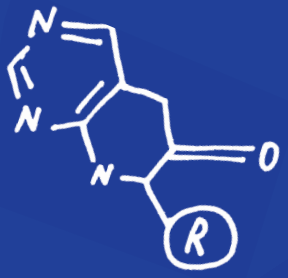
ANNUAL REPORT 2010

GROWTH

FROM MOLECULE



TO REMEDY, YEAH!

Evotec is a drug discovery alliance and development partnership company focused on rapidly progressing innovative product approaches with leading pharmaceutical and biotechnology companies. We operate worldwide providing the highest quality stand-alone and integrated drug discovery solutions, covering all activities from target-to-clinic. The Company has established a unique position by assembling top-class scientific experts and integrating state-of-the-art technologies as well as substantial experience and expertise in key therapeutic areas including neuroscience, pain, metabolic diseases as well as oncology and inflammation. Evotec has long-term discovery alliances with partners including BoehringerIngelheim, CHDI, Genentech, MedImmune/AstraZeneca, Novartis, Ono Pharmaceutical and Roche. In addition, the Company has existing development partnerships and product candidates both in clinical and preclinical development. These include a strategic alliance with Roche for the development of subtype-selective NMDA receptor antagonists for use in treatment-resistant depression as well as other partnerships with Boehringer Ingelheim, MedImmune and with Andromeda (Teva) in the field of diabetes.

Condensed Key Figures *Evotec AG (IFRS)*

IN T€	2010	2009	CHANGE 10/09 IN%
Results			
Revenues	*55,262*	*42,683*	*29*
Research & development expenses	*6,116*	*20,947*	*(71)*
Operating result [1)]	*1,715*	*(19,612)*	*109*
Net income (loss)	*2,985*	*(45,497)*	*107*
Balance sheet data			
Total stockholders' equity	*132,637*	*111,487*	*19*
Capital expenditure [2)]	*2,446*	*2,213*	*11*
Cash and investments [3)]	*70,401*	*70,594*	*-*
Balance sheet total	*191,859*	*146,599*	*31*
Cash flow	*(12,345)*	*(22,410)*	*45*
Personnel data			
Employees as of Dec. 31	*519*	*485*	*7*
Per Share			
Result; in €	*0.03*	*(0.43)*	*107*

[1)] Before impairment and restructuring expenses.
[2)] Cash relevant purchase of tangible and intangible assets, excluding finance leases.
[3)] Including auction rate securities.

evotec

‘RESEARCH NEVER STOPS’

Working in a Growth Industry
What does it take to grow?
What does it take to innovate?
see page 03

Review of the Year 2010
Come along with us ...
On the road to discover our growing alliances portfolio *see page 06*

Corporate Governance Report *The way we work and our corporate governance*
see page 19

Evotec is built on integrated drug discovery know-how of more than 15 years and is a leading player in the drug discovery field. The Company’s headquarters are located in Hamburg, Germany. Additional major operations are based in Abingdon, UK, Göttingen, Munich, Germany and Thane, India. Evotec has more than 550 employees worldwide.

FINANCIAL CALENDAR	MEET EVOTEC
24 March 2011	*Annual report 2010*
12 May 2011	*First quarter report 2011*
16 June 2010	*Annual General Meeting*
11 August 2011	*Half year report 2011*
10 November 2011	*Third quarter report 2011*

CONTENT

DEAR SHARE– HOLDERS AND FRIENDS

All companies want to grow, all companies want to lead their industries, and all management teams want to make a difference in their respective fields.

We at Evotec had to regain this right to grow, as the failure of clinical candidates in 2009 basically made us question the whole business model. Many difficult questions had to be asked and addressed, processes had to be revisited, value expectations were redefined, and many things were simply stopped. That was our message we gave to you about two years ago when we initiated and implemented our 'Evotec 2012 – Action Plan to Focus and Grow'.

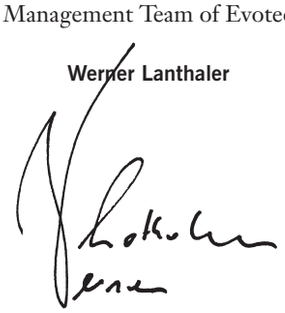
The right to grow is earned in number of ways:

The right to grow is only given to those who perform and deliver on their promises. In 2010, we delivered a performance that indicates our revised business model is a sound basis for long-term sustainable growth. Almost 30% revenue growth, the first profitable year in more than 15 years of corporate history, more strategic alliances than ever before, strong liquidity and a very strong sales order book for 2011. These are some of the hard facts that we were able to deliver to our partners, shareholders and friends in 2010. This success makes us confident that our growth ambitions are on solid ground for the future.

We look forward to a successful 2011 together with you!

Yours sincerely, on behalf of the Management Team of Evotec

Werner Lanthaler



The right to grow is only given to strong teams that share a common vision. Upgrading the management team and successfully disseminating the vision to all our employees were highlights in 2010. We all now share the belief and are committed to becoming the leading company in the drug discovery industry. We have not reached our goal yet, but the 'DNA' of Evotec has the potential to deliver better than ever before.

The right to grow is only given if our customers want us to be their partner of choice. We are aware that it takes much more than just high quality services to win the trust and long-term commitment of the best companies in the innovation industry for new drugs. We want to work with our partners and share the good, the very challenging, and also sometimes the negative events in the drug discovery process.

We see the entrepreneurial opportunity to accelerate our growth, but growing alone is not meaningful and certainly no fun. We want to grow with you as our shareholders, partners and friends, as only growing together reflects the spirit of our vision.

WORKING IN A GROWTH INDUSTRY

WHAT DOES IT TAKE TO GROW?

Our understanding of long–term growth!

Our path for long-term sustainable growth is based on the continued growth of a strong core business. Growth of our Drug Discovery Alliance Business is necessary to get to critical mass and to be the best and preferred partner within the drug discovery industry landscape.

Over the last two years Evotec followed 'Evotec 2012 – Action Plan to Focus & Grow', a strategic path for Evotec which was implemented in March 2009. The Company evaluated its strengths and weaknesses and made clear decisions regarding its financial resources and long-term strategic positioning. The overall goal was to ensure that all efforts are focused on core differentiated projects and activities capable of delivering the greatest value to shareholders and partners in the future. The first essential element for achieving this goal was to strengthen the Discovery Alliance Business to develop a unique core business and hereby to generate a central strategic vehicle for growth. The second element was to build development partnerships on selected product development candidates and to refocus the pipeline on only the most valuable assets. The objective was to de-risk the old portfolio, reduce the unfunded Research & Development (R&D) cash burn, but keep potentially significant upsides for shareholders. The third element was to drastically reduce operating expenses by improving the capital efficiency within all processes of the Company.

'Externalisation deals, where someone else develops the compound, can be extremely beneficial, said Shaun Grady, vice president strategic partnering and business development at AstraZeneca. These sorts of deals can access the best internal and external science and compounds, stimulate innovation, reduce cost and risk and create opportunities, he said.'

PharmaTimes online, October 2010

GROW TO GO

In 2010, Evotec has managed to significantly increase its revenues, to optimise its cost structure and to decrease its cash burn. In the execution of its strategy Evotec has made three acquisitions to foster its innovation and improve cost competitiveness. Firstly, a zebrafish screening platform was acquired from Summit Corp. in the UK in May 2009. Secondly, Research Support International Private Limited (RSIPL) (a Mumbai-based company providing organic synthesis) was acquired in August 2009 and, finally, DeveloGen (a private German company focused on novel therapies for metabolic

and endocrine disorders) was also incorporated into the Evotec Group in September 2010. DeveloGen, with its specific focus on diabetes and regenerative medicine, provided Evotec with a special opportunity to expand into novel therapeutic areas.

'Philippe Lopes-Fernandes, head of global business development and alliances management at Merck-Serono, spoke of the flexible alliance structures the company is using in selecting compounds that are interesting for Merck-Serono, including equity stakes, in-licensing, out-licensing, co-development, option deals and externalisation. As a result more than 60% of the company's compounds are coming from partnerships with the plan to look for more early stage compounds, he said.'

PharmaTimes online, October 2010

All these acquisitions were intended to build better alliances with our partners from both the Pharmaceutical and Biotechnology industries. The alliances with MedImmune, Merck KGaA and Genentech represent excellent examples of how our new skills helped to form valuable and rewarding partnerships in 2010, with revenues growing by almost 30% over 2009, demonstrating that a solid strategy ultimately leads to solid top-line growth.

Dr Cord Dohrmann

in person

His heart is beating for science but also for his grand family. Dr Cord Dohrmann joined Evotec AG as Chief Scientific Officer and Member of the Management Board in September 2010.

As Chief Scientific Officer he is responsible for scientific excellence in research and development including establishing academic collaborations, directing incubator research, initiating drug discovery alliances, and building highly competitive drug discovery platforms. It is his vision to build world-leading research teams in core disease areas who are focused on generating highly innovative drug discovery and development projects which have the potential to deliver therapies that significantly improve the life of patients.

Dr Dohrmann has spent over 20 years in biomedical research at leading academic institutions and in the biotech industry. He started his academic career in 1983 studying Biology at Tübingen University in Germany and conducting research as a DAAD scholar at Duke University, Durham, USA. Dr Dohrmann completed his MA thesis at the Max-Planck-Institute in Tübingen and subsequently enrolled at the Harvard Medical School in Boston, USA, where he received his PhD in Cell and Developmental Biology in 1996. Dr Dohrmann continued his career as a Shiseido research fellow at the Massachusetts General Hospital in Boston before joining DeveloGen in 1999. He served the company in various management positions including CEO, leading DeveloGen from a start-up to an internationally recognised metabolic disease company with strategic alliances based on highly innovative preclinical and clinical products for the treatment of diabetes and related disorders. Dr Dohrmann has been advising the European Commission, the Max-Planck-Institute as well as venture capital firms and authored and co-authored a number of publications and patents.

HOW WE ORGANISE OUR BUSINESS

for sustainable future growth

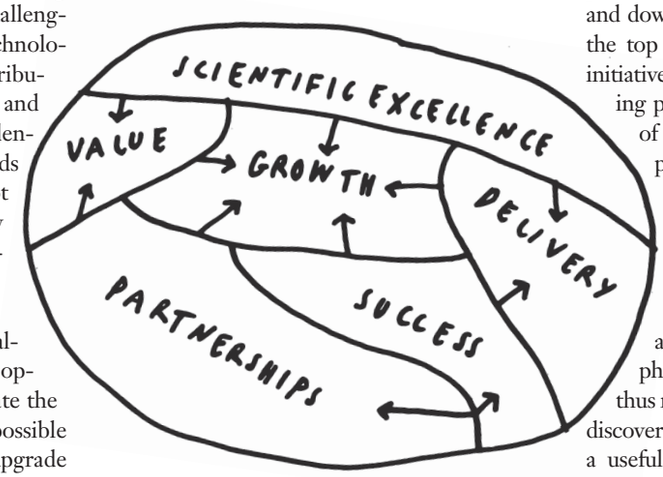
UPGRADE TO GROW

Evotec progresses alliances based on its broad range of integrated capabilities spanning the whole drug discovery process. Evotec differentiates itself based on a strong track record, with scientists having many years experience in the industry and through innovative technology platforms that lead to novel drug candidates. For example, Evotec's compound library, assay development and screening platform provides the best quality hits. Evotec's fragment-based drug discovery platform allows screening of challenging targets using multiple screening technologies, whilst its ADMET (absorption, distribution, metabolism, excretion, and toxicity) and zebrafish platforms reduce timelines by identifying and optimising early compounds with potential liabilities. And last but not least, Evotec´s disease biology know-how delivers potential new targets to fight diseases with high unmet medical need.

Defining and following standards that always aim to be best-in-class is the only option for Evotec, as our goal is to accelerate the drug discovery process with the best possible tools available. In order to permanently upgrade our technology base and enhance our offering to our partners, we have also entered into several technology agreements with other companies. These include, for example, the access to the state-of-the-art synchrotron technology at Diamond Light Source, Ltd; the access to DiscoveRx's PathHunter™ and cAMPHunter™ cell lines and proprietary EFC chemiluminescent detection technology just as well as the access to Hypha's MycoDiverse™ natural product collection. Only the best and most advanced technologies combined with the highest quality of service, are the standards by which Evotec wishes to constantly deliver to its partners.

PARTNER TO GROW

Partnering is a good way to hedge risks and share costs. The Discovery Alliance Business is working successfully and has established a world class leading position in the discovery outsourcing market. Some of our valuable business assets include our excellent reputation, our track record of developing drugs and our unmatched network of customers. Partnering on these bases creates world class innovation teams.



During its 17 years of history Evotec has continued to deliver excellent results in existing programmes and expanded its customer base and global network of partnerships. The employees of Evotec build on their combined experience in joint research with customers to create the kind of trusting relationship that makes us the partner of choice even if targets sometimes fail. It is the mutual trust among the teams, open communication and highest aspirations in all our alliances that enhances productivity, producing winning teams and ultimately better drugs.

CHANGE TO GROW

It is still early days but there are signs that large pharmaceutical companies are willing to move to a more flexible, open way of working. One strategy that major Pharmaceutical and Biotechnology corporations have publicly espoused is increasingly externalising their R&D and innovation through collaboration.

The pharmaceutical industry has seen top companies cutting down on their R&D investments and downsizing its scientific workforce. Many of the top 10 pharmaceutical companies took the initiative by announcing their R&D restructuring plans in 2010, a reduction in the number of disease areas of focus within their therapeutic portfolio and a continued focus on externalisation.This constitutes a shift in the pharmaceutical landscape where the world is moving more and more towards collaborative work processes between discovery solution providers and dedicated project groups amongst the pharmaceutical companies R&D strategies, thus resulting in increased outsourcing of drug discovery projects. Outsourcing has proven to be a useful tool for pharmaceutical companies to manage their core functions and increase capital efficiency. Strategic outsourcing has provided a valuable way to make time and cost savings as well as providing financial and operational flexibility.

Early on Evotec recognised this trend within the pharmaceutical landscape of optimising the whole drug discovery process and consequently implemented a strategy of providing innovation as the core of all its partnering activities. Evotec is one of few drug discovery businesses that can execute a comprehensive outsourcing strategy because Evotec is able to undertake and integrate all parts of the drug discovery process.

REVIEW OF THE YEAR 2

Our alliance partners appreciate our quality of work, collaborative approach and responsiveness to scientific developments within their projects. They contribute together with us their ideas for the best route forward to new potential drugs. They inspire us; they challenge us and they promote us. Mario Polywka, our Chief Operating Officer and his team of more than 400 scientists ensure that highest level technological and scientific input is consistently provided. He is responsible for Evotec's Discovery Alliance Business ... join him in a review of our partnerships of 2010.

COLLABORATION WITH THE CHDI FOUNDATION, INC. EXTENDED TO FIGHT HUNTINGTON'S DISEASE

Let's start in the US with our successful alliance with CHDI, which was first signed in 2006 and extended in January 2010 for a further three years. We receive research revenues of up to $37.5 m over the three-year period, and it is one of the largest strategic drug discovery alliances within Evotec.
CHDI is a private, not-for-profit research organisation which works with an international network of scientists to discover drugs that slow the progression or delay the onset of Huntington's disease (HD), a familial disease caused by a mutation in the huntingtin gene. As a result of carrying the mutation, an individual's brain cells fail and die leading to cognitive and physical impairments that, over the course of the disease, significantly impair the individual's quality of life and ultimately cause death.

The goal of our work with CHDI is simple – to find new treatments for Huntington's disease together. Our breadth of skills and expertise in drug discovery coupled with a profound knowledge of CNS disease biology has been key for CHDI to extend this strategic partnership. As part of the collaboration, we provide a full range of neurological research activities and expertise to CHDI, including *in vitro* biology, *in vivo* and *in vitro* PK and chemistry, compound and library management, target validation, high-content and fragment-based screening, computational chemistry, and protein crystallography.

MAJOR COOPERATION AGREEMENT WITH VIFOR PHARMA

Back here in Europe, we began an exciting journey with Vifor Pharma out of Switzerland, in January 2010, to identify a preclinical candidate for the treatment of anaemia.
Vifor Pharma is a fully integrated speciality pharma company of the Galenica Group with focuses on three main therapeutic fields: anaemia, nephrology (kidney diseases) and autoimmune diseases. Anaemia is a condition in which the haemoglobin concentration in the blood is below a defined level, resulting in a reduced oxygen-carrying capacity of red blood cells.

This is a full drug discovery programme where we use all our capabilities and capacities across the group covering *in vitro* biology, medicinal chemistry, *in vitro* and *in vivo* pharmacology. The collaboration is funded through research funding and success-based milestones, a model we increasingly adopt to share in the upside of our partners products through confidence in our expertise and ability to expedite hits to preclinical drug candidates. Already we have achieved the first key milestone of moving into the lead optimisation phase with a number of chemical series.

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Come along with us ...
on the road to discover our growing alliances portfolio.

RESEARCH AGREEMENT EXTENDED AND BROADENED WITH CUBIST PHARMACEUTICALS

Back across the pond in February to Lexington and Cubist, a biopharmaceutical company focused on pharmaceutical products that address unmet medical needs in the acute care environment and one of the Top Places to Work in Massachusetts according to a survey from 'The Boston Globe'.

We had been working with Cubist for almost a year when they extended the research agreement with us to the end of 2010. Our structural biologists provide fragment-based drug discovery expertise using our proprietary platform, EVOlution™, which includes fragment screening, structural biology and protein crystallography. The continued aim within this alliance is to discover and profile novel compounds against additional antibacterial targets selected by Cubist.

HIGH-THROUGHPUT SCREENING AGREEMENT WITH ACTIVE BIOTECH

Now right through to the north of Europe, specifically Sweden. In March, we began a collaboration with Active Biotech AB to identify small molecule modulators of a priority biological target, involved in immune disorders and cancer.

Active Biotech is a Swedish Biotechnology company with core competences in autoimmune, inflammatory diseases and cancer.

This was an ideal project for our biologists to showcase their expertise and technologies in assay development, high-throughput screening (HTS) and surface plasmon resonance (SPR) screening for the identification and validation of novel hits. In order to maximise the probability of finding high quality medicinal chemistry starting points, we screened against our Lead Discovery Library, a small molecule collection designed for diversity, novelty and quality. The programme has been successfully completed.

INTEGRATED DRUG DISCOVERY ALLIANCE WITH GENENTECH

News from California: Genentech, the first biotechnology company, now a wholly owned member of the Roche Group, signed a multi-year integrated drug discovery alliance with us in May. This partnership has the potential for significant future growth and immediately became a most important collaboration for us. With this multi-year alliance we have a solid partner for the next years. Our scientists work collaboratively with Genentech scientists applying our joint integrated and innovative drug discovery platforms in combination with extensive disease biology expertise against targets nominated by Genentech. ▸

CLINICAL TRIAL MILESTONE ACHIEVED WITH BOEHRINGER INGELHEIM

Boehringer Ingelheim celebrated its 125-year anniversary and we celebrated in parallel the milestone achievements with them. We first started working with Boehringer Ingelheim in 2004 and have meanwhile accomplished 11 milestones in this six year collaboration. The initial aim was to jointly identify and develop preclinical development candidates for the treatment of various disease areas including CNS, inflammation, cardiometabolic and respiratory diseases. In 2009, the collaboration was extended for an additional four years term and the scope expanded to include oncology targets. Boehringer Ingelheim has full ownership and global responsibility for clinical development, manufacturing and commercialisation of the compounds identified from the collaboration. In return, we receive ongoing research payments and preclinical milestones. Furthermore, the contract provides substantial long-term upside for us through potential payments for successful milestone achievements during clinical development and royalties when new drugs reach the market.

In May 2010, we announced the achievement of a milestone due to the initiation of the Phase I clinical studies for a compound, which was discovered and optimised within the alliance and is being developed as a novel treatment for neuropathic pain, a disease caused by damage or dysfunction of the nervous system and affecting up to 7–8% of the world's population.

For our team of scientists involved in this project over the years it was a great landmark. The success of the collaboration continued through the year with another € 7 million of milestone payments obtained for compounds moving into preclinical profiling and also lead optimisation.

'Success through inquiring minds and innovations' – that was the head note of Boehringer Ingelheim's 125-year Jubilee – we are proud to support and cooperate with this prestigious pharmaceutical company.

ION CHANNEL HIT IDENTIFICATION AGREEMENT WITH ALMIRALL

Moving to more mediterranean climes and we arrive in Spain where we entered into a collaboration with Almirall S.A., a pharmaceutical research-driven company which has a history of more than 40 years. We were proud to have been selected by Almirall for this important ion channel project. We have invested significantly in our ion channel and electrophysiology platform and scientists in recent years, and this programme was a great validation of the value we can bring to our partners in this area.

FRAGMENT–BASED DRUG DISCOVERY ALLIANCE WITH SHIONOGI

What is the fastest way to Japan? In October, we began work in a multiple target drug discovery collaboration with Shionogi & Co Ltd. to identify small molecule modulators of various protein-protein interaction targets.
Shionogi, headquartered in Osaka, has been providing innovative medicines essential to people's health for over 130 years, and their core business is ethical pharmaceuticals – with a strategic focus on infectious diseases, cardiovascular and metabolic diseases, cancer, and chronic pain.

This is a structural biology based hit identification project which allows us to use our proprietary and integrated fragment-based drug discovery platform, EVOlution™. We are confident our approach will bring to success against demanding protein–protein interactions targets.

PAIN ALLIANCE WITH APEIRON BIOLOGICS

We found a partner in Austria and it was DREAM on. An excellent, earlier working relationship with APEIRON Biologics had not been forgotten, and thus, in October, we entered into a collaboration to initially identify small molecule modulators of DREAM (Downstream Regulatory Element Antagonistic Modulator), a novel target involved in perception of various pain mechanisms. We will apply, in the first instance, our expertise in cellular assay development with opportunities for the project to rapidly move into hit identification and beyond.

'These are just some of the programmes we have initiated and in which we have reported success and progress in 2010. We completed more than 25 high-throughput screens in 2010 and are involved in more than 30 projects involving integrated drug discovery. We continue to be motivated by using innovative science to develop drugs to treat disease, and we are privileged to collaborate with so many talented, committed and friendly partners across so many borders!'

Dr Mario Polywka, Chief Operating Officer at Evotec

Apeiron Biologics is a biotechnology company founded in 2003 by Prof Josef Penninger, currently Director of the Institute of Molecular Biotechnology of the Austrian Academy of Sciences (IMBA).

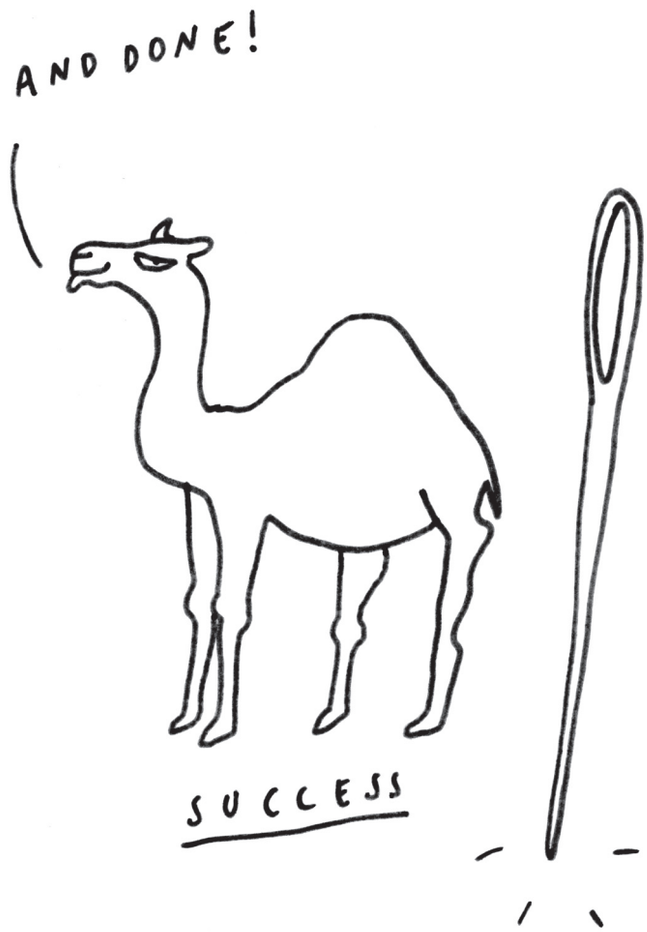
EVOTEC AND MERCK KGAA TO COLLABORATE ON NEUROLOGICAL DISEASE TARGET

Back across the border into Germany, and we started a neurological project with Merck KGaA, under the 'NEU²-Consortium' framework and partially funded by the Federal Ministry of Education and Research (Bundesministerium fuer Bildung und Forschung – BMBF), to develop preclinical candidates. This is a great use of our CNS expertise, developed through many years of our own development of CNS drugs as well as through multiple collaborations in this area.

METABOLIC DISEASE ALLIANCE FOCUSED ON NOVEL DIABETES THERAPIES WITH MEDIMMUNE

Last but not least in 2010 a great deal. Together with MedImmune (the global biologics unit of AstraZeneca) we focus on innovative diabetes therapy. With a € 5 million upfront payment, up to € 254 million milestone payments and royalties Evotec's first commercial agreement, which was entered through its subsidiary DeveloGen, in the field of beta cell regeneration is clearly a big deal.

The license gives MedImmune exclusive access to a portfolio of research programmes and represents the first deal executed by Evotec on beta cell regeneration assets and capabilities. Evotec will also receive research payments to support further *in vivo* and *in vitro* pharmacology efforts conducted in collaboration with MedImmune.



Dr Cord Dohrmann, Chief Scientific Officer of Evotec, commented to the MedImmune alliance:

'The loss of insulin producing beta cells is tightly linked to the development of diabetes. Using a unique screening approach for beta cell regeneration targets, we have identified and validated novel and highly relevant biological factors. The most advanced factor has demonstrated efficacy in animal models of beta cell regeneration in particular increasing the functional beta cell mass and thereby improving and restoring glycemic control. MedImmune is a leader in biopharmaceutical research with cutting–edge protein production and engineering capabilities and thus a perfect partner for us. Together we intend to generate a pipeline of biological factors that have the potential to prevent or reverse disease progression, and confer optimal glycemic control in patients.'

MAINTAINING A WORLD–CLASS CAPABILITY

Do not grow alone – never stand still

Evotec will invest into highly innovative approaches to address key therapeutic areas and major pharmaceutical markets, e.g. beta cell technology, technologies to better understand oncology or metabolic diseases. Evotec is also continually investing into its technology platforms.

INTEGRATING WORLD–CLASS SOLUTIONS MAKES A BIG DIFFERENCE

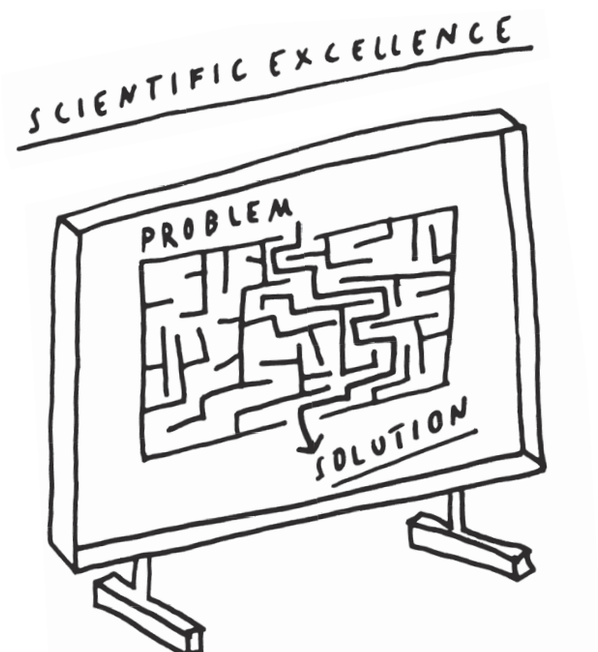
Evotec has built an innovative, efficient and powerful platform for Fragment-Based Drug Discovery (FBDD) by combing expertise in biochemical screening, X-ray crystallography, structure-based drug design and medicinal chemistry as well as acquiring a capability in protein NMR. Evotec operates four high-throughput screening (HTS) robotic devices to conduct high- and ultra-high-throughput compound screening projects. Over the last 10 years, Evotec has successfully run more than 180 HTS campaigns involving its own corporate screening library of currently 250,000 compounds. Evotec can also offer zebrafish screening – a unique and powerful platform for initial, very early *in vivo* testing of drug candidates. Evotec's zebrafish screening platform is extremely valuable to the drug discovery process as it provides vital whole-organism data about the safety and toxicity of drug-like molecules at an early stage of lead optimisation. None of these capabilities alone would make a big difference in the drug discovery process, but together they do.

FURTHER ENHANCING OUR LEAD IDENTIFICATION PLATFORM WITH HYPHA

Evotec has a proven track record of delivering high quality solutions for individual aspects of drug discovery and development. In March, Evotec signed an agreement with Hypha Discovery to further enhance its Lead Identification Platform. Evotec is now able to provide its screening clients with access to Hypha's MycoDiverse™ natural product collection for use as part of its hit and lead identification services. The MycoDiverse™ Natural Products Library is a collection of 10,000 extracts and fractions from fermentations of an exotic collection of Higher Fungi (mushrooms and toadstools) – a unique and prolific source of previously undiscovered bioactive compounds.

'The acquisition of DeveloGen opened a huge value potential for Evotec. We knew we could only fully tap into this potential by getting the integration right. Consequently, Evotec set the foundation for the successive integration already during the acquisition phase. Later in the process, we had to quickly take the right decisions in a transparent and honest communication. Now, we see very early how cultures combine in a highly creative manner that will lead to commercial success.'

Dr Klaus Maleck, Executive Vice President Corporate Development at Evotec



THE GROWING REGENERATIVE PART OF US – EVOTEC GÖTTINGEN

There are various reasons for companies to make acquisitions. The acquisition of DeveloGen AG by Evotec was all about getting access to new targets for diseases with significant medical need, especially in the fast growing metabolic disease area. The whole business of what is now Evotec Göttingen is driven by innovation – leveraging innovation is a key focus of what Evotec does – creating a successful complimentary business together.

In July 2010, Evotec acquired DeveloGen AG, now Evotec Göttingen, a biopharmaceutical company engaged in the discovery of novel therapeutic approaches for the treatment of metabolic disorders. The purchase price consisted of up to € 14 million in Evotec shares and an earn-out component in cash based on future revenues generated from the acquired programmes.

The transaction added two complementary alliances to Evotec's portfolio of core assets. Firstly, Evotec added an integrated discovery alliance with Boehringer Ingelheim on small molecules to treat insulin resistance (type 2 diabetes). In this performance-based alliance Evotec will receive ongoing research funding and may earn potential milestone payments of up to € 237 million for the lead compound as well as royalty payments. Secondly, Evotec took over a development partnership with Andromeda (Teva) on DiaPep277, a synthetic peptide immunomodulator to treat type 1 diabetes in pivotal Phase III clinical development. Evotec may receive royalties upon commercialisation of DiaPep277 products and significant milestone payments upon the successful completion of key development and regulatory milestones.

GROWING TO DISCOVER MORE

This transaction augmented and complemented Evotec's high-end drug discovery platform and capability with a highly innovative target discovery, validation and *in vivo/in vitro* pharmacology expertise. Adding two key fields of high unserved medical needs, especially diabetes and metabolic disorders, and additionally opening the field of regeneration medicine was a key strategic step for Evotec in 2010. These skills further enhanced Evotec's ability to deliver high quality, innovative solutions to its partners on a global scale, which was first proven through the alliance with MedImmune.

The plan is to position and grow Evotec Göttingen as a centre of excellence for these new disease areas combined with Evotec's services to make our alliances even more productive and faster.

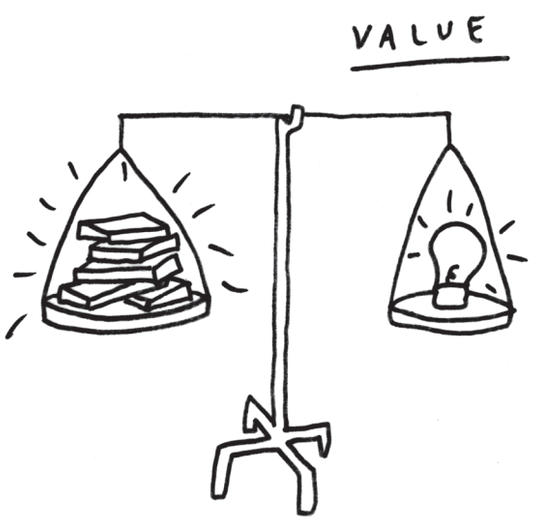
WHAT IS REGENERATIVE MEDICINE?

The promising field of Regenerative Medicine is aiming to restore structure and function of damaged tissues and organs. It is also seeking to create solutions for organs that become permanently damaged. The goal of this medicine is to find a way to cure previously untreatable injuries and diseases. In its diabetes programme, Evotec is innovating therapeutic agents for use in regenerative medicine, applying the powerful approach of differentiation of adult stem cells into insulin producing beta cells.

THE RIGHT ORGANISATI SET-UP

SMALL THINGS CAN MAKE A BIG DIFFERENCE TO GROWTH

Recognition – flat hierarchy – short decision making processes – cooperation instead of competition



The success of our business is primarily due to the exceptional commitment of our employees worldwide. Our strategy and business model are dependent on the innovative capabilities and the dedication of our employees. We are particularly proud of the fact that we employ more than 25 nationalities in our global organisation. Consequently, priority is given to integrating research teams across all sites and in building a shared vision for the future.

'A WEEKEND IS ALWAYS YOURS'

Evotec India has implemented a series of positive changes during the last year. These include significantly improved food in the cafeteria, a more employee-friendly holiday/vacation policy and a five day working week. Poonam Ajgaonkar, Human Resources in India, said: 'Yes!!! We don't work on Saturdays anymore.' Improved employee communications across the entire Evotec organisation has been a priority. The objective has been to ensure that each one of us knows exactly what is happening within Evotec across the globe and to be updated on key issues on a timely basis.

A SCOT *in Hamburg*

Andrew Baxter joined Evotec in July 2010 as a senior research scientist, after being head-hunted from the Electrophysiology Assay Development & Screening Department of GlaxoSmithKline. Andrew has obtained both a PhD in Neuropharmacology from the University of Edinburgh and a MBA in Strategic Management from the Aston Business School. His research interests (besides German beer) are focused towards ion channel drug discovery for neuronal & pain targets and use of automated systems to drive high quality research. His reasons for coming to Germany were twofold: firstly, a personal desire to experience the differences between lives in Germany and in the UK, to develop a second language and one day to have a Porsche 911; secondly, that Evotec is recognised as an innovative leader for the development of novel quality ion channel functional assays, and he wants to contribute to the development of Evotec in this field.

ONAL

A POLE
in Oxford

Bart Lukowski joined Evotec as a Scientist in the Discovery Chemistry Department in October 2009. Bart grew up in Poland, were he started his adventure in Chemistry at the Adam Mickiewicz University in Poznan. After two years of studying, he moved to south Sweden and continued his education in Lund, mainly focusing on organic and medicinal chemistry. Once he had completed his Bachelor and Master of Science in early 2009, Bart was mainly interested in pursuing his professional career in United Kingdom, as he felt that England offered the best opportunities for young chemists, so he moved here to look for work. Bart thinks that living and working in England brings a lot of fun and pleasure and says that now that he is getting used to the new environment and customs, he feels more and more that England is his new home. In his spare time, Bart likes visiting new places, and some of his family live in the UK, so he enjoys seeing them more regularly. Bart gets involved with all aspects of company life, and was part of the winning team for the 2010 'Evotec's Got Talent' competition!

A FRENCH WOMAN
in India

Natacha joined Evotec Chemistry Department as a senior scientist in Abingdon in August 2004 and the 1st of April 2008 she flew to Mumbai, Thane. Her role in Thane for the past 2 years has been very versatile. She worked on internal chemistry projects with scientific and operational employees to solicit best practices and contributed in implementing changes for a better working environment. As a team leader on chemistry projects this year, Natacha has worked closely with her team members, transferring her knowledge, recognising their potential and deepening their skills for efficient and high quality work. Natacha adventurously crossed the Channel, after her DEA studies, and besides the joy of driving on the wrong side of the road, she obtained a PhD in Synthetic Organic Chemistry from the University of Exeter. Natacha then spent a year in the US at the NC State University as a postdoctoral fellow before going back to the UK. Her reasons for coming to India were multiple. Her interest was driven by discovering India and its smiley people, sharing and understanding their world work-wise and life-wise. So Natacha became vegetarian and bought a sari. She swapped her car for auto-rickshaw rides and now she is really confused which side of the road is right or wrong. Natacha said: 'I wanted to grab the opportunity presented to me; experience different challenges and contribute to the growth of Evotec as a worldwide organisation.'

SOME VOICES
from Göttingen

UWE ANDAG

In November 2010, Uwe Andag joined Evotec Göttingen as project leader of metabolic diseases. After being responsible for the *in vivo/in vitro* Pharmacology Department at DeveloGen until 2006 he spent four years in the Diagnostics Department of a large neighboring company in Göttingen. Now, since the company has changed its icon to his favorite color blue and has its headquarters with a fantastic view onto the greatest football stadium in the world, he immediately rejoined Evotec Göttingen. With his experience in different scientific fields and a strong background in metabolic diseases, he is now working in a team with scientists responsible for chemistry, screening technology, and *in vivo/in vitro* Pharmacology Departments at several Evotec sites. He is proud to be part of one big team at Evotec and is looking forward to contributing further towards Evotec's successful development in making it the leader in building innovative drug discovery alliances.

URSULA HOFFMANN

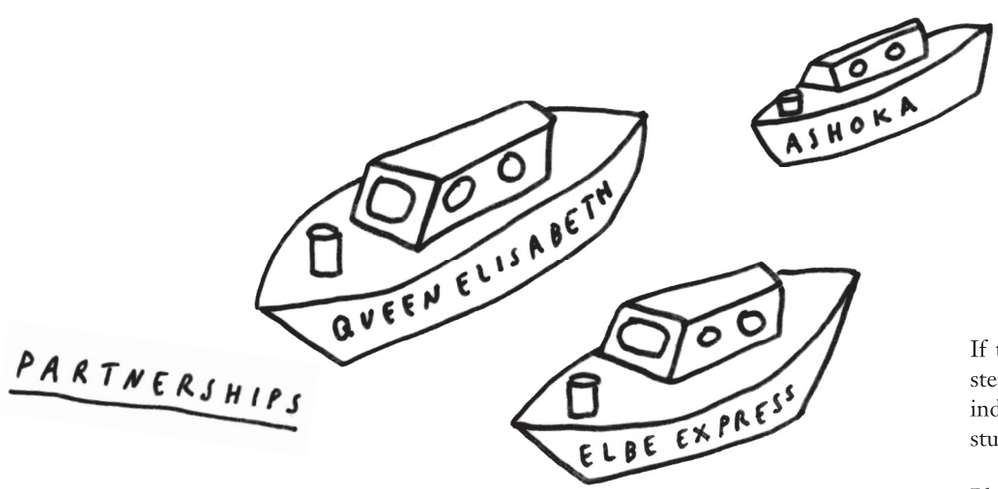
Though being an 'Oldie' by years of affiliation with DeveloGen, I still remember the early days of the company as a start-up biotech some 12 years ago, when I joined a young and motivated team of scientists and technicians after my PhD and postdoctoral studies. For several years I contributed to various diabetes projects *in vitro/in vivo*, and later became project manager for DeveloGen's clinical studies. Working at DeveloGen has always been challenging and provided exciting personal development for me. Today I am responsible for contract research services at what is now Evotec Göttingen. However, what has not changed over the years is the commitment of my colleagues, also having fun at work together.

STEPHAN BEIMESCHE

Educated as a biologist and then working for several years in diverse departments of the University of Göttingen, I joined DeveloGen nearly a decade ago. Starting with the generation of transgenic animals in my early years, I then became a member of the *in vivo* pharmacology team. During this period, working as a 'Developgenie' always meant that our commitment to tasks was a little bit more intense than 'normal'. Now time has come to shift from 'development to evolution', and so I am curious about how it feels to work as an 'Evotechnician'. I am very optimistic good times are going to come!

PRODUCT DEVELOPMENT PARTNE

Portfolio with significant growth potential



Our product development partnerships have significant upside potential. Managing Phase I and Phase II development processes with our partners is a core competence of Evotec.

GROWING POTENTIAL TO TREAT DEPRESSION – WORKING WITH ROCHE

One of the most important clinical programmes for the treatment of depression is conducted in our product development partnership with Roche. This agreement covers the development of the EVT 100 compound family (NR2B-selective NMDA antagonists) in treatment-resistant depression (TRD) with a total potential deal value exceeding $ 300 million.

WHAT IS THE STATUS 2010?

In the second quarter 2010, Evotec's lead NMDA antagonist, EVT 101, has entered the first Phase II trial which means that it was tested in patients for the first time. In previous Phase I studies, EVT 101 has been given to healthy volunteers and based on the good safety and tolerability results it has been decided to move ahead to the next phase of clinical development. In Phase II, the compound is now given to patients, in our case, patients suffering of treatment-resistant depression. The goal of the study is to evaluate safety, tolerability and whether the substance shows efficacy against the disease.

WHAT WOULD BE THE NEXT STEPS?

If this study has a positive outcome, the next step will be to evaluate the optimal dose for this indication and to progress into pivotal Phase III studies.

Phase I and II studies are always limited to a small number of specifically selected people. Only after safety and tolerability have been established in healthy volunteers and patients and efficacy has been shown in patients, the next phase of development can be started. In this Phase III of the clinical development, the compound will be given to a large group of patients to confirm safety and efficacy under more realistic conditions. If the results are positive, all information obtained on the compound during the whole period of discovery and development will be collated and submitted to regulatory authorities for approval to market it. The whole process of clinical development up to market approval can easily take a few more years.

RSHIPS

DEVELOPMENT TAKES TIME

We have and take the time!

SWEET GROWTH WITH ANDROMEDA & TEVA FIGHTING TYPE 1 DIABETES

DiaPep277 is a synthetic peptide which is being developed for the treatment of type 1 diabetes. In June 2009, Teva Pharmaceutical Industries signed an agreement with Andromeda Biotech, the company Develo-Gen licensed the product to back to receive worldwide marketing rights for the DiaPep277 product. In return, Teva will invest in the company supporting the clinical development programme of DiaPep277. The product is currently in Phase III clinical development in a global study. Evotec will receive royalties upon commercialisation of DiaPep277 products by Andromeda's distribution partner Teva and significant milestones upon the successful completion of key development and regulatory milestones.

GROW WHILE SLEEPING

Our EVT 201, our partial positive allosteric modulator of $GABA_A$ receptors, was tested as a treatment for insomnia in large Phase II clinical trials and positioned for out-licensing since the end of 2007. Both trials demonstrated encouraging results. In the trial in elderly patients, EVT 201 also objectively demonstrated to have a next-day benefit, namely a reduction of daytime sleepiness. Evotec successfully concluded a partnering agreement for EVT 201 in October 2010:

Evotec entered into a license and collaboration agreement with Zhejiang Jingxin Pharmaceutical Co., Ltd ('Jingxin Pharma'). The agreement grants Jingxin Pharma exclusive rights to develop and market the drug candidate in China. In return, Evotec received a small upfront payment and is eligible for commercial milestones and significant royalties.

Jingxin Pharma will initiate clinical trials with EVT 201 in China in 2011. All development costs will be borne by Jingxin Pharma. Evotec will have the right to reference clinical data produced by Jingxin Pharma to support potential further development of EVT 201 in other territories. Jingxin Pharm was established in 1990 and is an integrated pharmaceutical company covering manufacturing, R&D and marketing.

GROWING WITH THE NEXT GENERATION – NOMINATION OF EVT501

For Evotec's histamine H3 receptor antagonist programme, lead optimisation studies have resulted in the nomination of a development candidate EVT 501. Kilogramme scale manufacturing for use in regulatory toxicology and safety pharmacology studies is expected to complete in Q1 2011. Phase I studies are expected to start by mid 2011. H3 receptor antagonists have a number of potential indications including treatment of sleep disorders (e.g. narcolepsy, excessive daytime sleepiness), fatigue associated with neurological disorders such as Multiple Sclerosis, ADHD and cognitive impairment in Alzheimer's disease. The project is partially funded up to the initial Phase I study by the German Federal Ministry of Education and Research (BMBF) as part of the Neu² consortium that focuses on developing new medications for Multiple Sclerosis.

A CLOSER LOOK AT DEPRESSION & TREATMENT–RESISTANT DEPRESSION

It is estimated that over 120 million people suffer from depression and that about one–third of patients treated for major depressive disorder (MDD) do not respond satisfactorily to the first antidepressant pharmacotherapy. Treatment–resistant depression is a term used in clinical psychiatry to describe cases of major depressive disorder that do not respond to adequate courses of at least two antidepressants. According to the National Institute for Mental Health, some of the symptoms include persistent sadness, anxious or 'empty' mood, feelings of hopelessness, pessimism or guilt, worthlessness or helplessness, or loss of interest or pleasure in hobbies and activities that were once enjoyed. There are currently few therapeutic options for TRD, with only one drug approved for acute treatment of TRD in the US. There is a need for new treatments and EVT 101 represents one of the few new approaches in clinical development.

ABOUT TYPE 1 DIABETES

Type 1 diabetes, usually diagnosed in children and young adults, results when the body's immune system attacks insulin–producing cells in the pancreas. Without the hormone insulin, the body's cells can't use up the glucose circulating in blood. People with type 1 diabetes require numerous daily injections of insulin to survive. For the seven major pharmaceutical markets, the number of diagnosed and drug–treated cases of type 1 diabetes is estimated at around 1.84 million, resulting in an approximate market size for insulin sales of US$2 billion for the type 1 diabetes indication.

Source: Nature Reviews Drug Discovery, March 2010

WHAT IS INSOMNIA?

Insomnia is a common sleep problem that can affect your quality of life. People with insomnia have trouble falling asleep or staying asleep. They may wake up during the night or wake up too early the next morning. Physicians highlight that the ideal insomnia drug has the ability to induce, maintain and improve the quality of sleep without causing next day hang–over and the absence of addiction liabilities. It is estimated that approximately one–third of adult Americans (approximately 70 million people) are affected by insomnia according to the National Sleep Foundation.

Colin Bond

in person

not so special agent ...
... but especially skilled in the clear understanding of figures and financial business dynamics.

Colin Bond joined Evotec AG as Chief Financial Officer and Member of the Management Board in August 2010. He has almost 25 years of experience in leading finance positions, most recently as Chief Financial Officer of Novelis Europe based in Switzerland. During his early career he worked as pharmacist, auditor and management consultant for Procter & Gamble, Arthur Andersen and PricewaterhouseCoopers respectively. He moved into industry with Great Lakes Chemicals and then became Chief Finance Officer of Jet Aviation Group before becoming CFO EMEA for Ecolab. Colin Bond is a qualified chartered accountant and pharmacist. He is a fellow of the Institute of Chartered Accountants in England and Wales and is a member of the Royal Pharmaceutical Society of Great Britain. In addition, he received his MBA degree from London Business School. He is an Associate Lecturer in Financial Strategy on the MBA programme of the Open University Business School. Colin´s decision to join Evotec was based on his conviction in the strategy that Evotec has taken since March 2009.

REWARDED FOR GROWTH

The year 2010 proved very successful for Evotec

The impact of the Evotec Action Plan 2012 became clearly visible: the Company significantly improved its financial results, becoming profitable for the first time, initiated important new discovery alliances and made good progress in existing partnerships. This growth was rewarded: Evotec shares jumped 37.09% during the year.

GERMAN BLUE CHIPS STRONG

Although 2010 raced up for a positive year-end close the first eight months were tough. In H1, the German blue chip DAX Index matched other major indices worldwide: falling steeply in the first weeks before building through April. The May 'flash crash' and the general downward drift through August leveled the field. In H2, investor confidence grew on the back of increasing corporate profits; the EU bailout of Greece and Ireland and the US unveiling a $600 billion programme to boost the economy's recovery. These factors helped investors to push the DAX up 16.06% on the year. The index outperformed both the European Stoxx50 and the Dow Jones, which closed the year (5.33)% down and 11.02% up, respectively.

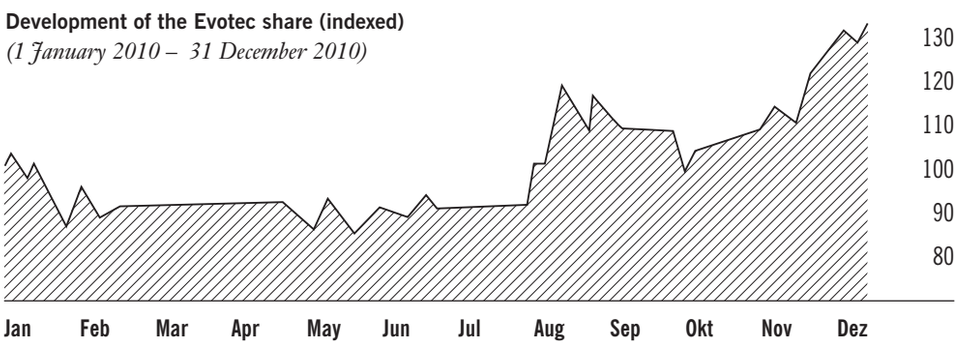
PULLING THE GENERALISTS

In the biotech space, worries about Europe added downward pressure on the major life science indices in H1 2010. These included the fact that most biopharma companies weren't hedged sufficiently against the Euro's unforeseen weakness and that companies were hit by drug price cuts as countries rushed to plug budget deficits. H2 was more positive, M&A plus a plethora of good clinical and regulatory news proved enough to tempt a few generalist investors back to the sector, adding momentum. In the biotech space the AMEX Biotech Index jumped 37.73% and the NASDAQ Biotech Index gained 14.08% on the year. For biotech investors 2010 closed on a high, leading many to feel 2011 could be even better with more investors shifting focus to mid-tier biotech stocks.

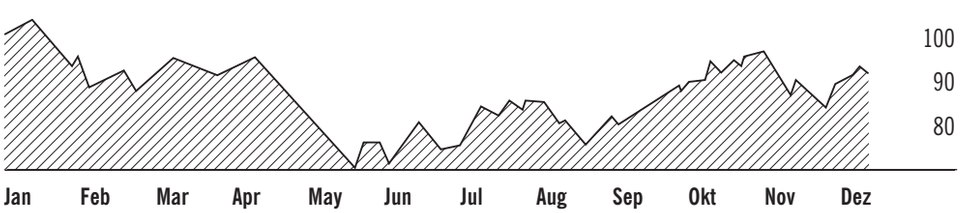
REWARDED FOR GROWTH

Evotec shares developed strongly during the year. They gained 37.09% and closed the year at 2.92 Euros. While Evotec's share price moved broadly in line with the German technology

Development of the Evotec share (indexed)
(1 January 2010 – 31 December 2010)



Development of the TecDax (indexed)
(1 January 2010 – 31 December 2010)



stock index TecDAX during the first months of 2010, it significantly outperformed the index from the beginning of August, in particular following the publication of Evotec's report for the first half-year of 2010. H1 2010 was the strongest six months in the Company's history in which the impact of Evotec's Action Plan 2012 – Focus and Growth became clearly visible. The shares further accelerated their upward trend in November and December when Evotec reported strong Q3 results and formed a 250 million € alliance with MedImmune (AstraZeneca) to develop a novel, biological treatment, EVT 770 to treat diabetes – a very quick return on its acquisition of DeveloGen in September. Increased investor interest also propelled liquidity in the Evotec stock. The average daily trading volume on all German stock exchanges increased to € 846,874 in 2010 compared to € 512,167 in 2009.

SHARE DATA	
Ticker symbol	*EVT*
Securities identification number	*566480*
ISIN	*DE0005664809*
Reuters symbol	*EVTG.DE*
Bloomberg symbol	*EVT GY Equity*
Stock exchange, market segment	*Frankfurt Stock Exchange, Prime Standard*
Index	*TecDAX*
Designated Sponsor	*Close Brothers Seydler Bank; ICF Kursmakler AG*

KEY FIGURES PER SHARE	2010	2009
High (date)	*€ 2.92 (30 Oct)*	*€ 2.36 (15 Dec)*
Low (date)	*€ 1.82 (26 Jan)*	*€ 0.55 (9 March)*
Opening price	*€ 2.19*	*€ 0.85*
Closing price	*€ 2.92*	*€ 2.13*
Weighted average number of shares outstanding	*€ 109,012,908*	*€ 106,845,831*
Total number of shares outstanding as at 31 December	*€ 115,595,729*	*€ 108,838,715*
Average trading volume in shares (all exchanges)	*€ 846,874*	*€ 512,167*
Market capitalisation as at 31 December	*€ 337.5 m*	*€ 231.8 m*
Earnings per share	*0.03*	*(0.43)*

NEW EVOTEC SHARES ISSUED FOR ACQUISITION OF DEVELOGEN

During the third quarter of 2010, Evotec acquired DeveloGen, a biopharmaceutical company engaged in the discovery of novel therapeutic approaches for the treatment of metabolic and endocrine disorders. Following the successful fulfilment of various closing conditions, the sellers of 99.4% of the shares in DeveloGen transferred their shares to Evotec in October. In return, Evotec issued 6,750,014 new Evotec shares from its authorised capital as part of the consideration for the transaction. Consequently, including the exercise of conditional capital from share options, Evotec's issued share capital increased to 115,595,729 and the total number of Evotec shares outstanding to 115,595,729 at year-end (year-end 2009: 108,838,715).

DEREGISTRATION FROM SEC

In 2009, Evotec de-listed from the NASDAQ Global Market in order to streamline its activities, focus the liquidity of Evotec stock on one trading platform and reduce unnecessary complexity in its capital market presence and related costs. In December 2010, following the fulfilment of all necessary deregistration criteria, including criteria with regard to the trading volume of Evotec shares in the US, the Company applied for deregistration and termination of reporting obligations under the U.S. Securities Exchange Act of 1934 via Form 15f. With effect of this date, all comprehensive and cost intensive reporting requirements according to US capital market rules were suspended. The deregistration and termination of reporting obligations is expected to take effect in March 2011.

EXTENDED STRATEGIC SHAREHOLDER BASE

At year-end 2010, three shareholders were known to Evotec that exceeded the 3% threshold. LBBW Asset Management, a new strategic Evotec shareholder holding approximately 3%, TVM V Life Science Ventures GmbH & Co. KG including their affiliates under 10% and ROI Verwaltungsgesellschaft mbH approximately 13.5% of Evotec shares. Approximately 0.5% was held by Evotec management. The free float according to Deutsche Börse AG, which is used to determine the weighting of the Evotec stock in stock indexes, was according to our estimates 76% of the capital stock.

INTENSE INVESTOR RELATIONS ACTIVITIES

Evotec places great emphasis on a continuous dialogue with all capital market professionals. During the financial year 2010 the Company continued to strategically improve its IR work. Management gave presentations at 20 national and international investor conferences as well as at nine road shows in key financial centres. The Company's Annual Shareholder Meeting in June attracted 146 shareholders, representing 35.48% of the Evotec share capital (2009: 40.68%)

ANALYST COVERAGE	
Close Brothers Seydler	*Igor Kim*
DZ-Bank	*Elmar Kraus*
Edison Investment Research	*Mick Cooper*
Landesbank Baden-Württemberg	*Dr. Hanns Frohnmeyer*

CORPORATE GOVERNANCE REPORT

Evotec takes its Corporate Governance responsibilities very seriously

As a consequence of its shares' listing at the Frankfurt Stock Exchange, and its international shareholder base, the Company recognizes not only German but also international Corporate Governance standards. In addition, until its expected deregistration from the SEC on 30 March 2011 the Company complied with the Sarbanes–Oxley Act for non–US companies and the NASDAQ Corporate Governance rules throughout 2010, insofar as German law does not explicitly stipulate otherwise. Evotec's Management and Supervisory Boards are convinced that complying with rigorous Corporate Governance standards is of great benefit to the Company. Therefore Evotec reviews and enhances its Corporate Governance practices on an ongoing basis.

DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

The German Corporate Governance Code as amended on 26 May 2010 (the 'Code') sets forth substantial legal requirements for the management and supervision of listed German companies. The rules are based to a large extent on internationally recognized standards for sound and responsible company management.

The general key principles of sound Corporate Governance are: observance of shareholder and employee interests, effective cooperation between the Management Board and the Supervisory Board and open and transparent communication.

With three exceptions, Evotec complies with all recommendations of the Code and the majority of the Code's suggestions. In December 2010, Evotec's Management Board and Supervisory Board declared in accordance with Section 161 of the German Stock Corporation Act (AktG):

'Evotec AG has complied in 2010 with the recommendations of the Governmental Commission on the German Corporate Governance Code (the 'Code') as published in the official section of the electronic Federal Gazette and intends to comply in the future with the recommendations of the Code, with the following exceptions:

- *The stock option programmes in place are based on binding resolutions of several Annual General Meetings. While the exercise of options under these programmes requires an increase of the share price, the exercise is not related to other relevant comparison parameters as recommended in Section 4.2.3 of the Code. This decision is based on the lack of relevant comparison benchmarks in the field of German Biotech at the time when the stock option programmes were created.*

- *Effective 1 July 2010, the Company's D&O insurance and the deductible contained therein for members of the Management Board were aligned with the latest version of Section 3.8 of the Code and with the regulations of the recent Act on the Appropriateness of Management Board Compensation (VorstAG). The D&O insurance contains a reasonable deductible for members of the Supervisory Board as foreseen by the version of the Code in force before the version published on 5 August 2009. The Company has decided to stay with an reasonable deductible and to decide at a later point in time about a possible increase as recommended by Section 3.8 of the Code when further information about other companies' approach is gathered and the Company has a broader understanding of the corporate practice.*

- *The Chairman of the Supervisory Board is a member of the committee which handles contracts with members of the Management Board (Remuneration and Nomination Committee), but not Chairman of this committee as recommended by Section 5.2 of the Code. This enables to have a further Supervisory Board member involved more deeply in the governance of the Company.'*

The current Declaration of Compliance with the German Corporate Governance Code and the declarations of the past five years can be found on Evotec's website (www.evotec.com) in the section '*Investors > Corporate Governance*'.

TWO–TIER MANAGEMENT & CONTROL SYSTEM: MANAGEMENT BOARD AND SUPERVISORY BOARD

According to the German Stock Corporation Act (AktG) a two-tier system with clear separation of 'management' through the Management Board ('Vorstand') and 'control' through the Supervisory Board ('Aufsichtsrat') is mandatory for German stock corporations.

The two boards work closely together to achieve long-term and sustainable growth for the Company and to create shareholder value. They agree on the Company's strategy and on business transactions that are significant. The Annual Shareholders' Meeting ('Hauptversammlung') is the company body representing the interests of the shareholders.

MANAGEMENT BOARD
('Vorstand')

Evotec's Management Board is responsible for the day-to-day operations and is supported by the Management Team. In its business operations and decisions the Management Board acts on behalf of the Company and works towards its progress with the objective of sustainable creation of value, thus taking into account the interests of the shareholders, the employees and other stakeholders. The Management Board is appointed by the Supervisory Board.

In accordance with a suggestion of the Code, new members are appointed for up to three years. Members of Evotec's Management Board have not accepted more than a total of three Supervisory Board mandates in non-Group listed companies or in supervisory bodies of companies with similar requirements. Information on the mandates and professional affiliations of the members of the Management Board can be found on page 93.

The Company's rules of internal procedure assign functional duties and responsibilities to the Management Board members.

The Company has a global presence and an international customer base. Therefore organisational diversity is a key consideration for the Management Board when making managerial appointments, and currently three out of four members of the Management Board are non German.

SUPERVISORY BOARD
('Aufsichtsrat')

As at 31 December 2010 Evotec's Supervisory Board consisted of five independent members who, in accordance with the Code's recommendations, are appointed on the basis of their qualifications, work experience, independence and diversity.

To ensure compliance with these recommendations the Supervisory Board has specified concrete objectives regarding its composition which are ensured when making proposals to the shareholders' meeting for election or re-election of new Supervisory Board members. These objectives stipulate that the activities of the Company shall be reflected by having Supervisory Board members with national and international experience in the respective fields of (I) Research and Development, (II) Finance, (III) Marketing and Sales, and (IV) Health Care Economy/Public Health. Potential conflict of interest situation(s) shall be avoided by highest scrutiny deployed when discussing potential candidates. In addition, the Supervisory Board shall ensure that the individual age of a candidate shall not exceed 72 years at the time of the proposal. Diversity with regard to female representation shall be ensured by having a minimum of one female member of the Supervisory Board. Overall, the Supervisory Board shall be composed in such a way that its members as a group possess the knowledge, ability and expert experience required to properly complete its tasks.

Currently, the composition of Evotec's Supervisory Board fulfils all those objectives, four nationalities are represented on the Supervisory Board of Evotec and there is one female member.

No former member of the Management Board is a member of the Supervisory Board. The Supervisory Board appoints Management Board members considering the diversity of the Management Board, provides advice to the Management Board and oversees its activities. It consults regularly with the Management Board and is thus informed at all times about the business and strategic situation of the Company as well as its risk environment. In addition, the Supervisory Board plays a key role in decisions of fundamental importance.

Business activities of fundamental importance requiring approval of the Supervisory Board include:

- the strategic and operational direction of the Company;
- annual budget targets and significant deviations from budgets;
- significant changes in the drug development pipeline;
- investments outside the Company's ordinary course of services business (including in-licensing) in excess of € 2.5 m;
- establishing and acquiring companies or changing the Group structure;
- business contracts outside the Company's ordinary course of business that have significantly different risk profiles;
- out-licensing contracts worth in excess of € 5 m;
- granting loans or liens, providing guarantees, issuing bonds or any measures of capital acquisitions;
- buying or selling real estate property; and
- establishing new business operations or significantly revising existing business operations.

The Supervisory Board has its own internal rules of procedure (see www.evotec.com; *'Investors > Corporate Governance > Policies and Charters'*) and complies with the Code's suggestion to hold occasional separate discussions.

With one exception, the Supervisory Board was not aware of any potential conflict of interests among any of its members during the year 2010. In the one exception, one Supervisory Board member disclosed a potential conflict to the Supervisory Board in relation to a strategic opportunity for the Company. The respective Supervisory Board member did not participate in the deliberations of the Supervisory Board concerning this opportunity.

Information on the professional affiliations of board members and on related party transactions can be found on pages 92 and 87.

WORK IN SUPERVISORY BOARD COMMITTEES IN ACCORDANCE WITH GOVERNANCE CODE

A significant proportion of the Supervisory Board's work is conducted in committees of the Supervisory Board. From among its members, Evotec's Supervisory Board has, pursuant to the German Stock Corporation Act (AktG) and the recommendations of the Code, established an Audit Committee and a Remuneration and Nomination Committee. Members of both committees are appointed in accordance with the Code.

Evotec's Audit Committee, comprising three members, supports the Supervisory Board in independently monitoring the Company's financial reporting activities and in auditing reports. In particular, the Audit Committee

scrutinizes the Company's financial statements and risk management, and it discusses the quarterly and half yearly reports with the Management Board. Within the scope of the audit of the financial statements commissioned by the Supervisory Board, the Audit Committee also discusses certain steps of the audit with the independent auditing firm. The committee members possess the required skills and experience. The committee's chairman is independent and has specialist knowledge and experience in the application of accounting principles and internal control processes and is also the 'Financial Expert' as defined in the Sarbanes-Oxley Act. Neither the Chairman of the Supervisory Board nor a former member of the Management Board may become Chairman of the Audit Committee. Evotec's Audit Committee Charter can be found on the Company's website (www.evotec.com) in the section *'Investors > Corporate Governance > Policies and Charters'*.

The main duties and responsibilities of the Company's Remuneration and Nomination Committee are to prepare the appointment of Management Board members and to prepare decisions concerning their remuneration system and stock option plans. Final decisions are made by the Supervisory Board. For information about the appropriateness of the compensation of individual board members please see page 45 of the 'Remuneration Report'.

More details on the activities of the Supervisory Board can be found in the 'Supervisory Board Report' on page 24.

SUPERVISORY BOARD EFFICIENCY AUDIT

On a regular basis the Supervisory Board examines the efficiency of its activities as recommended in the Code. To date all such audits have led to the conclusion that the Supervisory Board is organized efficiently and that the Management Board and the Supervisory Board interact efficiently and effectively.

REMUNERATION OF BOARD MEMBERS

Section 4.2.5 of the Code stipulates that the Remuneration Report should be part of the Corporate Governance Report. However, Section 285 no 9 HGB (German Commercial Code) rules that the Management Report, too, should cover the remuneration system. To comply with both requirements and still be able to report intelligibly, remuneration of Management Board members, divided into fixed and variable compensation components as well as any fringe benefits, and remuneration of Supervisory Board members is reported in a separate section of the Management Report ('Remuneration Report') on page 45. This Remuneration Report also becomes part of this Corporate Governance Report.

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 2010 (see left table).

Tenures and Composition *of Supervisory Board Committees**

	END OF TENURE [1]	AUDIT COMMITTEE	REMUNERATION AND NOMINATION COMMITTEE
Dr Flemming Ørnskov, **Chairman**	*2014*	…	*X*
Dr Walter Wenninger, **Vice Chairman**	*2014*	*X*	*X* (**Chair**)
Dr Hubert Birner	*2014*	*X* (**Chair**)	…
Dr Peter Fellner	*2014*	…	*X*
Mary Tanner	*2014*	*X*	…
Dr Corey Goodman		…	*X* [2]

[1] Following the Annual Shareholder Meeting
[2] Resigned effective 31 January 2010
** Information on the professional affiliations of Supervisory Board members can be found on pages 92 and 93*

Directors' Holdings *as of 31 December 2010*

	SHARES	STOCK OPTIONS
Management Board		
Dr Werner Lanthaler	*464,494*	*900,000*
Colin Bond	…	*100,000*
Dr Mario Polywka	*60,000*	*755,000*
Dr Cord Dorhmann	…	*100,000*
Supervisory Board		
Dr Flemming Ørnskov	*15,513*	…
Dr Hubert Birner	*27,897*	…
Dr Peter Fellner	*14,727*	…
Mary Tanner	*62,192*	…
Dr Walter Wenninger	*5,419*	…

DIRECTORS' DEALINGS REGULARLY REPORTED

Under the Securities Trading Act ('Wertpapierhandelsgesetz'), the members of the Supervisory Board and the Executive Management Team of Evotec as well as persons who have a close relationship with these persons are obligated to report trading in Evotec stock so far as the transactions exceed in aggregate € 5,000 (the de minimus threshold) per calendar year. In addition, Evotec has established an Insider Trading Policy (see www.evotec.com *'Investors > Corporate Governance > Policies and Charters'*) that sets standards for Board members' and employees' trading in Evotec shares and thus ensures transparency. In 2010, the following transactions (Directors' Dealings) were reported to the Company:

Reported Directors' Dealings *2010*

DATE	NAME	POSITION TRANSACTION	TYPE OF TRANSACTION	NO OF SHARES	SHARE PRICE	TOTAL PRICE
11 Nov 2010	*Werner Lanthaler*	*Member of Management Board*	*Purchase*	*10,000*	*€ 2.48*	*€ 24,800.00*
01 Oct 2010	*Werner Lanthaler*	*Member of Management Board*	*Purchase*	*10,000*	*€ 2.30*	*€ 23,000.00*
30 Sep 2010	*Werner Lanthaler*	*Member of Management Board*	*Purchase*	*10,000*	*€ 2.37*	*€ 23,678.20*
12 May 2010	*Werner Lanthaler*	*Member of Management Board*	*Purchase*	*10,000*	*€ 1.95*	*€ 19,500.00*
12 May 2010	*Werner Lanthaler*	*Member of Management Board*	*Purchase*	*10,000*	*€ 1.96*	*€ 19,600.00*
29 Mar 2010	*Werner Lanthaler*	*Member of Management Board*	*Purchase*	*10,000*	*€ 2.05*	*€ 20,500.00*
25 Jan 2010	*Werner Lanthaler*	*Member of Management Board*	*Purchase*	*10,530*	*€ 1.90*	*€ 20,007.00*

ANNUAL SHAREHOLDERS' MEETING

Shareholders may exercise their voting rights at the Annual Shareholders' Meeting. Each share entitles the shareholder to one vote. This year's Annual Shareholder Meeting, at which more than 35% of the share capital was represented, took place in Hamburg on 10 June 2010.

Evotec offers shareholders who are unable to attend the Annual Shareholders' Meeting the opportunity to access key parts of the event live on the internet. The Company also encourages non-attendees to exercise their voting rights by arranging independent proxies who are bound to the shareholders' instructions. Shareholders may also authorise a person of their choice to represent them in the meeting. The possibility of a postal vote was not available at the Annual Shareholders' Meeting 2010 as the Company changed its Articles of Association only at this Annual Shareholders' Meeting. The Management Board is now entitled to allow postal voting at future Shareholders' Meetings.
The authorization of the remuneration system for the members of the Management Board was not on the agenda of the 2010 Annual General Meeting.

RISK MANAGEMENT

An important element of sound Corporate Governance is to deal responsibly with risks. Evotec has established a systematic risk management system that enables the Management Board to detect and react to relevant risks and market developments in good time. The Management Board reports on these to the Supervisory Board. The Company's risk management system and policies are covered by the annual audit of financial statements. Details can be found in the Management Report on page 49.

COMPLIANCE

As a matter of course, Evotec abides by the law and by ethical principles. This is shown, amongst others, by the Company's Code of Conduct which stipulates fundamental ethical principles, such as integrity and professionalism, that apply to board members and other employees alike. The Code of Conduct sets standards for

- accounting and the permissible use of the Company's funds and assets;
- conduct in cases of insider trading or conflict of interest;
- compliance with antitrust legislation;
- a work environment free of discrimination and harassment;
- non-disclosure and protection of intellectual property and business secrets; and
- the duty to report upon the suspicion of an infringement of the Code of Conduct (whistleblowing).

The Code of Conduct is published on the Evotec website (www.evotec.com) in the section *'Investors > Corporate Governance > Policies and Charters'*.

Evotec also complies with the financial market rules. The Company maintains an Ad Hoc Committee, consisting of representatives of various core departments, which examines the ad hoc relevance of insider information and ensures that Evotec complies with the law.

Evotec's Compliance Programme is overseen by the Company's Compliance Officer, functioning as an independent and objective body that reviews and evaluates compliance issues/ concerns within the organisation.

AUDIT OF FINANCIAL STATEMENTS

On a regular basis, Evotec provides financial and business information to its shareholders and other interested parties by publishing its annual consolidated financial statements and quarterly reports. As an incorporated company whose registered head office is located within the European Union, Evotec must prepare and publish consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) whilst observing Section 315a HGB (German Commercial Code). The financial statements of the Evotec Group and the financial statements of Evotec AG are audited by the audit firm and the Supervisory Board. The audit firm is appointed by the shareholders at the Annual Shareholders' Meeting and commissioned by the Supervisory Board. It participates at the Supervisory Board's deliberations on the financial statements and reports the most significant results of its audit.

EQUITY INVESTEES AND STOCK OPTION PLANS

A list of substantial equity investees as well as details on the Company's stock option plans can be found in the section 'Consolidated Financial Statements' on pages 75 and 80.

INVESTOR RELATIONS / TRANSPARENCY

Evotec informs its shareholders, financial analysts, the media and the public on a regular basis about its progress. In doing so, the Company complies with all requirements of the Code regarding transparency, timeliness, openness and shareholder equality. Evotec is committed to fair disclosure of information and its communication is governed by a Company Disclosure Policy. It is a prime concern of the Company that all relevant target groups receive the same information at the same time, and this implies communicating in both English and German. The Company's publications are available on its website (www.evotec.com, section *'Investors'*).

The *'Investors'* section of Evotec's website maintains information such as news releases, the financial calendar containing the publication dates of the financial statements, Investor Relations conferences, annual and quarterly reports, other regulatory news and regularly updated corporate governance information. This section of the website also includes the Articles of Association, the Rules of Procedure of the Supervisory Board, the Audit Committee Charter, the Code of Conduct, the Insider Trading Policy and all declarations of compliance.

Throughout 2010 the website also contained information about the NASDAQ Corporate Governance Rules. Evotec voluntarily complies with a large proportion of the NASDAQ rules, deviating only where German law stipulates otherwise. The exemptions can be found on the Introduction page of the section *'Investors > Corporate Governance'* under the link *'NASDAQ Corporate Governance Disclosure'* at www.evotec.com.

Evotec places great emphasis on a continuous dialogue with financial analysts and investors. It conducts at least one analyst meeting every year and telephone conferences when quarterly financial results are published, while ensuring that no stakeholder receives preferential information. In 2010, management presented the Company at 20 national and international investor conferences as well as at nine road shows in key financial centres.

SUPERVISORY BOARD REPORT

Dr Flemming Ørnskov
Chairman of the Supervisory Board

The primary task of the Supervisory Board is to regularly supervise and provide advice to the Management Board on the management of the enterprise.

In the course of 2010, the Supervisory Board convened for four formal meetings and held one telephone conference to discuss the operational and strategic developments of Evotec AG as well as the appointment of new members of its Management Board. The Audit Committee convened separately for four telephone conferences and the Remuneration and Nomination Committee convened twice.

The Management Board also provided continuous updates to the Supervisory Board through regular verbal and written reports that included in depth analysis of the status of operations. The information provided included written monthly management reports with extensive coverage of the Company's financial figures for the previous month, accompanied by detailed comments and explanations. In addition, the Chairman of the Supervisory Board and the Chief Executive Officer as well as other members of the Management Board discussed current and ongoing topics via numerous conference calls, held whenever appropriate.

Further to business updates, the status of the Company's Discovery Alliance Business, its proprietary programs and regular standard agenda items, the Supervisory Board met to discuss the following subjects in detail:

- In March, the Supervisory Board discussed the situation of the Company and its strategic development activities. Furthermore, the Supervisory Board discussed and approved the 2009 annual financial statements in the presence of the auditors
- In a telephone conference in May, the Supervisory Board approved a Management Board's decision to proceed with the acquisition of DeveloGen AG.
- In June, the Supervisory Board focused on the operational business of the Company and on strategic development opportunities.
- In a two day meeting in September, the Supervisory Board discussed the status of the Company's Discovery and Product Alliance Business, the status of core pipeline programs as well as the Company's science portfolio.
- In December, the Board focused on the budget for the year 2011 which was approved, and discussed strategic growth opportunities of the Company and its Discovery Alliance Business.

Evotec AG's financial statements and the management report for the year 2010, as well as the consolidated financial statements together with the consolidated management report of the Evotec Group, were audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Hamburg. The auditors issued an unqualified audit opinion.

In preparation for the Supervisory Board meeting on 16 March 2011, the Auditors presented the status of the 2010 audit, a summary of key audit findings, and other relevant topics to the Audit Committee. The Audit Committee used this information as a guideline for its own evaluation of the statements and reports. The auditors participated in the 2011 March meeting of the full Supervisory Board and presented a comprehensive report on the audit and their observations. 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 for the year 2010.

With one exception, the Supervisory Board was not aware of any potential conflict of interests among any of its members during the year 2010. In that case, a Supervisory Board member disclosed a potential conflict relating to an acquisition opportunity for the Company. The respective Supervisory Board member did neither participate in the Supervisory Board's considerations nor in the decision.

With effect of 31 January 2010, Dr Corey Goodman resigned from his position as member of the Supervisory Board. We thank Dr Corey Goodman for his valuable contribution to Evotec AG following its merger with Renovis, Inc.

Effective 1 August and 1 September 2010, respectively, the Supervisory Board appointed Colin Bond and Dr Cord Dohrmann as new members of the Management Board in the functions of Chief Financial Officer and Chief Scientific Officer. After the expiration of his contract, Dr Klaus Maleck resigned from the Management Board effective 31 October 2010. He continues to serve the Company as Executive Vice President Strategic Development.

The Supervisory Board thanks the Management Board and the Company's employees for their dedicated work during the year and wishes them ongoing success for 2011.

Hamburg, 16 March 2011
The Supervisory Board
Dr Flemming Ørnskov

MANAGEMENT REPORT 2010

CONTENT

OPERATIONS AND BUSINESS ENVIRONMENT

ORGANISATIONAL STRUCTURE AND BUSINESS ACTIVITIES

GROUP STRUCTURE

Evotec AG is a publicly listed stock corporation operating under German law. The Company has its headquarters in Hamburg, Germany and operating subsidiaries in Abingdon, UK, Thane, India, Göttingen, Germany, North Potomac, Maryland, USA, and Singapore and employed 519 people at the end of 2010. Consolidated subsidiaries and equity investees are listed in Note (35)d to the Consolidated Financial Statements.

Evotec, through adoption of IFRS 8, reports as one business segment in accordance with its management approach.

PRODUCTS AND SERVICES

Evotec is a drug discovery and development company focused on providing integrated and innovative drug discovery services and alliances to the pharmaceutical and biotechnology industry. In addition, Evotec has a selected number of its own drug candidates at various stages of development either partnered or available for partnering. The Company is operating worldwide and has established a unique competitive position by assembling top-class scientific experts and integrating state-of-the-art technologies as well as substantial experience and expertise in key therapeutic areas including neuroscience, pain, metabolic diseases as well as oncology and inflammation.

In its discovery alliances, Evotec provides innovative and integrated solutions to the pharmaceutical and biotechnology industry from target to clinical development through a range of capabilities and capacities. This includes early-stage assay development and screening, fragment-based drug discovery, medicinal chemistry and *in vivo* pharmacology. Evotec's partners include, among others, Biogen Idec, Boehringer Ingelheim, CHDI, MedImmune (AstraZeneca), Novartis, Genentech, Vifor, and Ono Pharmaceutical. In exchange for access to its integrated discovery offerings Evotec receives contractual service fees and ongoing FTE-based research payments and, in certain circumstances, up-front technology or drug asset access fees, and milestone and royalty payments related to the achievement of certain research, development and sales milestones.

In its proprietary projects, Evotec is progressing a selected number of drug candidates through clinical development: EVT 101 and 103, subtype selective NMDA receptor antagonists, partnered with Roche, in clinical development for treatment-resistant depression and EVT 401, a P2X7 antagonist for the treatment of inflammatory diseases. Evotec's proprietary late-stage preclinical research programmes focus on EVT 501, an H3 antagonist for the treatment of cognitive disorders and narcolepsy expected to advance into Phase I clinical development in 2011. Evotec seeks to partner or publicly fund these assets for further development. In late 2010, Evotec partnered EVT 201, a potential treatment for insomnia with Zhejiang JingXin Pharmaceutical Co. Ltd. In addition, the Company acquired a development partnership with Andromeda (Teva) on DiaPep277, a synthetic peptide immunomodulator to treat type 1 diabetes in pivotal Phase III clinical development through the acquisition of DeveloGen (see Significant Corporate Development Events below).

SIGNIFICANT CORPORATE DEVELOPMENT EVENTS

In 2009, Evotec published its 'Evotec 2012 – Action Plan to Focus and Grow'. With this initiative, the Company communicated its refocused strategy to invest into and grow its core discovery alliances. In addition, Evotec decided to concentrate its pipeline R&D on the most valuable assets and also to significantly reduce SG&A expenses. The Company has continued this focus into 2010. This strategy had resulted in revenue growth of more than 25% in 2010 compared to prior year and in the first year of profitability in the history of the Company.

Early in 2010, Evotec made good progress with the EVT 100 compound family partnered with Roche. Evotec completed the clinical part of the first-in-human Phase I study with EVT 103. The compound was safe and well tolerated after single and multiple oral dose administration, with excellent bioavailability and only a minimal effect of food on the kinetic profile. For EVT 101, the lead compound, Evotec received approval from the FDA to initiate the Phase II Proof-of-Concept study in treatment-resistant depression. The study began recruiting patients in mid 2010. Recruitment is expected to be completed by the end of 2011. Clinical data is expected in 2012.
During the third quarter of 2010, Evotec's Group structure changed through the acquisition of DeveloGen announced on 14 July and closed on 3 September 2010. DeveloGen is a biopharmaceutical company engaged in the discovery of novel therapeutic approaches for the treatment of metabolic and endocrine disorders. The transaction immediately added two complementary alliances to Evotec's portfolio of core assets:

— An integrated discovery alliance with Boehringer Ingelheim on small molecules to treat insulin resistance (type 2 diabetes). In this performance-based alliance, Evotec will receive ongoing research funding and may earn potential milestone payments of up to € 237m for the lead compound as well as royalty payments.

— A development partnership with Andromeda (Teva) on DiaPep277, a synthetic peptide immunomodulator to treat type 1 diabetes in pivotal Phase III clinical development. Evotec may receive royalties upon commercialisation of DiaPep277 products and significant milestones upon the successful completion of key development and regulatory milestones.

The acquisition also augmented and complemented Evotec's high-end drug discovery platform and capability with DeveloGen's target discovery, validation and *in vivo/in vitro* pharmacology expertise and added core disease biology know-how in metabolic diseases. These skills further enhance Evotec's ability to deliver high quality, innovative solutions to its partners on a global scale.

Evotec AG became owner of 99.4 % of the shares in DeveloGen AG at the closing of the transaction on 3 September 2010. The agreed purchase price consisted of up to € 13,500,028 in Evotec shares and an earn-out component in cash. The € 13,500,028 in shares was fulfilled by the issue of 6,750,014 new Evotec shares – to determine the number of shares, the parties of the share purchase agreement had agreed upon a value of € 2 per share. These shares were issued from the authorised capital of the Company. They were registered by the trade register on 7 October 2010. Following the registration 3,976,338 shares were immediately issued to the sellers and the remaining 2,773,676 shares were conditional. The respective conditional shares are held in escrow and their release is subject to certain company events and representations. Following the signing of a beta cell agreement by DeveloGen AG in December 2010, 1,398,561 shares will be released from this escrow to the sellers in March 2011. All shares issued are subject to a six months lock-up. In addition, DeveloGen shareholders are eligible for success-based cash payments (earn out) based on future milestone and royalty income generated from three agreements between DeveloGen AG and certain third parties.

In October 2010, Evotec entered into a license and collaboration agreement with Zhejiang JingXin Pharmaceutical Co., Ltd ("Jingxin Pharma") for EVT 201, a novel potential treatment for insomnia. The agreement grants Jingxin Pharma exclusive rights to develop and market the drug candidate in China. In return, Evotec received a small upfront payment, together with commercial milestones and significant royalties. Jingxin Pharma will initiate clinical trials with EVT 201 in China in 2011. All development costs will be borne by Jingxin Pharma. Evotec will have the right to reference clinical data produced by Jingxin Pharma to support potential further development of EVT 201 in other territories. This deal allows further progression of the EVT 201 insomnia programme at no additional cost to Evotec and therefore represents an important step in realising the drug candidate's intrinsic value.

In December 2010, Evotec closed a significant drug discovery alliance with MedImmune (AstraZeneca) in the field of beta cell regeneration. This alliance is focussed on novel therapies in diabetes. The commercial arrangement includes € 5 m access payment to the technology, and up to € 254 m in milestones plus royalties. Further milestone payments may be achieved with the approval of additional indications and programmes. Evotec will also receive research payments to support further *in vivo* and *in vitro* pharmacology efforts conducted in collaboration with MedImmune.

On 30 December 2010, Evotec filed Form 15F with the Securities and Exchange Commission (SEC) to deregister and terminate its reporting obligations under the US Securities Exchange Act of 1934 (Exchange Act) for its American Depositary Shares (ADSs) and its ordinary shares underlying the ADSs. The deregistration and termination of reporting obligations is expected to take effect in March 2011. This deregistration from the SEC is the final step following delisting from NASDAQ, which was initiated in November 2009. Evotec shares of course continue to be traded on Frankfurt Stock Exchange. Evotec's ADSs are traded on the over-the-counter (OTC) market in the US.

GROUP MANAGEMENT AND SUPERVISION

As required by the German Stock Corporation Act (Aktiengesetz), Evotec AG has a two-tier board system consisting of the Evotec Management Board (Vorstand) and the Evotec Supervisory Board (Aufsichtsrat). The Management Board is responsible for managing Evotec and representing the Company in its dealings with third parties, while the Supervisory Board appoints and dismisses the members of the Evotec Management Board and oversees the management of the Company. German law prohibits the Supervisory Board from making management decisions.

The Evotec Supervisory Board consists of six members – as provided in the current Articles of Association – all of whom are elected by the shareholders by a simple majority of the votes cast at a shareholders' meeting. The Supervisory Board appoints a chairman and one or more vice-chairmen from among its members. The members of the Supervisory Board are elected for five years and may be re-elected. The term of the current members of the Evotec Supervisory Board will expire at the end of the annual general shareholders' meeting held in the year 2014.

Under Evotec's Articles of Association, the Supervisory Board determines the size of the Management Board, which must have at least one member under the German Stock Corporation Act. The statutory maximum term for members of the Management Board is five years, but Evotec's current practice is to limit the terms to three years. Management Board members may be reappointed and may be dismissed with good cause prior to the termination of their terms of office.

In 2010, Colin Bond was appointed as member of the Management Board effective 1 August. He took over the responsibilities of Chief Financial Officer. Bond has more than 25 years experience in multinational companies most recently as the Chief Financial Officer of Novelis Europe. Dr Klaus Maleck, the predecessor as Chief Financial Officer, took over the responsibilities for Corporate Development as member of the Management Board until 31 October 2010 and further on as Executive Vice President Corporate Development. Dr Cord Dohrmann was appointed as Chief Scientific Officer and member of the Management Board effective 1 September. Dr Dohrmann has spent over 20 years in biomedical research at leading academic institutions including the Max-Planck-Institute, Harvard Medical School and the Massachusetts' General Hospital. For the last 10 years, Dr Dohrmann served DeveloGen in various management positions including CEO, growing DeveloGen from a start-up to internationally recognised

metabolic disease company with a focus on developing highly innovative therapies for diabetes. Dr Werner Lanthaler, Chief Executive Officer, and Dr Mario Polywka, Chief Operating Officer, continued in their Management Board positions.

Information regarding the remuneration of Evotec's Management Board and Supervisory Board can be found in the 'Remuneration Report' on page 45 of this Management Report.

DECLARATION OF CORPORATE MANAGEMENT

More information on Company management practices can be found in the Company's "Declaration of Corporate Management" according to section 289a HGB on Evotec's website at www.evotec.com, Investors > Corporate Governance.

CORPORATE PERFORMANCE MEASURES, OBJECTIVES AND STRATEGY

Management's objective is to systematically and continuously increase the value of the Company. Management has in the past years successfully transformed Evotec from a small technology provider into a focused discovery and development company. Non-core research services and the discovery instruments business were divested for cash. Today the Company has integrated into its cash generative discovery alliance business disease know-how, in particular in neuroscience, pain, metabolic diseases as well as in oncology and inflammation, and has a number of drug candidates at various stages of development that are either partnered or available for partnering.

GROWTH STRATEGY AND NON-FINANCIAL PERFORMANCE MEASURES

Evotec's strategy is to build sustainable, profitable drug discovery alliances. Consequently, Evotec focuses on high value, revenue generating partnerships with pharmaceutical and biotechnology companies. Additionally, Evotec will continue to fund a limited number of its internal pipeline products to a position where they become partnerable. The key elements and related non-financial performance measures of Evotec's strategy are as follows (see sustainability report on page 39 of this management report):

Focus and grow the discovery alliances

Evotec has built substantial drug discovery expertise and an industrialised platform that can assist pharmaceutical and biotechnology partners to drive new innovative small molecule compounds into the clinic. This expertise covers the entire spectrum of discovery and is applicable to targets across multiple therapeutic indications. Its capabilities include high-throughput and high-content screening, medicinal chemistry, fragment-based drug discovery, *in vivo* pharmacology, as well as an extensive series of *in vitro* ADMET profiling assays. In addition, Evotec has built a deep internal knowledge base in various therapeutic areas. Leveraging these skills and expertise, the Company intends to organically grow its discovery alliances through strategic partnerships with pharmaceutical and biotechnology companies. Evotec will also seek to expand its technology and capabilities in offering an integrated drug discovery platform in areas that complement its current operations.

By assembling top-class scientific experts and integrating state-of-the-art technologies as well as substantial experience and expertise in key therapeutic areas, the Company has established a unique competitive position. This broad and fully integrated offering allows Evotec to execute on larger strategic outsourcing contracts in which the Company intends to employ increasing parts of its capacity for results-based deals, with the goal of keeping a higher share of value creation.

The order book at the beginning of the year is strong, indicating potential further revenue growth in 2011 over 2010.

January Order book

in T€	2008	2009	**2010**	2011
Order Book January	18,643	24,201*	**27,290**	38,792
Year end revenues w/o milestones	31,109	38,303	**44,017**	-
Year end revenues	39,609	42,683	**55,262**	-

** Order Book February*

Develop early core assets and establish corporate collaborations to assist in the development and commercialisation of Evotec's pipeline products

Focusing on its third party research, Evotec has significantly reduced its original internal proprietary pipeline research and development activities. The Company aims to selectively partner its current pipeline products that address major markets with pharmaceutical companies with the financial strength for the more expensive Phase II /III trials. The Company intends to out-license drug candidates to pharmaceutical companies for upfront and milestone payments, as well as for royalties on the future sale of drugs.

Evotec will also increasingly focus on developing early assets in innovative areas of drug discovery such as regenerative medicine. For example, in December 2010, Evotec entered into a license and collaboration agreement with MedImmune Ltd, Cambridge, UK, a wholly owned subsidiary of AstraZeneca PLC, London, UK, in the field of diabetes with a particular focus on the regeneration of insulin producing beta cells. The license gives MedImmune exclusive access to a portfolio of research and development programmes and represents the first deal executed by Evotec on assets and capabilities acquired through its recent purchase of DeveloGen.

FINANCIAL CONTROL CRITERIA

Evotec's goal is to reach operating profitability and to generate cash sustainably by 2012. The Company believes that the strong growth achieved and anticipated in its discovery alliances, combined with strict cost control and a prudent investment policy, are the basis for future financial success and shareholder value creation.

Management engages in monthly financial reviews with a strong emphasis on key financial performance drivers such as revenues, order book status and gross margins as well as careful cost analysis (SG&A, R&D expenses) to measure its performance against its financial targets and to understand performance versus prior year.

In addition, cash forecasts, including the definition of minimum cash levels, the monitoring of contract research revenues and milestones, and operational cash flow are critical for Evotec to short and mid-term financial performance. The same is true for the reporting of liquidity and treasury performance. It is performed in a comprehensive and timely manner with the focus on cash management, FX exposure, funding optimisation and investment opportunities.

Value analysis based on discounted cash flow models is the most important financial control criterion for Evotec's investment decisions and development projects.

RESEARCH AND DEVELOPMENT

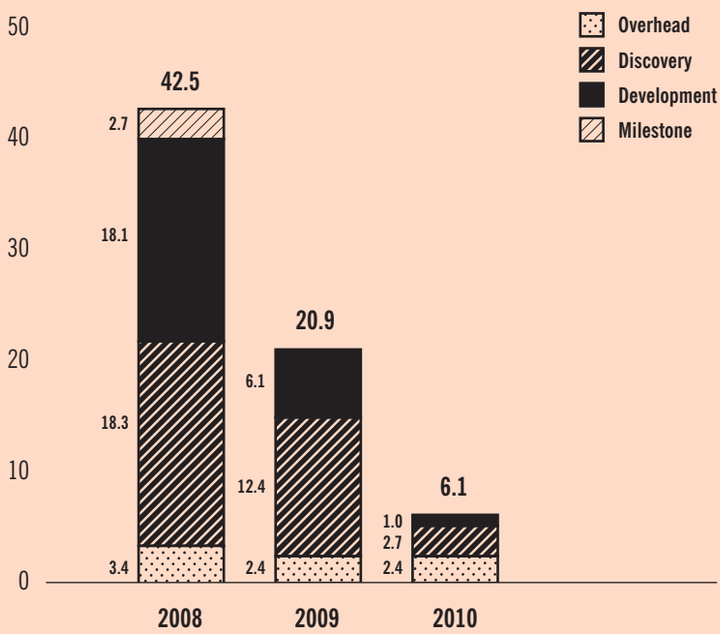
Evotec progresses alliances based on its broad range of integrated capabilities spanning the whole drug discovery process. Defining and following standards that always aim to be best-in-class is the only option for Evotec, as our goal is to accelerate the drug discovery process with the best possible tools available. Hence, Evotec is continually **upgrading its technology base** and enhancing its offering to partners by investing into its technology platform through internal R&D activities, entering into technology agreements with other companies and through the acquisition of assets. These included in 2010, for example, the access to the state-of-the-art synchrotron technology at Diamond Light Source, Ltd; the access to DiscoveRx's PathHunter™ and cAMPHunter™ cell lines and proprietary EFC chemiluminescent detection technology as well as the access to Hypha's Myco Diverse™ natural product collection for use as part of its hit and lead identification services. The MycoDiverse™ Natural Products Library is a collection of 10,000 extracts and fractions from fermentations of an exotic collection of Higher Fungi (mushrooms and toadstools) – a unique and prolific source of previously undiscovered bioactive compounds. In addition, in July 2010, Evotec augmented and complemented its high-end drug discovery platform and capability with target discovery, validation and *in vivo/in vitro* pharmacology expertise through the acquisition of DeveloGen.

Evotec also invests in **highly innovative approaches to address key therapeutic** areas and major pharmaceutical markets, e.g. beta cell technology and technologies to better understand oncology or metabolic diseases. The acquisition of DeveloGen added expertise and early discovery assets in two key fields of high unserved medical needs, especially diabetes and metabolic disorders, and additionally opened the field of regenerative medicine – a key strategic step for Evotec in 2010.

Regarding its ongoing **preclinical and clinical projects,** various discovery as well as preclinical and clinical studies were conducted in 2010. This section provides a short summary of the progress of Evotec's 2010 pipeline programmes, which are all either already partnered or available for partnering:

— EVT 101: For EVT 101, the lead compound of the EVT 100 family, preparations for the start of a Phase II proof-of-concept study in treatment-resistant depression were ongoing and Evotec received approval from the FDA to initiate the study in March 2010. Patient recruitment started in mid 2010. Recruitment is expected to be completed in 2011. Data of the study is expected in 2012.
— EVT 103: Evotec completed the clinical part of the first-in-human Phase I study with EVT 103, the follow-on compound to EVT 101. The compound was safe and very well tolerated after single and multiple oral dose administration, with excellent bioavailability and only a minimal effect of food on the kinetic profile.
— EVT 201: Evotec successfully concluded a partnering agreement for its insomnia drug candidate EVT 201 with Jingxin Pharma in October 2010.
— EVT 401: Phase I completed. This programme is available for partnering.
— EVT 501: For Evotec's histamine H3 receptor antagonist programme, lead optimisation studies have resulted in the nomination of EVT 501 and a back-up candidate. Kilogramme scale manufacturing for use in regulatory toxicology and safety pharmacology studies is expected to be completed in Q1 2011. Phase I studies are expected to start by mid 2011.

R&D expenses



GENERAL MARKET AND HEALTHCARE SUMMARY

ECONOMIC AND HEALTHCARE OVERVIEW

The global economy experienced a recovery since the end of the recession in the middle of 2009. However, underlying this growth there is a substantial divergence between the rapid annual growth of the key emerging markets and the sluggish pace of recovery in the advanced

nations, and uncertainty has gripped observers about the sustainability of growth in the world's three biggest markets: the United States, Europe and China. In Germany, solid growth was experienced in contrast to the hesitant trend in other industrialised countries and export performance was on a high level. Consequently, stock market activity increased significantly. During 2010, the DAX index gained 16% and the German technology index TecDAX 4%.

Evotec's business performance as a provider of drug discovery solutions is not directly impacted by the economic cycle. The performance of the pharmaceutical industry is affected by a significant imbalance between new product introductions and patent losses. Instead of developing a product from early stage research, which involves significant funds, pharma companies are increasingly looking for promising pipeline candidates. The industry has experienced significant M&A activity over the last few quarters and in-licensing transactions to make up for the loss of revenues that will arise with key products losing patent exclusivity. During the third quarter of 2010, for example, Sanofi-Aventis made a tender offer to acquire the biotech company Genzyme. At the same time, a number of major pharmaceutical companies announced restructuring programmes, including closure plans for entire research facilities, reducing the number of disease areas of focus within their therapeutic portfolio and focusing on externalisation. This trend is expected to continue into 2011. This constitutes a shift in the pharmaceutical landscape where the world is moving more and more towards collaborative work processes between discovery solution providers such as Evotec and dedicated project groups amongst the pharmaceutical companies, thus resulting in increased outsourcing of drug discovery projects. According to a study from Kalorama Information (June 2010) the global drug discovery market is expected to experience robust growth, exceeding $8 bn in 2010 and reaching $14 bn in 2014. Outsourcing has proven to be a useful tool by which pharmaceutical companies manage their core functions and increase capital efficiency. Strategic outsourcing has provided a valuable way to achieve time and cost savings as well as provide financial and operational flexibility.

Evotec recognised this trend within the pharmaceutical landscape of optimising the whole drug discovery process and consequently implemented a strategy of providing innovation as the core of all its partnering activities. Evotec is one of the few drug discovery businesses that can execute a comprehensive outsourcing strategy due to the Company's highly integrated drug discovery capability.

EXCHANGE RATE DEVELOPMENT, INTEREST RATES AND FINANCING

Evotec's financial performance is affected by currency movements and to a much lesser extent by fluctuations in interest rates. However, changes in raw material prices do not materially influence Evotec's industry.

The Euros (EUR) to US Dollars (USD) **exchange rate** fluctuated between 1.20 and 1.45 in 2010. The Euro weakened in the middle of the year in response to the default concerns of countries on the periphery of the Euro zone. However, it strengthened towards year-end in response to concerns about the weakness of the US economic recovery and the size of the US deficit. A strengthening USD leads to a reduction in Evotec's revenues in EUR and to a decreasing liquidity in EUR. Evotec's expenses in USD in 2010 were negligible. Due to the strength of the USD in H2 2009, taking the year as a whole, the USD was weaker and had a positive impact on 2010 revenues of approx. € 1.0 m in comparison to 2009. In terms of liquidity at the end of the year, the USD weakened from 1.43 to 1.33 which resulted in an unrealised loss of € 1.1 m for the year-end position of $ 19.6 m.

Overall the company is long in USD, long in EUR and short in British Pounds (GBP). This is due to the fact that the Company generates approximately 36% of its revenues in USD and approximately 65% of its total cost base is denominated in GBP. Evotec's policy is not to speculate on foreign exchange movements. The strategy of the Company is to sell surplus USD in both the forward and spot markets to cover ongoing GBP expenses.

Historically low **interest rates** continued throughout 2010. In Europe the ECB inter-banking interest rate remained at 1% throughout the entire year. In the US the target range for the federal funds rate was kept at between 0 and 0.25%. The main impact of low interest rates on the financial performance of Evotec is to reduce the interest income received on the cash deposits and the short-term investments of the Company.

Despite the overall availability of cheap money, traditional debt financing without cash collateral was still not available to the Company. However, Evotec is one of the very few European small cap biotech companies with a healthy liquidity position and believes this to be a competitive advantage in building the Company and shareholder value. Evotec will continue to operate as capital-efficiently as possible, to assess the funding of its R&D activities and capital investments carefully and to balance this against cash flow from revenue-bearing business to assure that Evotec's cash will be sufficient to develop the Company to sustainability.

MANAGEMENT BOARD'S GENERAL ASSESSMENT OF BUSINESS PERFORMANCE

Due to a strong top-line performance, with significant milestones achieved and important new contracts or contract extensions signed together with a reduction in R&D and SG&A expenses the Company exceeded its financial targets for the year (see details below). It is imperative for the long-term sustainable growth of the Company to invest in innovation, which Evotec accelerated in 2010 and which is a key focus of the strategy going forward. In summary, the business is now well positioned for the challenges of 2011 and beyond.

FINANCIAL REPORT

The 2010 and 2009 results are not fully comparable. The major differences result from the acquisitions of a 70% majority stake of Research Support International Private Limited (RSIPL), Thane, India, on 31 August 2009 and a 99.4% share in DeveloGen AG (DeveloGen) on 3 September 2010.

Consequently, the operating results of RSIPL are included in the accompanying consolidated income statement for the entire year ended 31 December 2010 and, in 2009, for the period from 1 September 2009 through 31 December 2009. The operating results of DeveloGen are included in the consolidated income statement for the year ended 31 December 2010 for the period from 3 September 2010 through 31 December 2010. The assets and liabilities of DeveloGen are included in the accompanying consolidated statement of financial position at 31 December 2010.

For further discussion on the DeveloGen acquisition and selected pro-forma financial results see Note 3 of the Consolidated Financial Statements.

Condensed Income Statement

		2009	**2010**
Revenues	T€	42,683	**55,262**
Gross margin	%	43.2	**44.1**
— R&D expenses	T€	20,947	**6,116**
— SG&A expenses	T€	16,695	**15,956**
— Amortisation and impairment	T€	18,293	**672**
— Restructuring expenses	T€	4,849	**0**
— Other operating expenses (income)	T€	(64)	**(113)**
Operating income (loss)	T€	(42,299)	**1,715**
Net income (loss) total	T€	**(45,497)**	**2,985**

COMPARISON OF 2010 FINANCIAL RESULTS WITH FORECAST

ORIGINAL TARGETS EXCEEDED

Evotec's financial guidance for the full year 2010, as stated in the 'Outlook' of the 2009 annual report, was for total Group revenues before out-licensing income to grow by at least 15%. R&D expenses were expected to decrease significantly to below € 10 m. Liquidity (cash and investments) was targeted to exceed € 60 m at the end of 2010.

Evotec increased its revenue target at the time of its second quarter reporting to total Group revenues of € 52 m to € 54 m and adjusted the anticipated annual R&D expenses to less than € 8 m at the beginning of the fourth quarter 2010.

Evotec increased its liquidity guidance with the first quarter reporting to above € 64 m and repeatedly confirmed this liquidity guidance despite the DeveloGen acquisition and the cash requirements in DeveloGen of € 2 m triggered by this acquisition.

Evotec ended the year with a very successful financial performance compared to guidance. The final results for the fiscal year 2010 were € 55.3 m of revenues, € 6.1 m of R&D expenses and € 70.4 m of liquidity. The revised guidance was fully achieved and the original financial objectives (as stated in the 'Outlook' of the 2009 annual report) were exceeded by a significant margin. The operating result of € 1.7 m was positive for the first time in the history of the Company.

RESULTS OF OPERATIONS

REVENUES
STRONG PERFORMANCE ON THE BACK OF MAJOR RESEARCH ALLIANCES

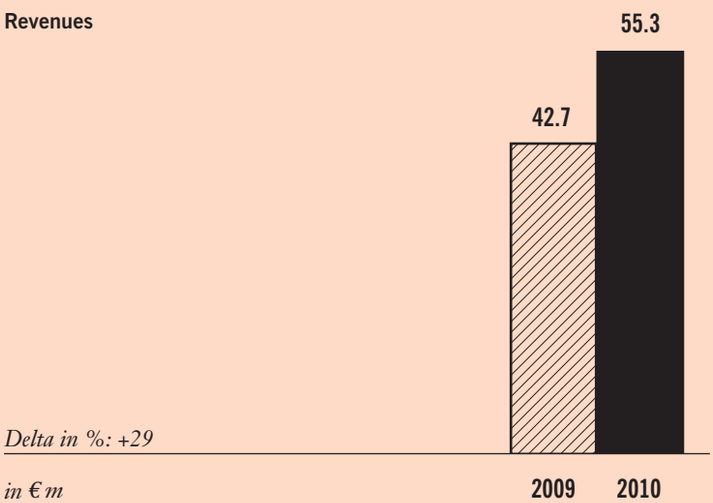
Evotec Group revenues amounted to € 55.3 m, 29% above last year's level (2009: € 42.7 m). This was due to a strong performance of the Company's discovery alliances, significant milestone achievements, stable license and upfront income, additional revenues from the acquisition

Performance against Forecasts

	Forecast March '10	Forecast May '10	Forecast Aug '10	Forecast Nov '10	**Final Results**
Revenues	€48-50m	€48-50m	€52-54m	€52-54m	**€55.3m**
R&D expenses	< €10m	<€10m	<€10m	€6 - 8m	**€6.1m**
Operating result before impairm./restruct.	Improved over 2009	Improved over 2009	Improved over 2009	Improved over 2009	**Improved over 2009: €1.7m**
Liquidity	> €60m	>€64m	>€64m	>€64m	**€70.4m**

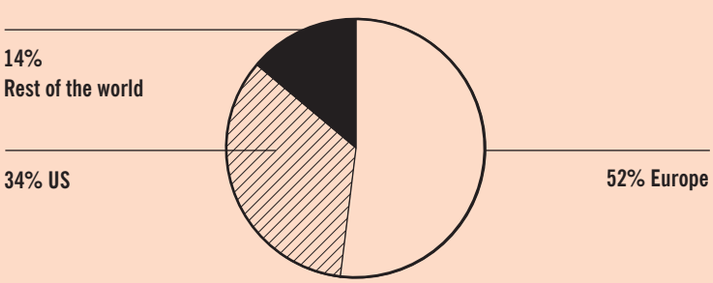
of DeveloGen (€ 0.8 m) and the full-year impact from the acquisition of the RSIPL business on 31 August 2009. The achievement of four milestones from Boehringer Ingelheim in 2010, amounting to € 9.0 m (2009: € 4.0 m), highlights the continued solid progress that was made in several research programmes with our partner. Key collaborations were announced in 2010 with Merck KGaA, Vifor Pharma, Genentech, Apeiron Biologics, Cubist Pharmaceuticals, Active Biotech, Shionogi and Almirall. In addition, the Company agreed to a three-year extension of its collaboration with CHDI through to the end of 2012 and, in December 2010, entered into a license and collaboration agreement in metabolic disease with MedImmune. Through these alliances the Company further strengthened its customer and revenue base and improved the foundation for future growth.

Revenues



The geographical spread of revenues for the Group continues to be focused on Europe, the US and Japan which remain the main markets for Evotec's products and services. The Evotec Group recorded 52% of its revenues in Europe, 34% in the United States and 14% in Japan and the rest of the world. This compares to 49%, 37% and 14% in 2009. All regions increased in total amounts. The percentage increase in Europe results from the higher portion of milestones from the Boehringer Ingelheim collaboration.

Revenues by region



Currency effects had a favourable impact of € 1.4 m on reported revenues for 2010 compared to 2009 primarily due to the fact that on average the US Dollar was stronger versus the Euro in 2010 compared to 2009.

COSTS OF REVENUE
INCREASE IN LINE WITH REVENUES

Costs associated with the Group's revenues include the cost of personnel directly associated with revenue generating projects, facilities and overhead used to support those projects and materials consumed in the provision of the product or service. The relative significance of these cost types varies with the service or product provided – for example, laboratory based projects require higher personnel cost but may require smaller quantities of materials, whereas screening projects involve lower personnel cost but higher relative facility and material costs.

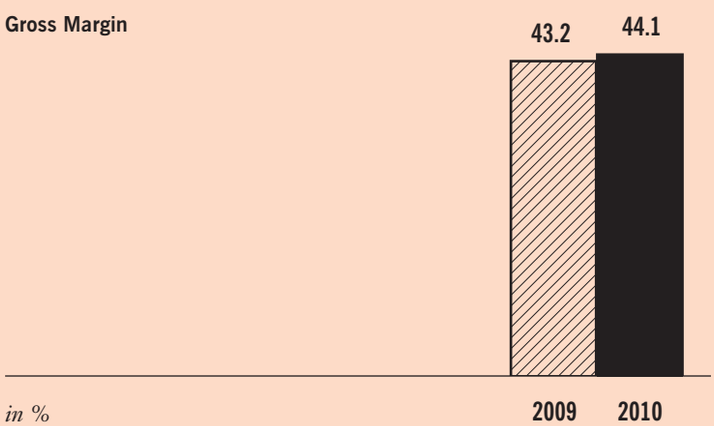
Costs of revenue increased by 27% to € 30.9 m (2009: € 24.3 m), this is slightly below the rate of increase in revenues of 30%. The mix of services provided in 2010 saw a trend towards more biology based business at a higher cost. In line with Evotec's business model, the Company entered into further research contracts which have an element of back-loaded milestones. This trend offset cost benefits from the operations in Thane, India, where Evotec made good progress to bring the site to full capacity utilisation during 2010.

GROSS MARGIN
STABLE AT A HIGH LEVEL

The gross margin for the Group increased in 2010 by 0.9%-points to 44.1% (2009: 43.2%). This improvement was primarily due to an increase in milestone payments from Boehringer Ingelheim of € 5.0 m in 2010 compared to 2009.

Gross margins in the future may continue to be volatile and significantly depend on the receipt of milestones or out-licensing payments.

Gross Margin



RESEARCH & DEVELOPMENT EXPENSES
EARLIER PARTNERING AND FOCUS ON CORE PROGRAMMES

R&D expenditure decreased as planned in 2010 to € 6.1 m (2009: € 20.9 m). This reduction is mainly a consequence of earlier partnering, focusing R&D spending on fewer core programmes and reducing the number of unfunded research and development projects. It now reflects the full-year impact of the decision that was taken in May 2009 to close the Renovis site in the US.

Evotec signed important development partnerships to externally fund of a number of its core assets. The partnership with Roche on the EVT 100 compound series, signed in March 2009, is a good example of an alliance that allows Evotec to de-risk but keep some portion of the upside of its current clinical assets as Roche is paying for the entire clinical development programme. The same is true for EVT 201 which was partnered with Jingxin Pharma in October 2010 for development and marketing in China. For EVT 501, Evotec receives external funding from the BMBF that helps the Company to advance the programme through Phase I clinical studies.

R&D Expenses

Evotec's clear focus and increased funding from partners led to a significant decrease in the Company's clinical development expenses although good progress has been achieved during the year. Clinical development activities in 2010 were primarily focused on advancing Evotec's EVT 100 compound series and the EVT 501 programme. The majority of the Company's reported R&D expenses were spent on selected early discovery projects. These projects were developed according to plan, primarily focusing on delivering compounds to the clinical pipeline in future years and preparing selected programmes for partnering. Internal discovery accounted for approximately 29 % of total R&D spending, R&D to support specific platform technologies accounted for 14 % of the R&D expenses. Platform R&D was focused on further development of high content screening, fragment-based screening and novel computational methods for drug discovery. Furthermore 39%, summarised as overhead expenses, consisted of patent costs as well as the costs for managing the clinical development of EVT 100 and EVT 501 and the early discovery programmes (see table below).

R&D Expenses by Categories

in T€	2009	2010
EVT 100 family	1,349	217
EVT 201	62	72
EVT 302	1,990	-152
EVT 401 (P2X7)	2,673	0
EVT 501 (H3)	2,391	896
Discovery projects *	8,504	1,804
Platform R&D	1,562	868
Overhead expenses	2,416	2,411
Total	**20,947**	**6,116**

** Discovery projects are those that have not reached the clinical phase*

SELLING, GENERAL & ADMINISTRATIVE EXPENSES
DECREASE IN THE CONTEXT OF EVOTEC'S ACTION PLAN TO 'FOCUS AND GROW'

Selling, general & administrative (SG&A) expenses of the Group decreased by 4% to € 16.0 m in 2010 (2009: € 16.7 m). Higher SG&A costs resulted from the acquisition of DeveloGen and the full-year impact of RSIPL as well as the strengthening of the Business Development team. However, this increase was more than offset by the reduction caused by the site closure of Renovis, Inc. in May 2009. As of 31 December 2010, headcount in SG&A was 4 FTE's higher than at the same time in the previous year and was primarily due to the acquisition of DeveloGen.

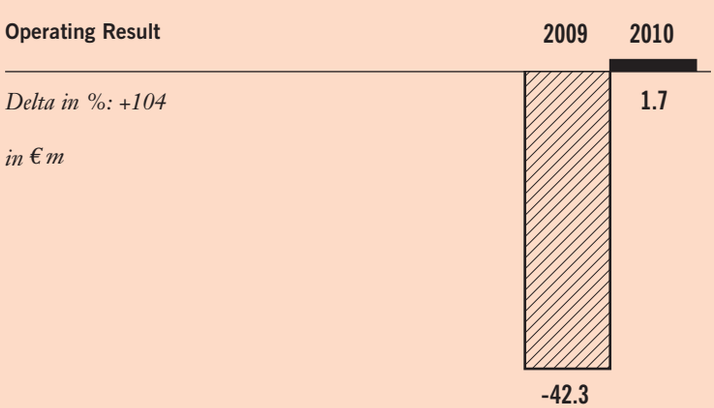
SG&A Expenses

No impairment or restructuring charges were recorded in 2010. In 2009, impairment charges of € 18.2 m were recorded and restructuring charges of € 4.8 m were incurred. The restructuring costs in 2009 were due to the implementation of the 'Evotec 2012 – Action Plan to Focus and Grow'. The impairment costs in 2009 were the result of the impairment review which is performed regularly on the annual designated test date or as a consequence of triggering events.
Other operating income and expenses in 2010 primarily include the costs and reimbursed expenditures for clinical studies on EVT101 and EVT103 under the agreement with Roche. Furthermore, it includes the sublease of facilities and administrative support services rendered to PerkinElmer Cellular Technologies and the European Screening-Port GmbH with a small positive contribution.

OPERATING RESULT
FIRST OPERATING PROFIT RECORDED IN THE HISTORY OF THE COMPANY

Due to a strong top-line performance and a tightly managed cost base, Evotec recorded its first ever full year operating profit of € 1.7 m compared to an operating loss of € 42.3 m in 2009. The operating loss in 2009 included impairments and restructuring charges of € 23.0 m.

Operating Result



NET RESULT
VARIOUS EXCEPTIONAL EFFECTS IN BOTH YEARS

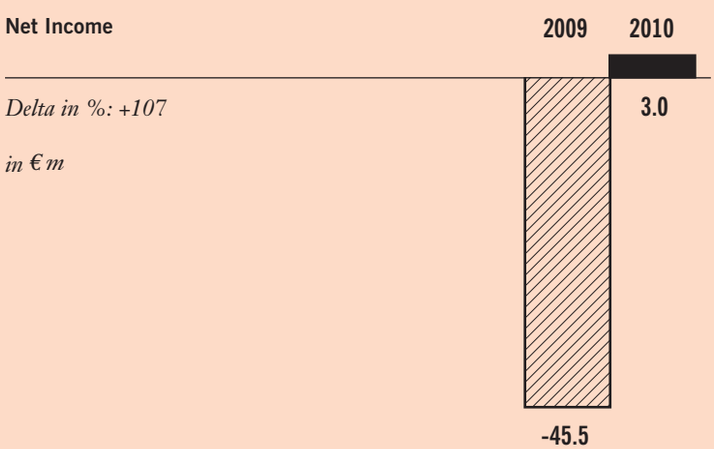
Net profit of the Evotec Group improved significantly in 2010 and was positive for the first time in the history of the company with € 3.0 m (2009: net loss € 45.5 m).

After allocation of non-controlling interest, net profit attributable to the shareholders of Evotec amounted to € 3.3m (2009: net loss € 45.5 m).

The total non-operating result of € 2.2 m income (2009: expense € 2.5 m) increased due to a number of exceptional effects in both years.

The sale of the auction rate securities in June 2010 resulted in other income from financial assets of € 1.0 m which was offset by the realisation of the put-option for auction rate securities (€ 0.6 m). In addition, € 0.2 m other non-operating expense from financial assets were caused by the revaluation of money-market funds. In 2009, "Other expense from financial assets" was negatively impacted by the devaluation of the put option for auction rate securities (€ 1.2 m), and other non-operating expense of € 1.0 m was recorded mainly due to a write down of a loan to European ScreeningPort GmbH. In 2010 a further loan to the European ScreeningPort in the amount of € 0.4 m had to be written down. Net interest expense in 2010 amounted to € 0.6 m (2009: income of € 0.1 m). The contingent consideration for the provision for the earn out, which is related to the DeveloGen acquisition, caused interest expense of € 0.4m due to the unwind of the discount since the acquisition date. Additionally, 2010 observed very low market interest rates.

Evotec recorded a foreign exchange gain of € 2.7 m in 2010. As a result of the reduction in the capital reserve of one subsidiary, paid to Evotec AG in 2010, the Company recognised a foreign exchange gain of € 3.5 m in accordance with IAS 21. In 2009 the Company recognised a foreign exchange loss of € 1.6 m as a result of the repayment of share capital related to the investment in Evotec (UK) Ltd, which was previously recorded as a component of equity and reclassified into the Company's income statement. In addition, as explained in the 'Risks' section, the Company enters into foreign exchange hedging contracts to provide predictability for parts of its revenues. With the volatility of foreign exchange markets and the duration of the revenue streams that are being protected, realised and unrealised gains or losses are experienced during the year.



Evotec incurred income tax of € 0.7 m in 2010 mainly due to taxable income in the Evotec NeuroSciences GmbH. The 2009 income tax (€ 0.4 m) related mainly to exceptional taxable income in Evotec AG. In addition, deferred tax expenses for 2010 amounted to € 0.2 m (2009: € 0.3 m).

This translates into a total net income per share for Evotec of € 0.03 (2009: net loss € 0.43) based on a weighted average number of shares of 109,012,908 (2009: 106,845,831).

FINANCING AND FINANCIAL POSITION

FINANCIAL MANAGEMENT PRINCIPLES

Evotec manages its financial resources to support its strategy of providing integrated and innovative drug discovery solutions and alliances to the pharmaceutical and biotechnology industry. When appropriate, the Company takes advantage of selected bank debt offerings and has historically raised capital through the issuance of new shares. Evotec attempts to maintain a high and stable level of liquidity to finance its expanding drug discovery alliance business and to fund proprietary R&D if deemed necessary to kick-start such alliances. Apart from bank debt, the Company has no major long-term financial obligations or liabilities.

Capital expenditure proposals are carefully evaluated by management to ensure that they relate to business strategy, by either maintaining or enhancing the Company's technology platforms and its proprietary research. The Company adheres to the principle of cost consciousness without compromising on long-term viability.

CASH FLOW
SIGNIFICANT IMPROVEMENT OF OPERATING CASH FLOW

Group cash flow provided by operating activities improved significantly in 2010 compared to prior year. It was slightly positive at € 0.9 m (2009: € (21.9) m). This is the result of the Company's successful turnaround that was begun in 2009 and continued into 2010.

Cash flow used in investing activities was € (9.9) m (2009: € (2.1) m) and resulted primarily from the sale and purchase of investment securities (€ (20.1) m) as well as the sale of auction rate securities (€ 11.4 m). These transactions led to a reclassification between cash and investments and had no impact on the overall liquidity of Evotec. With the purchase of DeveloGen AG € 1.2 m cash was acquired. Capital expenditures in 2010 amounted to € 2.4 m and related mainly to laboratory equipment.

1) *Without finance leases*

Net cash flow used in financing activities amounted to € (3.4) m (2009: € 1.5 m) and related mainly to repayments of bank loans.

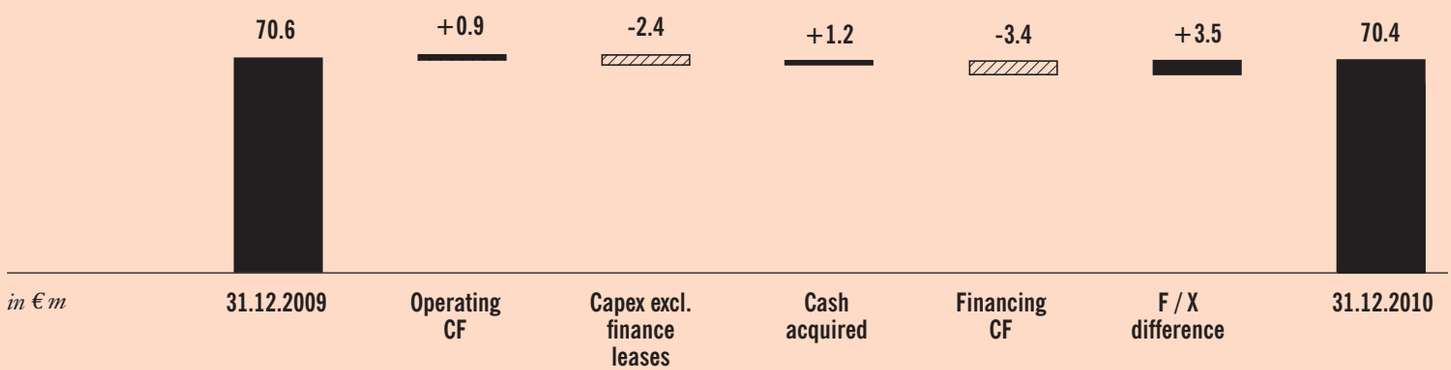
The impact of exchange rate movements on the net increase in cash and cash equivalents in 2010 was € 0.5 m.

Condensed Statement of Cash Flows

in T€	2009	2010
Net cash provided by (used in)		
— Operating activities	(21,853)	**899**
— Investing activities	(2,077)	**(9,877)**
— Financing activities	1,520	**(3,367)**
Net increase/decrease in cash and cash equivalents	**(22,410)**	**(12,345)**
Exchange rate difference	272	**510**
Cash and cash equivalents		
— At beginning of year	55,064	**32,926**
— **At end of year**	**32,926**	**21,091**
— Investments	28,432	**49,310**
— Auction rate securities	9,236	**-**
Liquidity at end of year	**70,594**	**70,401**

The year-on-year change in liquidity at year end can be summarised as follows:

Liquidity Development



LIQUIDITY AND HEDGING
STRONG LIQUIDITY OF € 70 M MAINTAINED

Evotec ended 2010 with a liquidity of € 70.4 m (2009: € 70.6 m, including auction rate securities) which is composed of cash and cash equivalents (€ 21.1 m) and of investments (€ 49.3 m). Cash and cash equivalents as well as short-term investments can all be accessed within a period of less than three months.

The following is a historic trend of the Company's year-end liquidity:

Liquidity as of 31 December

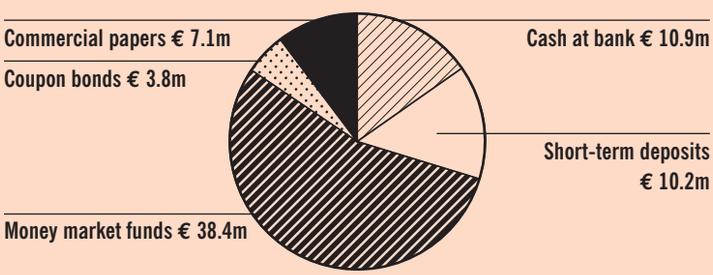
	2006	2007	2008	2009	2010
Cash and cash equivalents	58,196	37,991	55,064	32,926	**21,091**
Short-term investments	20,527	55,685	29,034	25,432	**46,303**
Long-term financial investments	0	0	8,303[1)]	12,236[1)]	**3,007**
Total liquidity	**78,723**	**93,676**	**92,401**	**70,594**	**70,401**

[1)] *Incl. auction rate securities*

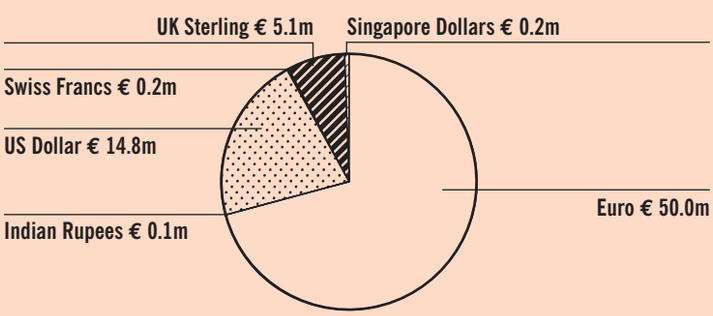
Deposits are primarily held in the three major currencies in which the Group trades – Euro, UK Sterling and US Dollar (see pie chart below). In 2010, approximately 36% of the Company's revenues were generated in US Dollar and approximately 65% of its cost of goods sold was in UK Sterling. The primary risk exposure of the Group relates to these two currencies. With the closure of Renovis, Evotec lost its opportunity for natural hedges of the US Dollar. Evotec therefore uses forward contracts and spot transactions to convert US Dollar to UK Sterling to address this risk. During the year, Evotec reduced its currency holdings in US Dollar from € 29.0 m at the end of 2009 to € 14.8 m at the end of 2010. The currency holdings in UK Sterling, Indian Rupee, Singapore Dollar and Swiss Francs were kept at a low level with the objective to have sufficient available cash to meet short-term local operating needs.

Evotec actively manages its funds to maximize the return while seeking to maintain principal preservation and liquidity. Evotec's cash and investments are held at several different banks. Financial investments are made only in liquid instruments in low risk products or financial institutions rated A or better (Standard & Poor's ratings or equivalent).

Liquidity by Investment Type



Functional Currency Holdings



A CONTINUED CHALLENGING CASH MANAGEMENT ENVIRONMENT

The Evotec Group is exposed to both translational and transactional foreign currency risk.

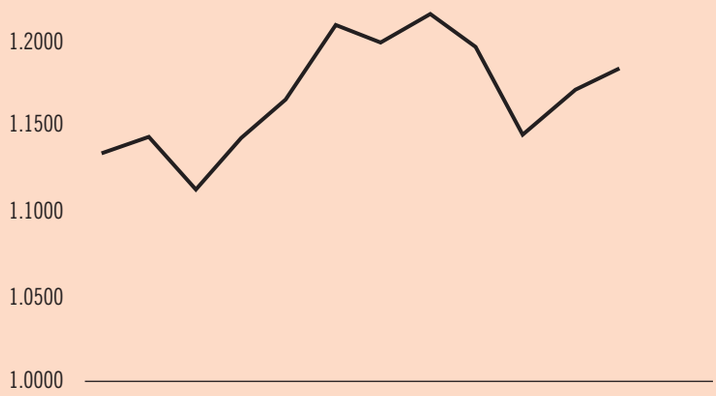
The translational foreign currency risk is the exchange rate risk associated with companies that deal in foreign currencies or list foreign assets on their balance sheets. Evotec's translation exposure primarily relates to the conversion of the income statements and balance sheets of its UK and Indian based subsidiaries as well of its US based subsidiaries into the reporting currency Euro. The subsidiaries have a UK Sterling, Indian Rupee and US Dollar denominated cost and asset base, respectively. The Company does not use financial instruments to hedge its translation exposures. The cash translation exposure in UK sterling is justified and mitigated by anticipated future costs denominated in UK Sterling.

Transactional risk is the exchange rate risk associated with the time delay between entering into a contract and settling it. Operating units are exposed to transactional risks arising from revenues and expenses denominated in currencies other than those of the local currency. The foreign exchange gain or loss shown in the Financial Statements is derived from the 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 recalculated into local currency at the balance sheet date, and fair value adjustments relating to financial instruments held. The company uses forward contracts to hedge its transaction exposures.

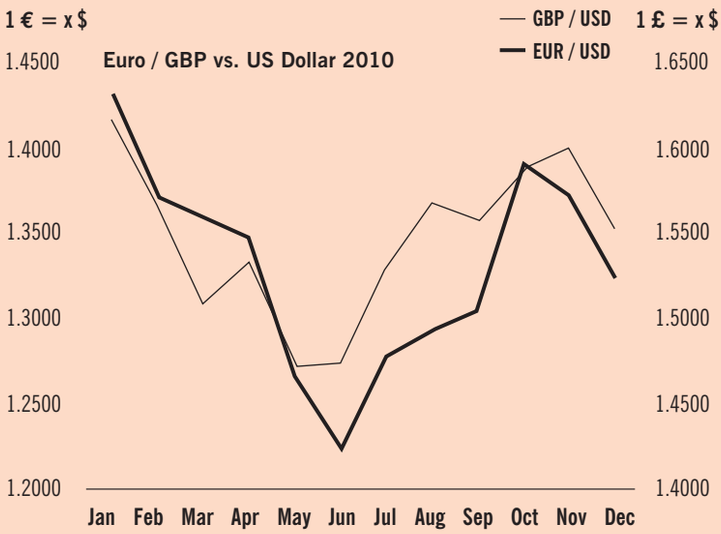
In the first quarter of 2010, the US Dollar strengthened against the Euro in comparison with the 31 December 2009 exchange rate. However, from June onwards it weakened significantly. On average, the US Dollar was stronger in 2010 in comparison to 2009. This had a positive impact on 2010 revenues of slightly above € 1.0 m. The UK Sterling strengthened against the Euro during 2010 in comparison with prior year which negatively affected the cost base of the UK operations. In total, gross margin in 2010 dropped by 0.5% points due to FX movements. To protect against adverse currency movements, the Company entered into forward contracts, selling US Dollars against UK Sterling.

1 £ = x €

1.2500 **GBP vs. Euro 2010**



Average monthly foreign exchange rates; Source: www.oanda.com



Average monthly foreign exchange rates; Source: www.oanda.com

The notional amounts of currency related derivative financial instruments held at 31 December 2010 were $ 12.0 m (2009: $ 0.0 m). These were exclusively forward contracts selling US Dollar for UK Sterling, all with a maturity of less than 12 months.

As a tool to manage short-term and medium-term liquidity, the Company makes use of short- and long-term bank loans. The sum of debt instruments – including both long-term and current portions – during 2010 was reduced by € 1.2 m to € 12.0 m at 31 December 2010 (2009: € 13.2 m). The currency of these year-end debt positions were € 10.3 m in Euro, € 12 thousand in UK Sterling and € 1.7 m in Indian Rupees (2009: € 11.7 m in Euro, € 8 thousand in UK Sterling and € 1.5 m in Indian Rupees respectively).

ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY

CAPITAL STRUCTURE
CAPITAL INCREASE WITH THE ACQUISITION OF DEVELOGEN IN SEPTEMBER 2010

In 2010, Evotec's Group structure changed through the acquisition of DeveloGen, a biopharmaceutical company engaged in the discovery of novel therapeutic approaches for the treatment of metabolic and endocrine disorders (for more information see Operations and Business Environment, Significant Corporate Development Events on page 26 of this Management Report). As a consequence, Evotec's share capital increased to € 115.6 m (2009: € 108.8 m) due to the fact that the acquisition of DeveloGen was financed primarily from authorised capital. In addition, total equity increased to € 132.6 m (2009: € 111.5 m) primarily due to the acquisition.

7,000 shares were issued for Evotec employee stock option plans during the year ended 31 December 2010 (2009: 0 shares). No shares were issued in respect of Management Board options in either period.

Evotec's equity ratio continued to be strong, amounting to 69.1% (2009: 76.0%).

ASSETS AND LIABILITIES
INCREASE IN TOTAL ASSETS DUE TO THE DEVELOGEN ACQUISITION

The Company's total assets increased by € 45.3 m to € 191.9 m as of 31 December 2010 (31 December 2009: € 146.6 m). This is primarily due to the assets and liabilities acquired as a result of the DeveloGen transaction.

Current assets as of 31 December 2010 increased by € 17.7 m to € 86.7 m (31 December 2009: € 69.0 m) primarily due to increased trade accounts receivables and the sale of auction rate securities in June 2010 and the related reclassification of € 11.4 m from non-current to current assets. Trade accounts receivables were extraordinarily high at 31 December 2010 because the MedImmune upfront payment was invoiced in December but not yet received. The auction rate securities were classified as long-term investments last year.

Property, plant and equipment decreased by € 0.7 m to € 18.5 m in 2010 (31 December 2009: € 19.2 m) as capital investments were lower than depreciation.

Goodwill and intangibles increased by € 38.0 m to € 83.6 m (31 December 2009: € 45.6 m). With the acquisition of DeveloGen's intangible assets of € 28.9 m relating to customer lists of € 1.5 m and to developed technologies of € 27.4 m and goodwill of € 8.5 m were added.

In 2010, current liabilities increased by € 6.4 m to € 32.8 m (31 December 2009: € 26.4 m) as a result of an increase in deferred revenues, advanced payments, provisions as well as trade accounts payable. Deferred revenues increased due to the short-term portion of the MedImmune upfront revenue which is phased over 24 months. The increase in provisions resulted from the short-term portion of the DeveloGen earn out. Trade accounts payable increased mainly as a result of accrued outstanding invoices for clinical trials for the EVT 100 series which will be reimbursed by Roche.

Total non-current liabilities increased by € 17.7 m to € 26.4 m at 31 December 2010 (31 December 2009: € 8.7 m). The increase primarily resulted from provisions and deferred tax liabilities related to the DeveloGen acquisition. The increase in provisions (€ 11.9 m) relates to the earn-out component, the increase in deferred tax liabilities (€ 4.7 m) from the purchase price allocation from this acquisition. Furthermore deferred revenues increased by € 1.5 m which is linked to the long-term portion of the upfront payment for the beta cell agreement from MedImmune and for the EVT 100 compound series from Roche.

Condensed Statement of Financial Position

in T€	2009	2010
Cash, cash equivalents and investments	58,358	67,394
Trade accounts receivables	4,510	11,869
Inventories	2,425	2,819
Other current assets	3,664	4,610
Property, plant and equipment	19,162	18,487
Intangible assets and goodwill	45,567	83,594
Other non-current assets [1]	12,913	3,086
Total assets	**146,599**	**191,859**
Trade accounts payable	5,235	6,980
Current provisions	4,858	6,656
Other current liabilities	16,352	19,166
Long-term liabilities	6,690	19,760
Deferred tax liabilities	1,977	6,660
Total stockholders' equity	111,487	132,637
Total liabilities and stockholders' equity	**146,599**	**191,859**

[1] 2009 including auction rate securities

Working Capital Calculation

in T€	2009[2]	2010[2]
Trade accounts receivables	4,510	11,869
Inventories	2,425	2,819
Other current assets	3,664	4,610
Assets	**10,599**	**19,298**
Trade accounts payable	5,235	6,980
Current provisions	4,858	6,656
Other current liabilities[1]	7,036	10,701
Liabilities	17,129	24,337
Working Capital	(6,530)	(5,039)
Δ Working Capital		1,491

[1] Excluding loans and finance leases

[2] 2009: Incl. acquired RSIPL assets
2010: Incl. acquired DeveloGen assets

OFF-BALANCE-SHEET FINANCING INSTRUMENTS

The Company is not involved in any off-balance sheet financing instruments in the sense of the sale of receivables, asset-backed securities, sale and lease back transactions or contingent liabilities in relation to special purpose entities not consolidated. Evotec only has operating leases in respect of, for example, IT equipment and company vehicles. These instruments have no material impact on the economic position of the Company.

IMPAIRMENT REVIEW

The Company performed its annual regular review of tangible and intangible assets for potential impairment in accordance with IFRS during the final quarter of 2010. No impairment was deemed necessary.

SUSTAINABILITY REPORT

SUSTAINABLE DEVELOPMENT KEY PERFORMANCE INDICATORS (SD-KPIS)

SD-KPI 1: QUALITY OF DRUG DISCOVERY SOLUTIONS AND PERFORMANCE IN DISCOVERY ALLIANCES

With a strong focus on discovery alliances with pharma and biotech companies probably the most important performance indicator for Evotec is its quality of drug discovery solutions and performance in discovery alliances. Evotec progresses alliances based on its broad range of integrated capabilities spanning the whole drug discovery process. Defining and following standards that always aim to be best-in-class is most important for Evotec, as the Company's goal is to accelerate the drug discovery process with the best possible tools available. Consequently, Evotec is continually upgrading its technology base and enhancing its offering to partners by investing into its technology platform through internal R&D activities, entering into technology agreements with other companies and through the acquisition of assets. For more detail see the chapter Research & Development on page 29 of this Management Report. Only the best and most advanced technologies combined with the highest **quality of drug discovery solutions,** are the standards by which Evotec wishes to constantly deliver to its partners.

There are different parameters to measure **performance** in discovery alliances. The number and growth of alliances and the status of the Company's sales and order book are definitely good indicators for customer satisfaction with Evotec's offering. During its 17 years of history Evotec has continued to deliver excellent results in existing programmes and expanded its customer base and global network of partnerships. The Company is now working with more than 70 pharma and biotech companies on a global scale. In 2010, new collaborations were announced with Merck KGaA, Vifor Pharma, Genentech, Apeiron Biologics, Active Biotech, Shionogi, Beiersdorf, Epizyme and MedImmune, and contract extensions signed with CHDI, Cubist Pharmaceuticals, Ono Pharmaceutical, Boehringer Ingelheim, Cardioxyl and Epitherapeutics. With these deals the Company further strengthened its customer and revenue base and improved the foundation for future growth.

Tab.1 Alliances

	2008	2009	**2010**
Number of alliances	58	76	**72**
Growth in %		*31*	***-5***
New business during the year	21	29	**22**
Growth in %		*38*	***-24***

At least equally important than the number of new collaborations and contract extensions is the further strategic development of Evotec's existing core alliances. The Company aims to strategically develop its large strategic alliances and deliver innovation as the core of all its partnering activities as Evotec, with its fully integrated drug discovery process, is uniquely positioned to execute a comprehensive outsourcing strategy. In 2010, revenues in Evotec's TOP 10 alliances grew by 34%, with Evotec's TOP 1 customer Boehringer Ingelheim by 72% due to significant milestone achievements.

Tab.2 Revenues TOP 10 alliances

in k €	2008	2009	**2010**
TOP 1: Boehringer Ingelheim	12,558	7,988	**13,754**
TOP 2: CHDI	8,285	9,090	**9,211**
TOP 3: Roche	1,461	5,610	**6,208**
TOP 4 – 10	10,078	11,998	**17,457**
Total TOP 10 revenues	**32,382**	**34,686**	**46,630**
Growth in %		*7*	***34***

In 2011, the Company's sales and order book as of January increased significantly by 42% compared to the same period of the prior year (see Corporate Performance Measures, Objectives and Strategy on page 28 of this Management Report).

During the past three years, no services were recalled and there were neither fines nor settlement payments due related to litigation.

SD-KPI 2: RESEARCH & DEVELOPMENT PERFORMANCE

As a company developing novel pharmaceutical drug compounds, performance in R&D is obviously a second key performance indicator. Evotec's R&D expenditure decreased considerably over the past three years. This reduction was initially the consequence of implementing Evotec's Action Plan 2012, focusing R&D spending on fewer core programmes and reducing the number of unfunded research and development projects, specially reducing the significant risk of conducting expensive clinical trials without external support.

In line with this strategy, Evotec focused on signing development partnerships to externally fund a number of its core assets. They allow Evotec to de-risk but keep some portion of the upside of its current clinical assets. The partnership with Roche on the EVT 100 compound series, signed in March 2009, is a good example of such an alliance as Roche is paying for the entire clinical development programme. As a consequence, the Company's clinical development expenses decreased

significantly over the past years and the majority of the Company's reported R&D expenses were now spent on selected early discovery projects. These projects were developed according to plan, primarily focusing on delivering compounds to the clinical pipeline in future years and preparing selected programmes for partnering.

Tab.3 Total R&D

in k €	2008	2009	**2010**
Clinical	20,796	6,074	**1,033**
Discovery	16,411	10,895	**1,804**
Platform R&D	1,918	1,562	**868**
Overhead R&D	3,412	2,416	**2,411**
Total R&D	42,537	20,947	**6,116**
Funded R&D	20	2,846	**3,878**

Evotec's clinical programmes are now almost exclusively developed in partnerships with pharmaceutical companies who fund their development. Good progress has been achieved during the year, and the number of compounds in clinical trials increased compared to 2009. In 2010, Evotec's insomnia drug candidate EVT 201 was partnered with Jingxin Pharma for development and marketing in China, one compound to treat neuropathic pain progressed into the clinic within Evotec's collaboration with Boehringer Ingelheim, and Evotec acquired the diabetes candidate Diapep277 partnered with Andromeda/Teva through its acquisition of DeveloGen. EVT 501, Evotec's drug candidate to treat conditions such as narcolepsy and cognitive impairment is close to move into the clinic. Evotec receives external funding from the BMBF that helps the Company to advance the programme through Phase I studies.

For the description of research programmes and trials conducted during the year 2010 and clinical progress achieved please see chapter Research & Development on page 29 of this Management Report.

Compounds	2008	2009	**2010**
Clinical	EVT 101	EVT 101	EVT 101
	EVT 201	EVT 103	EVT 103
	EVT 302	EVT 201	EVT 201
	EVT 401	EVT 302	EVT 401
	VR1 (Pfizer)	EVT 401	DiaPep277
		VR1 (Pfizer)	CB2 (BI Collaboration)
Preclinical	EVT 103		EVT 501
			VR1 (Pfizer)
Lead-	EVT 501	EVT 501	P2X3
Optimisation	B1	P2X3	Insulin Sensitizer
		B1	EVT 770

OTHER SUSTAINABLE DEVELOPMENT INDICATORS

INTELLECTUAL PROPERTY

Evotec actively manages its own patent portfolio from the very early stage of an invention. The Company seeks, when appropriate, patent protection for its technologies, product candidates and other proprietary information.

Evotec reviews its patent portfolio regularly and decides whether to maintain or withdraw its patent applications and patents based on the importance of such intellectual property for its strategy. As of 31 December 2010, Evotec had more than 125 patent and utility model families under its full control. All of these are on file or pending through national and/or foreign applications such as patent applications filed under the Patent Cooperation Treaty or applications filed with the United States Patent Office, the European Patent Office or the Japanese Patent Office.

Supporting its discovery alliance business, Evotec owns a patent estate for detection and other platform technologies. Furthermore, Evotec has developed a number of biological assays, e.g. methods to measure the chemical or biological activity of any combination of targets and compounds which are patent protected.

Evotec also pursues selected own discovery projects and thereby has a pipeline of drug candidates that have the potential to provide compounds for partnering. With this in mind, Evotec monitors the research activities and results of in-house research in order to identify potentially patentable drug candidate series. Numerous patent applications have been filed so far for such series. In addition, pursuant to agreements with Roche, Evotec has exclusively in-licensed several drug candidates, including the EVT 100 compound family, EVT 201 and EVT 302. These are protected by diverse composition of matter patent families as well as their therapeutic use in major countries worldwide.

Furthermore, with its deep knowledge in CNS-related diseases, Evotec has established a solid position in the identification and validation of molecular targets involved in Alzheimer's disease and other neurodegenerative diseases. Over the past few years, Evotec has built a patent portfolio that covers the use of such targets for diagnostic and drug discovery purposes.

The acquisition of DeveloGen, a biopharmaceutical company engaged in the discovery of novel therapeutic approaches for the treatment of metabolic and endocrine disorders, added key metabolic disease know-how and complementary drug discovery expertise to the Evotec Group. DeveloGen has patent protected biological factors relevant for the regeneration of insulin producing beta cells and their corresponding use for the treatment of diabetes. Additional patent families are directed to the use of further targets and modulators as well as screening procedures for metabolic disorders.

SOCIAL RESPONSIBILITY

The whole business purpose of what Evotec does is directed to improving the lives of millions of patients suffering from serious diseases where no cure is available today. In addition, Evotec is acting socially responsible and for example supporting charities to the extent possible for a company of that size.

EVOTEC FOCUSES ON SOCIAL RESPONSIBLE PRODUCTS WITH A CLEAR BENEFIT FOR THE SOCIETY

Evotec's core focus is to identify novel molecules for clinical testing that have the potential to provide new safe and effective treatments for diseases where current medicines are not satisfactory for some or all patients. Evotec is applying its scientific expertise and know how together with partners to develop potential medicines for many different indications that could ultimately improve treatment options to benefit millions of people. Several examples of Evotec's efforts in different areas are given below.

Evotec's collaboration with Roche on EVT 100 compound family for treatment resistant depression
It is estimated that 30-50 % of patients suffer from depression that does not adequately respond to treatment with current agents. There is a need for medicines with new mechanisms of action to provide new treatment options that can help these patients. The EVT 100 compound family represents a new treatment approach which is currently being tested for its potential to relieve symptoms of depression in such patients.

Development of a novel potential treatment for neuropathic pain
From its collaboration with Evotec, in May 2010, Boehringer Ingelheim selected a novel molecule to move into clinical trials for the potential treatment of neuropathic pain. Neuropathic pain is very poorly treated with current pain medications. The development of an effective drug therapy for chronic neuropathic pain was identified by Decision Resources* as the most important unmet need in pain therapy. The collaboration with Boehringer Ingelheim has now expanded into oncology.

Targeting disease progression in diabetes with MedImmune
The acquisition of DeveloGen in September 2010 brought expertise in metabolic disease such as diabetes. In December 2010, a collaboration based on DeveloGen technology was signed with MedImmune. The aim of this collaboration is to develop cellular factors that can restore the function of beta cells that is lost in both Type I and Type II diabetes. Such an approach has the potential to halt or even reverse the progression of the disease, in contrast to existing agents that simply control the symptoms. This represents an important aim that has the potential for a major impact on health. According to the World Health Organisation, more than 220 million people worldwide have diabetes and it is the cause of around 5% of deaths globally each year.

** Specific reference: Decision Resources Pain Management Study, Chronic Pain, September 2009*

EVOTEC IS DEDICATED TO CHARITY RUNS, SOCIAL SPONSORING AND SIMILAR

Evotec's subsidiary Evotec (UK) Ltd, for example, supports one charity per year; the charity is chosen by an all employee vote in December. In 2010, the chosen charity was a local children's hospice, Helen and Douglas House. Some employees even volunteered to work there during their holidays from Evotec. Throughout the year, various fund raising events take place – cake sales, raffles and even one off donations from employees who have done sponsored walks or parachute jumps in aid of the charity. For 2011, the chosen charity is the Children's Hospital at the John Radcliffe Hospital in Oxford.

SUSTAINABLE HUMAN RESOURCES POLICY

ATTRACTING AND RETAINING OUR PEOPLE

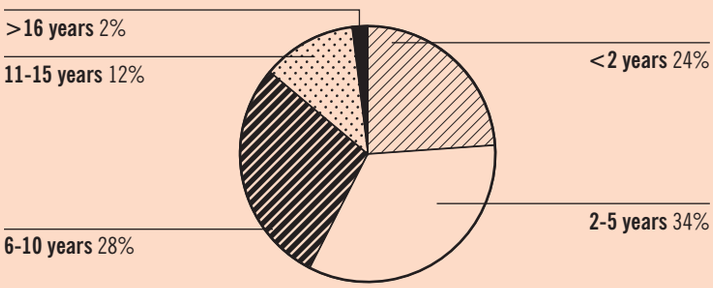
As at 31 December 2010, the Evotec Group employed a total of 519 people, the large majority of who work in Germany and the UK. A total of 96 new employees joined the Company in 2010 of whom 31 hold a PhD. This represents an increase of 7% in our global headcount compared to the end of the previous year which reflects the expansion of our R&D resources at the European sites and the integration of DeveloGen following its acquisition in September, adding 23 employees. The administrative headcount was nearly kept constant.

Headcount as of 31 December

	2009	2010
Discovery Alliances Germany	100	129
Discovery Alliances UK (incl. Singapore)	178	189
Discovery Alliances India	127	119
Sales & Administration	80	82
Total	485	519
Total Germany	125	161
Total UK (incl. Singapore and US)	211	219
Total India	147	139
Total South San Francisco	2	0
Total	485	519

During 2010, Evotec had an overall retention rate of 88%. This is seen as a key indicator of employee satisfaction. However, there were significant variations by region. The retention rate was around 92% in Europe and North America, an increase of 5% compared to 2009. Meanwhile in India, the annualised employee turnover rate for 2010 was nearly 20%.

Seniority Distribution 2010



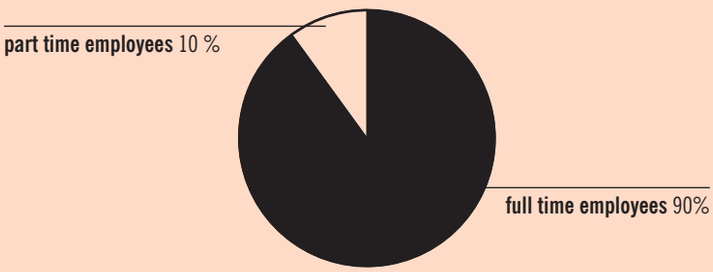
Face-to-face exit interviews in India revealed the main reasons for moving to another company were salaries and the possibility to assume a more senior position. Consequently, a benchmark study was undertaken in India in the second half of 2010 to align base salaries with market and those positions with lower than average wages were adjusted on an individual-by-individual basis effective 1 December 2010. In addition, a new improved Mediclaim policy was introduced in India providing coverage not only to the employee, but also to a spouse and two children. Finally, to ensure consistency with other Evotec locations, a five-day week was introduced at the Thane site in order to improve the quality of family life, without impairing operational efficiency.

IMPORTANT FACTORS FOR EMPLOYEE SATISFACTION – A PREREQUISITE FOR COMPANY GROWTH

1. FLEXIBILITY CONSIDERING WORK-LIFE BALANCE

As an employer Evotec is fully aware that individual life circumstances are becoming more and more varied, and today's employees are becoming bolder in their demand that such circumstances be taken into consideration. Given this trend, the ability to balance a career and private life is becoming an increasingly important factor in recruiting and retaining staff. Evotec therefore offers the possibility for part-time employment arrangements as well as home-working options, where appropriate.

Workforce by employment type

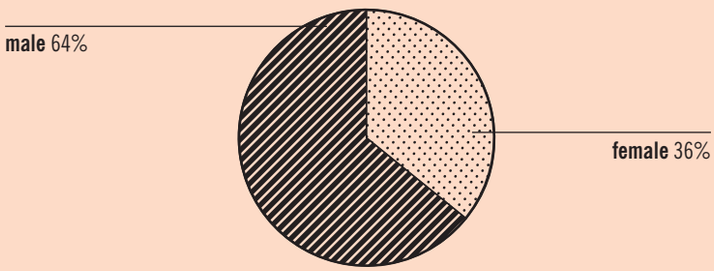


2. FOSTERING DIVERSITY

Evotec has a global business and international customers who are best served by a global workforce possessing a rich diversity of skills, capabilities and creativity. The Company benefits from having a highly talented group of employees drawn from 30 different nationalities.

Women account for nearly 36 % of employees globally. In Europe 43% of the employees are women. 25% of the 12 senior managers reporting to members of the Management Board are women.

Workforce by gender



3. MANAGING PERFORMANCE

Regular feedback and an open dialogue between employees and their line managers is a critical activity for which we hold both parties accountable. To further improve and align performance appraisals and the performance metrics, processes and practices were reviewed and successfully implemented in 2010.

In 2010, we further standardised our system of compensation and benefits in order to further emphasise our pay for performance philosophy. Key components are our performance related bonus scheme and our long-term incentive plan.

Our base pay packages reward individual performance recognising how the job was executed. Through variable pay, we incentivise employees for what was achieved. The key components are overall Company performance and the individual objectives which are agreed between each employee and his or her line manager at the beginning of the year. Following the DeveloGen acquisition, we intend to extend this scheme to our new employees in Göttingen by the beginning of 2011.

We want our employees to share in ownership and Company success. Therefore, in 2010, we again awarded stock options to all employees, based on their performance, with the Indian employees joining the plan for the first time.

4. EFFECTIVE COMMUNICATION

By minimising corporate hierarchy and living an open door culture we enable effective communication among employees at all levels, across departments and regions. In addition, key information and important developments are is communicated to our employees via prompt or regular quarterly company briefings.

In 2010, we also organised company-wide informal meetings with a member of the Management Board under the banner of "EVObucks". The aims of these meetings are to share best practises, areas of concerns, discuss solutions and propose new ideas.

5. SAFETY, HEALTH AND WELLBEING

Providing a safe workplace and promoting the health and wellbeing of all our people remains a core priority. Preventive health care is particularly important for employees in countries where the public health system offers restricted support. To prevent illness, Evotec therefore offers employees in India regular medical check-ups. In addition, we arranged for a better food quality in our Thane canteen without any extra cost for our employees.

All managers are responsible for ensuring that their teams adopt exemplary safety behaviours. Employees in our Hamburg site can undertake statutory safety trainings by using an online occupational safety instruction system.

LOOKING TO THE FUTURE

In 2011, we will continue our migration towards standardised and world class HR policies across the Company. In addition, in order to simplify and align HR processes across all sites, we will implement a new HR Information system. We believe these developments will contribute to the culture of excellence at Evotec and further enhance our reputation as a great place to work.

OCCUPATIONAL SAFETY AND ENVIRONMENTAL MANAGEMENT

Evotec does not actively measure its environmental impact but is very focused on the usage and the costs incurred in respect of goods and services that have a direct or indirect impact on the environment. As such Evotec has undertaken several initiatives over the past couple of years to seek to rationalise the levels of energy used both through improvements in equipment, rationalisation of cold storage, updated approaches to waste management and increased communication of the benefits of saving power where practical and possible.

Evotec works with chemicals many of which require specific licences or are controlled substances. The Group follows strict protocols to ensure that these chemicals and other potentially hazardous substances are well controlled and that risk to general health and safety are kept to a minimum. This forms part of the wider focus undertaken by the Group in respect of Health and Safety to ensure that the welfare of staff, customers, suppliers and the wider environment and community are exposed to a minimised level of risk. Evotec complies with local regulations, reporting requirements, permits and licences in all areas of health and safety relevant to the operations undertaken. In 2010, for example, Evotec was awarded for its state-of-the-art Health and Safety policies by the Hamburg authorities. Documentation, practices and audits of these key processes provide a strong basis for continuous improvement. These include emergency response, fire safety, engineering and maintenance procedures, waste disposal and safe handling and use of dangerous substances.

PROCUREMENT AND FACILITY MANAGEMENT

Continuing weak global economic conditions have led procurement to review in some detail the security and nature of key components of the Groups supply chain as well as identifying ways to maintain the quality of supplies whilst securing limited cost increases or cost reductions. The introduction into the procurement function of a more global approach has enhanced the ability of the Group to use the leverage of greater scale to establish improved terms with key suppliers both in terms of discounted prices and improved payment terms. In Germany, for example, procurement costs for laboratory material could on average be reduced by 12% through the bundling of suppliers. In addition, in 2011, Evotec issued an invitation to tender for all waste management services in Hamburg and only one single company was chosen to provide the entire service. This decision reduced Evotec's waste management costs by 10%.

Procurement will push further in 2011 this integration of the procurement efforts across the Group strengthening key supplier relationships with all companies within the Group. This is a vital step in ensuring the Group is able to manage ongoing rises in commodity prices, many of which directly or indirectly affect the core supplies of the business. By keeping costs down the Group is able to offer maximum value to its customers whilst continuing to promote profitability.

The pharmaceutical industry, and as such its suppliers, occupy an area of the marketplace that is fairly resistant to short-term economic fluctuations. Whilst difficulties in accessing new sources of finance have impacted heavily on smaller biotech companies, the ongoing cash requirements of the industry mean that most entities have the reserves in place to weather the financial downturn. As such concern over the ability of key suppliers to continue trading through difficult economic conditions is less pronounced than would be seen in other industries. That said, the Group has increased its focus on identifying alternative suppliers to ensure that a sudden loss of supplier does not impact on ongoing research operations.

At the end of 2010, the Group signed an agreement to move its head office and operations in Hamburg to a new location within the city. The new facility provides 11,000 square meters of laboratory and administrative floor space in a state-of-the-art location ideally suited to a global leading drug discovery research business. The move is seen as essential in order to provide capacity for growth, to optimise operational efficiency and to be able to attract and retain world class talent.

The transition to the new location will occur during 2011. Detailed plans are in place to ensure that there will be minimal disruption to the business and for the transition to appear seamless to our customers.

INFORMATION TECHNOLOGY

Information Technology is a critical part of the drug discovery process. Specialist software and state of the art virtual and physical hardware make up a significant element of the offering the Group presents to its customers. Systems are implemented within the Group capable of generating, managing, analysing and securely storing significant volumes of scientific data. Evotec takes extremely seriously the confidential nature of much of this data and in doing so has invested heavily over recent years in the ability to identify and react early to any threats or risks posed to the data of the Group.

As the Group integrates its operational research offering further it is seen as a core component of the business that the Group has the ability to communicate, share, access and store information in a virtual manner, irrespective of an individual's geographical location. Internet Technology has advanced to an extent where significant bandwidth is available globally at accessible cost allowing companies to become more mobile and to share information with each other securely across the Internet. This has led to an explosion of software designed to compliment communication and data sharing. Very quickly this has become seen as a vital component of a company's ability to communicate within itself and with others. Advances in this compliment the operational integration within the Group but also lead towards the ability to share and generate data with customers in an Evotec hosted live virtual environment, whilst avoiding concerns over system security breaches.

The ability to share data with others, both internal and external to the Group, will promote the ability of Evotec to embed its services into the drug discovery pipelines of its customers. This will enhance the collaborative feel of our drug discovery programmes where the location of individuals becomes secondary to the ability to share ideas and research results and research teams are able to interact seamlessly.

REMUNERATION REPORT

The Remuneration Report describes the Company's remuneration structure and provides information about the payments to the board members in accordance with the requirements of the German Corporate Governance Codex (the 'Code'). It is part of both the Consolidated Financial Statements and the Corporate Governance Report.

REMUNERATION OF THE MANAGEMENT BOARD

The total compensation of the individual members of the Management Board is determined at an appropriate amount based on a performance assessment and is oriented towards sustainable growth of Evotec. Criteria for determining the appropriateness of compensation include the tasks of the individual member of the Management Board, their personal performance, the economic situation, the performance and outlook of Evotec as well as the common level of compensation of Evotec's peer companies and the compensation structure in place in other areas of the Company.

In 2010, fixed and variable remuneration as well as components with a long-term incentive effect of active members of the Management Board totalled T€ 2,060, of which the variable part amounted to T€ 433 and the components with a long-term incentive effect amounted to T€ 587.

Fixed remuneration includes base salaries, contributions to retirement insurances, premiums for accident and accidental death insurances as well as the benefit derived from the use of company cars.

Variable remuneration is determined by a bonus scheme that is designed every year by the Remuneration and Nomination Committee of the Supervisory Board and is subsequently approved by the Supervisory Board. The variable portion of the remuneration paid out in 2010, payable upon the achievement of certain strategic targets for the business year 2009, was based on several criteria. For Dr Werner Lanthaler it was based on the achievement of five sets of corporate milestones. For Dr Klaus Maleck and Dr Mario Polywka it was based on these corporate milestones for 90% of their bonus and for the remaining 10% on the achievement of personal objectives.

The variable portion of the remuneration to be paid out in 2011 depends on the achievement of certain strategic targets for the business year 2010. For the Company's Chief Executive Officer Dr Werner Lanthaler it will be based on the achievement of four sets of corporate milestones for 80% of his bonus and for the remaining 20% on the achievement of personal objectives. For the other members of the Management Board it will be based on the same corporate milestones for 60% of their bonus and for the remaining 40% on the achievement of personal objectives.

In addition to their fixed and variable remuneration, the members of the Management Board received a total of 625,000 stock options in 2010 under the Company's stock option plans. The options granted in 2010 are subject to the stipulations of the Option Plan 2008 and may be exercised after three years if the conditions of this plan are met. The fair values of options as of the grant dates amounted to a total of T€ 587.

Remuneration of the Management Board 2010

	Fixed Remuneration in T€	Variable Remuneration in T€	Stock Options in pcs	Fair Values Options granted in T€	Total Remuneration in T€
Dr Werner Lanthaler	373	243	200,000	180.0	796.0
Colin Bond *)	126	0	100,000	102.0	228.0
Dr Cord Dohrmann **)	91	0	100,000	102.0	193.0
Dr Mario Polywka	287	111	150,000	135.0	533.0
Dr Klaus Maleck ***)	191	79	75,000	67.5	337.5
Total	1,068	433	625,000	586.5	2,087.5

**) Member of the Management Board as of 1 August 2010*

***) Member of the Management Board as of 1 September 2010*

****) Member of the Management Board until 31 October 2010*

The members of the Management Board of Evotec AG have only customary rights in case of a change-of-control. Their contracts contain a change-of-control clause which would allow them to terminate their current contracts in the event of a change-of-control. In case members of the Management Board make use of their right to terminate their contracts in the event of a change-of control, they are entitled to severance payments determined as follows: For Dr Werner Lanthaler, the severance payment shall be equal to 24 months of base salary, for Dr Mario Polywka, the payment shall be equal to 18 months of base salary, and for Colin Bond and Dr Cord Dohrmann, respectively, the payment shall be equal to 12 months base salary plus bonus. In no case, the respective severance payment shall be higher than the total compensation due for the remaining term of the respective Management Board member's contract.

When Jörn Aldag resigned from the Company's Management Board effective 31 December 2008, he and Evotec had entered into a non-competition agreement exceeding the regular duration of his service agreement. They also agreed upon a lump-sum payment equivalent to the remuneration that Jörn Aldag would have received had his contract expired and not been terminated. No further severance payments were agreed. The exit agreement stipulated gross total payments of T€ 2,022 to Jörn Aldag. These payments consisted of T€ 573 fixed and T€ 805 variable remuneration for the period until his contract would have expired, if not terminated, as well as T€ 644 for the non-competition agreement. Of this sum, T€ 1,700 were paid in early 2009 and the remaining T€ 322 in early 2010.

Apart from the payments to Jörn Aldag, no payments were made in 2010 to any former Management Board member.

The Company has made a provision for pension for one former Management Board member amounting to T€ 111. No further such provisions are due for other former Management Board members or their surviving dependents.

REMUNERATION OF THE SUPERVISORY BOARD

The general principles of Supervisory Board remuneration are set forth in the Company's Articles of Association by the Annual Shareholder Meeting.

The members of Evotec's Supervisory Board are entitled to fixed and performance-based payments. In accordance with the recommendations of the Corporate Governance Code, Chair and Deputy Chair positions on the Supervisory Board, as well as the chair positions and membership on committees are considered when determining the remuneration of individual members. Every Supervisory Board member receives T€ 15 per year, with the Chair receiving three times that amount and the Deputy Chair twice that amount. Members of Supervisory Board committees additionally receive T€ 3.75 per year, with the chairperson receiving T€ 10.

In addition to the fixed remuneration and in accordance with the suggestions of the Code, the members of the Supervisory Board receive payments tied to the Company's long-term performance, in the form of Evotec shares. Ordinary members of the Supervisory Board receive shares valued at T€ 10 (Chair three times, Deputy Chair twice this amount) and Committee Chairs receive additional shares valued at T€ 10. This share-based remuneration serves as a further incentive for Supervisory Board members to focus on the Evotec share price. In addition, if Evotec shareholders are paid a dividend, every Supervisory Board member will receive an extra T€ 0.5 for every cent that the dividend per share exceeds € 0.15.

For their contributions in 2010, the individual members of the Evotec Supervisory Board receive the following compensation:

Remuneration of the Supervisory Board 2010

T€	Cash Remuneration	Value of Share based Remuneration	Total
Dr Flemming Ørnskov	48.7	30.0	78.7
Dr Walter Wenninger	37.2	25.6	62.8
Dr Hubert Birner	25.0	20.0	45.0
Dr Peter Fellner	18.8	10.0	28.8
Mary Tanner	18.8	10.0	28.8
Dr Corey Goodman[1)]	2.5	1.7	4.2
Total	**151.0**	**97.3**	**248.3**

[1)] *Member of the Supervisory Board until 31 January 2010*

After his resignation from the Supervisory Board in August 2008, Professor Dr Heinz Riesenhuber had entered into a two-year consultancy agreement with Evotec. Thus the Company is able to call upon Professor Dr Riesenhuber's knowledge and expertise of the Company's business activities and its business environment. The term of this two-year agreement was extended for one further year that is for the period between 1 September 2010 and 31 August 2011. The agreed annual compensation amounted to T€ 22.5 in the first 12 months, to T€ 25.0 in the second 12 months, and to T€ 20.0 for the current term of the agreement.

There are currently no further consultancy agreements between Evotec and current or former members of the Supervisory Board.

DIRECTORS AND OFFICERS LIABILITY INSURANCE (D&O INSURANCE)

Evotec has procured directors and officers liability insurance coverage for its Management and Supervisory Board members, its senior management and the directors of its subsidiaries, at a cost to the Company of T€ 214 in 2010. For the members of Supervisory Board, an appropriately sized deductible, and for the members of the Management Board, a deductible in line with the stipulations of the legal provisions of the Act on Appropriateness of Management Board Compensation (VorstAG) were agreed upon.

INFORMATION PURSUANT TO SECTION 315 PARAGRAPH 4 OF THE GERMAN COMMERCIAL CODE

Evotec's management focuses on value creation. To that degree, any change-of-control or takeover offer that realises some of the embedded value of the Company for the benefit of current shareholders is carefully analysed with regard to the synergies proposed and the future value creation claimed. A change in control will generally have occurred if, as a result of any takeover, exchange or other transfer, a single shareholder or a group of shareholders acting in concert acquires more than 30% of the outstanding voting rights in Evotec or, if as a result of a merger or reverse merger the shareholders of Evotec from the effective date of such transaction cease to own more than 30% of the outstanding voting shares in the merged entity. Evotec has no specific takeover-defence measures in place.

COMPOSITION OF CAPITAL STOCK, VOTING RIGHTS AND AUTHORISATION TO ISSUE SHARES

As of 31 December 2010 the share capital of Evotec AG amounted to € 115,595,729.00 and was divided into 115,595,729 non-par value shares. All shares are bearer shares and have the same voting rights. Management is not aware of any restriction of the voting rights or the right to transfer. Existing stock option schemes do not allow for immediate vesting or additional issuance in the case of a takeover offer. With the exception of a soft lock-up agreement entered into with regard to 6,750,014 Evotec shares issued in the context of the acquisition of DeveloGen which has expired on 16 February 2011, no binding lock-up agreements have been made with any shareholder, and neither stock loans, nor pre-emptive stock purchase rights are known to the Company. The Company does not control voting rights of any shares owned by employees. No shareholder holds the right to have representatives on the Company's Supervisory Board, or is restricted or bound to specific votes at annual shareholder meetings.

The shareholders have provided the Management Board with the following authorisation to issue new shares or conversion rights:

Authorised Capital: Pursuant to section 5 paragraph 4 of the Articles of Association the Management Board, with the approval of the Supervisory Board, is authorised to increase the Company's share capital by up to € 14,983,864.00 in one or more tranches by 27 August 2013 by issuing new shares against cash or non-cash consideration. Any shares to be issued on this basis will be subject to the statutory subscription rights of Evotec's shareholders. With the approval of the Supervisory Board, the Management Board may, however, exclude the pre-emptive rights of its shareholders on one or several occasions under certain, well defined conditions.

Conditional Capital: As of 31 December 2010, the Company had a conditional capital in the total amount of € 10,592,380.00. This conditional capital shall be used only to the extent that holders of stock options, awarded by Evotec on the basis of the shareholders' resolutions from 7 June 1999, 26 June 2000, 18 June 2001, 7 June 2005, 30 May 2007 or 28 August 2008, respectively, exercise their rights to subscribe for new shares of the Company.

Evotec AG has not issued any convertible bonds or option debentures in the last three years and none are currently outstanding.

SHAREHOLDINGS EXCEEDING 10% OF VOTING RIGHTS

In September 2009, Evotec had been notified by its shareholder Roland Oetker that he, via ROI Verwaltungsgesellschaft mbH, Königsallee 20, 40212 Düsseldorf, Germany, owned 11.07% of the shares of the Company. No further notification concerning this matter was received and the Company is not aware of any other direct or indirect shareholdings in its share capital exceeding 10% of its capital.

BOARD STRUCTURE

The board structure of Evotec is explained in detail in the section 'Group Management and Supervision' on page 27 of this Management Report. Pursuant to section 6 of the Company's Articles of Association, the Management Board shall consist of one or more members which are appointed and dismissed by the Supervisory Board pursuant to section 84 paragraph 1 of the German Stock Corporation Act (Aktiengesetz).

AUTHORISATION OF MANAGEMENT TO REPURCHASE STOCK

As of 31 December 2010, and after expiry on 3 December 2010 of a respective authorisation given by the 2009 shareholder meeting, the Company is not authorised to acquire stock of the Company for any purpose.

AMENDMENT TO THE COMPANY'S ARTICLES OF ASSOCIATION/ APPOINTMENT OF MANAGEMENT BOARD

Any amendment to the Company's Articles of Association requires a shareholder resolution. According to sections 133 and 179 of the German Stock Corporation Act (AktG) and section 15 of the Articles, the shareholder resolution amending the Company's Articles of Association requires an affirmative vote of at least three quarters of the Company's share capital present in a general shareholders' meeting. Appointment and dismissal of the members of the Management Board are governed by sections 84 and 85 of the German Stock Corporation Act (AktG).

CHANGE-OF-CONTROL PROVISIONS

The Management Board of Evotec AG has only customary rights in case of a change-of-control. The contracts of the members of the Management Board contain a change-of-control clause which would allow management to terminate their current contracts in the event of a change-of-control. In case members of the Management Board make use of their right to terminate their contracts in the event of a change-of control, they are entitled to severance payments determined as follows: For Dr Werner Lanthaler, the severance payment shall be equal to 24 months of base salary, for Dr Mario Polywka, the payment shall be equal to 18 months of base salary, and for Colin Bond and Dr Cord Dohrmann, respectively, the payment shall be equal to 12 months base salary plus bonus. In no case, the respective severance payment shall be higher than the total compensation due for the remaining term of the respective Management Board member's contract. The remuneration of the Management Board is reported in more detail in Note 35 (e) to the Consolidated Financial Statements and in the 'Remuneration Report' on page 45 of this Management Report.

RISK MANAGEMENT AND RISK REPORT

RISK MANAGEMENT SYSTEM

Evotec is aware that it needs to regularly monitor and limit the risk exposure associated with its business and to successfully capture new business opportunities in order to secure the generation of shareholder value. Evotec therefore places substantial emphasis on risk management as an ongoing management task. Evotec employs a comprehensive risk management policy and risk management system which forms an integral part of the Group's management processes and complies with the legal requirements. Evotec's risk management system assesses on an ongoing basis all significant company activities to identify, analyse and value risks. These risks are documented and communicated to the Group Risk Manager and the Management Board (Vorstand). Despite this appropriate and functioning system, there cannot be an absolute certainty that all possible risks are identified and managed. The system's efficacy is verified on a continuous basis. Beside the formal risk management policy as explained in the following, the risk management system is based upon Evotec's general guidelines of corporate management and the code of conduct, as described in the Declaration of Corporate Management.

According to the Company's *risk management policy* Evotec engages in businesses only when this is in line with its strategy and with risks common within the industry, and when adequate reward potential is offered. At least once a year the Management Board defines the Group's specific affinity to financial risk in accordance with the prevailing business and financial condition, including in particular the definition of minimum cash levels and milestones critical to short and mid-term financial performance. Management engages in monthly financial reviews with a strong emphasis on cash and cash forecasts, and key financial performance drivers such as revenues, order book status and gross margins, as well as careful cost analysis (SG&A, R&D expenses). Currency exposures are reduced through natural hedges and, where appropriate, hedging instruments. It is Company policy not to speculate on foreign exchange movements, but to manage the risks arising from underlying business activities, for example, to gain foreign exchange certainty against the value of signed customer contracts. Financial investments are made in low risk categories (products or financial institutions rated A or better (Standard & Poor's ratings)). As a consequence of the financial crisis the Management Board has further increased its attention on mitigating financial risks. It is therefore directly involved in all decisions concerning financial assets and manages all businesses and transactions considered to be material for the Company, as reinforced by a revised set of Company policies.

To cover other risks associated with the Company's business, including those that would not have a short-term financial impact, Evotec performs regular commercial project portfolio reviews. Strict application of project and investment approval processes, legal contract review procedures and signing authorities are also standardised procedures. In addition, the Company emphasises its IT security throughout the Group and reviews its insurance coverage regularly. Compliance with the regulatory environment, for example environment, health and safety, has a high priority at all operational sites of the Group and corresponding training programmes are in place. All these measures and procedures, as well as further controls, were adapted and implemented. The Company also takes its Corporate Governance responsibilities very seriously. 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.

Evotec's *risk management system* is regularly reviewed by the Group's Compliance Officer, the Management Board and the Audit Committee of the Supervisory Board in order to adjust to changing environments, risk profiles and business opportunities.

The risk management system comprises the following elements:

i) a *Risk Early Detection System* to identify risks as early as possible, to precisely describe them, quantify them, estimate their probability of occurrence and to report them to the competent management in a timely fashion, and
ii) a *Risk Prevention System* to monitor the risks incurred and/or the development of measures and systems to prevent potential risks from occurring.

The *Risk Early Detection System* is intended to identify and report risks as early as possible so as to allow management to deal with them from their very onset. It consists of the following two kinds of reports:

a) Through *Prompt Notifications*, any risks that are either outside the normal course of business or might have a material impact on the Company's financial performance, are raised and reported to the Group Risk Manager as they emerge by the responsible employee together with a summary and assessment of the specific risk and the counter measures to be taken. The Group Risk Manager reports the received Prompt Notifications to the Chief Financial Officer.

b) Moreover, on a quarterly basis, responsible line managers forward *Quarterly Risk Reports* which (i) give an update on the risks described in an interim Prompt Notification (if any), (ii) report about any other material risk that has occurred even when beneath the pre-defined thresholds, and (iii) monitor the success of any measure taken to deal with the previously reported risks.

The Group Risk Manager evaluates and summarises the risk reports above into a quarterly report for the Management Board. This report also includes a cash stress test to examine whether Evotec could bear the cash effect of all captured risks should they fully materialize in parallel. To date, Evotec has always passed this cash stress test.

In addition, any triggering information for an ad hoc notification required under German statutory laws (German Securities Trading Act (WpHG)) will be reported directly to the Management Board immediately after the detection of such an event. In addition, an ad hoc committee convenes once a week to ensure that all relevant circumstances are evaluated properly with regard to ad hoc related stipulations.

All regular internal reports and meeting minutes that could be of relevance to important risk categories are formally included in the Company's risk management system *(Risk Prevention System)*. This procedure increases general alertness to risk and risk management, and also emphasizes the principle of risk prevention across the Group.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Section 289 paragraph 5 of German Commercial Code (HGB) requires the Management Board to take responsibility for adhering to and reporting on an internal control system for reliable financial reporting. The internal control system is part of the risk management system and primarily secures the preparation of financial statements according to regulatory and legal requirements. It is continually further developed and is an integral part of the accounting and financial reporting process in all relevant legal entities and central functions. The internal control system comprises all the principles, processes and measures (such as preventive and detective controls) that are applied to secure effective, economical and proper accounting and compliance with the pertinent legal provisions. Evotec complies with the German Commercial Code requirements. In addition, throughout 2010 the Company also acts in adherence to the requirements of section 404 of the Sarbanes Oxley Act. This was due to the fact that Evotec shares are registered with the SEC under the Securities Exchange Act of 1934, as amended until formal deregistration from the SEC. The deregistration and termination of reporting obligations is expected to take effect in March 2011.

According to the German Commercial Code Evotec's Management Board is required to annually assess the effectiveness of internal controls over financial reporting. Internal assessments identified no material weaknesses and detected deficiencies were remediated immediately. The effectiveness of Evotec's internal controls over financial reporting is also audited by its independent registered public accounting firm. The audit of consolidated financial statements by the Group auditor, in particular, constitutes the key non-process-related monitoring measures with regard to Group accounting. The Audit Committee of the Supervisory Board is informed regularly and discusses the auditing activities.

Evotec maintains an adequate internal control system to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the firm's financial statements for external reporting purposes in accordance with applicable International Financial Reporting Standards and to avoid fraud risks. Our control system is based upon various automated and manual, preventive and detective controls, segregation of financial related duties as well as the adherence to Evotec's policies. Among other things, we regularly check that:

- issues relevant for financial reporting and disclosure from agreements entered into are recognized and appropriately presented;
- processes exist for the segregation of duties and for the "four-eyes principle" in the context of preparing financial statements;
- risks related to relevant IT accounting systems are mitigated by a well defined set of state of the art IT controls such as restricted authorization and defined rules for access, change and system recovery.

Management has determined that our internal controls over financial reporting based on the integrated framework of the Committee of Sponsoring Organization of the Treadway Commission (COSO) were effective in the design and operation as of 31 December 2010.

In addition, Evotec routinely engages external specialists, for example to value share-based compensation or to derive deferred taxes.

Specific risks related to Group accounting may arise, for example, from the conclusion of unusual or complex business transactions. In addition, business transactions not processed by means of routine operations and the discretion necessarily granted to employees for the recognition and measurement of assets and liabilities may also generate Group accounting related risks.

However, the internal control measures aimed at securing proper and reliable Group accounting ensure that business transactions are fully recorded in a timely manner in accordance with the legal provisions and the Articles of Association. The control operations also ensure that accounting records provide reliable and comprehensible information.

Evotec is confident that the systems and processes that have been implemented significantly reduce the risk of negative impacts on the financial reporting and enable specific company related issues to be appropriately recognised in the consolidated financial statements. However, due to the very nature of business activity, discretionary decision-making, faulty checks, criminal acts or specific circumstances that might restrict the efficacy of internal controls, the Group-wide application of the risk management systems cannot completely guarantee the accurate, complete and timely recording of facts in Group accounting.

RISKS

Evotec AG is exposed to a range of risks entirely consistent with its business undertaking. The business, financial condition and results of Evotec may be materially adversely affected by each of these risks. If not stated differently, the risks mentioned below are unchanged in comparison to 2009.

BUSINESS ENVIRONMENT, INDUSTRY AND STRATEGY RISKS

(I) RISKS INHERENT TO DRUG DISCOVERY ALLIANCES

Evotec's discovery alliance platform is well established within the industry, and has generated a growing revenue stream over the last years. A satisfied customer base, increased efficiency and superior service quality allow Evotec to generate value through its leveraged research platform and positive gross margin contributions.

However, certain business specific risks need to be managed. Evotec considers that these risks could be assessed as medium and remain in the main unchanged in comparison to the previous year:

- The market environment is marked by *pricing pressures* originating from funding restrictions of some biotechnology customers and from evolving and strengthening competition in individual drug discovery disciplines in low cost countries. Therefore, firm cost management, continuous enhancement of capabilities and technologies, careful market positioning and sales from high-value results-based contracts are critical for Evotec.

- Evotec intends to employ increasing parts of its capacity for *results-based deals*, with the goal to keep a higher share of value creation. In return, there are scientific and technical delivery risks in the shorter term which can expose Evotec's financial performance and in particular the collaborations business margins to the possible failure or delay of certain milestone payments. Detailed project reporting has been established within Evotec to control the risk of milestone achievements. Overall, this value strategy has been validated to date with only a few customers, and the experiences might not be transferable to other customers and contracts.

- Even with a stable revenue stream, *fluctuating capacity utilisation and resource allocation* between different parts of the business can significantly impact profitability, unless these are carefully and flexibly adjusted. In addition, *dependence on individual larger customer contracts* needs to be closely monitored. In 2010, Evotec's largest customer accounted for 25.0% of total revenues.

- Some of the service contracts contain *scientific or technical delivery risks*, which can be only partly mitigated with high quality project work. It is an explicit goal of Evotec to grow the business to leverage such risks through the required scale.

- Evotec's past success builds in part on customer recognition and branding. It is therefore of utmost importance to maintain this good reputation and avoid any negative impact on its branding. Evotec has protected its trade name in all active countries and has increased its awareness to strengthen and protect its global market position.

(II) RISKS INHERENT TO PROPRIETARY DRUG DISCOVERY AND DEVELOPMENT

Evotec has a clear strategic focus on drug discovery alliances and engages in selective proprietary discovery and development activities in order to kick-start such alliances. These activities clearly carry scientific and financial risk, concentrated on few individual projects. Today, Evotec has no commercial drug products and there is no assurance that Evotec or its strategic partners will successfully develop and commercialize potential drugs. Significant returns are only expected to materialize when successful research leads to upfront and milestone payments and potential royalties from future drug sales are received. Evotec expects to achieve significant payments when any one of its drug candidates is either out-licensed to a pharmaceutical or biotechnology company, or when Evotec decides to partner the drug. Evotec believes that the associated risks have to be assessed as medium/high but remain more or less unchanged in comparison to the previous year. The associated risks are those inherent to the biotechnology and drug development industry in general:

- Evotec acts carefully and responsibly to prove that clinical product candidates are safe and effective for human use and approvable by regulatory agencies. Drug discovery and development, however, is expensive, time consuming and subject to a *high degree of failure*. At each stage there is an inherent risk that developments need to be aborted or delayed due to unpredictable results. The rate of failure is highest the earlier the stage of a programme. However, the cost of failure tends to be higher the later the stage of development and preclinical studies and early clinical trials involving limited numbers of patients may not accurately predict the results obtained in later stage clinical testing. A number of companies have suffered significant setbacks in late-stage clinical trials even after achieving promising results in earlier development activities. Even if Evotec identifies promising compounds to valuable targets, or in-licenses or otherwise acquires promising projects or drug candidates, any resulting internal R&D project could experience delays or even fail and it could take several years before the Company could sell or license any drug candidates, if at all.

- Research and Development activities, the approval and marketing of a pharmaceutical product are subject to extensive *regulation* by the US FDA, the European Medicines Agency (EMA, formerly known as EMEA) and similar regulatory agencies elsewhere. The approval of the relevant authorities is required before a product can be tested in humans and later sold in a given market. The regulatory approval process is intensive, time-consuming and the timing of receipt of regulatory approval is difficult to predict. The authorities can deny their approval for various reasons. In the recent past the regulatory environment has become less predictable, in particular in the US. Therefore, even if the further development of Evotec's drug candidates is successful, regulatory approval might not be received, might be restricted to certain geographical regions or indications, later withdrawn or significantly delayed which could significantly impact the receipt of product revenues, if any. It can be very hard to predict potential regulatory difficulties and their influence on further discovery and development of a proprietary drug candidate. Evotec seeks early discussions with the regulatory bodies at all stages of development to ensure that investments are in conformity with legal and ethical requirements.

- Evotec *depends on external contract research organisations* (CROs), and independent clinical investigators to conduct certain preclinical studies and clinical trials. Despite their contractual rights, Evotec cannot control the amount of time and resources that the CROs devote to such programmes. The programmes may therefore not be diligent, careful

or timely, and there may be mistakes in the conduct of these studies. For example, failure to enrol patients for clinical trials may cause delays in developing Evotec's product candidates.

▸ The use of any of Evotec's product candidates in clinical trials may expose Evotec to product liability claims in excess of Evotec's limited insurance coverage, although it is diligently assessed for each trial. As of today, Evotec is not aware of any pending threats of product liability claims.

In 2010, Evotec continued to focus its internal R&D activities on its most valuable assets in order to decrease its risk exposure. At present, the Company has no plans to build-up a more extensive pipeline, but will concentrate its efforts on bringing proprietary products from its existing portfolio to important value inflection points. This focus also applies to acquired companies. In addition, Evotec intends to partner or publicly fund proprietary programmes to share the risk wherever possible.

(III) MERGER AND ACQUISITIONS

Evotec's market position is well established and Evotec is known for its first class services by its customers. However, the Company pursues ambitious goals regarding its growth rate through both internal organic growth development and opportunistic acquisitions of financially rewarding and suiting service capacities and capabilities. In 2010, this was exemplified in the acquisition of a 99.4% controlling majority stake of DeveloGen AG in Göttingen. However, such merger and acquisition activities encompass specific risks that need to be managed.

The acquisition of DeveloGen AG bears the risk that the integration of the company into the Evotec Group may be difficult and expensive to achieve. The transaction will present challenges to Evotec's management including the integration of DeveloGen AG's operations and personnel and a potential squeeze-out of the remaining third-party shareholders. In addition, the merger may present special risks including possible unanticipated liabilities, unanticipated costs, diversion of management attention and loss of personnel. Evotec may not be able to integrate DeveloGen AG into its operations or successfully manage the activities acquired in the acquisition. If Evotec's management is not able to implement a business plan that effectively integrates DeveloGen AG's operations, the anticipated benefits of the merger may not be realised which may adversely affect the price of Evotec ordinary shares.

(IV) COMMERCIAL RISKS

The commercial risks inherent to Evotec's drug discovery alliance platform are described in detail in the section 'Risks inherent to drug discovery alliances' on page 51 of this Risk Report. Regarding other commercial risk Evotec trusts that the associated risks could be assessed as medium and are unchanged in comparison to the previous year. Those risks are:

▸ Although Evotec adjusted its strategy in 2009 and focused its activities on drug discovery alliances, the Company continues to be engaged in a selected number of active drug discovery and development programmes that it intends to license to pharmaceutical companies for clinical development and commercialisation. This concept has been proven again when Evotec has entered in October 2010 into a license and collaboration agreement with Zhejiang Jingxin Pharmaceutical Co., Ltd for EVT 201, a novel potential treatment for insomnia. The agreement grants Zhejiang Jingxin Pharmaceutical Co., Ltd exclusive rights to develop and market the drug candidate in China. In return, Evotec received a small upfront payment, together with commercial milestones and significant royalties.

The *market environment* and competitive landscape for licensing and licensed projects or individual drug candidates, in general or for individual treatments, however, might change while engaging in individual projects. The timing and commercial values of, or financial proceeds from partnering individual projects could therefore deviate significantly from earlier projections, for better or worse. During 2010, the out-licensing market in general remained challenging with the impact of the financial crisis hitting the biotech industry.

▸ Evotec's ongoing efforts to serve as an innovative source of drug candidates to the pharmaceutical industry makes it *dependent on individual larger out-licensing or partnering events* and hence on individual, typically larger customers. The total amount of payments and the split of these payments obtained in a future out-licensing agreement are unknown and depend on many factors, such as degree of innovation and IP position as well as on external factors not within the control of the Company. In addition, the reliance on corporate partners is subject to additional risks. For example, Evotec's collaboration partner may not devote sufficient time and resources to the development, introduction and marketing of Evotec's products or may not pursue further development and commercialisation of the products resulting from the collaboration. To control this risk to the extent possible detailed project reporting is established within Evotec and stipulated in any collaboration agreement.

▸ Even if drug products are approved and commercialized by Evotec or its license partner, hospitals, physicians or patients may conclude that Evotec's products are less safe or less effective or otherwise less attractive than existing drugs. In addition, Evotec's competitors may achieve product commercialisation or patent protection earlier than Evotec and/or develop new products that could be more effective or less costly, or seem more cost-effective, than Evotec's products.

Evotec's financial planning is not based on any partnering of product candidates or product commercialisation and is solid even in the absence of such an event.

BUSINESS FINANCING AND OTHER FINANCIAL RISKS

Evotec is currently well financed and assesses the financial associated risks to be low/medium, remaining unchanged or slightly decreased in comparison to the previous year.

▸ As reported last year, in March 2009 Evotec initiated a restructuring process to concentrate on drug discovery alliances and selected development partnerships. With this new strategic focus, Evotec de-risked its business model further with the aim to eventually become sustainable.

▸ Notwithstanding, expenditures on internal discovery and early development programmes and other costs, as well as reduced revenues, might negatively impact Evotec's short- to mid-term profitability and cash reserves. To actively address any related risk, Evotec's management defined minimum liquidity levels and prepared a scenario planning to safeguard its cash position. As a result of the restructuring measures, Evotec believes that existing liquidity reserves are sufficient under the risk management plan to cope with all cumulated, identified risk implications and that those reserves are a strong basis to develop the Company to sustainability.

▸ Evotec is currently well financed and has no plans or necessity to raise capital in the near- to mid-term. However, the option to increase capital may always be considered. This might be the case if new opportunities arise in terms of M&A and in-licensing requiring additional financing. The Company does not intend to engage in projects unless appropriate funding is allocated or secured.

▸ Evotec has not had any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Therefore, Evotec is not materially exposed to any financing, liquidity, market or credit risk that could arise if it had been engaged in these relationships.

▸ Evotec's customers are generally financially stable pharmaceutical companies, foundations and larger biotech companies. There has been no history of doubtful receivables and this is not expected to change.

▸ The general risk of losing a significant amount of cash in cash investments is continuously mitigated by spreading the investments across several different banks in high-credit quality instruments in full compliance with the Company's approved investment policy. Evotec monitors its banks and investments on an ongoing basis.

INTELLECTUAL PROPERTY RISKS

The intellectual property (IP) associated risks could be assessed as low and remaining stable in relation to the previous year.

▸ Evotec is dependent on patents and proprietary technology, both its own and those licensed from others, and puts a high emphasis on patent protection and patent monitoring. The Company's success depends in part on its ability, and the ability of its licensors, to obtain patent protection for technologies, processes and product candidates, to preserve trade secrets, to defend patents against third parties seeking to invalidate such patents, and to reinforce rights against infringing parties. Any disputes could result in sizeable additional expenses, project delays and absorption of management attention, and in a dramatic reduction of project values or even in full project abandonment.

▸ Evotec holds licenses granted by Roche for the EVT 100 compound family, EVT 201 and EVT 302, and by other parties related to certain of Evotec's preclinical research projects. Any termination of these licenses could result in the loss of significant rights and could harm Evotec's ability to commercialize its drug candidates. In addition, Evotec must rely on Roche to enforce its rights and obligations to assert, prosecute and defend intellectual property relating to the EVT 100 compound family, EVT 201 and EVT 302.

LEGAL RISK

With a letter of 19 August 2010, BaFin requested certain information with regard to an ad hoc release made by the Company on 12 August 2010. The Company provided such info with a detailed letter on 13 September 2010. BaFin informed the Company on 14 October 2010 that there might be an indication that the timing of the ad hoc publication constituted an infringement of section 15 German Securities Trading Act (WpHG) and that an administrative offence may have occurred. No further information was received from BaFin until the date of this report. The release of the ad hoc publication was made in line with a prominent position in legal literature. The Company therefore is convinced that no infringement took place.

HR RISKS: DEPENDENCE ON KEY PERSONNEL

▸ Evotec, like many biotechnology companies, is highly dependent on the key members of its management and scientific staff. The loss of any of Evotec's key employees or key consultants could impede the achievement of Evotec's research and development objectives. However, Evotec has set up its management such that the Company's knowledge is shared amongst key employees. Furthermore, recruiting and retaining qualified scientific personnel to perform research and development work in the future is critical to Evotec's success. If Evotec is unable to attract and to retain personnel on acceptable terms despite its strong corporate culture and industry leadership position, this may delay Evotec's development efforts or otherwise harm its business.

▸ In the recent past, Evotec has not encountered difficulties in attracting and retaining qualified employees and no change is currently foreseen. The risk is therefore assessed as low and is unchanged compared to prior year.

CURRENCY RISKS

▸ Evotec's business and reported profitability are affected by fluctuations in foreign exchange rates between the US Dollar, UK Sterling, the Indian Rupee and the Euro. The Company manages this exposure via natural hedges and selective hedging instruments. Currency exchange movements also impact Evotec's reported liquidity primarily through the translation of liquid assets held in US Dollars or UK Sterling into Euros. A portion of the funds are held in currencies other than the Euro in order to meet local operating needs.

▸ Overall, currency associated risks are considered as medium and remain unchanged in comparison to prior year.

OTHER RISKS, INCLUDING IT

Other risks, such as IT risks, environmental risks, and risks involving production and procurement are not considered to be significant and remain stable in relation to the previous year.

Evotec does not foresee any material warranty or future liability claims.

MANAGEMENT BOARD'S ASSESSMENT OF RISK SITUATION

Management believes that although the risks in any drug discovery and development business are significant, the Company has great opportunities to create long-term value that outweigh the foreseeable risks. At present, no risks have been identified that either individually or in combination could endanger the continued existence of Evotec AG.

Following its restructuring, Evotec has further reduced its risk exposure and mitigates its business risk through multiple customer contracts. With a highly competitive research alliances business, a significantly reduced cost structure, a pipeline of development candidates partnered or available for partnering, supported by substantial financing and adequate risk and opportunity management systems, Evotec is well prepared to deliver on its strategy and to develop the Company to sustainability.

Evotec has no external rating.

POST-BALANCE SHEET EVENTS

On 9 February 2011, Evotec signed a definitive agreement to acquire all shares in Kinaxo Biotechnologies GmbH, a Munich-based drug discovery alliance company supporting the development of targeted drugs. The acquisition complements Evotec integrated drug discovery offering, adding proprietary technology for response prediction and early decisions on drug efficacy and safety, especially in the key area of oncology. It significantly strengthens the Company's performance-based discovery offering to customers with this unique value proposition. The Kinaxo business is slightly profitable and strongly growing with an expected revenue contribution of € 2.0 m in 2011.
The purchase price consists of a cash consideration of € 3 m, 2,597,403 shares from authorised capital (approximately € 8 m based on the share price of € 3.08) and an earn-out component of € 4 m in cash. € 2 m in shares are held in escrow and their release is subject to certain company events and representations. All shares issued are subject to a six months lock-up. The deal is expected to close in April 2011.

OUTLOOK

Information set forth in this section contains forward-looking statements. These statements are neither promises nor guarantees, but are subject to a variety of risks and uncertainties, many of which are beyond our control, and which could cause actual results to differ materially from those contemplated in these forward-looking statements.

EXPECTED GENERAL MARKET AND HEALTHCARE DEVELOPMENT

ECONOMIC DEVELOPMENT

Overall analysts are forecasting an improvement in the global economy in 2011 compared to 2010 and especially in comparison to 2009. However, expected year-on-year growth rates differ significantly by country. Nevertheless economic recovery remains fragile and will not be led by

the world's advanced industrialised nations. There is a high degree of uncertainty which makes economic cycles much less predictable than ever before.

THE MARKET FOR DRUG DISCOVERY ALLIANCES

The global drug discovery market is expected to experience robust growth, exceeding a 5% annual growth rate. The total market for outsourced early-stage drug discovery work is estimated to be between € 2 – 4 bn. (According to a study from Kalorama Information (June 2010) the global drug discovery market including later-stage *in vivo* work is expected to experience robust growth, exceeding $ 8 bn in 2010 and reaching $ 14 bn in 2014.)

As out lined in the General Market and Healthcare Summary on page 29 of this Management Report, the global pharmaceutical industry continues to face a significant R&D productivity challenges. There is increasing pressure for pharmaceutical companies to develop new drug compounds due to the near-term loss of patent protection for many drug products. As a consequence, the industry has experienced significant M&A activity over the last few quarters and in-licensing deals to make up for the loss of revenues that will arise with key products losing patent exclusivity and is continuing to do so. In addition, there is pressure to reduce the time and money spent in drug discovery in order to bring drugs to market faster and more affordably. The resulting implementation of restructuring programmes, including closure plans for entire research facilities, reduction of the number of disease areas of focus within their therapeutic portfolio and the focus on externalisation is also expected to continue into 2011.

These developments constitute a shift in the pharmaceutical landscape where pharmaceutical companies increasingly turn to outsourcing R&D activities which provides them with expertise in required areas without the need to build additional infrastructure and capabilities internally. In addition, biotechnology companies often lack the technical staff or technology to process their targets internally. This is where discovery outsourcing solutions, such as those provided by Evotec, can help make the drug discovery and development process more efficient.

The overall outsourcing trend in the pharmaceutical industry is pointing to larger strategic research contracts favouring big alliance partners due to lower perceived commercial risk. This presents a challenge for the highly fragmented drug discovery industry. Evotec is ideally positioned to take full advantage of these market developments. The Company is one of few drug discovery businesses that can execute a comprehensive outsourcing strategy because it is able to undertake and integrate all parts of the drug discovery process.

TRENDS IN RESEARCH & DEVELOPMENT

In terms of proprietary research and development of novel drug compounds, experts believe that sufficient capital resources remain a critical competitive advantage for biotechnology companies as funding availability will continue to be limited for the coming years. Hence, in line with Evotec's approach, many companies across the globe are expected to continue to cut non-core programmes and focus on a few high-value assets.

BUSINESS DIRECTION AND STRATEGY

Evotec aims to further expand its position as a leading global drug discovery alliance partner, building on the competitive advantages and reputation established especially in the last 18 months. Evotec will continue to focus on high value, revenue generating partnerships with pharmaceutical and biotechnology companies. Additionally, Evotec will continue to fund a limited number of its internal pipeline products to a position where they become partnerable. The key elements of Evotec's strategy are explained in detail in the section "Corporate Performance Measures, Objectives and Strategy" on page 28 of this Management Report.

Evotec's *competitive advantage over the major Western discovery service providers* is based on its highly integrated capability in drug discovery, from high-throughput screening and structure-based drug design for the identification of novel starting points, through to expert medicinal chemistry and *in vivo* pharmacology. In 2010, our capabilities in novel disease biology drug discovery processes were especially improved and enhanced with the acquisition of DeveloGen being a key event.

The Company's competitive advantage over Asian and Eastern Europe providers is its access to an innovative high-throughput screening platform, its strong track record and expertise in medicinal chemistry and its experienced scientists with many years of drug discovery project management. Evotec is possibly the most experienced player in this area, with a 17 year track record of providing drug discovery alliances to the pharmaceutical and biotechnology industry.

In addition, the acquisition of a majority stake in RSIPL, a Mumbai-based company providing organic synthesis services, allows Evotec to leverage its innovative drug discovery offering with complementary capabilities and cost efficiencies. It also enables the Company to attract sizable chemistry-based contract work which is more frequently being outsourced by large pharmaceutical companies. This long-term strategic move is clearly helping Evotec to leverage its globally leading position in the drug discovery market.

EXPECTED RESEARCH & DEVELOPMENT, NEW PRODUCTS, SERVICES AND TECHNOLOGIES

As a drug discovery and early development partner for pharma and biotech companies, all of Evotec's new products, services or technologies are based on either internal R&D activities, entering into technology agreements with other companies or the acquisition of assets. Evotec is continually upgrading its technology base and enhancing its offering to partners. In addition, the Company is increasingly investing into highly innovative approaches to address key therapeutic areas and major pharmaceutical markets such as beta cell technology and technologies to better understand oncology or metabolic diseases. More details on Evotec approach can be found in the section Research and Development on page 29 of this Management Report which remains valid for 2011 and beyond.

In terms of proprietary drug development, Evotec has historically developed a pipeline of products both clinical and preclinical in neuroscience, pain and inflammation. During 2009 and even more so in 2010, Evotec has substantially reduced the level of funding of its proprietary products as it decided to focus on its core business as a discovery alliance partner. The Company continues to develop only a selected number of projects internally which are expected to form the basis of larger strategic alliances going forward. In 2009, for example, the EVT 100 series has been partnered with Roche and is now being developed in a Phase II treatment-resistant depression clinical trial. Roche funds but Evotec manages the clinical development of this compound. In 2011, Evotec expects to further develop its H3 antagonist for narcolepsy and cognition through the preclinical and potentially its first clinical phase.

FINANCIAL OUTLOOK FOR 2011 AND 2012

EXPECTED OPERATING RESULTS

In 2011, total Group **revenues** are expected to grow by more than 15% to € 64 to € 66 m. This assumption is based on the current order book, expected new contracts and contract extensions as well as the achievement of certain milestones. In 2012, growth is expected to be at least 15% per year.

On this basis, **2011 gross margins** are expected to be in line with those achieved in 2010. They will, however, continue to be somewhat volatile, as they are dependent upon contributions from high margin milestone payments. This trend will be even more relevant in 2012. Nevertheless, gross margins should not be below 35% in both periods.

Evotec expects **research & development (R&D) expenses** to increase in 2011 from 2010 levels. The Company will focus on key programmes and targets to invest especially in the fields of innovation in metabolic diseases and regenerative medicine. In total approximately € 10 m will be spent in R&D in 2011 and 2012.

Evotec's Group **operating result** before impairment for the years 2011 and 2012 is expected to improve over 2010.

EXPECTED FINANCING AND FINANCIAL POSITION

In 2011, Evotec will invest to support its long-term growth aspirations. This is reflected in the most significant investment programme for **capital expenditures** of the last 10 years. More than € 8 m are planned to be invested in the long-term upgrading of the Evotec capacities. One very visible sign for this strategy will be the move into a new high-tech facility in Hamburg, which will be the center for Evotec's screening and early biology work. In 2012, capital expenditures are expected to remain on a similar level to keep upgrading the quality of Evotec's offering.

The Evotec Group started the year with € 70 m of **cash and cash equivalents.** In 2011, top-line growth is expected to significantly reduce the cash requirements compared to the 2010 fiscal year for the operating business. However, Evotec's planned investments into the upgrading of its capacities will increase cash requirements over 2010. At constant year-end 2010 currencies, the Company therefore expects to end 2011 with a liquidity of approximately € 65 m, excluding any potential cash outflow for M&A or similar transactions. This is the first step towards a truly sustainable business.

Regarding its **funding situation and strategy,** the implementation of "Evotec 2012 – Action Plan to Focus and Grow" has shown its first visible results in 2010. Evotec has managed to stop the permanent cash outflow over the last years and is currently almost "cash neutral", despite its strong commitment to R&D. Given this strong strategic situation, Evotec's cash situation should remain strong also throughout 2011 and the years to come. Hence, the Company's mid-term financial plan does not indicate any material financing needs for Evotec's operating business. However, all strategically desirable moves such potential company or product acquisitions will need to be considered separately.

DIVIDENDS

Future payment of dividends is dependent upon Evotec's financial situation and liquidity requirements, the general market conditions, and statutory, tax and regulatory requirements. Evotec currently intends to retain any potential future profits and to re-invest into the Company. Consequently, dividend payments are not foreseen in the near- to mid-term.

OPPORTUNITIES

Evotec operates in a market which has excellent growth opportunities. The need to improve efficiency forces pharmaceutical and biotechnology companies to continuously increase their investment in R&D and to outsource drug discovery and development. There is an obvious trend towards larger contracts in a full-service outsourcing model with increased opportunities for an alliance partner such as Evotec, offering integrated drug discovery capabilities and project management from hit identification to IND application.

GENERAL STATEMENT OF EXPECTED DEVELOPMENT

Evotec has executed important transactions to strengthen its business. The Company is well positioned to bring expertise and real value to the pharmaceutical and biotechnology industry, addressing the industry's growing demand for innovative drugs.

Management's core strategy for Evotec is to continue to focus on its alliance business to lead the path to profitability and sustainability, to expand base business capabilities through strategic investments in platform technologies, know-how and disease expertise, and to partner with more strategic customers.
By focusing on and expanding its highly profitable alliances, the Company has the opportunity to build significant long-term value for its shareholders.

CONSOLIDATED FINANCIAL STATEMENTS (IFRS) 2010

Evotec AG and Subsidiaries – Consolidated statement of financial position as of 31 December 2010

in T€ except share data	Footnote reference	as of 31 Dec. 2010	as of 31 Dec. 2009
ASSETS			
Current assets:			
Cash and cash equivalents	(4)	21,091	32,926
Investments	(4)	46,303	25,432
Trade accounts receivables	(5)	11,841	4,510
Accounts receivable to related parties	(33)	28	-
Inventories	(6)	2,819	2,425
Current tax receivables		569	347
Other current financial assets	(7)	1,142	1,428
Prepaid expenses and other current assets		2,899	1,889
Total current assets		**86,692**	**68,957**
Non-current assets:			
Long-term investments	(8)	10	10
Property, plant and equipment	(9)	18,487	19,162
Intangible assets, excluding goodwill	(10)	57,615	29,010
Goodwill	(11)	25,979	16,557
Other non-current financial assets	(12)	3,076	12,903
Total non-current assets		**105,167**	**77,642**
Total assets		**191,859**	**146,599**

See accompanying notes to consolidated financial statements.

in T€ except share data	Footnote reference	as of 31 Dec. 2010	as of 31 Dec. 2009
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Current maturities of long-term loans	(13)	8,356	9,087
Current portion of finance lease obligations	(14)	109	229
Trade accounts payable		6,980	4,398
Accounts payable to related parties	(33)	-	837
Advanced payments received		1,421	129
Provisions	(15)	6,656	4,858
Deferred revenues	(16)	7,675	5,483
Current income tax payables	(17)	773	244
Other current finanical liabilities		225	485
Other current liabilities		607	695
Total current liabilities		**32,802**	**26,445**
Non-current liabilities:			
Long-term loans	(13)	3,500	3,757
Long-term finance lease obligations	(14)	32	132
Deferred tax liabilities	(17)	6,660	1,977
Deferred revenues	(16)	3,506	1,969
Provisions	(15)	12,722	832
Total non-current liabilities		**26,420**	**8,667**
Stockholders' equity:			
Share capital*	(19)	115,596	108,839
Additional paid-in capital		658,888	648,417
Accumulated other comprehensive income		(26,679)	(27,478)
Accumulated deficit		(615,644)	(618,904)
Equity attributable to shareholders of Evotec AG		**132,161**	**110,874**
Non-controlling interest		476	613
Total stockholders' equity		**132,637**	**111,487**
Total liabilities and stockholders' equity		**191,859**	**146,599**

** 141,171,973 and 141,171,973 shares, 1€ nominal amount, authorised at 31 December 2010 and 2009, respectively*
115,595,729 and 108,838,715 shares issued and outstanding in 2010 and 2009, respectively

See accompanying notes to consolidated financial statements.

Evotec AG and Subsidiaries – Consolidated income statement for the period from 1 January to 31 December 2010

in T€ except share and per share data	Footnote reference	Year ended 31 Dec 2010	Year ended 31 Dec 2009
Revenues	(20)	55,262	42,683
Costs of revenue		30,916	24,262
Gross profit		**24,346**	**18,421**
Operating expenses (income)			
Research and development expenses	(21)	6,116	20,947
Selling, general and administrative expenses		15,956	16,695
Amortisation of intangible assets	(10)	672	455
Impairment of goodwill	(11)	-	48
Impairment of intangible assets	(10)	-	18,185
Reversal of impairment of property, plant and equipment	(9)	-	(395)
Restructuring expenses	(22)	-	4,849
Other operating income	(23)	(4,536)	(4,044)
Other operating expenses	(23)	4,423	3,980
Total operating expenses (income)		**22,631**	**60,720**
Operating profit (loss)		**1,715**	**(42,299)**
Other non-operating income (expense)			
Interest income		241	499
Interest expense		(866)	(433)
Gain from equity investments	(8)	-	559
Loss from equity investments	(8)	-	(20)
Other income from financial assets	(24)	979	167
Other expense from financial assets	(25)	(755)	(1,196)
Foreign currency exchange gain (loss), net	(26)	2,729	(1,431)
Other non-operating income		221	334
Other non-operating expense		(397)	(999)
Total non-operating income (expense)		**2,152**	**(2,520)**
Profit (loss) before taxes		**3,867**	**(44,819)**
Current tax expense	(17)	(676)	(363)
Deferred tax expense	(17)	(206)	(315)
Net income (loss)		**2,985**	**(45,497)**
thereof attributable to:			
Shareholders of Evotec AG		3,260	(45,523)
Non-controlling interest		(275)	26
Net income (loss)		**2,985**	**(45,497)**
Weighted average shares outstanding		**109,012,908**	**106,845,831**
Net income (loss) per share (basic)		**0.03**	**(0.43)**
Net income per share (diluted)		**0.03**	

See accompanying notes to consolidated financial statements.

Evotec AG and Subsidiaries –
Consolidated statements of comprehensive income for the period from 1 January to 31 December 2010

in T€ except share and per share data	Footnote reference	Year ended 31 Dec 2010	Year ended 31 Dec 2009
Net income (loss)		**2,985**	**(45,497)**
Other comprehensive income			
Foreign currency translation		1,093	4,108
Revaluation of available-for sale securities	(12)	(294)	1,176
Other comprehensive income		**799**	**5,284**
Total comprehensive income (loss)		**3,784**	**(40,213)**
Total comprehensive income (loss) attributable to:			
Shareholders of Evotec AG		4,059	(40,239)
Non-controlling interest		(275)	26
Total comprehensive income (loss)		**3,784**	**(40,213)**

See accompanying notes to consolidated financial statements.

Evotec AG and Subsidiaries – Consolidated statements of cash flows for the year ended 2010

in T€	Year ended 31 Dec 2010	Year ended 31 Dec 2009
Cash flows from operating activities:		
Net income (loss)	**2,985**	**(45,497)**
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation of property, plant and equipment	4,093	3,610
Amortisation of intangible assets	672	455
Depreciation of current assets	345	142
Reversal of depreciation of current assets	-	(418)
Depreciation of long-term assets	397	989
Reversal of impairment of property, plant & equipment	-	(395)
Impairment of goodwill	-	48
Impairment of intangible assets	-	18,185
Impairment of property, plant & equipment	-	478
Net (gain) loss from equity investments	-	(539)
Stock compensation expense	478	960
Non cash foreign exchange gain	(3,501)	-
Non cash foreign exchange loss	-	1,531
Interest expense (benefit)	685	29
Gain on sale of financial assets	(979)	(167)
Loss on derivatives	604	1,196
Loss on sale of property, plant and equipment	48	372
Gain on sale of property, plant and equipment	(3)	(1)
Deferred tax expense (benefit)	206	316
Decrease (increase) in:		
Accounts receivable	(7,614)	(1,712)
Inventories	(710)	(249)
Other assets	(551)	507
Increase (decrease) in:		
Accounts payable	1,517	(2,190)
Advanced payments received	1,118	(146)
Deferred revenues	3,655	5,531
Provisions	(2,185)	(2,099)
Current income taxes payable	1,089	281
Other liabilities	(590)	(1,132)
Cash received during the year for:		
Interest	233	498
Cash paid during the year for:		
Interest	(532)	(527)
Taxes	(561)	(1,909)
Net cash provided by (used in) operating activities	**899**	**(21,853)**

See accompanying notes to consolidated financial statements.

in T€	Year ended 31 Dec 2010	Year ended 31 Dec 2009
Cash flows from investing activities:		
Purchase of current investments	(74,160)	(22,588)
Purchase of long-term investments	-	(1,892)
Purchase of property, plant and equipment	(2,433)	(2,087)
Purchase of intangible assets	-	(126)
Cash acquired in connection with acquisitions	1,202	157
Proceeds from sale of property, plant and equipment	1	320
Proceeds from sale of financial assets	11,404	167
Proceeds from sale of current investments	54,109	23,972
Net cash provided by investing activities	**(9,877)**	**(2,077)**
Cash flows from financing activities:		
Proceeds from option exercise	208	278
Proceeds from sale of own stock	11	-
Proceeds from issuance of loans	591	4,338
Purchase of own stock	(96)	(44)
Repayment of loans	(4,081)	(3,052)
Net cash provided by (used in) financing activities	**(3,367)**	**1,520**
Net decrease in cash and cash equivalents	**(12,345)**	**(22,410)**
Exchange rate difference	510	272
Cash and cash equivalents at beginning of year	32,926	55,064
Cash and cash equivalents at end of year	**21,091**	**32,926**
Supplemental schedule of non-cash activities:		
Acquisition of subsidiaries by issuance of shares	16,538	-
Additions to finance leases	13	4

See accompanying notes to consolidated financial statements.

Evotec AG and Subsidiaries – Consolidated statements of changes in stockholders' equity for the year ended 2010

		Share Capital				
in T€ except share data	Footnote reference	Shares	Amount	Additional paid-in capital	Treasury shares	
Balance at 1 January 2009		**108,838,715**	**108,839**	**647,163**	**-**	
Exercised shares from shares in trust	(18)	-	-	278	-	
Stock option plan	(18)	-	-	976	-	
Purchase of treasury shares		-	-	-	(44)	
Transfer of treasury shares		-	-	-	44	
Non-controlling interests through acquisition of RSIPL	(3)	-	-	-	-	
Total comprehensive income (loss)						
Balance at 31 December 2009		**108,838,715**	**108,839**	**648,417**	**-**	
Capital increase	(19)	6,750,014	6,750	9,788	-	
Exercised shares from shares in trust	(18)	-	-	199	-	
Stock option plan	(18)	7,000	7	485	-	
Purchase of treasury shares		-	-	-	(96)	
Transfer of treasury shares		-	-	-	85	
Sale of treasury shares		-	-	-	11	
Non-controlling interests through acquisition of DeveloGen	(3)	-	-	-	-	
Total comprehensive income (loss)						
Balance at 31 December 2010		**115,595,729**	**115,596**	**658,888**	**-**	

See accompanying notes to consolidated financial statements.

	Accumulated other comprehensive income					
	Foreign currency translation	Revaluation reserve	Accumulated deficit	Equity attributable to shareholders of Evotec AG	Non-controlling interests	Total stockholders' equity
	(38,835)	**6,073**	**(573,381)**	**149,859**	**-**	**149,859**
	-	-	-	278	-	278
	-	-	-	976	-	976
	-	-	-	(44)	-	(44)
	-	-	-	44	-	44
	-	-	-	-	587	587
	4,108	**1,176**	**(45,523)**	**(40,239)**	**26**	**(40,213)**
	(34,727)	**7,249**	**(618,904)**	**110,874**	**613**	**111,487**
	-	-	-	16,538	-	16,538
	-	-	-	199	-	199
	-	-	-	492	-	492
	-	-	-	(96)	-	(96)
	-	-	-	85	-	85
	-	-	-	11	-	11
	-	-	-	-	138	138
	1,093	**(294)**	**3,260**	**4,059**	**(275)**	**3,784**
	(33,634)	**6,955**	**(615,644)**	**132,161**	**476**	**132,637**

Evotec AG and Subsidiaries – Consolidated fixed asset movement schedule for the year ended 2010

	Acquisition and manufacturing costs						
in T€	1 Jan. '10	Foreign exchange	Additions	Business combination	Disposals	Reclass	31 Dec. '10
I. Intangible assets							
1. Patents and licences	5,780	-	-	-	-	-	5,780
2. Goodwill	16,557	962	-	8,460	-	-	25,979
3. Developed technology	88,431	1,400	-	27,468	-	-	117,299
4. Customer list	29,402	810	-	1,466	-	-	31,678
	140,170	**3,172**	**-**	**37,394**	**-**	**-**	**180,736**
II. Property, plant and equipment							
1. Buildings & leasehold improvements	9,973	498	115	-	8	61	10,639
2. Plant, machinery and equipment	30,063	1,025	1,360	220	3,879	613	29,402
3. Furniture and fixtures	6,186	275	609	30	152	192	7,140
4. Purchased software	1,250	-	129	-	239	36	1,176
5. Finance leases	1,126	55	-	-	-	(696)	485
6. Assets under construction	184	33	233	-	22	(206)	222
	48,782	**1,886**	**2,446**	**250**	**4,300**	**-**	**49,064**

Evotec AG and Subsidiaries – Consolidated fixed asset movement schedule for the year ended 2009

	Acquisition and manufacturing costs						
in T€	1 Jan. '09	Foreign exchange	Additions	Business combination	Disposals	Reclass	31 Dec. '09
I. Intangible assets							
1. Patents and licences	5,780	-	-	-	-	-	5,780
2. Goodwill	13,288	1,113	-	2,204	48	-	16,557
3. Developed technology	87,007	1,322	-	102	-	-	88,431
4. Customer list	27,917	1,186	-	299	-	-	29,402
	133,992	**3,621**	**-**	**2,605**	**48**	**-**	**140,170**
II. Property, plant and equipment							
1. Buildings & leasehold improvements	9,197	682	425	177	508	-	9,973
2. Plant, machinery and equipment	26,453	1,002	1,259	2,095	1,554	808	30,063
3. Furniture and fixtures	6,640	416	342	185	1,418	21	6,186
4. Purchased software	1,172	-	43	4	2	33	1,250
5. Finance leases	1,780	155	5	15	-	(829)	1,126
6. Assets under construction	70	8	139	-	-	(33)	184
	45,312	**2,263**	**2,213**	**2,476**	**3,482**	**-**	**48,782**

The consolidated fixed asset movement schedule is part of the notes to the consolidated financial statements.

	Depreciation, amortisation and writedowns						Net book value	
	1 Jan. '10	Foreign exchange	Additions	Disposals	Reclass	31 Dec. '10	31 Dec. '10	31 Dec. '09
	4,537	-	251	-	-	4,788	992	1,243
	-	-	-	-	-	-	25,979	16,557
	60,850	1,080	176	-	-	62,106	55,193	27,581
	29,216	787	245	-	-	30,248	1,430	186
	94,603	**1,867**	**672**	**-**	**-**	**97,142**	**83,594**	**45,567**
	4,997	262	821	8	9	6,081	4,558	4,976
	17,863	566	2,538	3,851	388	17,504	11,898	12,200
	4,760	232	656	131	147	5,664	1,476	1,426
	1,119	-	67	239	-	947	229	131
	881	44	-	-	(544)	381	104	245
	-	-	-	-	-	-	222	184
	29,620	**1,104**	**4,082**	**4,229**	**-**	**30,577**	**18,487**	**19,162**

	Depreciation, amortisation and writedowns							Net book value	
	1 Jan. '09	Foreign exchange	Additions	Disposals	Impairment	Reclass	31 Dec. '09	31 Dec. '09	31 Dec. '08
	4,224	-	313	-	-	-	4,537	1,243	1,556
	-	-	-	-	-	-	-	16,557	13,288
	41,396	1,245	24	-	18,185	-	60,850	27,581	45,611
	27,917	1,179	120	-	-	-	29,216	186	-
	73,537	**2,424**	**457**	**-**	**18,185**	**-**	**94,603**	**45,567**	**60,455**
	4,175	419	1,051	570	(78)	-	4,997	4,976	5,022
	15,275	972	2,718	1,225	(321)	444	17,863	12,200	11,178
	5,111	376	656	1,374	-	(9)	4,760	1,426	1,529
	1,072	-	49	2	-	-	1,119	131	100
	1,211	104	1	-	-	(435)	881	245	569
	-	-	-	-	-	-	-	184	70
	26,844	**1,871**	**4,475**	**3,171**	**(399)**	**-**	**29,620**	**19,162**	**18,468**

Evotec AG and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2010

(1) *Business description and basis of presentation*

Evotec AG, Schnackenburgallee 114, 22525 Hamburg, Germany and subsidiaries ("Evotec" or the "Company") is a drug discovery and development company focused on providing integrated and innovative drug discovery services and alliances to the pharmaceutical and biotechnology industry. In addition, Evotec has a small number of its own drug candidates at various stages of development either partnered or available for partnering. Evotec provides innovative and integrated solutions to the pharmaceutical and biotechnology industry from target to clinical development through a range of capabilities and capacities, including early-stage assay development and screening, fragment-based drug discovery through to medicinal chemistry and *in vivo* pharmacology. Evotec has established substantial experience and expertise in key therapeutic areas including neuroscience, pain, metabolic diseases as well as oncology and inflammation.

Evotec was founded on 8 December 1993 as EVOTEC BioSystems GmbH. Evotec completed an initial public offering in Germany on 10 November 1999 on Frankfurt Stock Exchange under the trading symbol "EVT". On 5 May 2008, Evotec became listed on the NASDAQ Global Market in the US under the trading symbol "EVTC". Effective 30 November 2009 Evotec voluntarily delisted from the NASDAQ Global Market in the US. In December 2010, following the fulfilment of all necessary deregistration criteria, including criteria with regard to the trading volume of Evotec shares in the US, the Company applied for deregistration and termination of reporting obligations under the U.S. Securities Exchange Act of 1934 via Form 15f. With effect of this date, all comprehensive and cost intensive reporting requirements according to US capital market rules were suspended and are expected to be officially 90 days after filing.

All amounts herein are shown in thousands of Euro (T€), unless indicated otherwise. The Euro is the functional currency of the Company.

On 1 March 2011, the Management Board authorised the consolidated financial statements for issue.

(2) *Summary of significant accounting policies*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations as issued by the International Accounting Standards Board (IASB) as adopted by the European Union (EU), as well as the additional requirements of German commercial law pursuant to § 315a par. 1 HGB (German Commercial Law). The consolidated financial statements have been prepared on the historical cost basis except for derivative and available-for-sale financial instruments, which are measured at fair value. The accounting policies below have been applied consistently to all periods presented in the consolidated financial statements and have been applied consistently by all entities except as explained in the section recent pronouncements which addresses changes in accounting policies.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Evotec and all companies which are under its control. All intercompany transactions and balances have been eliminated in the consolidation.

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 accounted for under the equity method.

In connection with the acquisition of Renovis, Inc. in 2008, the Company issued 3,060,473 shares to a trust as replacement for share-based compensation arrangements. Those shares are included in the consolidated financial statements in accordance with SIC-12.

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.

NON-DERIVATIVE FINANCIAL INSTRUMENTS

Non-derivative financial instruments consist of certain long-term and short-term investments, trade accounts and other receivables, cash and cash equivalents, loans, finance lease obligations, trade accounts and other payables. These instruments are recognised if Evotec becomes party to the contractual provisions of the financial instrument. Evotec accounts for financial assets at settlement date.

Financial assets are derecognised if either the rights to the cash flows

arising from the instrument have expired or substantially all risk and rewards attributable to the instrument have been transferred. Financial liabilities are derecognised if the obligations have expired or have been discharged or cancelled.
At initial recognition, non-derivative financial instruments are measured at fair value plus transactions costs unless the financial instruments are classified at fair value through profit and loss. The Company does not have any non-derivative financial instruments classified at fair value through profit and loss. The subsequent measurement of the financial instruments at Evotec depends on the designation of the financial instruments to the following categories as defined in IAS 39:

— Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair values plus any directly attributable transaction cost. Financial instruments of this category are measured at amortised cost using the effective interest method less any impairment losses. Loans and receivables include trade accounts and other receivables.

— Available-for-sale financial assets
Evotec's long-term and short-term investments, unless accounted for under the equity method in accordance with IAS 28 or as held-to-maturity investments, are classified as available-for-sale financial assets. Available-for-sale financial assets are measured at fair value at the balance sheet date or, if this value cannot be determined, at cost. Unrealised gains and losses resulting from changes in fair value are reported in equity, net of any tax effect. Changes in fair value are not recognised in the income statement until the asset is sold or until an impairment loss is recorded. Investments that qualify as equity instruments are measured at cost if their fair value cannot be determined based on quoted prices or by reference to the current fair value of comparable instruments, or by using appropriate pricing models (in cases where cash flows are volatile or cannot be reliably determined).

— Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed maturity and fixed or determinable payments that are quoted in an active market. If Evotec has the intent and ability to hold long-term and short-term investments to maturity, those assets are classified as held-to maturity. Held-to maturity financial assets are initially measured at fair value plus transactions costs. Subsequent to the initial recognition held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment losses.

DERIVATIVE FINANCIAL INSTRUMENTS INCLUDING HEDGE ACCOUNTING

The Company uses foreign currency derivative financial instruments to hedge its exposure to foreign exchange risks. The Company entered into an agreement, where the Company received the right ("Put Option") to sell financial assets, which is considered to be a derivative and is measured at fair value through profit and loss in accordance with IAS 39. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risk of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit and loss. In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading purposes.
Derivative financial instruments are recognised initially and subsequent to initial recognition at fair value. Accounting for the change in fair value of derivatives depends on whether they are designated as hedging instruments and qualify as part of a hedge relationship under IAS 39. If these conditions are not met, even if there is an economic hedge relationship with an underlying transaction, changes in fair value of the derivatives are recognised directly in the income statement.
Evotec's foreign currency derivative financial instruments are economic hedges, however, they are not accounted for as hedges in accordance with IAS 39. Therefore, all changes in the fair value of the foreign currency derivative financial instruments are recognised in foreign currency exchange gains and losses.

BASIS FOR DETERMINING FAIR VALUES OF FINANCIAL INSTRUMENTS

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments.
The fair value of financial assets at fair value through profit or loss and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date unless the available-for-sale financial assets are unquoted equity instruments or financial assets without an active market.
Unquoted equity instruments are measured at cost. Available-for-sale financial assets without an active market are estimated using a valuation technique based on assumptions that are not supported by prices from observable markets.
The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then the fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate.
Unless otherwise reported, the fair values of financial instruments equal the carrying amounts.

INVENTORIES

In accordance with IAS 2, inventories are valued at the lower of cost or net realisable value, with 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. Costs consist of purchased component costs and manufacturing costs, which are comprised of direct material and labour costs and systematic allocated 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. Leased property, plant and equipment meeting certain criteria are capitalised

and the present value of the related lease payments are 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. Depreciation of leasehold improvements is calculated using the straight-line method over the shorter of the related lease term or the estimated useful life. The useful lives are as follows:

	Years
Buildings and leasehold improvements	6–35 years
Plant, machinery and equipment	3–20 years
Furniture and fixtures	3–15 years
Computer equipment and software	3–5 years
Assets under finance lease	3–5 years

The depreciation period and method is reviewed at each balance sheet date. Differences from previous estimates are 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.
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:

	Years
Developed technologies	18 years
Customer list	2–5 years
Patents and licenses	15 years or shorter life

Developed technologies acquired in the business combinations with ENS Holdings, Inc. (ENS), Renovis, Inc. and DeveloGen AG are not amortised until the intangible assets are likely to generate benefits and tested for impairment at least annually.
The amortisation period and method is reviewed at each balance sheet date.

GOODWILL

Goodwill acquired in a business combination is recognised as an asset representing any value attributed to items that cannot be individually identified and separately recognised at the acquisition date. The Company recognises separately the acquired identifiable assets, liabilities and contingent liabilities at the acquisition date. Goodwill is measured at cost less accumulated impairment losses until 2008. With the early adoption of the revised IFRS 3 starting 1 January 2009, the Company measures the goodwill at acquisition-date fair value plus the acquisition-date fair value of Evotec's previously held equity interests in this business combination.
The Company's goodwill results mainly from its acquisition of Oxford Asymmetry International plc. in October 2000. The balance sheet as of 31 December 2010 includes an additional goodwill acquired in a business combination from the acquisition of DeveloGen AG in September 2010. Additional goodwill acquired in a business combination has arisen from the acquisition of Research Support International Private Limited (RSIPL) in August 2009 and from the acquisition of Renovis, Inc. in May 2008, which was fully impaired in 2009, as well as goodwill acquired in a business combination from the acquisition of ENS in May 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.
Revenues generated from contracted services are recognised as the services are rendered. Payments for contracted services are generally paid in advance and recorded as deferred revenue until earned.
Deliverable kind of contracted services 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 the customer's credit-worthiness. Payments for deliverable kind of contracted services are generally paid in advance and recorded as advanced payments received. Revenue from compound access fees is recognised rateably over the related forecasted service period.
Revenue under long-term collaborative agreements includes, but is not limited to, the following:
1. 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.
2. Success Payments – revenue contingent upon the attainment of certain milestones is recognised in the period the milestone is successfully achieved. This typically occurs when the Company's contract partner agrees that the requirements stipulated in the agreement have been met.
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. The Company has no refund obligations included in their service agreements.
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€ 1,615 in 2010 and T€ 2,165 in 2009 is included in revenue. Additionally the Company might receive sales milestones. Such income is included in revenue in the amount of T€ 0 in 2010 and T€ 1,000 in 2009.

INTEREST INCOME AND EXPENSE

Interest is recorded as expense or income in the period to which it relates. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method. All other interest income and expense are also recognised in the income statement using the effective interest method.
Evotec has no qualifying assets according to the revised IAS 23 and therefore does not capitalise interest expenses.

INCOME TAXES

Income taxes comprise the current taxes on income in the individual countries as well as the deferred taxes. Income taxes are recorded in the income statement except for those items recorded directly in stockholders' equity.
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 substantial 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 not recognised 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 generated for internal projects 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 to the Company, such 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 all criteria set out in IAS 38 are met. This principle is also used for the accounting of developed software. However, the software included in property, plant and equipment consists only of purchased software. Evotec did not capitalise any research and development costs in 2010 and 2009.
Research and development costs that are acquired in a business combination are capitalised when those research and development projects are expected to generate probable future economic benefits to the Company. Research and development costs acquired in a business combination are not amortised until they are likely to generate benefits.
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. No grants were received for capitalised development expenditures. The amounts recognised as a reduction of the Company's research and development expense were T€ 667 in 2010 and T€ 11 in 2009.
Under the terms of the grants, governmental agencies generally have the right to audit qualifying expenses submitted by the Company.

TRANSLATION OF FOREIGN CURRENCY DENOMINATED TRANSACTIONS AND FOREIGN OPERATIONS

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 rates of the date of the transaction 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 (property, plant and equipment and intangible assets including goodwill) for impairment, to estimate the value in use or the fair value less cost to sell, in accordance with IAS 36. An impairment review is performed annually for intangible assets with indefinite useful lives, intangible assets not yet available for use and goodwill, or whenever events or changes in circumstances indicate that the carrying amount of an asset or a group of assets may not be recoverable. In line with our policy concerning the impairment of intangible assets with indefinite useful lives and goodwill, the Company carried out an impairment test in the fourth quarter of 2010 and 2009 (see Note 10 and 11).
An impairment loss is recognised if the carrying amount of an asset (or a group of assets when considering a cash generating unit) exceeds its recoverable amount which is the higher 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 net present value of future cash flows arising from that asset or cash generating unit. The discount rate used to calculate the value in use is determined to reflect the risks inherent for each asset or cash generating unit. The evaluation of the net cash flow of the further use is based on a mid range or where applicable long range forecast. Considerable management judgment is necessary to estimate discounted future cash flows.
Any impairment is reported as a separate component of operating expenses in the consolidated income statement. 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 of goodwill are not reversed.

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 straight-line to expenses over the vesting period in which the employee renders services.

PENSION AND SIMILAR OBLIGATIONS

The Company's net obligation for defined benefit and other postretirement benefit plans have been calculated using the projected unit credit method. Actuarial gains and losses are recognised using the 10% corridor.
Service cost and interest costs for pensions and other postretirement obligations are recognised as an expense in operating result.
The Company's obligations for contributions to defined contribution plans are recognised as expense as incurred.

PROVISIONS

Provisions are recognised when the Company has a present obligation as a result of a past event which will result in a probable outflow of economic benefits that can be reasonably estimated. The amount recognised represents the best estimate of the settlement amount of the present obligation as of the balance sheet date. Expected reimbursements of third parties are not offset, but recorded as a separate asset if it is virtually certain that the reimbursements will be received. Where the effect of the time value of money is material, provisions are discounted using a risk adjusted market rate.
Provisions for restructuring costs are recognised when the Company has a detailed formal plan for the restructuring and has notified the affected parties.
A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable costs of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established Evotec recognised any impairment loss on the assets associated with that contract.
The Company accrues for estimated losses from legal actions or claims, including legal expenses, when events exist that make the realisation of the losses or expenses probable and they can be reasonably estimated.

NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is calculated by dividing the net income (loss) by the weighted-average number of common shares outstanding for the period, without consideration for common stock equivalents. The weighted average number of ordinary shares are calculated as follows:

in T€	2009	2010
Issued ordinary shares 1 January	108,839	108,839
Shares in trust (SIC-12) 1 January	(1,652)	(2,359)
Effect of share options exercised	235	366
Effect of shares issued related to a business combination	1,591	-
Weighted average number of ordinary shares 31 December	**109,013**	**106,846**

Diluted net income (loss) per share is computed by dividing the net income (loss) by the weighted-average number of common share and share equivalents outstanding for the period determined using the treasury-stock method. For purposes of this calculation, stock options are considered to be common stock equivalents and are only included in the calculation of diluted net income (loss) per share when their effect is dilutive. In 2010, dilutive shares amounted to 40,000 stock options. There are no dilutive shares in 2009 as a result of net losses. Anti-dilutive common stock equivalents consist of 0 and 1,661,450 stock options in 2010 and 2009, respectively.

USE OF ESTIMATES

The preparation of the accompanying consolidated financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses during the reporting period as well as the disclosure of contingent assets and liabilities as of the date of the main financial statements. Main estimates and assumptions affect acquisitions (Note 3), impairment testing (Note 10 and 11), provisions (Note 15), measurement of compensation expenses (Note 18) and the recognition of deferred tax assets (Note 17). 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.
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods effected.

RECENT PRONOUNCEMENTS

In January 2009, the IASB issued IFRIC 18 "Transfer of Assets from Customers", which has been endorsed on 27 November 2009 by the EU. IFRIC 18 provides guidance on how to account for and recognise revenue for agreements in which an entity receives from a customer assets or cash to acquire assets in order to subsequently provide services. The regulations are effective for annual periods beginning on or after 1 November 2009, with earlier application permitted. This interpretation does not have any impact on the Company's consolidated financial statements.

On 18 June 2009, the IASB issued amendments to IFRS 2 "Share-based Payment" which has been endorsed by the EU on 23 March 2010. The amendments clarify how an individual subsidiary in a group should account for some share-based payment arrangements in its own financial statements. In these arrangements, the subsidiary receives goods or services from employees or suppliers but its parent or another entity in the group must pay those suppliers. The amendments are effective for annual periods beginning on or after 1 January 2010 and must be applied retrospectively. This interpretation does not have any impact on the Company's consolidated financial statements.
In July 2008, the IASB issued "Eligible Hedged Items – Amendment to IAS 39 Financial Instruments: Recognition and Measurement" which has been endorsed on 15 September 2009 by the EU. The amendment clarifies how the existing principles underlying hedge accounting should be applied in two particular situations – the designation of inflation in a financial hedged item and the designation of a one sided risk in a hedged item. The application of the amendment is compulsory for the fiscal years beginning on or after 1 July 2009 and has to be applied retrospectively, earlier application is permitted. This interpretation does not have any impact on the Company's consolidated financial statements.
All of the following IFRS pronouncements that were issued by the IASB and the IFRIC and were not effective as of 31 December 2010, have not been applied in the preparation of the consolidated financial statements as of 31 December 2010.
On 26 November 2009, the IASB issued "Prepayments of a Minimum Funding Requirement" (Amendments to IFRIC 14) which has been endorsed by the EU on 19 July 2010. The amendments correct an unintended consequence of IFRIC 14 IAS 19 – "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction". Without the amendments, in some circumstances entities are not permitted to recognise some voluntary prepayments for minimum funding contributions as an asset. This was not intended when IFRIC 14 was issued, and the amendments correct the problem. The amendments are effective for annual periods beginning 1 January 2011, with earlier application permitted. The amendments must be applied retrospectively to the earliest comparative period presented. Evotec does not expect that the adoption will have a material impact on the consolidated financial statements.
On 4 November 2009, the IASB issued a revised version of IAS 24 "Related Party Disclosures" which has been endorsed by the EU on 19 July 2010. The objective of IAS 24 is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances with such parties. Effective date is 1 January 2011. This interpretation will not have any impact on the Company's consolidated financial statements.
On 12 November 2009, the IASB issued IFRS 9 "Financial Instruments" which is not yet endorsed by the EU as the first step in its project to replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied starting 1 January 2013, with early adoption permitted. The provisons for the classification and measurement of financial liabilities have not been altered significantly in IFRS 9 compared to the provisions in IAS 39. The Company is still evaluating the effect of IFRS 9.
On 19 February 2011 the EU endorsed the "Annual improvements to IFRS 2010". The endorsed changes to IFRS 3; IFRS 7, IAS 32 and IAS 39 in accordance to the changes in IFRS 3 as well as IAS 21, IAS 38 and IAS 31 in accordance to IAS 27 are effective for annual periods beginning after 30 June 2010. Effective for annual periods beginning after 31 December 2010 changes to IFRS 7 and IAS 1 are endorsed. The Company is still evaluating the effect of those changes on the Company's consolidated financial statements.
The IASB issued various other pronouncements. These recently adopted pronouncements as well as pronouncements not yet adopted did not have a material impact on Evotec's consolidated financial statements.

(3) *Acquisitions*

The Company acquired 99.4% of the shares in DeveloGen AG, Göttingen (DeveloGen), a biopharmaceutical company engaged in the discovery of novel therapeutic approaches for the treatment of metabolic and endocrine disorders. This transaction included a share as well as a potential cash component. Through the acquisition of DeveloGen assets and its disease biology know-how in metabolic disorders, Evotec broadens its portfolio. The acquisition was effective as of 3 September 2010 with the application for the capital increase at the trade register and the transfer of DeveloGen shares to the Company. In October 2010, Evotec issued 6,750,014 shares to acquire the underlying shares of DeveloGen. From those shares, 2,773,676 shares were held in escrow. They are held in trust for the sellers and Evotec as joint trustee. 1,398,678 escrow shares will be released in March 2011 from this escrow to the sellers, following the signing of the beta cell agreement by DeveloGen. The remaining 1,374,998 shares held in escrow are subject to certain representations.
The purchase price of T€ 31,385 comprises the fair value of the shares issued for common stock of € 2.45 per share which was based on the stock price of Evotec at the date of acquisition as well as the fair values determined for the potential performance-related deferred payments (earn out). The earn out in the amount of T€ 14,847 as contingent consideration was calculated based on estimated future revenues as of the date of acquisition with a discount rate of 8.0%. The underlying estimated revenues were calculated in the same manner like the fair values of the acquired assets.
The fair values of the acquired assets and liabilities were estimated based on the recognised amounts as of the date of the acquisition. Fair value adjustments have been recorded for developed technologies in the amount of T€ 22,235 and for a customer list in the amount of T€ 1,466 which have been estimated based on net present value modelling. The resulting goodwill from the acquisition amounts to T€ 8,460. According to IFRS 3 and due to preliminary assessment of certain tax issues the initial accounting for the acquisition of DeveloGen is provisional with regard to purchase price allocation and therefore may be subject to changes.
The net income of Evotec for the twelve months ended 31 December 2010 included a net loss of T€ 963 from DeveloGen as well as revenues of T€ 841.
The following is the breakdown of the carrying amount and the fair value of DeveloGen at the date of acquisition:

in T€	3 Sep. 2010 carrying amount	**3 Sep. 2010 fair value**
Cash and cash equivalents	1,202	**1,202**
Inventories	1	**1**
Current assets	209	**209**
Property, plant and equipment	250	**250**
Developed technologies	5,233	**27,468**
Customer list	-	**1,466**
Loans	(2,077)	**(2,077)**
Provisions	(588)	**(588)**
Current liabilities	(472)	**(472)**
Deferred tax liabilities	-	**(4,396)**
Net assets acquired	**3,758**	**23,063**
Non-controlling interests	-	**(138)**
Goodwill	-	**8,460**
Cost of acquisition	-	**31,385**
Less fair values of shares issued	-	**(16,538)**
Less cash and cash equivalents acquired	-	**(1,202)**
Less earn out	-	**(14,847)**
Cash inflow from acquisition	-	**(1,202)**

The following pro forma information is based on the assumption that the investment in DeveloGen occurred as of 1 January 2009:

in T€	**2010**	2009
Pro-forma revenues	**56,739**	50,429
Pro-forma net loss	**(671)**	(45,320)
Pro-forma basic loss per share	**(0.01)**	(0.40)
Pro-forma diluted loss per share	**(0.01)**	

Effective as of 31 August 2009 the Company acquired 70% of the shares in Research Support International Private Limited, Thane, India (RSIPL) including its 51% share in Evotec-RSIL Limited, India (Evotec-RSIL). RSIPL is a company providing drug discovery and development services. The purchase price of T€ 2,373 in cash included a potential earn out which was calculated based on estimated future revenues and was paid in 2010. The Company decided to early adopt IFRS 3 "Business Combinations" (2008) and the amended version of IAS 27. In 2010 the potential earn-out component was decreased in the amount of T€ 68 due to decreased estimated future revenues. In the second quarter 2010, based on those changed future revenue assumptions the Company reviewed the goodwill from the acquisition of RSIPL for impairment and concluded that no impairment had to be recorded.
At 31 August 2009 the Company recognised a gain of T€ 559 to adjust its carrying amount of the investment in Evotec-RSIL which used to be accounted for under the equity method to its fair value according to the revised version of IFRS 3. The fair values of the assets and liabilities acquired from RSIPL were estimated based on the recognised amounts as of the date of the acquisition. Fair value adjustments have been recorded for a customer list in the amount of T€ 103 which has been estimated based on discounted cash flow modelling. The resulting goodwill amounted to T€ 2,204. The net loss of Evotec for the twelve months ended December 2009 included a net income of T€ 59 from RSIPL and Evotec-RSIL as well as revenues of T€ 1,244.
The following pro forma information is based on the assumption that the investment in RSIPL occurred as of 1 January 2009:

in T€	2009
Pro-forma revenues	43,810
Pro-forma net loss	(45,385)
Pro-forma basic and diluted loss per share	(0.42)

(4) *Cash and cash equivalents and investments*

Of 31 December 2010 and 2009, an amount of T€ 13,629 and T€ 13,928, respectively, of cash and cash equivalents was pledged as security.
Investments in mutual funds, which invest in debt instruments to manage the fund investors' liquidity, including debt instruments with an original maturity beyond three months, are reported as current investments and carried at cost that approximates their fair value. Those investments are classified as available-for-sale financial assets.

(5) *Trade accounts receivables*

The Company has assessed the non-payment risk of all trade accounts receivables which resulted in an allowance of T€ 0 and T€ 88 in 2010 and 2009, respectively. In 2010, the allowance of 2009 was used in the amount of T€ 73 and the remaining amount was released. There are no use restrictions on trade accounts receivable.
The ageing of trade receivables at the year end was:

in T€	**31 Dec.'10**	31 Dec.'09
Not past due	**11,188**	3,355
Past due 0-30 days	**234**	590
Past due 31-120 days	**311**	364
More than 120 days	**108**	201
Total trade accounts receivables	**11,841**	**4,510**

(6) *Inventories*

Inventories consist of the following:
Raw materials consist of biological materials and substances as well as

in T€	**31 Dec.'10**	31 Dec.'09
Raw materials	1,912	1,897
Work-in-progress	907	528
Total inventories	**2,819**	**2,425**

chemicals. Work-in-progress in 2010 and in 2009 consists of costs incurred on customer projects which were not completed at year end. The Company carries an allowance on raw materials of T€ 1,113 and T€ 802, included in the amounts above, as of 31 December 2010 and 2009, respectively. An allowance on work-in-progress in the amount of T€ 33 and T€ 27 as of 31 December 2010 and 2009, respectively is included in the amounts above. In 2009, a reversal of previously written down inventories was recognised in the amount of T€ 418 on raw materials.

(7) *Other current financial assets*

Other current financial assets as of 31 December 2010 and 2009 mainly consist of accrued income.

(8) *Long-term investments*

Long-term investments consist of the investment in the European ScreeningPort GmbH, Hamburg.
In 2007, Evotec founded together with the City of Hamburg the European ScreeningPort GmbH (ESP), Hamburg, with an ownership of 19.9% interest. As of 31 December 2010 and 2009 the carrying amount of the investment is T€ 10. This investment is classified as available-for-sale financial asset.
As of 31 December 2009 the Company's carrying amount of the investment in Evotec RSIL Ltd. (Evotec RSIL), Maharashtra, India amounted to T€ 0 due to the acquisition of RSIPL and the resulting full consolidation of Evotec RSIL from 31 August 2009 onwards. At 31 August 2009, the Company recognised a gain of T€ 559 to adjust its carrying amount of the investment to its fair value according to the revised IFRS 3. The share of the net loss of Evotec RSIL which was accounted for under the equity method of accounting amounted to T€ 20 in the first eight months 2009.
The long-term investment of Evotec continues to have losses and, therefore, does not have undistributed profits.
In 2010 and 2009, the Company recorded revenues in the amount of T€ 381 and T€ 597, respectively with ESP. Additionally in 2008, the Company has granted ESP a loan in the amount of T€ 1,500 of which T€ 1,386 (2009: T€ 989) is drawn as of 31 December 2010. In 2010 and 2009, the drawn portion of the loan was fully written down, respectively. Services and materials were purchased in 2009 from Evotec RSIL before the acquisition in the amount of T€ 462. No further material transactions with investments of the Company were recorded.

(9) *Property, plant and equipment*

With respect to the development of property, plant and equipment, please refer to the consolidated fixed asset movement schedule.
The main additions in 2010 and 2009 relate to upgrades of our screening facility and analytical equipment. Upon completion of the assets under construction, costs are transferred into their respective fixed assets classification. Depreciation expense amounted to T€ 4,082 and T€ 4,475 in 2010 and 2009, respectively.
Laboratory premises in Abingdon, United Kingdom were tested for impairment. During the asset impairment review, as permitted under IAS 36, management estimated the asset impairment using a method based on the physical usage of the laboratory premises. This has resulted in no change to the carrying value of the asset at the balance sheet date. In 2009, a partial reversal of T€ 395 of previously recognised assets impairment was recognised as a result of the asset impairment review.
The net book values included in fixed assets, which are held under finance leases, relate to plant and machinery as well as fixture and fittings of T€ 73 and T€ 23 as of 31 December 2010 and T€ 232 and T€ 14 as of 31 December 2009, respectively. The related depreciation amounts to T€ 154 and T€ 8 in 2010, T€ 217 and T€ 4 in 2009, respectively.

(10) *Other intangible assets and goodwill*

With respect to the development of intangible assets please refer to the consolidated fixed asset movement schedule.
Intangible assets consist of developed technologies, customer list and acquired patent and licenses.
The main additions to intangible assets in 2010 relate to the acquired developed technologies amounting to T€ 27,468 and the acquired customer list amounting to T€ 1,466 in the business combination with DeveloGen AG (DeveloGen) with an effective date of 3 September 2010. Developed technologies in the amount of T€ 5,233 were already part of the assets in DeveloGen on the effective date of the acquisition.
In 2009 the main additions related to intangible assets acquired in the business combination with RSIPL with effective date 31 August 2009, amounting to T€ 103.
Amortisation expense of intangible assets amounted to T€ 672 in 2010 and T€ 457 in 2009.
The developed technologies acquired in a business combination are not amortised until they are likely to generate benefits. Part of the developed technologies acquired in the business combination with DeveloGen started to be amortised due to revenues generated with this technology.
The developed technologies from the acquisition of DeveloGen with a carrying amount of T€ 27,468 at 31 December 2010 were tested for impairment on the annual designated test date October 2010. The impairment test is based on a discounted cash flow model by using the assumptions of a Long Range Plan (LRP) for 14 to 18 years to determine a value for the cash generating projects. The discount rate considering the risks and rewards of the activities used in the impairment test was 10.48% in 2010. As a result of that test, the Company concluded that no impairment is deemed necessary.
The USD denominated developed technologies from the acquisition of Renovis, Inc. were tested for impairment on the annual designated test date of October 2010 and 2009. The impairment test is based on a discounted cash flow model by using the assumptions of a Long Range Plan (LRP) for 17 to 18 years to determine a value for the cash generating projects. The discount rate considering the risks and rewards of the activities used in the impairment test was 10.48% and 10.9% in 2010 and 2009, respectively. As a result of that test in 2010, the Company concluded that no impairment was deemed necessary as of that date. In 2009, the impairment test resulted in an impairment

of T€ 13,799. The carrying amount at 31 December 2010 and 2009 amounted to T€ 4,190 and T€ 3,874 respectively.
The developed technologies from the acquisition of ENS Holdings Inc. with a carrying amount of T€ 23,631 at 31 December 2010 and 2009, were tested for impairment on the annual designated test date October 2010. The impairment test is based on a discounted cash flow model by using the assumptions of a Long Range Plan (LRP) for 13 to 15 years to determine a value for the cash generating projects. The discount rate considering the risks and rewards of the activities used in the impairment test was 10.48% and 10.9% in 2010 and 2009, respectively. As a result of that test in 2010, the Company concluded that no impairment was deemed necessary. In 2009, an impairment of T€ 4,386 was recorded as result of the impairment test.
The estimated cash flows for the above described cash generating projects used in the impairment tests are based on past experience. In addition, following key assumptions were used in the models:
— The possibilities of reaching each development phase were obtained from external publications of attrition rates which were adjusted according to the individual circumstances where necessary.
— The estimated timing of the different development phases in each cash generating project was individually set based on the past experience and scientific knowledge of management.
— Market size was projected using market research databases. Management estimated the Company's market share based on experience in the specific market environment and by comparing with similar products.
— Milestone and royalty revenues for cash generating projects were estimated based on comparable deal structures in the market and in the Company.
Management has identified two key assumptions that have the potential to vary and thereby cause the carrying amount to exceed the recoverable amount. The following table shows the amount by which those two assumptions have to change individually in order for the estimated recoverable amount to be equal to the carrying amount.

in %	Discount rate 2010	Commercialisation success rate 2010
Developed technologies DeveloGen	3.2 to 4.9	not applicable
Developed technologies Renovis	0.0 to 2.8	(4.2) to 0.0
Developed technologies ENS Holdings	0.3 to 24.0	(47.6) to (0.1)

The categories listed above consist of several developed technologies.

(11) *Goodwill*

With respect to the development of goodwill please refer to the consolidated fixed asset movement schedule.
For the purpose of impairment testing, goodwill is allocated to Evotec's operating divisions, which represent the lowest level within the Company at which the goodwill is monitored for internal management purposes.
In September 2010, the Company acquired DeveloGen AG (DeveloGen) which resulted in a goodwill of T€ 8,460 which is also the carrying amount at 31 December 2010. The Company has tested the cash generating unit for impairment on the annual designated test date October 2010. The impairment test is based on a discounted cash flow model by using the assumptions of the Long Range Plan for 14 to 18 years. The discount rate considering the risks and rewards of the activities used in the impairment test was 10.48% in 2010. As a result of this test, the Company concluded that no impairment has to be recorded in 2010.
In August 2009, the Company acquired Research Support International Private Ltd. (RSIPL) which resulted in goodwill denominated in INR in the amount of T€ 2,204 and a carrying amount at 31 December 2010 and 2009 of T€ 2,534 and T€ 2,271, respectively. The Company has tested the cash generating unit for impairment on the annual designated test date October 2010. The impairment test is based on a discounted cash flow model by using the assumptions of the Mid Range Plan for 2011 to 2015. The discount rate considering the risks and rewards of the activities used in the impairment test was 10.9% in 2010 and 13.0% in 2009. As a result of this test, the Company concluded that no impairment has to be recorded in 2010 and 2009.
In May 2008, the Company acquired Renovis, Inc. which resulted in a goodwill denominated in US Dollar in the amount of T€ 44 and a carrying amount of T€ 0 at 31 December 2010 and 2009. The Company has tested the cash generating unit for impairment on the annual designated test date October 2009. The impairment test was based on a discounted cash flow model by using the assumptions of the Long Range Plan (LRP) for 15 to 20 years. The discount rate considering the risks and rewards of the activities used in the impairment test was 10.9% in 2009, respectively. As a result of this test, the Company concluded that an impairment in the amount of T€ 48 had to be recorded in 2009.
In May 2005, the Company acquired ENS Holdings, Inc. which resulted in goodwill in the amount of T€ 461 which is also the carrying amount at 31 December 2010 and 2009. The Company has tested the cash generating unit for impairment on the annual designated test date October 2010. The impairment test is based on a discounted cash flow model by using the assumptions of the Long Range Plan (LRP) for 13 to 18 years. The discount rate considering the risks and rewards of the activities used in the impairment test was 10.48% and 10.9% in 2010 and 2009, respectively. As a result of this test, the Company concluded that no impairment has to be recorded in 2010 and 2009.
Goodwill denominated in UK Sterling from the acquisition of Oxford Asymmetry International plc has been tested for impairment on the annual designated test date October 2010. The impairment test is based on a discounted cash flow model by using the assumptions of the Mid Range Plan for 2011 to 2015. The discount rate considering the risks and rewards of the activities used in the impairment test was 9.40% and 9.51% in 2010 and 2009, respectively. As a result of that test, the Company concluded that no impairment was due for the goodwill in 2010 and 2009 carried as of that date. The carrying amount at 31 December 2010 and 2009 amounted to T€ 14,524 and T€ 13,825, respectively.
The total amount of foreign exchange differences related to goodwill denominated in a foreign currency amounted to T€ 962 and T€ 1,113 in 2010 and 2009, respectively and are recorded directly in equity.
The estimated cash flows for the impairment test of the goodwill in DeveloGen and in ENS Holdings Inc. are mainly based on the same key assumptions as the underlying developed technologies.
The impairment tests of the goodwill in RSIPL and Oxford Asymmetry International and the relating estimated cash flows are based on past

experience. In addition, the following key assumptions were used in the models:

— The estimates of revenues were based on knowledge of overall market conditions combined with specific expectations of customer growth and product performance.
— Cost estimates were developed using the 2011 budgeted cost base projected forward for volume increases, mix changes, specific investments and inflationary expectations.
— The exchange rates and interest rates used were based on current market expectations and predictions

Management has identified one key assumption that has the potential to vary and thereby cause the carrying amount to exceed the recoverable amount. The following table shows the amount by which this assumption has to change individually in order for the estimated recoverable amount to be equal to the carrying amount.

in %	Discount rate 2010
Goodwill DeveloGen	7.8
Goodwill RSIPL	0.1
Goodwill ENS Holdings	25.0
Goodwill Oxford Asymmetry	20.0

(12) *Other non-current financial assets*

Other non-current financial assets as of 31 December 2010 mainly consist of Coupon Bonds in the amount of T€ 3,008 (2009: T€ 3,000) which are classified as held-to-maturity investments and are categorised as level 1 in the fair value hierarchy. The Coupon Bonds carry an interest rate of 1.5% per annum and mature in November 2012. Other non-current financial assets as of 31 December 2009 additionally consist of auction rate securities ("ARSs") in the amount of T€ 9,236 and Put Options related to these ARSs in the amount of T€ 550.

On 30 June 2010, Evotec exercised put options related to the ARSs. As a result, the put options amounted to T€ 0 as of 31 December 2010. Due to the exercise of the put option, the Company realised expenses in the amount of T€ 632 in 2010.

The ARSs acquired in the Renovis acquisition were classified as available-for-sale securities and were measured at fair value with unrealised gains and losses reported as a component of "Accumulated other comprehensive income" in stockholders' equity. As a result, the Company recorded an unrealised gain of T€ 906 from May 2008 until June 2010. This unrealised gain was realised through profit and loss on the date of the sale of the ARSs.

The other non-current financial assets are classified as follows:

in T€	2010	2009
Held-to-maturity investments	3,008	3,000
Financial assets designated at fair value through profit or loss	-	550
Available-for-sale financial assets	-	9,236
Receivables	68	117
	3,076	12,903

Due to the illiquidity of the ARSs until June 2010, the Company engaged in 2009 an external valuation group to come up with a valuation analysis. The external valuation group utilised a discounted cash flow ("DCF") model to derive an estimate of fair value of these securities at 31 December 2009. This was categorised as a level 2 in the fair value hierarchy. The discounted cash flow model includes estimates with respect to the amount and timing of future interest payments, projections of interest rates, and the rate of return required by investors to own such securities given the current liquidity risk associated with the ARSs. As a result, the Company recorded an unrealised gain of T€ 1,186 in 2009 related to ARS investments of T€ 9,803. The fair value of the ARS as of the date of acquisition amounted to T€ 8,361. As of 31 December 2009 the fair value amounted to T€ 9,236 including foreign exchange differences.

(13) *Long-term loans*

In 2009, Evotec entered into a T€ 3,500 loan agreement with a Bank. In 2010, this loan was extended. The loan is outstanding at 31 December 2010 and 2009 and carries a variable interest rate of 0.9% over six month EURIBOR per annum (31 December 2009: 1.15% over six month EURIBOR per annum). The loan is now repayable in total on 30 June 2011 (31 December 2009: 30 June 2010). This loan has a cash collateral in the same amount.

In 2007, the Company entered into a T€ 3,000 loan agreement with a bank of which T€ 3,000 is outstanding at 31 December 2010 and 2009. This loan was repayable in total on 10 December 2010 and was extended in 2010 to be repayable in total on 30 June 2011. The loan carries a variable interest rate of 0.9% over six month EURIBOR per annum (31 December 2009: 1.15% over six month EURIBOR per annum). This loan has a cash collateral in the same amount.

On 19 December 2007, EVOTEC NeuroSciences GmbH (ENS GmbH) entered into a T€ 3,000 loan agreement with a bank of which T€ 3,000 is outstanding at 31 December 2010 and 2009. The loan carries a variable interest rate of 1.2% over six months EURIBOR per annum and is repayable in one bullet payment at maturity at the end of 2012. This loan has a cash collateral in the amount of T€ 3,000.

Further ENS GmbH has entered in 2006 into a T€ 5,000 loan agreement with a bank of which T€ 625 is outstanding at 31 December 2010 (2009: T€ 1,875). This loan carries a fixed interest rate of 5.4% per annum and is repayable in semi-annual instalments of T€ 625 ending on 30 June 2011. ENS GmbH has pledged potential future cash flows from commercialisation of certain assets vis-à-vis the bank to secure repayment of the loan.

In 2009, Evotec (India) entered into a loan agreement denominated in INR with a German bank located in India, which carries an interest rate of 10% per annum and is repayable on demand. The total balance outstanding as per 31 December 2010 is T€ 1,231 (2009: T€ 1,469). This loan has a cash collateral in the amount of 115% of the drawn down loan amount.

In 2010, the outstanding loans denominated in INR of Evotec (India) with an Indian bank were converted into a loan with a German bank located in India, which carries an interest rate of 12% per annum and is repayable on 31 January 2012. The total balance outstanding as per 31 December 2010 is T€ 500. This loan has a cash collateral in the amount of 115% of the drawn down loan amount.

Throughout the year 2010 and 2009, Evotec met all covenants with regard to liquidity of Evotec under the various loan agreements described above.
The annual maturities of these debts are as follows:

	T€
2011	8,356
2012	3,500
2013	-
Total	**11,856**

Non-current loans and borrowings:

in T€	**2010**	2009
Secured bank loans	**11,856**	9,844
Unsecured bank loans	**-**	3,000
	11,856	**12,844**

Current portion of loans and borrowings:

in T€	**2010**	2009
Current portion of secured bank loans	**8,356**	6,087
Current portion of unsecured bank loans	**-**	3,000
	8,356	**9,087**

The currency structure of loans is as follows at 31 December 2010: T€ 10,125 in Euro and T€ 1,731 in INR (31 December 2009: T€ 11,375 in Euro T€ 1,469 in INR). The Evotec interest rates are 20% fixed rates and the rest on a variable interest rate basis (2009: 26% fixed rates).
The Company maintains lines of credit totalling T€ 374 and T€ 128 to finance its short-term capital requirements, of which the entire balance is available as of 31 December 2010 and 31 December 2009, respectively. These lines of credit provide for borrowings at various interest rates and have various expiration dates as well as no stated expiration date.
The fair value of the long-term loans with fixed interest rates amount to T€ 2,513 and T€ 1,935 as of 31 December 2010 and 2009, respectively.

(14) *Finance lease obligations*

Liabilities under finance leases are recognised as financial obligations and the leased assets are capitalised. These assets consist of laboratory equipment. The Company is obligated under finance leases of T€ 141 and T€ 361 as of 31 December 2010 and 2009, respectively that expire at various dates during the next two years.
Those finance leases include property, plant and equipment. The future minimum lease payments under finance leases are as follows:

in T€	Capital	Interest	**Total**
2011	109	6	**115**
2012	32	1	**33**
2013	-	-	**-**
Total principal payable on finance leases	**141**	**7**	**148**

The fair value of the long-term finance lease obligation is equal to the notional amounts as of 31 December 2010 and as of 31 December 2009, respectively.

(15) *Provisions*

The provisions consist of the following:

in T€	**31 Dec. 2010**	31 Dec. 2009
Earn out	**15,233**	748
Bonus accruals	**1,978**	2,295
Accrued vacation	**623**	539
Accrued lease expenses	**650**	671
Other provisions	**894**	1,437
Total provisions	**19,378**	**5,690**

The following table summarises the provisions recorded during 2010:

in T€	1 January '10	Business combination	Consumption	Release	Foreign exchange	Additions	31 Dec. '10
Earn out	748	14,847	680	68	-	386	15,233
Personnel expenses	2,834	495	2,733	359	63	2,309	2,609
Severance payments	414	-	389	30	5	-	-
Accrued lease expenses	671	-	55	-	34	-	650
Other provisions	1,023	37	808	59	31	662	886
Total	**5,690**	**15,379**	**4,665**	**516**	**133**	**3,357**	**19,378**

In 2010, the provision for earn out stays in the context of the acquisition of DeveloGen in the amount of T€ 15,233. This contingent consideration has increased during 2010 by T€ 386 reflecting the unwind of the discount since the acquisition. The earn out as of 31 December 2009 from the acquisition of RSIPL used to be disclosed as other provision in the previous year. The provision for personnel expenses consist mainly of bonus accruals and accrued vacation. Other provisions as of 31 December 2010 mainly consist of a provision for the Supervisory Board remuneration in the amount of T€ 248 (2009: T€ 280) and other provisions with an individual amount under T€ 248. The provision for personnel costs may differ from the actual amounts due to the fact that the actual percentage of the variable portion of the remuneration may differ from the estimates. The actual amounts of the earn out may vary from the provision if the underlying future revenues differ from the estimate. The actual consumption of the accrued lease expenses may vary from the estimated if the lease period changes.
An amount of T€ 12,722 as per 31 December 2010 (2009: T€ 832) is expected to be paid after one year and therefore is shown under non-current provisions. As of 31 December 2010, this amount mainly derives from the earn out (2009: accrued lease expenses).

(16) *Deferred revenues*

As of 31 December 2010, deferred revenues mainly relate to the license and collaboration agreement with MedImmune Limited in the amount of T€ 4,890 and to agreements with Roche in the amount of T€ 3,426. As of 31 December 2009, the deferred revenues mainly consist to agreements with Roche in the amount of T€ 5,104.

(17) *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 continuing and discontinued operations. For the calculation of current taxes, tax rates are used which are applicable on the balance sheet date. For the deferred taxes tax rates are used which for the expected period of reversion are enacted or substantively enacted at the balance sheet date.
Income (loss) before income taxes is attributable to the following geographic regions for the years ended 31 December 2010 and 2009:

in T€	Years ended 31 Dec. '10	31 Dec. '09
Germany	**1,669**	(19,496)
Foreign	**2,198**	(25,323)
Total	**3,867**	**(44,819)**

Income tax expense for the years ended 31 December 2010 and 2009 is as follows:

in T€	Years ended 31 Dec.'10	31 Dec.'09
Current taxes:		
Germany	**(654)**	(303)
Foreign	**(22)**	(60)
Total current taxes	**(676)**	(363)
Deferred taxes:		
Germany	-	-
Foreign	**(206)**	(315)
Total deferred taxes	**(206)**	(315)
Total income tax expense	**(882)**	**(678)**

Current taxes for prior periods in the amount of T€ 21 and T€ 39 have been recorded in 2010 and 2009, respectively. In 2010 income from deferred taxes for prior periods in the amount of T€ 82 was recognised (2009: T€ 0). Current taxes in 2010 were reduced by T€ 1,294 because of tax losses carried forward for which no deferred tax assets have been recorded in prior years (2009: T€ 0).
The tax rate in the UK for the year ended 31 December 2010 and 2009 amounted to 28%. In the US the tax rate for the year ended 31 December 2010 and 2009 amounted to 40.746%. This is a combined tax rate of federal state tax (35%) and single state tax (8.84%). The single state tax is deductable for federal state tax purposes. For the years ended 31 December 2010 and 2009, the actual combined German federal corporation income tax rate (15.83%) and trade tax rate (16.45%) amounted to 32.28%.
The income tax benefit (expense) differs from the expected income tax benefit (expense) determined using the combined German tax rate of 32.28% (2009: 32.28%) as follows:

in T€	Years ended 31 Dec.'10	31 Dec.'09
Expected income tax benefit (expense)	(1,248)	14,467
Non-deductible goodwill impairment	-	(20)
R&D tax credits	843	785
Other permanent differences	(725)	(1,337)
Foreign tax differential	212	2,262
Change in recognition of deferred tax assets	37	(15,096)
Non recognition of deferred tax assets for interest carry forwards	-	(1,663)
Other	(1)	(76)
Actual income tax expense	**(882)**	**(678)**

Deferred income tax assets and liabilities calculated with the enacted tax rate of 32.28% as of 31 December 2010 and 2009 relate to the following:

in T€	31 Dec.'10	31 Dec.'09
Deferred tax assets		
Loss carry forward	90,817	85,004
Interest carry forward	2,889	2,917
Tax credits	906	837
Intangible assets	8,810	10,481
Non-current financial assets	24	360
Other	2,059	1,228
Total	105,505	100,827
Non-recognition of deferred tax assets	(92,077)	(87,571)
Total deferred tax assets	13,428	13,256
Deferred tax liabilities		
Property, plant and equipment	2,623	2,675
Intangible assets	16,565	9,298
Non-current financial assets	220	1,014
Current financial assets	677	2,240
Undistributed subsidiaries earnings	-	-
Other	3	6
Total deferred tax liabilities	20,088	15,233
Deferred tax liabilities, net	6,660	1,977

Net deferred tax liabilities are recognised in the balance sheets as of 31 December 2010 and 2009, in the amount of T€ 6,660 and T€ 1,977, respectively. The difference of T€ 4,683 is caused by T€ 4,396 as a result of the DeveloGen acquisition and by T€ 81 through foreign currency exchange differences between 31 December 2010 and 2009. The remaining amount of T€ 206 was recorded as expense in the income statement.
For outside basis differences for undistributed foreign subsidiaries earnings, deferred tax liabilities in the amount of T€ 194 (temporary differences: T€ 717) were not recorded according to IAS 12.39. Deferred taxes in the amount of T€ 6,503 (2009: T€ 1,934) are expected to be recovered after more than 12 months.
For the years ended 31 December 2010 and 2009, Evotec recorded additional valuation allowances with respect to tax benefits of tax losses carried forward and temporary differences of T€ 4,506 and T€ 22,687, respectively. The Company's deferred tax assets are recorded to the extent it is probable that such tax benefits would be realised in future years. Evotec has not generated taxable income in Germany since the start of operations until 2007 and parts of the German entities do not expect to in the foreseeable future. One entity in Germany might generate taxable income in the foreseeable future, but due to uncertainties in the realisation of taxable income the deferred tax asset is not recorded. The taxable income in 2010 in Germany resulted from extraordinary high income in one entity. In 2009, the taxable income in Germany resulted from extraordinary corporate transactions. The rationale 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 in Germany prior to material equity transactions in the past. Tax losses carried forward for Germany of T€ 219,173 for corporate income tax and T€ 222,850 for trade tax, and the UK of T€ 164 do not expire. The interest carry forward in the amount of T€ 10,259 relates only to Germany and does not expire. Tax losses carried forward for US of T€ 49,936 for corporate tax expire from 2020 onwards and of T€ 37,401 for state tax expire from 2014 onwards. The tax credits in the US in the amount of T€ 906 expire from 2028 onwards. The German 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.
No deferred tax assets are set up for the US tax losses carried forward and the tax credits. No deferred tax asset are recorded for the German interest carry forward and for T€ 184,208 corporate income tax losses carry forward and T€ 188,245 of trade tax losses carry forward.
Deferred taxes are accounted for as tax expenses or income in the income statement unless they relate to items included in equity in which case they are accounted for as part of equity.

(18) *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 single 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 that 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 preceding 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' meetings on 7 June 2005, 30 May 2007 and 28 August 2008 established new stock option plans ("Option Plan 2005, 2007 and 2008") and authorised the granting of stock options for up to 1,741,481, 2,140,000 and 3,400,000 shares in 2005, 2007 and 2008, respectively. The plans are 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 options from the Option Plan 2005 and 2007 and not more than 50% of options from the Option Plan 2008 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, 2007 and 2008 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.
The shareholders' meeting on 4 June 2009 decided to change the exercise periods of the options under the Option Plan 2005, 2007 and 2008 to be generally exercisable throughout the year. Options cannot be exercised during certain specified three weeks periods ending on the day of the following events: (i) annual shareholders' meeting of the Company, (ii) annual press conference on the financial statements, or (iii) release of the quarterly results. The options under the Option Plan 2005, 2007 and 2008 used to be exercisable within the specific two weeks period relevant also to the other option programs.
Through the acquisition of ENS Holdings, Inc. in 2005, 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 had to be treated as an option entitled 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 were held in escrow and were released by an individually set amount every quarter as well as on achievement of individual milestones. In 2010, after termination of the relating employment the last new shares were transferred and the escrow account was terminated.
Through the acquisition of Renovis, Inc. in 2008, the Company assumed the former equity instruments issued under the original Renovis stock option plan (Renovis Plan) which included options in the amount of 508,038 and restricted stock units (RSU's) in the amount of 913,106. As part of the acquisition accounting these equity instruments were remeasured on the date of acquisition, 2 May 2008. The original terms of the equity instruments did not change upon assumption by the Company and under the terms of the Renovis Plan each option entitles the holder to purchase two shares of the Company's stock at a strike price equal to the share price of one share of Renovis at the time of the grant of the option. The options generally vest at the rate of 1/48 per months. Additionally, under the Renovis Plan, each RSU entitles the holder to receive one share of the Company's stock at no cost. The RSU's vest monthly from one year to three years. The corresponding new shares are being held in trust and are released according to the relevant agreements. In 2010 and 2009, 167,068 and 199,600 new shares held in trust, respectively, were exercised, which resulted in 2010 in a cash inflow in the amount of T€ 193 (2009: T€ 278).
Stock options in the amount of 116,667 held by employees of the Company continue to be valid after termination of the relating employment in 2010. In 2009, stock options in the amount of 165,321 held by employees of the Company continue to be valid after termination of the relating employment. Those transactions were recognised as accelerated vesting.
A summary of the status of the plans as of 31 December 2010 and 2009, and the changes during the years then ended is presented as follows:

	31 Dec. 2010 Options	**31 Dec. 2010 Weighted average exercise price € per share**	31 Dec. 2009 Options	31 Dec. 2009 Weighted average exercise price € per share
Outstanding at beginning of the year	**4,552,606**	**3.66**	3,984,569	4.96
Options granted	**1,319,250**	**2.06**	1,321,450	1.01
Options exercised	**(7,000)**	**2.21**	-	-
Options expired	**(244,310)**	**24.30**	(172,325)	6.50
Options forfeited	**-**	**-**	(41,430)	10.02
Options waived (re-issueable)	**(285,766)**	**2.67**	(539,658)	5.36
Outstanding at end of the year	**5,334,780**	**2.37**	**4,552,606**	**3.66**
Thereof exercisable	**2,306,830**	**3.71**	**2,352,373**	**5.89**

A summary of the stock options outstanding as of 31 December 2010 is as follows:

Range of exercise prices € per share	Outstanding	Exercisable	Weighted average remaining contractual life	Weighted average exercise price € per share
0.61 – 0.97	1,541,100	-	4.11 years	1.27
1.66 – 3.68	3,319,305	1,832,455	2.66 years	2.51
5.97 – 6.80	472,775	472,775	1.76 years	6.52
10.15 – 12.48	1,600	1,600	0.93 years	12.48

The Company recognised compensation expense in 2010 and 2009 for all options totalling T€ 478 and T€ 976, respectively, which was reflected as operating expenses in the consolidated income statement. The fair value of each option grant was estimated on the date of grant using a binomial model with the following assumptions:

	7 June 2006	6 November 2006	29 May 2007	17 December 2007
Risk-free interest rate in %	3.95	3.68	4.39	4.19
Volatility in %	45.1	50.5	42.4	42.7
Fluctuation in %	10.0	10.0	5.0	15.0
Price range in Euro	3.19	3.49–3.66	3.50–3.68	2.64
Fair value per option	1.22	1.47–1.73	1.35–1.55	0.91

	17 October 2008	6 March 2009	22 May 2009	3 December 2009
Risk-free interest rate in %	3.44	2.61	2.89	2.67
Volatility in %	55.0	64.0	65.0	64.0
Fluctuation in %	0.0	0	10.0	0
Price range in Euro	0.97	0.61	0.71	2.17
Fair value per option	0.47	0.41	0.39	1.23

	9 June 2010	**2 December 2010**		
Risk-free interest rate in %	1.81	2.22		
Volatility in %	50.0	35.0		
Fluctuation in %	0.0–10.0	0.0–10.0		
Price range in Euro	1.93	2.69–2.73		
Fair value per option	0.87–0.90	0.90–1.02		

The expected dividend yield is zero, the expected remaining life is six years in all models.

(19) *Stockholders' equity*

On 31 December 2010, there are 115,595,729 shares issued and outstanding with a nominal amount of Euro 1 per share including equity instruments acquired in the business combination with Renovis held in trust. Furthermore, authorised but unissued shares consist of a conditional capital (bedingtes Kapital) of 10,592,380 shares available with respect to the stock option plan and a remaining authorised capital (genehmigtes Kapital) of 14,983,864 shares.

At the annual shareholders' meeting on 28 August 2008, the Management Board of the Company was authorised to issue up to 21,733,878 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 27 August 2013.

Effective 3 September 2010, the Company increased its stockholders' equity by issuing 6,750,014 new shares against contributions in kind out of the authorised capital (genehmigtes Kapital) to be used as consideration for the acquisition of DeveloGen AG. The price per share amounted to € 2.45.

From an economic perspective, Evotec's subsidiary Renovis, Inc. owns 1,328,624 and 1,646,772 of Evotec's shares as of 31 December 2010 and 31 December 2009, respectively, representing 1.15% and 1.51%, respectively, of Evotec's nominal capital. In the course of the merger between Renovis, Inc. and Evotec AG, certain options and deferred stock units (DSUs) held by Renovis employees were transformed into Renovis shares. These shares were delivered into an irrevocable Company Trust for the benefit of the Renovis employees (under the conditions of the original agreements entered into when these options or DSUs were granted). At closing of the merger, the Renovis shares delivered into the Company Trust were exchanged in Evotec American Depository receipts (ADRs), whereby one ADR represents two Evotec shares. Upon valid exercise of options/DSUs by Renovis employees, the Company Trust delivers the respective number of ADRs to these employees. The Trust Agreement between Renovis, Inc. and the Trustee provides that once all obligations of the Trust to deliver ADRs under the option agreements or the DSU agreements are satisfied or otherwise extinguished (e.g. due to an expiry of exercise periods or non-occurrence/ discontinuance of exercise conditions), any ADRs held by the Company Trust shall be delivered to Renovis, Inc. or Evotec AG, as instructed by Renovis, Inc. Therefore ADRs held by the Company Trust are treated as economically owned by Renovis, Inc. Legal ownership of these ADRs will be acquired by Renovis, Inc. or Evotec AG, respectively, once all rights of Renovis employees will have been satisfied or extinguished and the shares remaining in the Company Trust will have been delivered to either Renovis, Inc. or Evotec AG according to instruction by Renovis, Inc. That acquisition of legal ownership will not require a consideration, section 71 paragraph 1 number 4 of the German Stock Corporation Act (Aktiengesetz).

(20) *Revenues*

Revenues include in 2010 milestone payments amounting to T€ 11,245 (2009: T€ 4,000). Also included are royalty and license income in the amount of T€ 1,721 in 2010 (2009: T€ 3,165).

(21) *Research and Development*

In 2010, research and development expense mainly relate to discovery projects amounting to T€ 2,700 as well as overhead expenses in the amount of T€ 2,409. The overhead expenses consist mainly of patent costs and overhead personnel expenses. Research and development expense in 2009 mainly relate to discovery projects amounting to T€ 10,895 as well clinical development activities in the amount of T€ 6,074. Overhead expenses in 2009 amounted to T€ 2,416. The decline is mainly due to the focus on core programmes and the reduction of early discovery expenses.

(22) *Restructuring Expenses*

Restructuring expense in 2009 mainly include personnel related expenses amounting to T€ 3,805 from restructuring efforts.

(23) *Other operating income and expense*

Other operating income as well as other operating expense in 2010 mainly relate to reimbursed expenditures in the context of the collaboration with Roche for the development of the EVT 100 series and amounted to T€ 3,215 each (2009: T€ 2,835).

(24) *Other income from financial assets*

In 2010, other income from financial assets mainly consist of income from the sale of the ARSs in the amount of T€ 906.

(25) *Other expense from financial assets*

In 2010 other expense from financial assets mainly consist of expenses from the valuation of the put option related to auction rate securities in the amount of T€ 591 (2009: T€ 1,196).

(26) *Foreign currency exchange gain (loss), net*

In accordance with IAS 21, the Company recognised a foreign exchange gain of T€ 3,501 (2009: foreign exchange loss of T€ 1,674) as a result of the reduction in the capital reserve of a subsidiary, paid to Evotec AG in 2010 and 2009, respectively. This is deemed to be a repayment of share capital resulting in the cumulative foreign exchange losses related to the investment in this subsidiary, which were previously recorded as a component of equity, being reclassified into the Company's income statement in 2010 and 2009, respectively.

(27) *Segment information*

Pursuant to IFRS 8, reporting on the financial performance of the segments has to be prepared in accordance with the so-called management approach. The internal organisation as well as the management reporting does not identify several segments. The allocation of resources and the internal evaluation of Evotec's performance by the management are for the entire Evotec group. Therefore, Evotec does not report segment information.

(28) *Financial instruments*

The fair value of cash and cash equivalents, investments, trade accounts receivable and trade accounts payable approximate their carrying values in the consolidated financial statements due to their short-term nature. Financial assets are accounted for at the settlement date. The Company assessed the credit risk in connection with failures by counterparties to discharge their obligations to be immaterial. The fair value of debt varies from the carrying amount, if there is a difference between the underlying interest rate to the market interest rate. The fair value is then determined using an appropriate market interest rate. The Company is exposed to interest rate risk through variable interest-bearing loans and finance lease liabilities. These interest rate risks are deemed not to be significant.

The Company periodically enters into derivative transactions including foreign currency forward contracts. The objective of these transactions is to reduce the risk of exchange rate fluctuations of the Company's foreign currency denominated cash flows. Evotec does not enter into derivative transactions for trading or speculative purposes. As of 31 December 2010, the Company held US Dollar forward contracts with Euro equivalent notional amounts of T€ 9,057 and a fair value of T€ 117 (2009: T€ 0 and T€ 0, respectively). 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 fair value of the foreign currency contracts is included in current liabilities on 31 December 2010. 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€ 108 and T€ 0 for the years ended 31 December 2010 and 2009, respectively.

The maximum exposure to credit risk for trade receivables including related parties at the year end by geographic region was:

in T€	Years ended 31 Dec.'10	31 Dec.'09
Germany	**2,641**	1,117
United Kingdom	**5,612**	52
Rest of Europe	**1,991**	1,082
United States	**1,288**	1,340
Rest of the world	**337**	919
	11,869	**4,510**

	Average rate		Reporting date rate	
	2010	2009	**2010**	2009
USD	0.75488	0.71916	0.75460	0.69770
GBP	1.16605	1.12297	1.16750	1.11130
INR	0.01651	0.01446	0.01665	0.01492
CHF	0.72480	0.66245	0.80100	0.67230

CURRENCY RISKS

In connection with all financial instruments recorded at 31 December 2010 and 2009, the Company is exposed to currency risks associated with the US Dollar and UK Sterling due to financial instruments held in currencies which are not the functional currency of Evotec. The subsidiaries of Evotec AG located in UK, US and in India, are additionally exposed to the currency risks associated with the Euro in relation to their functional currency. If the Euro had gained (lost) 10 percent against the US Dollar at 31 December 2010 the effect on net income would have been T€ 193 higher (lower) (31 December 2009: net loss T€ 592 higher (lower)). Shareholders' equity is impacted in the same amount. If the Euro had gained (lost) 10 percent against the UK Sterling at 31 December 2010 the effect on net income (2009: net loss) would have been T€ 87 higher (lower) (31 December 2009: T€ 90 higher (lower)). Shareholders' equity is impacted in the same amount.

INTEREST RATE RISKS

The Company is exposed to interest rate risks in Germany, India, UK and US due to current investments as well as loans and finance leases. Financial instruments with fixed interest rates are not subject to interest rate risks and therefore are not included in the sensitivity analysis. Financial instruments with variable interest rates as of 31 December 2010 are included in the sensitivity analysis for the period of their existence. If the interest rate had been 100 basis points higher (lower) at 31 December 2010 the effect on net income (2009: net loss) would have been T€ 508 higher (lower) (31 December 2009: T€ 474 higher (lower)). Shareholders' equity is impacted in the same amount.

The fair values of the long-term loans and finance leases as of 31 December 2010 would have been T€ 33 lower (higher) (31 December 2009: T€ 66 lower (higher)) if the relating interest rate used for determining fair values had been 100 basis points higher (lower) at 31 December 2010 and 2009, respectively.

OTHER PRICE RISKS

The Company is not exposed to any price risks associated to their financial instruments.
The Management Board has overall responsibility for the establishment and oversight of the Company's management framework. The Management Board has established a Risk Manager, who is responsible for developing and monitoring the risk management policies. The Risk Manager reports regularly to the Management Board on its activities.

(29) *Risks*

LIQUIDITY RISKS

Based upon the Company's current financial plan it expects that its current cash and cash equivalents, short-term and long-term investments, together with its operating revenues will be sufficient to fund its planned activities beyond 2015. The Company's future cash requirements will depend on various factors, including its success in developing Evotec's pipeline projects, its ability to partner the Company's projects with collaborators, increasing sales of both existing and new services, expenses associated with sales growth as well as competition and the general economic situation. Expenditures on internal development programs or potential acquisitions of technologies or intellectual property rights are likely to reduce the Company's short- to mid-term profitability and cash reserves. The Company intends to reduce part of this financial exposure by entering into early stage collaboration agreements, to the degree possible and advisable while trying to maximise returns. Additionally, in the past, the Company has raised cash through capital increases. The Company does not intend to engage in projects or project phases unless appropriate funding is allocated or secured.
The Company conducts clinical trials, which have a risk of failure. A clinical trial failure may have a negative impact on the Company's financial position, results of operations and cash flows.
The Company has important collaborations with pharmaceutical and biotechnology companies. Any termination of such collaborations or failure to achieve contracted milestones would likely have an adverse impact on the Company's financial position, results of operations and cash flows.
A high proportion of the Company's sales are denominated in US Dollar. In addition, a high proportion of the Company's cost base is denominated in UK Sterling, The Company's currency exposure creates a risk to our profitability, in particular relative to the UK Sterling with the respect to the subsidiary in the United Kingdom. A weakening of the US Dollar when accompanied by a relative strengthening of the UK Sterling against the Euro will reduce revenues and profitability and constitutes a significant risk to the Company's financial situation. The Company has entered into certain hedging activities to help mitigate the impact of the currency fluctuations on its results of operations before taxation.

CAPITAL MANAGEMENT

Evotec actively manages its funds to primarily ensure liquidity and principal preservation while seeking to maximise returns. Evotec's cash and short-term investments are located at several different banks and financial investments are made in liquid, highly diversified investment instruments in low risk categories (products or financial institutions rated A or better (Standard & Poor's ratings or equivalent)).
The following table shows the total assets, equity as well as equity ratio and net financial assets:

in T€	Years ended 31 Dec.'10	31 Dec.'09
Total assets	191,859	146,599
Equity	132,637	111,487
Equity ratio (in %)	69.1	76.0
Net cash	9,094	19,721

The net cash, consisting of cash and cash equivalents less loans and finance leases, mainly decreased in 2010 due to cash and cash equivalents now being invested into investments in mutual funds and being reported as current investments.
To manage short-term and medium-term liquidity, the Company makes use of long-term bank loans and asset financing, the latter primarily for equipment used to maintain and further develop its discovery platform. The minimum level of cash as collateral for this purpose is T€ 12,866 (31 December 2009: T€ 13,625). The sum of these debt instruments – including both long-term and current portions – at the end of 2010 was T€ 11,997 (2009: T€ 13,205).
Evotec remains well financed with an equity ratio of 69.1% (31 December 2009: 76.0%) and currently has no plans or necessity to raise capital in the near to mid-term. However, the option to increase capital may be considered if new opportunities arise in terms of M&A or in-licensing which require additional financing.
No capital requirements are stipulated in Evotec's statutes. The Company has obligations to issue shares out of the conditional capital relating to the exercise of stock options on the basis of miscellaneous stock option plans. Please refer with regard to the authorised capital and the conditional capital to Note 19.

CREDIT RISKS

The Company has exposure to credit risk primarily with respect to its trade accounts receivables and its short-term and long-term investment which primarily invest in debt instruments. The Company performs ongoing credit evaluations of its customers' financial condition and maintains an appropriate allowance for uncollectible accounts receivable based upon the expected collectibility of all accounts receivable. The Company's accounts receivables are generally unsecured and are not backed by collateral from its customers. As of 31 December 2010, one customer accounted for 42% of trade receivables due to a high upfront payment invoiced in December (31 December 2009: 16%). Concentrations of credit risk with respect to trade accounts receivables are generally limited by a number of geographically diverse customers and the Company's monitoring procedures.

In 2010, the Company further expanded its customer base. However, the four largest customers of Evotec, each having a share of more than 10% of the group revenues in 2010, represented in total more than 63% of the group revenues in 2010 and more than 61% in 2009. A termination of these business relations could have adverse impacts on the Company's financial results.
At 31 December 2010, the Company had a guarantee outstanding of T€ 190 (31 December 2009: T€ 190) related to securing certain payment obligations of the European ScreeningPort GmbH. The Company has provided a guarantee for the European ScreeningPort to obtain a further loan facility in the amount of T€ 113. Other guarantees outstanding at 31 December 2010 amounted to T€ 362 (31 December 2009: T€ 417).

MARKET RISKS

The global economic downturn and the changing regulatory environment are the dominant factors influencing the Company's macro environment. 2009 was widely considered as one of the most significant economic downturns in the post-war global economy and 2010, whilst indicating signs of recovery, has continued to be over shadowed by market fears of a further dip in economic growth. While Evotec does not intend to raise capital via the equity market in the near-term it is uncertain as to when the financing cycle might improve.
The regulatory environment has become more challenging over the past several years. It appears that the FDA is concluding that the risk of approval is only justified if a drug meets an unmet need or if it provides a well-defined benefit over existing therapies. For biotech companies, including Evotec, this means that they need to demonstrate that there is clear reason for compounds to exist and that companies cannot leave comparative efficacy and reimbursement considerations to a future pharmaceutical partner.
The market environment is characterised by pricing pressures, originating from funding restrictions of some biotechnology customers and from evolving and strengthening competition in individual drug discovery disciplines in low cost countries. Therefore, firm cost management, continuous enhancement of capabilities and technologies, careful market positioning and sales from high value results-based contracts are mandatory. In addition, Evotec continues to explore ways to capture some of the cost advantages in countries like India, as exemplified by the acquisition of the majority stake in RSIPL (Thane).
The market environment and competitive landscape for licensing and licensed projects or individual drug candidates, 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 therefore deviate significantly from earlier projections.

(30) *Fair values*

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

in T€	
Cash and cash equivalents	
Available-for-sale-financial assets	
—— Investments	
—— Long-term investments	
Total available-for-sale-financial assets	
Loans and receivables	
—— Trade accounts receivables	
—— Accounts receivables due from related parties	
—— Current tax receivables	
—— Other current financial assets	
—— Other non-current financial assets	
Total loans and receivables	
Secured and unsecured loans	
—— Current maturities of long-term loans	
—— Long-term loans	
Total secured and unsecured loans	
Finance lease liabilities	
—— Current portion of finance lease obligations	
—— Long-term finance lease obligations	
Total finance lease liabilities	
Trade and other payables	
—— Trade accounts payable	
—— Accounts payable to related parties	
—— Current income tax payables	
—— Other current financial liabilities	
Total trade and other payables	
Unrecognised loss	

(32) *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€ 473 (2009: T€ 520). Contributions amounting to T€ 78 (2009: T€ 68) were payable to the fund at the year end and are included in provisions. The Company's contribution rate is employee specific and is determined by the level of an employee's 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, but are not included in the amounts stated above.
The Company operates a defined benefit pension plan for one former member of the Management Board of Evotec AG. The provision for this pension is calculated using the projected unit credit method in accordance with IAS 19. An actuarial report was prepared in 2010 and 2009 for this purpose. The calculations are based on assumed pension

31 December 2010		31 December 2009	
Carrying amount	**Fair value**	Carrying amount	Fair value
21,091	21,091	32,926	32,926
46,303	46,303	25,432	25,432
10	10	10	10
46,313	46,313	25,442	25,442
11,841	11,841	4,510	4,510
28	28	-	-
569	569	347	347
1,142	1,142	1,428	1,428
2,899	2,899	12,903	12,903
16,479	16,479	19,188	19,188
(8,356)	(8,466)	(9,087)	(9,118)
(3,500)	(3,547)	(3,757)	(3,786)
(11,856)	(12,013)	(12,844)	(12,904)
(109)	(109)	(229)	(229)
(32)	(32)	(132)	(132)
(141)	(141)	(361)	(361)
(6,980)	(6,980)	(4,398)	(4,398)
-	-	(837)	(837)
(773)	(773)	(244)	(244)
(225)	(225)	(485)	(485)
(7,978)	(7,978)	(5,964)	(5,964)
63,908	63,751	58,387	58,327
	157		60

increases of 2.0% and a discount rate of 5.00% in 2010 and 5.39% in 2009. The discount rate reflects market conditions. Actuarial gains and losses are recorded using the 10% corridor method. The provision amounted to T€ 111 and T€ 105 as of 31 December 2010 and 2009, respectively.
Total expense for the period for the defined benefit plan amounted to T€ 6 (2009: T€ 1) and consist of the following:

	Years ended	
in T€	**31 Dec.'10**	31 Dec.'09
Pension liability beginning of the year	**105**	104
Interest cost	**6**	5
Amortisation of actuarial losses	**-**	(4)
Pension payments	**-**	-
Pension liability year end	**111**	**105**

(32) *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 longest of these obligations extends through 2023. Certain leases contain rent increases, rent holidays and renewal options. The total rents due under these leases are recognised on a straight-line basis over the lease term. The future minimum lease payments under non-cancellable operating leases are approximately as follows:

	T€
2011	5,093
2012	5,139
2013	3,399
2014	2,902
2015	2,902
Thereafter	22,690
Total	**42,125**

The majority of operating lease obligations are related to rent expenses for facilities. The rent expense for such leases amounted to T€ 3,673 and T€ 3,246 for the years ended 31 December 2010 and 2009, respectively.

(b) OTHER COMMITMENTS AND CONTINGENCIES

The Company has entered into consultancy contracts. During 2010 and 2009, expenses under consultancy contracts totalled T€ 109 and T€ 339, respectively. The future minimum payments associated with long-term consultant and other miscellaneous long-term commitments total approximately T€ 402 and T€ 371 at 31 December 2010 and 2009, respectively.
The Company has, in the sale and purchase agreement for all the shares in Evotec Technologies GmbH, provided certain guarantees customary for such agreements. No current liabilities from this guarantee exist as of 31 December 2010.
The Company has licensed or acquired certain third party intellectual property for use in its business. Under these agreements, the Company is required to pay milestones, dependent on development progress and/or royalties and milestones dependent on present and future net income or on sublicensing fees received from third parties.
The Company is obliged under an agreement with a third party to provide consulting services free of charge upon request of the third party.
The Company is not aware of any litigation as of 31 December 2010.

(34) *Related party transactions*

According to IAS 24 the Company discloses related party transactions where Supervisory Board members and Management Team members of

the Company have significant influence on companies Evotec works with in the ordinary course of business (the figures reflect the total group).
The Company acquired part of the DeveloGen shares from funds managed by Techno Venture Management GmbH (TVM GmbH). Hubert Birner is a General Partner in TVM GmbH. In his function as member of the Supervisory Board of Evotec, he elected not to participate in any discussions relating to the acquisition and he abstained from voting. Except for this and the granted options to Management Board members described under Note 35e as well as the following listed transactions, no other material transactions with related parties have been entered into in 2010.
Dr Flemming Ørnskov is since May 2010 Head General Medicine of Bayer Healthcare (formerly: Bayer Schering Pharma AG). The Company recognised revenues with Bayer Schering Pharma AG in the ordinary course of business in the amount of T€ 24 in the period from May to December 2010. The accounts receivables amounted to T€ 28 as of 31 December 2010.
As of 31 December 2009, accounts payable to related parties in the amount of T€ 837 relating from Lehman Brothers, Inc (Lehman) representing and advising the Company with respect to the acquisition of Renovis, Inc. were recognised. Those amounts are no longer classified as accounts payable to related parties, because the husband of Mary Tanner is no longer working at Lehman or its successor.
The Company entered into a consultancy agreement with Dr Flemming Ørnskov outside the scope of his Supervisory Board activities with the approval of the full Supervisory Board, which ended in June 2009. The relating expenses amounted to T€ 150 in 2009, with relating payables as of 31 December 2009 in the amount of T€ 0.
Evotec AG recorded revenues in the amount of T€ 24 and T€ 0 with related parties in 2010 and 2009, respectively. Subsidiaries of Evotec AG recorded no revenues with related parties in 2010 and 2009.
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.

(34) *Personnel expenses and cost of material*

The personnel expenses of the Company amounted to T€ 24,236 of which T€ 13,657 relate to personnel expenses outside Germany mainly in India, the UK and US (2009: T€ 27,421 and T€ 16,701, respectively). Thereof expenses for the statutory retirement insurance amounted to T€ 1,676 of which T€ 1,033 relate to expenses outside Germany mainly in India, the UK and US (2009: T€ 1,911 and T€ 1,313, respectively).
Cost of materials amounted to T€ 12,742, thereof T€ 1,908 are cost of materials outside Germany mainly in India, the UK and US (2009: T€ 16,691 and T€ 2,041, respectively).

(35) *Other disclosures*

The following additional disclosures are required by German law in accordance with the European Directives on Accounting and the Corporate Governance Codex. Those disclosures include the continuing and the discontinued operations.

(a) NUMBER OF EMPLOYEES

The average number of persons employed by the Company in 2010 was 492 (2009: 442).

(b) REMUNERATION OF THE AUDITOR

In 2010, remunerations, shown as expenses, to KPMG AG Wirtschaftsprüfungsgesellschaft and other KPMG companies totalled T€ 248 (2009: T€ 489) broken down into auditing of financial statements (T€ 185; 2009: T€ 304), tax consultancy (T€ 4; 2009: T€ 38), other attestation services (T€ 58; 2009: T€ 130) as well as other services (T€ 1; 2009: T€ 17).

(c) CORPORATE GOVERNANCE CODEX

A declaration according to § 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.

(d) CONSOLIDATED SUBSIDIARIES AND EQUITY INVESTEES

Information below shows Evotec AGs voting interests in their subsidiaries and other investments.

in %	2010 Company's voting interest
Subsidiaries	
Evotec (UK) Ltd., Abingdon, UK	100.0
ENS Holdings, Inc., Wilmington, Delaware, US (unaudited)	100.0
EVOTEC NeuroSciences GmbH, Hamburg (unaudited)	100.0
Evotec Neurosciences AG, Zurich, CH (unaudited)	100.0
DeveloGen AG, Goettingen (unaudited)	99.4
Evotec (India) Private Limited, Thane, India	70.0
Renovis, Inc., South San Francisco, California, US (unaudited)	100.0
Evotec Inc., Wilmington, Delaware, US (unaudited)	100.0
Evotec (Asia) Pte. Ltd. Singapore (unaudited)	100.0
Other Investments	
European ScreeningPort GmbH, Hamburg (unaudited)	19.9

The Group investments in subsidiaries, associated companies and other investments are not hedged as those currency positions are considered to be long-term in nature. In 2010, Evotec RSIL Ltd., which was part of the Evotec group, was merged with Evotec (India) Private Limited.

(e) MANAGEMENT BOARD

— Dr Werner Lanthaler, Business Executive, Hamburg (President and CEO),
— Colin Bond, Chartered Accountant, Hamburg (CFO from August 2010),
— Dr Cord Dohrmann, Biologist, Göttingen (CSO from September 2010),
— Dr Mario Polywka, Chemist, Oxfordshire, UK (COO) and
— Dr Klaus Maleck, Biotechnologist, Hamburg (CFO until August 2010; member of the Management Board until October 2010).

The remuneration paid to the members of the Management Board in the financial year totalled T€ 1,501 (2009: T€ 1,201) of which T€ 433 (2009: T€ 395) was variable remuneration. The Management Board received also stock options as components with a long-term incentive effect with a fair value in 2010 of T€ 587. Fixed remuneration includes base salaries, contributions to personal retirement insurance, premiums for accident and accidental death insurances as well as the benefit derived from the use of company cars. The variable remuneration of the Management Board is based on a bonus scheme designed by the Remuneration Committee of the Supervisory Board and approved by the Supervisory Board. For the business year 2010, the variable pay in 2011 is based on the achievement of four sets of corporate milestones (strategic targets) and personal objectives.

in %	Achievement of corporate milestones	Achievement of corporate financial targets	Personal objectives
Dr Werner Lanthaler	40	40	20
Colin Bond	30	30	40
Dr Cord Dohrmann	30	30	40
Dr Mario Polywka	30	30	40
Dr Klaus Maleck	30	30	40

For the business year 2009, the variable pay in 2010 was based on the achievement of five defined milestones (strategic objectives) and personal objectives. The achievement of personal objectives applied only to the CFO and COO.

	Achievement of defined milestones %	Achievement of budget financial targets %	Personal objectives %
Dr Werner Lanthaler	80	20	-
Dr Klaus Maleck	72	18	10
Dr Mario Polywka	72	18	10

In addition, Dr Mario Polywka and Dr Klaus Maleck were granted an extra bonus in 2009 as compensation and incentive for jointly leading the Company during the period of vacancy of the CEO position until Dr Werner Lanthaler joined Evotec in March 2009.
Under the Company's stock option plans, 625,000 options were granted to the members of the Management Board in 2010 (2009: 700,000). The options granted in 2010 and 2009 are subject to the stipulation of the Option Plans 2008 and may be exercised after three years if the success targets of these plans are met. The fair values of the options are described in Note 18 and are recognised over their respective vesting periods. The fair values of options as of the grant dates amounted to a total of T€ 587.

	2010 Fixed remuneration in T€	2010 Variable remuneration in T€	2010 Stock Options in pcs	2010 Fair values of options granted in T€	2010 Total remuneration in T€
Dr Werner Lanthaler	373	243	200,000	180.0	796.0
Colin Bond	126	-	100,000	102.0	228.0
Dr Cord Dohrmann	91	-	100,000	102.0	193.0
Dr Mario Polywka	287	111	150,000	135.0	533.0
Dr Klaus Maleck	191	79	75,000	67.5	337.5
Total	1,068	433	625,000	586.5	2,087.5

	2009 Fixed remuneration in T€	2009 Variable remuneration in T€	2009 Stock options in pcs	2009 Fair values options granted in T€	2009 Total remuneration in T€
Dr Werner Lanthaler	295	-	500,000	287	582
Dr Klaus Maleck	243	74	100,000	123	440
Dr Mario Polywka	268	321*	100,000	123	712
Total	**806**	**395**	**700,000**	**533**	**1,734**

* *Including a onetime retention bonus of T€ 225*

The contracts of the Management Board members contain a change-of-control clause that would allow them, in the event of a takeover of the Company, to terminate their current contracts. Such a change-of-control occurs when a new investor assumes more than 30% of the shares of the Company. Upon contract termination, the Management Board members Bond and Dr Dohrmann are entitled to severance payments of one year's base salary plus bonus, calculated on the basis of the prior year's remuneration, Dr Polywka is entitled to severance payments of 18 months base salary, while Dr Lanthaler is entitled to two years base salary. In no case, the respective severance payment shall be higher than the total compensation due for the remaining term of the respective Management Board member's contract.

The Company has a Directors and Officers (D&O) insurance policy in place for the Management Board, the Supervisory Board, the executive management and the managers of subsidiary companies. The insurance expense amounted to T€ 214 in total in 2010 (2009: T€ 180), and was paid by the Company.

Jörn Aldag resigned from the Company's Management Board effective 31 December 2008. According to his exit agreement the Company expensed an amount of T€ 2,022 as of 31 December 2008 for payments in 2009 and 2010. Of this sum, T€ 1,700 were paid in early 2009 and the remaining T€ 322 in early 2010.

Apart from the payments to Jörn Aldag, no payments were made in 2010 to any former Management Board member.

Dr Werner Lanthaler is Member of the Verwaltungsrat of Pantec Biosolutions AG, Ruggell, LI (from October 2010). Dr Mario Polywka is Non-Executive Chairman of the Board of Directors of Pharminox Ltd, Oxfordshire, UK. Dr Klaus Maleck is Non-Executive Chairman of the Board of Directors of European ScreeningPort GmbH, Hamburg, DE.

(f) SUPERVISORY BOARD

— Dr Flemming Ørnskov, Zurich, CH, Head General Medicine, Bayer HealthCare AG (Chairman);
— Dr Walter Wenninger, Leverkusen, DE, Former Member of the Management Board of Bayer AG (Vice Chairman from 9 June 2010, previously Member);
— Dr Hubert Birner, Gräfelfing, DE, General Partner, TVM Capital GmbH;
— Dr Peter Fellner, Winnersh, UK, Non-Executive Chairman Vernalis plc.;
— Mary Tanner, New York, NY, US, Managing Director, Peter J. Solomon LLC;
— Dr Corey Goodman, Marshall, CA, US, Managing Partner, venBio, LLC (Vice Chairman) (until 31 January 2010)

The remuneration accrued for the members of the Supervisory Board in the financial year 2010 was as follows:

in T€	**2010 Cash remuneration**	**2010 Value of share based remuneration**	**2010 Total**
Dr Flemming Ørnskov	**48.7**	**30.0**	**78.7**
Dr Walter Wenninger	**37.2**	**25.6**	**62.8**
Dr Hubert Birner	**25.0**	**20.0**	**45.0**
Dr Peter Fellner	**18.8**	**10.0**	**28.8**
Mary Tanner	**18.8**	**10.0**	**28.8**
Dr Corey Goodman	**2.5**	**1.7**	**4.2**
Total	**151.0**	**97.3**	**248.3**

The remuneration accrued for the members of the Supervisory Board in the financial year 2009 was as follows:

in T€	2009 Cash remuneration	2009 Value of share based remuneration	2009 Total
Dr Flemming Ørnskov	51.4	34.2	85.6
Dr Corey Goodman	25.2	15.8	41.0
Dr Hubert Birner	28.7	20.0	48.7
Dr Peter Fellner	18.8	10.0	28.8
Mary Tanner	18.8	10.0	28.8
Dr Walter Wenninger	16.5	11.5	28.0
John Walker	10.6	8.5	19.1
Total	**170.0**	**110.0**	**280.0**

In 2010 and 2009, the remuneration of each Supervisory Board member amounted to T€ 15 per year, with the chairman receiving three times that amount and the vice chairman twice that amount. Members of Supervisory Board committees additionally receive T€ 3.75 per year, with the chairperson receiving T€ 10. In addition to the fixed remuneration,

the members of the Supervisory Board receive payments in the form of Evotec shares. Ordinary members of the Supervisory Board receive shares valued at T€ 10 (chairman three times, vice chairman twice this amount) and Committee chairman receive additional shares valued at T€ 10.
The total remuneration accrued for the Supervisory Board members in 2010 totalled T€ 248 (2008: T€ 280). The Company has a Directors and Officers (D&O) insurance policy in place for the Management Board, the Supervisory Board, the executive management and the managers of subsidiary companies. The insurance expense amounted to T€ 214 in total in 2010 (2009: T€ 180), and was paid by the Company. The Supervisory Board and their following additional memberships in supervisory boards and memberships in comparable governing bodies of enterprises according to § 125 par. 1 third sentence of the AktG are listed at the end of this report.

(g) SCIENTIFIC ADVISORY COMMITTEE

The remuneration paid in 2010 to the Scientific Advisory Board amounts to T€ 28 (2009: T€ 86).

(36) *Subsequent events*

On 9 February 2011, Evotec signed a definitive agreement to acquire all shares in Kinaxo Biotechnologies GmbH, a Munich-based drug discovery alliance company supporting the development of targeted drugs. The purchase price consists of 2,597,403 shares from authorised capital, a cash consideration of T€ 3,000 and an earn-out component of up to T€ 4,000 in cash. 614,165 shares out of the 2,597,403 shares from authorised capital are held in escrow and their release is subject to certain company events and representations. The deal is expected to close in April 2011.

SUPERVISORY BOARD AND MANAGEMENT BOARD

Supervisory Board

Dr Flemming Ørnskov Zurich/CH Head General Medicine, Bayer HealthCare AG	**Chairman of the Supervisory Board**	**Non-Executive Chairman of the Board of Directors:** Santaris Pharma A/S, Hoersholm/DK Astion Pharma A/S, Copenhagen/DK *(until December 2010)* **Non-Executive Member of the Board of Directors:** PCI Biotech Holding ASA, Oslo/NO Spepharm Holding BV, Amsterdam/NL Shandong Bausch & Lomb Freda Pharmaceutical Company Limited, Jinan/CN (until May 2010)
Dr Walter Wenninger Leverkusen/DE former Member of the Management Board of Bayer AG	**Vice Chairman of the Supervisory Board** *(from 9 June 2010, previously Member)*	**Chairman of the Supervisory Board:** Paion AG, Aachen/DE Noxxon Pharma AG, Berlin/DE **Non-Executive Member of the Board of Directors:** Recordati S.p.A., Milano/IT Santaris Pharma A/S, Hoersholm/DK **Member of the Advisory Group:** Novo A/S, Hellerup/DK *(from September 2010)*
Dr Hubert Birner Gräfelfing/DE General Partner, TVM Capital GmbH	**Member of the Supervisory Board**	**Non-Executive Chairman of the Board of Directors:** Argos Therapeutics Inc., Durham, NC/US **Non-Executive Member of the Board of Directors:** Horizon Therapeutics, Northbrook, IL/US *(from April 2010)* Proteon Therapeutics, Inc., Waltham, MA/US Spepharm Holding BV, Amsterdam/NL Transmolecular, Inc., Cambridge, MA/US BioXell SA, Segrate/IT *(until March 2010)* Nitec Pharma AG, Reinach/CH *(until April 2010)*
Dr Peter Fellner Winnersh/UK Non-Executive Chairman, Vernalis plc	**Member of the Supervisory Board**	**Non-Executive Chairman of the Board of Directors:** Astex Therapeutics Ltd., Cambridge/UK Biotie Therapies Corp., Turku/FI (from April 2010, formerly Non-Executive Member) Consort Medical plc, Hemel Hempstead /UK Optos plc, Dunfermline/UK (from January 2010) **Non-Executive Member of the Board of Directors:** UCB SA, Brussels/BE

Mary Tanner New York, NY/US Managing Director, Peter J. Solomon LLC	**Member of the Supervisory Board**	
Dr Corey Goodman Marshall, CA/US Managing Partner, venBio, LLC	**Vice Chairman of the Supervisory Board** *(until 31 January 2010)*	**Non-Executive Chairman of the Board of Directors:** iPierian, Inc., South San Francisco, CA/US Limerick BioPharma, Inc.,South San Francisco, CA/US Oligasis, LLC, Palo Alto, CA/US PhyloTech, Inc., San Francisco, CA/US **Non-Executive Member of the Board of Directors:** Mirna Therapeutics Inc., Austin, TX/US NeuroTherapeutics Pharma, Inc., Chicago, IL/US

Management Board

Dr Werner Lanthaler Hamburg/DE Business Executive	**Chief Executive Officer**	**Member of the Verwaltungsrat:** Pantec Biosolutions AG, Ruggell, LI (from October 2010)
Colin Bond Hamburg/DE Chartered Accountant	**Chief Financial Officer** *(from August 2010)*	
Dr Cord Dohrmann Göttingen/DE Biologist	**Chief Scientific Officer** (from September 2010)	
Dr Mario Polywka Oxfordshire/UK Chemist	**Chief Operating Officer**	**Non-Executive Chairman of the Board of Directors:** Pharminox Ltd, Oxfordshire, UK
Dr Klaus Maleck Hamburg/DE Biotechnologist	**Chief Financial Officer** *(until August 2010)* **Member of the Management Board** *(until October 2010)*	**Non-Executive Chairman of the Board of Directors:** European ScreeningPort GmbH, Hamburg/DE

AUDITOR'S REPORT

We have rendered the Auditor's Report in German, which was translated as follows:
"Auditor's Report

We have audited the consolidated financial statements prepared by the Evotec AG, Hamburg, comprising the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statements of changes in stockholder's equity, the consolidated statement of cash flows and the notes to the consolidated financial statements, together with the Group management report for the business year from 1 January to 31 December 2010. The preparation of the consolidated financial statements and the Group management report in accordance with IFRSs, as adopted by EU and the additional requirements of German commercial law pursuant to Section 315a par. 1 HGB (Handelsgesetzbuch "German Commercial Code") 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 Section 317 HGB [„Handelsgesetzbuch": „German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the 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 evaluating the overall presentation of the consolidated financial statements and 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, and the additional requirements of German commercial law pursuant to Section 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, 1 March 2011
KPMG AG
Wirtschaftsprüfungsgesellschaft

Kniese
German Public Auditor
(Wirtschaftsprüfer)

Zander
German Public Auditor
(Wirtschaftsprüfer)

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and financial results of the Group, and the Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

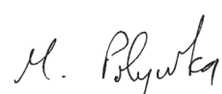
Evotec AG
The Management Board

Hamburg, 1 March 2011

Dr Werner Lanthaler
Chief Executive Officer

Colin Bond
Chief Financial Officer

Dr Cord Dohrmann
Chief Scientific Officer



Dr Mario Polywka
Chief Operating Officer


FREE SPACE
FOR MENTAL
GROWTH

IMPRINT

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The Evotec Annual Report published on 24 March 2011 containing the consolidated financial statements according to German Commercial Code (Handelsgesetzbuch) is available in English and German. *For further information on Evotec, please be invited to visit our website at www.evotec.com. You can also contact us by email info@evotec.com.*

Forward-Looking Statements Information set forth in this Annual Report contains forward-looking statements, which involve a number of risks and uncertainties. Such forward-looking statements include, but are not limited to, statements regarding our expectation that our current cash, cash equivalents, investments, and operating revenues will be sufficient to fund our planned activities beyond 2015; our financial outlook for 2011 and 2012, including statements regarding our expected operating results and financing and financial position, our belief that our cash situation should remain strong throughout 2011, and our expected liquidity at the end of 2011; our revised business model providing a sound basis for long-term sustainable growth; the anticipated advantages of our acquisitions and collaborations, including the expected revenue contribution from our acquisition of Kinaxo Biotechnologies GmbH; our expectations regarding the market for drug discovery alliances, including anticipated growth of the pharmaceutical outsourcing drug discovery market and the opportunities such growth will provide us, and our ability to take advantage of such market developments; our goal to reach operating profitability and to generate cash sustainable by 2012; our beliefs regarding the sufficiency of our existing liquidity reserves; our capital-raising plans; the expected timing of the effectiveness of our deregistration with the SEC; our expectations and assumptions concerning regulatory, clinical, and business strategies; and the progress of our clinical development programs and timing of the results of our clinical trials, strategic collaborations, acquisitions, and management's plans, objectives and strategies. These statements are neither promises nor guarantees, but are subject to a variety of risks and uncertainties, many of which are beyond our control, and which could cause actual results to differ materially from those contemplated in these forward-looking statements. In particular, the risks and uncertainties include, among other things: risks that we may be unable to achieve the anticipated benefits of our revised business model or recognise the results of our revised business model within expected timeframes; risks that we will not achieve the anticipated benefits of our collaborations, partnerships and acquisitions in the timeframes expected, or at all; risks that product candidates may fail in the clinic or may not be successfully marketed or manufactured; risks relating to our ability to advance the development of product candidates currently in the pipeline or in clinical trials; our inability to further identify, develop and achieve commercial success for new products and technologies; the risk that competing products may be more successful; our inability to interest potential partners in our technologies and products; our inability to achieve commercial success for our products and technologies; our inability to protect our intellectual property and the cost of enforcing or defending our intellectual property rights; our failure to comply with regulations relating to our products and product candidates, including FDA requirements; the risk that the FDA may interpret the results of our studies differently than we have; the risk that clinical trials may not result in marketable products; the risk that we may be unable to successfully secure regulatory approval of and market our drug candidates; risks of new, changing and competitive technologies and regulations in the U.S. and internationally; general worldwide economic conditions and related uncertainties; future legislative, regulatory, or tax changes as well as other economic, business and/or competitive factors; and the effect of exchange rate fluctuations on our international operations. The list of risks above is not exhaustive. This Annual Report contains additional factors that could impact our businesses and financial performance. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to such statements to reflect any change in our expectations or any change in events, conditions or circumstances on which any such statement is based.


DELIVERY

Evotec AG, *Schnackenburgallee 114, 22525 Hamburg (Germany)*