions to employees'

own schemes. The pension charge for the year represents contributions payable by the Company to the fund (and to employees' own pension schemes) and amounted to T€ 831 (2004: T€ 689).
Contributions amounting to T€ 100 (2004: T€ 105) were payable to the fund at the year end and are included in creditors.
The Company's contribution rate is determined by the employees contribution and their age. There were no changes in the basis for such contributions during the year.
The statutory retirement insurances are defined as contribution plan under IAS 19.

(20) Commitments and Contingencies

(a) Operating Lease Obligations

The Company leases office and laboratory space and other equipment under operating leases in accordance with IAS 17. The future minimum lease payments under non-cancellable operating leases are approximately as follows:

T€	
2006	5,205
2007	4,688
2008	4,528
2009	4,694
2010	4,692
Thereafter	38,497
Total	**62,304**

The majority of operating leases is related to rent expenses for facilities. The rent expense for such leases amounted to T€ 4,133 and T€ 4,478 for the years ended 31 December 2005 and 2004, respectively.
The Company leases instruments to customers in the ordinary course of business. The rent related revenues amounted to T€ 466 and T€ 262 for the years 2005 and 2004, respectively. The future minimum rent related revenues under non-cancellable contracts amount to T€ 90 in 2006.

(b) Other Commitments and Contingencies

The Company has entered into consultancy contracts. During 2005 and 2004, payments under consultancy contracts totalled T€ 362 and T€ 434, respectively. The future minimum payments associated with long-term consultant and other miscellaneous long-term commitments total approximately T€ 444 and T€ 761 at 31 December 2005 and 2004, respectively.
As discussed in note 3, the Company has certain commitments resulting from the amendments to our agreements with our technology funding partners.
The Company has given a guarantee with regard to all terms and conditions of a specific customer contract. No current liabilities from that guarantee exist at 31 December 2005.
Following the Company's Annual General Meeting, a shareholder had instituted legal proceedings against the resolution empowering management to issue convertible bonds. The district court (Landgericht) Hamburg rejected this claim with a judgement dated 14 December 2005. The Company is not aware of any further significant litigation as of 31 December 2005.

(21) Related Party Transactions

The following Supervisory Board members and Executive Committee members of the Company are also supervisory board members or management board members in companies Evotec works with in the ordinary course of business:
Prof Dr Heinz Riesenhuber is a member of the supervisory board of Altana Pharma AG, with whom the Company entered into service agreements as well as agreements with regard to instrument sales in the ordinary course of business. Revenue from those agreements in 2005 and 2004 amounted to T€ 1,103 and T€ 723, respectively. Related product warranties amounted to T€ 31 in 2005. Accounts receivable from Altana as of 31 December 2005 and 2004 amounted to T€ 813 and T€ 70, respectively.
Peer Schatz is Chief Executive Officer of Qiagen N.V. From affiliates controlled by Qiagen N.V. the Company bought products in the amount of T€ 47 and T€ 229 in 2005 and 2004, respectively. The amount of payables to Qiagen on 31 December 2005 and 2004, including VAT amounts to T€ 6 and T€ 117, respectively.
Dr Peter Fellner is Non-Executive Chairman of the Board of Directors of Astex Therapeutics Ltd, Cambridge, UK, with whom the Company entered into a service agreement in the ordinary course of business. Related revenues amounted to T€ 23 in the period starting with Dr Fellner's membership in the Company's Supervisory Board. The amount of accounts receivables as of 31 December 2005 amounted to T€ 27.
Dr Karsten Henco is a chairman of the supervisory board of Garching Innovation GmbH from which the Company has obtained licences in 2001. Licence expense amounted to T€ 74 and T€ 288 in 2005 (until his departure from the Supervisory Board) and 2004, respectively. He is also a member of the supervisory board of U3 Pharma AG with whom the Company entered into a service agreement in the ordinary course of business. Revenues amounted to T€ 344 in 2004 and the relating accounts receivable as of 31 December 2004 amounted to T€ 70. The Company entered into a consultancy contract, in the ordinary course of business and with the approval of the Supervisory Board, with Dr Karsten Henco. The associated expenses in 2005 until his departure from the Supervisory Board and in 2004 amounted to T€ 28 and T€ 99, respectively and the related payables to Dr Henco as of 31 December 2005 and 2004 amounted to T€ 39 and T€ 22, respectively.
Dr Edwin Moses was a member of the supervisory board of Prolysis Ltd until June 2003 with whom the Company entered into a service agreement and acquired a 3.88 % equity interest. He is also a Non-Executive Chairman of the board of BioImage A/S with whom the Company entered into service agreements in the ordinary course of business. Revenues amounted to T€ 162 in 2005 until his departure from the Supervisory Board and to T€ 935 in 2004, and the related accounts receivable as of 31 December 2005 and 2004 amounted to T€ 0 and T€ 105, respectively. Dr Moses is also Non-Executive Chairman of the board of Paradigm Therapeutics Ltd. with whom the Company entered into a service agreement. The related revenues amounted to T€ 0 and T€ 165 in 2005 and 2004, respectively. There were no related accounts receivables as of 31 December 2005 and 2004. The Company entered into a consultancy contract (effective date April 2005),

in the ordinary course of business and with the approval of the Supervisory Board, with Dr Moses in order to exploit his significant expertise in the business of the Company. There were no associated expenses during his membership in the Supervisory Board.
Dr Mario Polywka, a member of the Executive Committee of the Company is Non-Executive Chairman of the board of Glycoform Limited who uses laboratory equipment at the site in Abingdon, UK. Revenues amounted to T€ 13 and T€ 5 in 2005 and 2004, respectively and the related accounts receivable as of 31 December 2005 and 2004 amounted to T€ 2 and T€ 1, respectively. He is also Non-Executive Director of the board of Pharminox Limited with whom the Company entered into a service agreement in the ordinary course of business. Revenues amounted to T€ 51 and T€ 59 in 2005 and 2004, respectively. There were no related accounts receivables as of 31 December 2005 and 2004.
Dr John Kemp, a member of the Executive Committee of the Company has a loan outstanding (including accrued interest) and granted in 2003 as of 31 December 2005 in the amount of T€ 91.
Jesper Wiklund, a member of the Executive Committee of the Company received loans in 2005 to cover personal tax obligations relating to stock options granted. As of 31 December 2005 these loans including accrued interest amount to T€ 22.
Dr Phil Boyd, an officer of the Company is a member of the board of Vmax Ltd. with whom the Company entered into a loan stock and investment agreement. See note 7.
The Evotec AG has recorded revenues with related parties in the amount of T€ 279, subsidiaries of Evotec AG recorded revenues in the amount of T€ 1,073.
Hubert Birner, Peter Fellner and Mary Tanner consulted the Company in 2005 outside the scope of their Supervisory Board activities with the approval of the full Supervisory Board. The total relating expenses amounted to T€ 18.
Administrative services provided by the Company to Management Board or Supervisory Board members for their private purposes, if any are reimbursed to the Company at cost.

(22) Other Disclosures

The following additional disclosures are required by German law in accordance with the European Directives on Accounting and the Corporate Governance Codex:

(a) Number of Employees
The average number of persons employed by the Company in 2005 was 613 (2004: 639).

(b) Personnel Expenses and Cost of Material
The personnel expenses of the Company amounted to T€ 39,538 of which T€ 23,584 relates to personnel expenses in the UK (2004: T€ 37,553 and T€ 22,838, respectively). Thereof expenses for the statutory retirement insurance amounted to T€ 3,154 of which T€ 2,244 relates to expenses in the UK (2004: T€ 2,973 and T€ 2,069, respectively).
Cost of materials amounted to T€ 39,544, thereof T€ 7,895 are cost of materials in the UK (2004: T€ 24,166 and T€ 7,289, respectively).

(c) Remuneration of the Auditor
In 2005, remunerations, shown as expenses, to KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft and other KPMG companies totalled T€ 487 broken down into year end auditing (T€ 233), tax consultancy (T€ 81), other auditing and valuation services (T€ 32) as well as other services (T€ 141).

(d) Corporate Governance Codex
A declaration according to Section 161 AktG was made by the Management Board and the Supervisory Board of the Company. This declaration regarding the Company's compliance with the Corporate Governance Codex is accessible to the shareholders on Evotec's website.

(e) Consolidated Subsidiaries and Equity Investees

Information below is as per the statutory financial statements as of 31 December 2005 prepared in accordance with the respective local generally accepted accounting principles.

	Company's voting interest in%	2005 Net income/(loss) in T€	2005 Equity in T€
Subsidiaries (verbundene Unternehmen)			
– Evotec (UK) Ltd. (formerly Evotec OAI Ltd.), Abingdon, UK	100.0	2,688	46,056
– ENS Holdings, Inc., Wilmington/Delaware, USA (unaudited)	100.0	(2,226)	29,859
– Evotec Technologies GmbH, Duesseldorf	86.1	(4,303)	(5,919)
– EVOTEC NeuroSciences GmbH, Hamburg (unaudited)	100.0	(4,471)	6,239
– Evotec Neurosciences AG, Zurich, CH (unaudited)	100.0	43	130
– Evotec (Scotland) Ltd (formerly ProPharma Ltd), Glasgow, UK	100.0	(1,078)	2,194
– Evotec Technologies Inc., Wilmington/Delaware, USA (unaudited)	86.1	41	60
– Evotec Inc., Wilmington/Delaware, USA (unaudited)	100.0	18	147
– Oxford Diversity Ltd., Abingdon, UK (unaudited)	100.0	–	–
– Oxford Asymmetry Employee Shares Trust Ltd., Abingdon, UK (unaudited)	100.0	–	–
– ProPharma Ltd, Glasgow, UK, (shell company)	100.0	–	–
Investment in associated Companies			
– DIREVO Biotech AG, Cologne (unaudited)	22.7	(3,337)	7,210
– Vmax Ltd., Winnersh Triangle, UK (unaudited)	30.6	527	–
– DeveloGen Joint Venture	50.0	–	–
Other Investments			
– KeyNeurotek AG, Magdeburg (2004 figures)	0.1	(1,550)	(2,516)
– Prolysis Ltd, Oxford, UK	2.4	(4,409)	313

(f) Management Board

The members of the Management Board are listed at the end of this report.

The remuneration paid to the members of the Management Board in the financial year totalled T€ 744 (2004: T€ 1,725) of which T€ 0 (2004: T€ 212) was variable. The variable pay for 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. In 2005 the variable portion of the remuneration related to the business year 2004 was originally based on a performance related bonus split (40% was based on the achievement of a revenue target, 40% on an EBITDA target and 20% on the achievement of personal objectives). For the year 2004 those performance criteria were only partly not met however the Management Board decided to waive their entitlement to any payment in light of the Company's financial situation and therefore no variable remuneration was paid. The scheme for the variable portion of the remuneration in 2006, which is based on the business year 2005, is based on the following performance related bonus split: 40% is based on the achievement of milestones, 40% on the achievement of budget targets and 20% on the achievement of personal objectives. Under the Company's stock option plans, the members of the Management Board received in 2005 150,000 (2004: 124,500) options. One-third of the options granted in 2004 may be exercised after two years. The options granted in 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.

	2005 Fixed remuneration in T€	2005 Variable remuneration in T€	2005 Stock options in pcs.
Joern Aldag	339	–	90,000
Dr Dirk Ehlers	289	–	60,000
Prof Dr Ian Hunneyball	116	–	–
Total	**744**	**–**	**150,000**

Joern Aldag is member of the Monopolkommission der Bundesrepublik Deutschland and was Non-Executive Member of the board of ENS Holdings, Inc., Wilmington/Delaware, USA (until May 2005).

(g) Supervisory Board

The Supervisory Board and their additional memberships in supervisory boards and memberships in comparable governing bodies of enterprises according to Section 125 (1) third sentence of the AktG are listed at the end of this report:

T€	Remuneration	Equity based compensation	Total
Prof Dr Riesenhuber	37.5	15.0	52.5
Peer Schatz	31.6	11.2	42.8
Dr Hubert Birner	11.0	4.3	15.3
Dr Peter Fellner	10.7	4.3	15.0
Dr Alfred Oberholz	10.4	4.3	14.7
Mary Tanner	16.4	7.1	23.5
Dr Pol Bamelis	8.1	3.2	11.3
Dr Karsten Henco	6.4	3.2	9.6
Dr Edwin Moses	5.2	2.1	7.3
Total	137.3	54.7	192.0

The remuneration for the chairman of the Supervisory Board is twice, for the vice chairman is one and a half the amount of the remuneration for the Supervisory Board members. The additional remuneration for a member of a Supervisory Board committee amounts to T€ 3.8, for the chairman of those committee's to T€ 7.5. The total remuneration paid to Supervisory Board members in 2004 totalled T€ 137.8.

(h) Scientific Advisory Committee

Dr Karsten Henco, Duesseldorf, D;
Prof Dr Roger Nitsch, Zurich, CH;
Ian Ragan, Ph. D., London, UK;
William Jenkins, MD, Basel, CH;
Ian Hunneyball, Ph. D., Abingdon, UK;
Prof Dr Christoph Hock, Zurich, CH;
Prof Dr Hanns Moehler, Zurich, CH.

The remuneration for the Scientific Advisory Board in 2005 amounts to T€ 37 (2004: T€ 25).

(i) Summary of Significant Differences between IFRS and HGB Accounting Requirements

Introduction

Evotec AG, as a German company, is subject to the German Commercial Code ("Handelsgesetzbuch", "HGB"), which principally requires the Company to prepare consolidated financial statements in accordance with the HGB accounting principles and regulations ("German GAAP"). Pursuant to HGB Section 315a, the Company prepares consolidated financial statements in accordance with IFRS. The following is a description of the significant differences between German GAAP and IFRS.

Fundamental Differences

The emphasis of IFRS is to provide all relevant information to investors in order to facilitate future investment decisions. The primary difference between German GAAP and IFRS is that they are based on different concepts. German GAAP is oriented towards the protection of creditors and emphasis on the prudence concept. Accordingly, IFRS prescribes strict separation of commercial and tax accounting, provisions for expenses are not permitted, recognition and valuation of options are more narrowly defined, and more extensive notes and explanations are required.

Management report

According to HGB companies have the obligation to disclose a management report. IFRS requires no management report.

Revenue Recognition

Revenue recognition is generally the same under German GAAP and IFRS, whereby revenue is recognised when it is probable that the economic benefits will flow to the Company. Differences in the timing of recognition can exist in transaction when the Company retains on-going financial, operational or performance commitments or the contractual amounts are not objectively verifiable.

Leased assets

Both IFRS and German GAAP stipulate that leased assets should be recognised on the basis of economic ownership. However, the definition of economic ownership varies. Under German GAAP a tax law approach is applicable.

Goodwill

Under IFRS, pursuant to IFRS 3, "Business Combinations", goodwill arising from business combinations accounted for as a purchase is no longer amortised but is reviewed for impairment once a year. German accounting standards continue to permit companies to amortize goodwill or offset it against retained earnings.

Intangible assets

Under IFRS, internal costs associated with intangible assets are capitalised and amortised over their estimated useful lives. Under German GAAP, such non-current costs are expensed as incurred.

Financial Instruments

Under German GAAP, derivative financial instruments are not recorded on the balance sheet but detailed disclosures apply. Unrealised gains are not recognised and unrealised losses are accrued. Under IFRS, derivative financial instruments are recorded on the balance sheet at their fair value. Changes in fair value are recorded in current earnings or in stockholders' equity, depending on whether the derivative financial instruments are designated as part of a hedge transaction and depending on the type of hedge transaction.

Stock-Based Compensation
Under German GAAP, the Company recognises no stock-based compensation expenses. Under IFRS, the Company accounts for stock-based compensation pursuant to IFRS 2.

Provisions
Under German GAAP, certain costs can be accrued for anticipated future events in certain circumstances. Under IFRS, recognition of an accrued liability represents an existing liability to third parties or must meet specific recognition criteria. Pension provisions are calculated using the projected unit credit method, taking into account future increases in remuneration and pensions. The German tax-based method is under IFRS not permitted.

Non-current liabilities
IFRS requires that long-term liabilities be disclosed with the present value of the future payments using an interest rate commensurate with the risk involved. Under German GAAP, the long-term liabilities are disclosed with their repayment amounts.

Deferred taxes
Under German GAAP it is not permitted to capitalise deferred tax assets resulting from tax loss carryforwards. IFRS requires deferred taxes to be recognised for all temporary differences between the tax and accounting balance sheets. Deferred taxes must also be recognised for tax loss carryforwards if it is sufficiently probable that these tax loss carryforwards can be utilised.

Equity transaction costs
Under German GAAP, costs in connection with a capital increase are expensed as incurred. Under IFRS, such costs are recorded as a reduction of additional paid-in capital.

Foreign Currency Translation
Under German GAAP, foreign currency denominated assets and liabilities are recorded at spot rate on the transaction date with only unrealised losses reflected in income at the balance sheet date. Under IFRS, foreign currency denominated assets and liabilities are translated at the spot rate at the balance sheet date, with both unrealised gains and losses reflected in income.

Report of the Supervisory Board

Prof Dr Heinz Riesenhuber
Chairman of the Supervisory Board

The key task of the Supervisory Board is to regularly advise and supervise the Management Board in the management of the enterprise.

During 2005, the Supervisory Board convened for five formal meetings and held five telephone conferences to discuss the operational and strategic development of Evotec AG. The Supervisory Board approved two separate management decision proposals through written circulation. The Audit Committee met separately in one physical meeting and engaged in four additional telephone conferences; the Remuneration Committee convened twice. The Management Board continuously provided updates to the Supervisory Board through regular verbal and written reports that included in depth information on the status of operations.

The information provided included written monthly management reports covering in depth the company figures for the previous month as well as comments and explanations to this report. In addition to the information flow and discussion between the Supervisory Board and Management Board, the Chairman of the Supervisory Board and the Chief Executive Officer discussed ongoing and current topics on the telephone regularly, typically every two weeks, and whenever appropriate.

Further to business updates and other standard agenda items, the Supervisory Board discussed at its physical meetings the following specific subjects in detail:

> In March, the Board discussed the 2004 annual financial statements in presence of the auditors.
> In June, the Board focused on the implementation of the Company‘s strategy with a focus on Business Development for the Services Division and Finance and Pipeline Building in the Pharmaceuticals Division.
> In a further meeting in June, following the Annual General Meeting, the Board discussed and appointed the members of its Audit Committee and its Remuneration Committee.
> In August, the Board discussed the Forecast Budget II as well as the strategy and its implementation, especially the status of various programmes in the Pharmaceuticals Division.
> In November, the Board focused on the budget for the year 2006 and in-licensing opportunities.

The Supervisory Board was not aware of any conflict of interest situation of any of its members during the year 2005, so every member was eligible to participate in all discussions and decisions of the Supervisory Board.

The financial statements and the management report of Evotec AG for the year 2005, as well as the consolidated financial statements together with the consolidated management report of the Evotec Group, were audited by KPMG Deutsche Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hamburg. The auditors issued an unqualified audit opinion.

The auditors discussed in depth their findings with the Audit Committee. In addition, the Audit Committee asked for, and received, a list of all important items which had been reviewed by the auditors. The Audit Committee discussed the organisation of the audit, audit findings and other topics with the auditors and used this as a guideline for its own evaluation of the statements and reports. The auditors participated in the March meeting of the Supervisory Board and presented a comprehensive report on the audit and their observations at that meeting. The Supervisory Board examined both the financial statements and the consolidated financial statements prepared by the Management Board based on its own judgement, taking into account the Audit Committee‘s input as well as information on key topics provided by the auditors. Following this, the Supervisory Board approved the financial statements and the consolidated financial statements.

The Annual General Meeting (AGM) changed significantly the composition of the Supervisory Board, following the acquisition of Evotec Neurosciences earlier in the year: Elected as new members were Dr Hubert Birner, Dr Peter Fellner, and Dr Alfred Oberholz. In addition, Mary Tanner was re-elected since her term of office expired with the AGM. The new members support Evotec in building a drug discovery and development company with a strong pipeline of CNS-related drug candidates. Together with these new members, Prof Heinz Riesenhuber and Peer Schatz, being re-elected by the 2004 Annual General Meeting for a five year term, continue to serve on the Company‘s Supervisory Board.

The Chairman of the Supervisory Board thanked Dr Pol Bamelis, Dr Karsten Henco, and Dr Edwin Moses, who had left their office as member of the Supervisory Board, for their highly valuable contribution to the Company’s development.

Following the expiration of his contract, Prof Dr Ian Hunneyball resigned from the Management Board effective 30 June 2005. He continues to serve the Company as Director, Corporate Projects.

The Supervisory Board thanks the Management Board and the Company‘s employees for their hard and successful work during the year and wishes them continued success for 2006.

Hamburg, 17 March 2006

The Supervisory Board
Prof Dr Heinz Riesenhuber

Supervisory Board and Management Board

Supervisory Board

Prof Dr Heinz Riesenhuber Frankfurt am Main	D Former Federal Minister of Research and Technology	**Chairman of the Supervisory Board**	**Chairman of the Supervisory Board:** 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 InSynCo AG, Hamburg	D (until June 2005) **Member of the Verwaltungsrat:** HBM BioVentures AG, Baar	CH
Peer Schatz Duesseldorf	D Chief Executive Officer Qiagen N.V.	**Vice Chairman of the Supervisory Board**	**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	N Qiagen Canada Inc, Montreal	CAN (from August 2005) 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	F Qiagen S.p.A., Milan	I Qiagen Sciences, Inc, Germantown	USA Qiagen Synthetic DNA, Inc, Alameda	USA Xeragon, Inc, Germantown	USA Qiagen Genomics, Inc, Bothell	USA (until July 2005) **Non-Executive Member of the Board of Directors:** Qiagen Inc, Mississauga	CAN Qiagen K.K., Tokyo	J
Dr Hubert Birner Landsham	Pliening	D General Partner Techno Venture Management GmbH	**Member of the Supervisory Board** (from 7 June 2005)	**Chairman of the Supervisory Board:** Direvo Biotech AG, Cologne	D **Member of the Supervisory Board:** Jerini AG, Berlin	D **Non-Executive Chairman of the Board of Directors:** Argos Therapeutics Inc., Durham	North Carolina	USA
Dr Peter Fellner Oxfordshire	UK Executive Chairman Vernalis plc	**Member of the Supervisory Board** (from 7 June 2005)	**Non-Executive Chairman of the Board of Directors:** Astex Therapeutics Ltd, Cambridge	UK Ionix Pharmaceuticals Ltd, Cambridge	UK (until July 2005) **Non-Executive Member of the Board of Directors:** Bespak plc, Milton Keynes	UK (from November 2005) Isis Innovation Ltd, Oxford	UK QinetiQ Group plc, London	UK UCB SA, Brussels	B (from June 2005)
Dr Alfred Oberholz Marl	D Member of the Management Board Degussa AG	**Member of the Supervisory Board** (from 7 June 2005)	**Chairman of the Supervisory Board:** Infracor GmbH, Marl	D **Non-Executive Member of the Board of Directors:** Degussa (China) Co. Ltd., Shanghai	China Degussa Corporation, Parsippany	USA Degussa Japan Co. Ltd., Tokyo	Japan

Mary Tanner New York, NY|USA Financial Advisor	**Member of the Supervisory Board**	**Non-Executive Member of the Board of Directors:** Ariad Pharmaceuticals, Inc, Cambridge|USA HaptoGuard, Inc., Fort Lee|USA
Dr Pol Bamelis Knokke|B Former Member of the Management Board Bayer AG	**Member of the Supervisory Board** (until 7 June 2005)	**Chairman of the Supervisory Board:** Agfa-Gevaert AG, Leverkusen|D **Member of the Supervisory Board:** MediGene AG, Munich|D **Non-Executive Chairman of the Board of Directors:** Agfa-Gevaert N.V., Mortsel|B Crop Design N.V., Gent|B **Non-Executive Member of the Board of Directors:** Bekaert N.V., Kortrijk|B Innogenetics N.V., Gent|B Oleon N.V., Ertvelde|B PolyTechnos (GP) II Ltd, St Peters Port, Guernsey|UK Recticel N.V., Brussels|B Sioen NV, Ardooie|B Televic NV, Izegem|B Leuven University, Leuven|B
Dr Karsten Henco Duesseldorf|D Scientific and Business Consultant	**Member of the Supervisory Board** (until 7 June 2005)	**Chairman of the Supervisory Board:** Garching Innovation GmbH, Munich|D **Member of the Supervisory Board:** Direvo Biotech AG, Cologne|D NewLab BioQuality AG, Erkrath|D U3 Pharma AG, Martinsried|D
Dr Edwin Moses Goring, Oxfordshire|UK Non-Executive Director	**Member of the Supervisory Board** (until 11 April 2005)	**Non-Executive Chairman of the Board of Directors:** Ablynx N.V., Gent|B Avantium Technologies, Amsterdam|NL BioImage A|S, Copenhagen|DK Clinphone Group Ltd, Nottingham|UK Inpharmatica Ltd, London|UK Paradigm Therapeutics Ltd, Cambridge|UK Pharmaceutical Profiles Group Ltd, Ruddington|UK (from January 2005) Phoqus Group Ltd, West Malling|UK ProImmune Ltd, Oxford|UK **Non-Executive Member of the Board of Directors:** Biofusion plc, Sheffield|UK (from January 2005) Ionix Pharmaceuticals Ltd, Cambridge|UK (until August 2005)

Management Board

Joern Aldag Hamburg|D Business Executive	**President & Chief Executive Officer**	**Non-Executive Member of the Board of Directors:** ENS Holdings, Inc., Wilmington, DE|USA **Member of the Monopolkommission der Bundesrepublik Deutschland**
Dr Dirk H Ehlers Wohltorf|D Physicist	**Chief Financial Officer**	
Prof Dr Ian M Hunneyball* Abingdon, Oxfordshire|UK Biochemist	**Chief Scientific Officer & President, Discovery Programs Division** (until 30 June 2005)	

*Director, Corporate Projects (from 1 July 2005)

Executive Committee

Management Board

Joern Aldag
President & Chief Executive Officer

Dr Dirk H Ehlers
Chief Financial Officer

Services Division

Dr Mark Ashton
Executive Vice President
Business Development
Services Division

Dr Mario Polywka
Executive Vice President
Operations

Pharmaceuticals Division

Dr John Kemp
Executive Vice President
Research & Development
Pharmaceuticals Division

Dr Tim Tasker, MD
Executive Vice President
Clinical Development

Jesper Wiklund
Senior Vice President
Business Development
Pharmaceuticals Division

Tools & Technologies

Prof Dr Carsten Claussen
Chief Executive Officer of
Evotec Technologies GmbH

Corporate

Dr Erich Greiner, MD
Executive Vice President
Science

Martyn Melvin
Human Resources Director

Anne Hennecke
Director, Investor Relations &
Corporate Communications

Glossary

Allosteric modulator. Drug exerting its effect on the → receptor protein at a site different from the binding site of the endogenous substance, thereby enhancing (positive modulator) or reducing (negative modulator) the effect of the endogenous substance.
Antagonist. Drug that binds a cellular → receptor thereby inhibiting the natural function of the receptor.
API. Active **P**harmaceutical **I**ngredient.
Assay. Any combination of → targets and compounds which is exposed to a detection device to measure chemical or biological activity.
Bioavailability. The percent of dose of a drug entering the systemic circulation after administration of a given dosage form. This is usually determined from the ratio of the amount of drug "absorbed" from an oral → formulation to the amount "absorbed" after administration of an aqueous solution of the drug given intravenously.
Cell line. Cells with an unlimited replication capacity, which maintain specific and useful characteristics identical between the parent and the daughter cell.
Cellular assay. → Assay performed using whole living cells.
Clinical development. Drug research studies that involve patients or healthy volunteers.
Compound library. Collection of a multitude of different molecules; used for → screening.
Compound optimisation. The synthetic modification of a biologically active compound, to fulfil all stereoelectronic, physicochemical, → pharmacokinetic and toxicologic requirements for → clinical usefulness.
Computational chemistry. Discipline of using computational methods to calculate properties of chemical compounds and their interaction with biological → targets (e.g. proteins).
Electrophysiology. Electrical phenomena associated with a → physiological process (as the function of a body or bodily part).
Enzyme. Protein that acts as a catalyst, speeding up the rate at which a biochemical reaction proceeds.
Formulation. The formulation by which a drug is delivered → *in vivo* can have a profound effect on its → bioavailability. Therefore it is necessary to develop the optimal formulation: this will involve the selection of the dosage form (e.g. soft gel capsule or tablet), choice of excipients and studies on the chemical stability of the formulated drug.
Fragment. Fragments are small organic molecules that are typically a third of the size of drug molecules and because of their small size tend to interact only weakly with proteins. Nevertheless, they are very useful starting points for → medicinal chemists to optimise them into more active drug molecules. They provide the flexibility to add extra chemical groups leaving chemists more room to manoeuvre which increases the likelihood of developing an innovative and successful compound.
High Content Assay | Screening | Analysis. Analysis of individual cells by looking at more than one cellular event at the time. Thus detailed information about the mechanism | activity of a compound | → lead in a cell is generated, thereby speeding up the drug discovery process.
Hit (compound). A molecule which has a robust dose-response activity in a primary → screen of known confirmed structure and preliminary structure activity relationship (SAR) information.
in vivo. In the living cell or organism as opposed to *in vitro*.
Ion channel. → Receptor which, when activated, allows the passage of ions across cell membranes that influence the → physiology of a cell.
Kinetics. Time-dependence and characteristics of chemical and biological reactions.
Lead (compound). A representative of a compound series with sufficient potential (as measured by potency, selectivity, → pharmacokinetics, physicochemical properties, novelty and absence of toxicity) to progress to a full drug optimisation programme.
Medicinial chemistry. A chemistry-based discipline, also involving knowledge and aspects of biological, medicinal and pharmaceutical sciences. It is concerned with the invention, discovery, design, identification and preparation of biologically active compounds, the study of their ADMET properties, the interpretation of their mode of action at the molecular level and the construction of structure activity relationships. Medicinal chemistry optimisation is "fine tuning" required to turn a validated → lead into a → pre-clinical candidate involving subtle structural changes to the lead using a "hand-crafted" approach.
Neurite formation. During the development of the nervous system, neurons extend numerous processes that differentiate into dendrites and axons. These processes, also termed neurites, are critical for communication between neurons. They also play a central role in a variety of neuropathological disorders, and in neuronal injury | regeneration.
Parenteral. → Formulation of a drug substance such that it is suitable for administration by injection.
Pathophysiology. Summarises processes within cells, tissues, organs or the whole body under conditions of illness as opposed to the healthy state. It is necessary to understand pathophysiology for purposes of therapeutic intervention.
Pharmacokinetics. Time-dependent availability and compartmental distribution.
Physiology. Science of living organisms and their parts.
Pilot plant. A set of large fixed vessel and ancillary devices for conducting organic synthesis on a large scale. A pilot plant is often used for synthesis of larger amounts of a candidate drug molecule required for → clinical trials in man. It provides an intermediate scale between lab scale and full manufacturing scale.
Pre-clinical discovery. The phase of drug discovery extending from → target identification, the search for chemical compounds with desired properties, through to the end of efficacy studies in animal models and safety evaluation prior to → clinical trials.
Primary cell. A cell or → cell line taken directly from a living organism, which is not immortalised.
Proof-of-concept drug (POCD). Drug candidate which has completed Phase IIa → clinical trials demonstrating that the molecule proves the concept that pharmacological intervention of the selected biological → target will be therapeutically useful in the selected clinical indication.
Receptor. Protein in a cell or on its surface that selectively binds a specific substance (ligand). Upon binding its ligand, the receptor triggers a specific response in the cell.
Single Ascending Dose Component. Part of the → clinical trials, where single doses of a compound are administered and their effects are read out before ascending to a new higher single dosage.
Scale up. The process by which a laboratory-based synthetic process is developed to allow safe and reproducible production on a larger scale.
Screening. Mass testing of → compound libraries using an established → assay format.
Small molecule. A low molecular weight organic compound. These are preferred for drugs as they usually are orally available (unlike proteins that must be administered by injection). The size of small molecules is less than 1,000 Daltons, and is usually in the range from 250 to 700 Daltons.
Stem cell. A cell that can replicate indefinitely and which can differentiate into all other cell types; stem cells serve as a continuous source of cells for analysis and → screening.
Target. Specific biological molecule, such as an → enzyme, → receptor or → ion channel, assumed to be relevant to a certain disease. Most drugs work by binding to a target, thereby affecting its biological function.
Target identification. Identifying a molecule (often a protein) that is instrumental to a disease process (though not necessarily directly involved), with the intention of finding a way to regulate that molecule's activity for therapeutic purposes.
Target validation. Involves the verification of the relevance of a → target to the course of a specific illness.

Financial Calendar and Imprint

Evotec AG's financial calendar

28 March 2006	Annual report 2005
11 May 2006	First quarter report 2006
08 June 2006	Annual general meeting
11 August 2006	Second quarter report 2006
09 November 2006	Third quarter report 2006

Imprint

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Key figures

Evotec AG

		2002	2003	2004	2004	2005	Δ 05/04 in %
Results:		U.S. GAAP	U.S. GAAP	U.S. GAAP	IFRS	IFRS	IFRS
Revenue	T€	69,995	77,228	72,730	72,730	79,785	9.7
R&D expenses	T€	23,012	15,466	13,772	13,490	14,088	4.4
Operating loss	T€	135,512	15,777	91,248	85,622	35,673	(58.3)
Operating loss[1)]	T€	14,105	5,106	11,759	11,697	8,105	(30.7)
Net loss	T€	131,630	14,242	84,203	77,812	33,583	(56.8)
Net loss[1)]	T€	10,223	3,571	4,714	3,887	6,015	54.7
EBITDA	T€	(2,221)	4,086	(3,246)	(2,932)	(1,699)	42.1
Cash flow	T€	5,313	(1,333)	(3,624)	(3,624)	37,141	–
Balance sheet data:							
Subscribed capital[2)]	T€	35,510	35,510	38,010	38,010	62,759	65.1
Number of shares[2)]	T	35,510	35,510	38,010	38,010	62,759	65.1
Stockholders' equity	T€	195,407	172,101	102,010	110,508	148,669	34.5
Equity ratio	%	81	78	74	75	80	–
Investments[3)]	T€	9,284	17,027	9,060	9,903	40,298	306.9
– Intangible assets	T€	28	1,689	274	1,117	32,050	–
– Tangible fixed assets	T€	8,634	13,613	2,532	2,532	6,466	155.4
– Financial assets	T€	622	1,725	6,254	6,254	1,782	(71.5)
Cash including marketable securities	T€	21,308	19,471	15,277	15,277	53,520	250.3
Balance sheet total	T€	241,042	220,919	138,534	146,544	186,111	27.0
Personnel data:							
Employees as of 31 December		635	644	646	646	604	(6.5)
Total corporate personnel expenditures	T€	35,768	36,364	37,365	37,553	39,538	5.3
Revenue per employee	T€	110	120	113	113	132	16.8
Per share:							
Result	€	(3.71)	(0.40)	(2.30)	(2.12)	(0.65)	69.3
Dividends	€	–	–	–	–	–	–
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[1)] Before amortisation and impairment
[2)] Refers to 1 €
[3)] Including additions from acquisitions of ENS and ProPharma

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