evotec

‘RESEARCH NEVER STOPS’

Clear path to sustainability
“Action Plan 2012” acceleration of the business model is close to completion **see page 03**

Clear communication in 2011
This is visible through our news flow. The following summary ... **see page 06**

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

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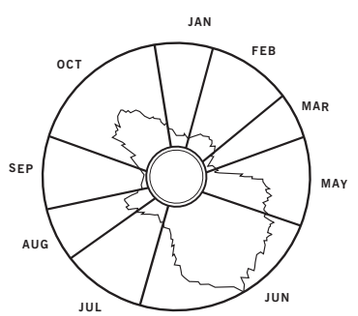
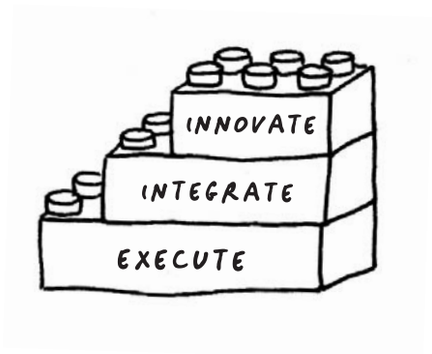
COMMUNICATION 2011

CLEAR TEXT AVERY CLOSE LOOK AT WHAT HAS HAPPENED SO FAR



DEAR SHARE HOLDERS AND FRIENDS



"Action Plan 2016 – Leadership in Drug Discovery Solutions"

Moving from restructuring to growth mode and forging a clear path to a sustainable, high-value creating business is our mission. "Evotec 2012 – Action Plan to Focus and Grow" was the strategic framework that we implemented in 2009 to guide the Company into the starting position for sustainable development. This plan helped to regain the trust of our industry partners and investors in 2011, and our performance demonstrated the success of this business model. The achievements include more than 40 % revenue growth, the second year of profitability in over 18 years of corporate history, more strategic alliances than ever before, strong liquidity, and a strong sales order book for 2012. These facts speak for themselves and that makes us confident that our further growth is on solid ground.

With "Action Plan 2016 – Leadership in drug discovery solutions" we have defined the next goals that we want to achieve in the years to come. Three key building blocks will help us to achieve long-term leadership in the drug discovery solutions market.

EVT Execute: We are aware that it takes muchmore than just the highest quality services to develop new drugs. Nevertheless, this is the most important starting point. We want to work with our partners in long-term relationships and share the good, the very challenging, and also sometimes, the negative events in the drug discovery process. EVT Execute will deliver an even more industrialized high-tech infrastructure to our partners in order to optimize the capital efficiency behind every target that our partners are working on. Partners who work with Evotec can be certain that they will get access to the latest science, and globally, the best-in-class technology infrastructure.

EVT Integrate: Pharma and biotech companies have already started to experience the multiple advantages of developing drug targets in integrated performance-based projects with us. We don't just save costs for our customers; most importantly, we significantly reduce the time to market for these projects. EVT Integrate represents the most comprehensive, systematic process for drug targets in our key areas of expertise. We will significantly expand our core business expertise around metabolic disease, pain, oncology, and CNS drug targets.

EVT Innovate: We are committed to delivering solutions for some of the largest and most pressing unmet medical needs. With EVT Innovate we bring forward the most promising scientific ideas to make a difference in these areas. Two of our particular initiatives illustrate this work: We are developing a novel treatment to slowdown the progression of Alzheimer's disease together with Roche, and we are collaborating with Harvard University to create a completely new pool of drug targets to potentially treat diabetes.

We see the entrepreneurial opportunity for Evotec and want to grow with you, our shareholders, partners, and friends, to reflect the spirit of our vision, "Action Plan 2016 – Leadership in drug discovery solutions".

Yours sincerely

CLEAR PATH TO SUSTAINABILITY

"Action Plan 2012" acceleration of the business model is close to completion

Evotec implemented its strategy "Evotec 2012 – Action Plan to Focus and Grow" in March 2009. The Company evaluated its strengths and made clear decisions regarding its financial resources and future strategic course. We focused all efforts on core projects and activities with the aim of delivering maximum value to partners and shareholders.

The core elements of this strategy were to:

- Strengthen the discovery alliances business
- Re-focus the pipeline on the most valuable assets
- Build strategic alliances on selected development projects
- Significantly reduce operating expenses and strategic clinical risks

Action Plan 2012 was set to drive the Company to profitability and long-term sustainability by 2012. The main objectives of the Plan were delivered slightly earlier than initially anticipated.

Longer-term discovery alliances

In research collaborations and alliances, cost efficient innovation and quality are typically the key factors for customer attraction. However, process delivery, reliability, and effective project management are also important selection criteria of potential partners. It is of utmost importance for Evotec to deliver consistently on all these counts in order to achieve its strategic objective of creating more long-term, high-value partnerships with the pharma and biotech industry.

Evotec has demonstrated it is on the right path with its partnering strategy, building a steadily growing portfolio of drug discovery partnerships. This is clearly reflected in the 2011 figures, which recorded increased revenues and a positive operating result.

The Company has signed a significant number of important new contracts, contract extensions, and expansions and has made significant progress in many of its current programmes. It is on course with its strategic aim of focusing on creating more long-term discovery solution partnerships and performance-based drug discovery alliances than ever before. For instance, Evotec entered into a three-year integrated drug discovery collaboration with UCB in July 2011. Three months later, UCB selected Evotec again for a second multi-target collaboration. Also, in its multi-year, multi-target collaboration with Boehringer Ingelheim, Evotec achieved four further milestones in 2011, totalling 15 milestones to date.

Pipeline risks reduced

It is Evotec's vision to build a pharmaceutical-like pipeline without assuming significant risk. Following this idea, the Company has de-risked its development portfolio by limiting pipeline investments to only the most valuable assets. The objective has been to reduce unfunded research and development (R&D) cash burn while maintaining potentially significant upsides.

A highlight was the exclusive worldwide agreement between Evotec and Roche, in September 2011, for the development and commercialisation of Evotec's MAO-B inhibitor to treat Alzheimer's disease. Under the terms of the agreement Roche paid Evotec an upfront fee of $ 10 m. Evotec could receive further development and commercial milestone payments of up to $ 820 m, as well as tiered double-digit royalties on sales. Roche will initiate Phase IIb studies in 2012 to demonstrate proof-of-concept and will be responsible for all clinical development, manufacturing, and commercialisation activities.

In August 2011, Evotec entered into a worldwide licence and collaboration agreement with a top tier animal health company that intends to develop the proprietary compound EVT401, a

selective, small molecule P2X7 antagonist, in the companion animal market. The agreement entitles Evotec to a technology transfer payment, development and commercial milestone payments, and tiered royalties on net sales. Evotec retained all rights to the programme for human therapeutic use.

There was also one major setback in 2011. In May 2011, Roche returned the rights to the NR2B sub-type selective NMDA antagonists EVT101/103 to Evotec. It was decided to voluntarily terminate the first proof-of-concept Phase II study in treatment-resistant depression with EVT101. The decision was triggered by difficulties in recruiting patients under the study protocol, resulting in the possibility of inconclusive results. Although EVT101 had generally been well tolerated in healthy volunteers and patients, the difficulties of conducting the Phase II study in treatment-resistant depression, the need to sharpen the toxicology profile, and a potential requirement for an altered dosage scheme led to an overall delay in the programme. Based on this, Evotec and Roche decided to discontinue clinical development of the compound.

Evotec now retains all rights to the EVT100 series of compounds, and in particular to EVT103, and aims to develop them in other partnerships. As advanced clinical development of drug candidates is not part of Evotec's core business, the Company will not pursue further clinical development of its NR2B sub-type selective NMDA antagonists without a suitable partner.

With the acquisition of DeveloGen AG (Evotec Göttingen) in 2010, Evotec gained a high-value development partnership with Andromeda on DiaPep277, a synthetic peptide immuno-modulator for the treatment of type 1 diabetes. The compound is in pivotal Phase III clinical development. Evotec will receive royalties on the commercialisation of DiaPep277 products by Andromeda's distribution partner Teva and significant milestone payments after the successful completion of key development and regulatory milestones. In November 2011, Andromeda reported that DiaPep277 successfully completed its first Phase III clinical trial in type 1 diabetes. The study provides more evidence that DiaPep277 can slow the progression of the disease in newly diagnosed patients. If the second pivotal study demonstrates a similar effect, DiaPep277 could become the first non-insulin treatment for type 1 diabetes. Patient recruitment for this study is anticipated to be completed in the first half of 2012. Evotec could receive a milestone payment in 2012 once the initial results of the first Phase III study have been confirmed.

These examples show that, by implementing Action Plan 2012, Evotec has successfully changed its business model. For clinical development programmes the Company will always enter into partnerships rather than developing programmes alone. This new model of building a pipeline substantially reduces the financial risks while maintaining significant upside opportunities. The benefits have already started to materialise.

Acquisitions to improve strategic position

During the course of Action Plan 2012, Evotec has made several acquisitions to gain access to technologies that complement the Company's technology profile, optimise its cost structure, create synergies, and allow expansion into new therapeutic areas.

In the first half of 2011, Evotec acquired all shares in Kinaxo Biotechnologies GmbH, a Munich-based chemical proteomics company supporting the development of targeted drugs. The acquisition added proprietary technologies for compound profiling, target deconvolution, and response prediction, which are important for timely decisions on drug efficacy and safety, especially in the area of oncology. For this transaction Evotec issued 2,597,403 shares, paid a cash component of € 3.0 m and an earn-out component of € 1.5 m. A potential additional € 2.5 m earn-out payment is dependent on the business' performance in 2011/2012.

In June 2011, Evotec acquired Compound Focus, Inc., the compound management business of BioFocus, a Galapagos Company, to expand its integrated drug discovery alliance solution business with the best-in-class offering in compound management. For the acquisition of all shares in Compound Focus, Inc. (Evotec San Francisco), Evotec paid Galapagos an amount of € 9.5 m in cash and an additional € 2.25 m in potential earn-out payments based on business performance in 2012/2013, depending on revenues and certain corporate milestones.

Finally, in October 2011, Evotec acquired the remaining 30% equity stake in Evotec (India) Private Limited, from DIL Limited India, for € 1.7 m in cash. This acquisition represents a capacity expansion for Evotec that added to Evotec's world-leading discovery platform complementary drug discovery operations and capabilities in the field of science-driven chemistry in a cost-effective location. With its 100% owned Indian subsidiary Evotec is now able to operate and accelerate this business with full control.

Clear results delivered

The impact of the package of strict cost-cutting and restructuring measures in accordance with Action Plan 2012 is clearly reflected in the 2011 financial results.

Despite the current volatile times, Evotec delivered more than 40% top-line growth, thereby improving profitability on stable gross margins and generating free cash for its operations. This top-line increase was mainly due to a strong performance of the Company's core discovery alliance business, significant milestone achievements, stable licence and upfront income, and the inclusion of the revenues from the newly acquired Evotec Munich and Evotec San Francisco businesses.

Productivity crisis of Pharma is the opportunity for Evotec

Looking forward, Evotec's market is expected to grow as the productivity crisis of the pharmaceutical industry unfolds. By 2016 most major pharmaceutical companies will have reached their pipeline patent cliff. Only a few will possess sufficient new promising products of their own. It is therefore becoming ever clearer that only capital efficiency and innovation can lead the way out of the pharmaceutical companies' productivity crisis. Evotec is likely to benefit from these developments because the Company can drive more projects on higher capital efficiency than big pharma can do in-house. Open innovation or improved external inno-vation are other means of bridging the gap. Open innovation implies sourcing ideas not only from internal but also from external sources, creating information flows across companies and institutions rather than more information cycles within a company.

The current total market for outsourced early-stage drug discovery work is estimated to be worth up to $ 6 bn and is predicted to further grow in the coming years. Such a market size should enable Evotec to grow successfully and become one of the leading providers in Drug Discovery Solutions.

Strong growth to come!

In 2011, Evotec showed clear growth: The Company augmented its technology platforms and drug discovery services. Technology platforms, however, are only as good as the people who drive them, and Evotec recruited many top scientists on an international level in 2011, thereby supporting its commitment to being the integrated drug discovery and early development partner of choice for pharma and biotechnology companies.

Having delivered on Action Plan 2012, the Company will now march forward to its next set of goals, building on the success of 2011 and implementing its strategy for the years to come. This framework is called

"Action Plan 2016 – Leadership in Drug Discovery Solutions"

Scott Snyder *in person*

He lives on the sunny side of life …

Scott Snyder is the Executive Vice President, Compound Management of Evotec. Scott joined Compound Focus, a subsidiary of Evotec, in November 2008 and has direct responsibility for its South San Francisco operations.

As Executive Vice President at Evotec, he is responsible for Evotec's compound management business, managing US operations and setting the strategy within this growing sector. The business works in partnership with large government agencies, global non-for-profit organisations as well as pharma and biotech companies. Scott's formula for success is to hire great people and get them to work together – it also helps if they like California wine.

He brings to Compound Focus specific experience in configuring and implementing sample management systems starting in 2000. Prior to joining Compound Focus, Mr Snyder was Director of Commercial Development at BioProcessors Corporation, now Seahorse Biosciences, and was responsible for establishing collaborative relations with key biopharmaceutical companies. Mr Snyder has worked since 1993 in both operational and business development capacities with biotechnology companies and innovative automation providers, supplying specialist automation systems and services to the life science research industry. He holds a bachelor's degree in Chemistry from Ohio Wesleyan University.

Condensed Key Figures *Evotec AG (IFRS)*

IN T€	2007*	2008	2009	2010	2011	CHANGE 11/10 IN%
Results						
Revenues	*32,885*	*39,613*	*42,683*	*55,262*	*80,128*	*45*
Research & development expenses	*36,938*	*42,537*	*20,947*	*6,116*	*8,437*	*38*
Operating result [1)]	*(39,151)*	*(50,572)*	*(19,612)*	*1,715*	*5,207*	*204*
Net income (loss)	*(48,053)*	*(78,287)*	*(45,497)*	*2,985*	*6,651*	*123*
Balance sheet data						
Total stockholders' equity	*170,553*	*149,859*	*111,487*	*132,637*	*147,245*	*11*
Capital expenditure [2)]	*4,349*	*3,514*	*2,213*	*2,446*	*8,311*	*240*
Cash and investments [3)]	*93,676*	*92,401*	*70,594*	*70,401*	*62,428*	*-11*
Balance sheet total	*207,878*	*182,900*	*146,599*	*191,859*	*218,213*	*14*
Operating Cash flow	*(31.672)*	*(41.278)*	*(21,853)*	*899*	*10.146*	
Personnel data						
Employees as of 31 Dec	*386*	*418*	*485*	*519*	*610*	*18*
Per Share						
Result; in €	*(0.67)*	*(0.82)*	*(0.43)*	*0.03*	*0.06*	*100*

[1)] Before impairment and restructuring expenses. [2)] Cash relevant purchase of tangible and intangible assets, excluding finance leases.
*[3)] Including auction rate securities in 2008 and 2009. * Continuing operations.*

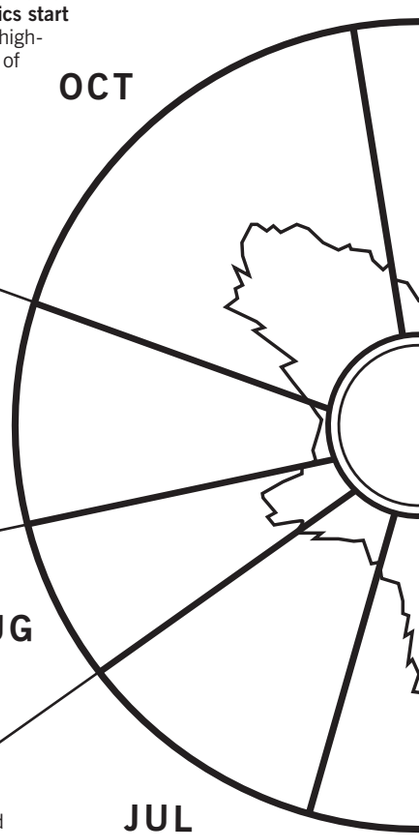
CLEAR COMMUNICATION IN 2011

Second multi-target collaboration with UCB in the field of immunology As part of the collaboration, Evotec is applying its integrated drug discovery expertise and technologies to identify interesting small molecules against a select number of targets. The molecules will be further optimised and progressed through lead optimisation to a preclinical candidate. Evotec will receive research funding based on the resource allocated over the projects and will be further rewarded on achieving early stage discovery, preclinical, and clinical milestones. In addition, Evotec will receive royalties based on net sales of any approved drugs from the collaboration.

Evotec and APEIRON Biologics start next project on the Cbl-b target Evotec will apply its skills and proprietary technologies in cellular assay development and ultra-high-throughput screening (uHTS) to identify biologically active molecules from its corporate library that interact with Cbl-b. The aim of the collaboration will be to take compounds identified by Evotec as being active against this target or other relevant targets and further jointly optimize them as a basis for preclinical and clinical development.

Two milestones in fragment-based drug discovery alliance with Shionogi achieved This collaboration was initiated in October 2010 to identify small molecule modulators of various protein-protein interaction targets selected by Shionogi. Evotec has applied its proprietary and integrated fragment-based drug discovery platform EVOlution[SM] to the selected targets. Active fragments have been further characterised by X-ray crystallography to obtain structural information to aid selection of the best fragment optimisation strategy.

OCT



Evotec and Roche agree to develop a compound that could slow the progression of Alzheimer's disease Evotec entered into an exclusive worldwide agreement for the development and commercialisation of its MAO-B inhibitor in patients with Alzheimer's disease. Under the terms of the agreement, Roche paid Evotec an upfront fee of $ 10 m. Evotec could receive further development and commercial milestone payments of up to $ 820 m as well as tiered double-digit royalties on sales. Roche will initiate studies in 2012 to demonstrate proof-of-concept and will be responsible for all clinical development, manufacturing, and commercialisation activities.

Acquisition of remaining 30% of Indian Joint Venture from DIL Limited, India for € 1.7 m In August 2009, Evotec acquired 70% of the equity of Research Support International Private Limited (RSIPL), which was subsequently renamed Evotec (India) Private Limited. With its now 100 % owned Indian subsidiary, Evotec has successfully expanded its global scientific resource to offer the most complete and cost-efficient drug discovery solutions to the pharmaceutical and biotech industry.

SEP

Multi-target collaboration with UCB in neurodegenerative and neurological disease Evotec entered into a three-year integrated drug discovery collaboration with UCB to identify small molecule modulators of priority biological targets, selected by UCB, involved in CNS disorders. As part of the collaboration, Evotec will apply its integrated drug discovery expertise and technologies to identify interesting small molecules against the selected targets. Evotec will receive research funding over the term of collaboration and will be further rewarded on achieving the goals of the research collaboration with early stage discovery, preclinical, and clinical milestones. Additionally, Evotec will receive royalties based on net sales of any approved drugs from the collaboration.

AUG

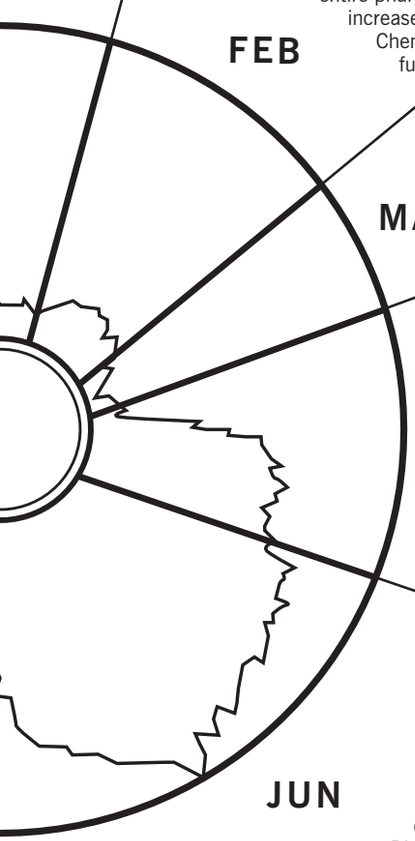
P2X7 antagonist programme, EVT401, partnered to a top-tier global animal health company Evotec entered into a world-wide licence and collaboration agreement with a top-tier animal health company that intends to develop Evotec's proprietary compound EVT401, a selective, small molecule P2X7 antagonist, in the companion animal market. Evotec is entitled to receive a technology-transfer payment, development and commercial milestone payments, and tiered royalties on net sales. Evotec retains all rights to the programme for human therapeutic use.

Preclinical milestone payment as part of its discovery alliance with Boehringer Ingelheim The milestone triggered a payment of € 4 m to Evotec following the successful identification and selection of a compound to be advanced into preclinical development within an oncology programme. This represents the fourteenth milestone achieved in this multi-year, multi-target collaboration.

JUL

We are committed to getting the optimal value out of the alliances and programmes we have with our partners. This is visible through our news flow. The following is a summary of the press releases published in 2011:

Evotec deregisters from the US Securities and Exchange Commission Deregistration from the SEC was the final step following the delisting from NASDAQ, which was initiated in November 2009. Evotec shares continue to be traded on the Frankfurt Stock Exchange, and Evotec's ADSs are traded on the over-the-counter (OTC) market in the U.S. **Milestone payment received from Boehringer Ingelheim** Evotec received € 2.0 m in 2010 for the progression of an oncology drug candidate into lead optimisation. The partnership between Evotec and Boehringer Ingelheim has been in existence for seven years. **Collaboration with Takeda Cambridge for multi-target hit identification** Evotec is applying its state-of-the-art screening platform and proprietary GPCR modelling software to identify and validate novel modulators against various targets selected by Takeda Cambridge.



JAN

Expanding its drug discovery platform with cutting-edge technologies Evotec acquired Kinaxo Biotechnologies GmbH, a Munich-based chemical proteomics company, confirming its leading position as the fully integrated drug discovery and early development partner for pharma and biotechnology companies. Kinaxo's capabilities comprise a unique combination of innovative technologies to improve drug development across the entire pharma value chain.

FEB

Evotec to strengthen its compound collection through a collaboration with ChemBridge Evotec increased its high-throughput screening collection through the addition of initially 110,000 diverse and lead-like compounds from the ChemBridge Library Collection. These new compounds complement the chemical diversity of Evotec's existing collection and will further enhance the quality of hits provided to Evotec's partners.

MAR

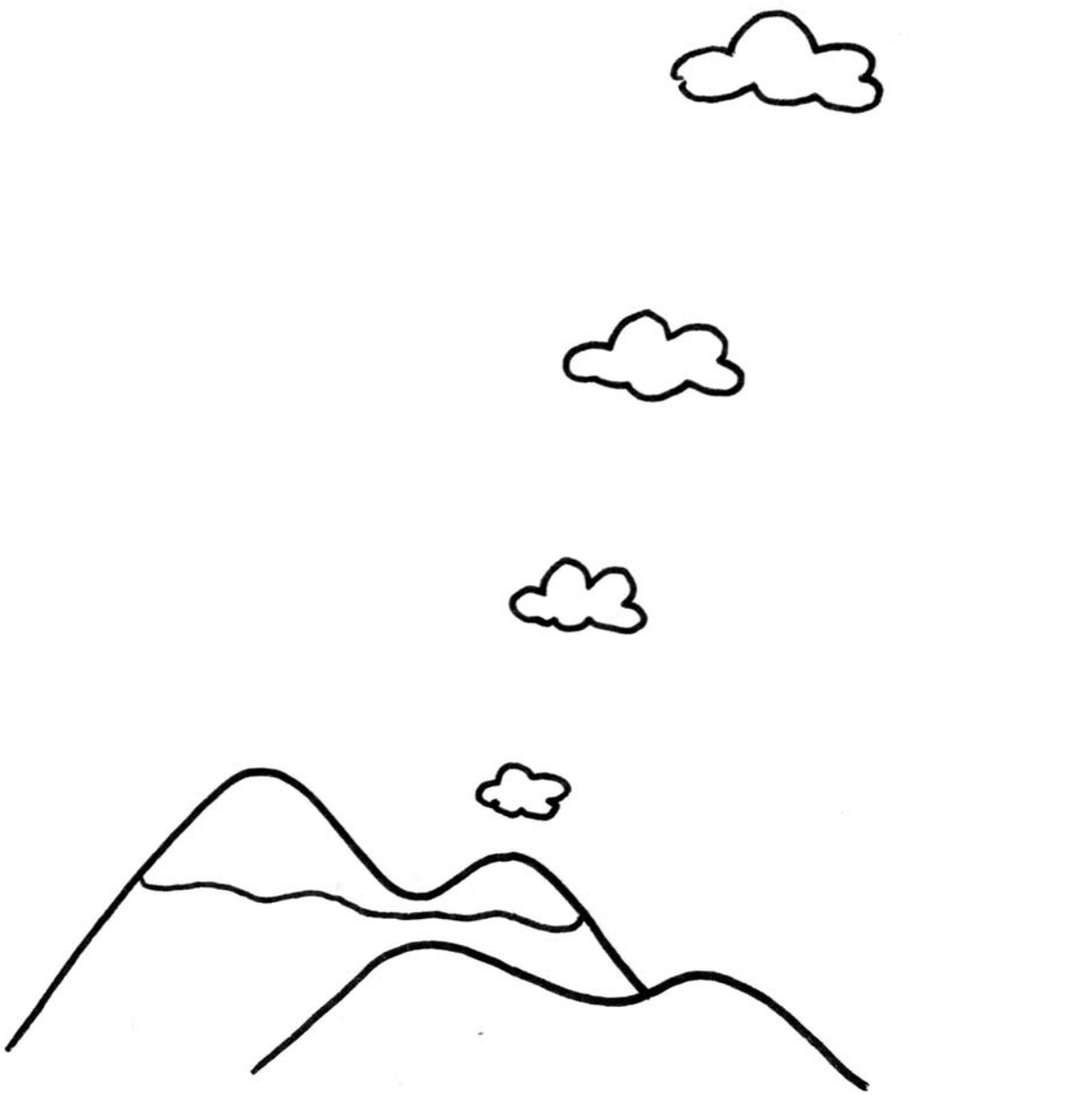
Evotec establishes research collaboration with Harvard University and the Howard Hughes Medical Institute in diabetes research The initial goal of the collaboration is to pursue a comprehensive and systematic approach towards the identification and development of physiological mechanisms and targets that regulate beta cell replication. Harvard, HHMI, and Evotec bring together extensive expertise and know-how in beta cell biology and diabetes, along with an unparalleled set of tools to exploit beta cell-related mechanisms and targets.

MAY

Twelfth milestone payment as part of its discovery alliance with Boehringer Ingelheim received The milestone was reached on the transition of an oncology programme into lead optimisation and triggered a payment of € 2.0 m to Evotec. **Phase II study with NR2B sub-type selective NMDA antagonist in treatment-resistant depression voluntarily terminated** Evotec and Roche decided to voluntarily terminate the first proof-of-concept study in treatment-resistant depression with EVT101. The decision was triggered by difficulties in recruiting patients under the current study protocol, resulting in the possibility of inconclusive results. EVT101 was generally well tolerated in healthy volunteers and the patients enrolled. Evotec now holds all rights in the EVT100 series, including the back-up compound EVT103, and has reinitiated partnering discussions of these assets. **Strategic alliance with PsychoGenics entered to provide integrated CNS drug discovery solutions** Evotec and PsychoGenics are working together to provide existing and new clients access to their complementary drug discovery platforms for the identification and development of new therapeutics to treat CNS disorders. **Thirteenth milestone received as Boehringer Ingelheim starts Phase I clinical trial in pain** A second back-up compound in the strategic alliance has advanced into clinical trials as a novel treatment for neuropathic pain. With the initiation of Phase I studies, Evotec earned a milestone payment of € 2.0 m.

JUN

Strengthening integrated innovation offering through acquisition of Compound Focus Evotec has acquired Compound Focus, Inc., the compound management business of BioFocus, a Galapagos Company, to expand its integrated drug discovery alliance solution business with the best-in-class profitable offering in compound management. For the acquisition of all shares in Compound Focus Inc. Evotec will pay Galapagos an immediate cash upfront of € 10.25 m and an additional € 2.25 m in potential earn-out payments upon performance of the business in 2012/2013, depending on revenues and certain corporate milestones. **Medicinal chemistry collaboration with Active Biotech** Based on excellent progress made using its state-of-the-art screening platform in 2010, Evotec is now applying its integrated medicinal chemistry platform to optimise initial screening hits with the aim of progressing into a lead optimisation programme. Active Biotech strives to develop, efficiently and cost-effectively, new remedies for illnesses where today's treatment options are inadequate, especially in the area of cancer and autoimmune diseases. **Evotec and Roche to jointly develop biomarkers in oncology** Evotec is employing its PhosphoScout® platform to discover protein-phosphorylations that predict favourable dosage and efficacy of targeted cancer drugs in patients. Roche will be responsible for conducting clinical trials as well as assessing the development of companion diagnostics for patient stratification. Under the initial three-year term, Evotec and Roche will conduct multiple biomarker programmes for therapeutic antibodies or small molecule inhibitors. Evotec will receive undisclosed upfront and success-based payments for each programme. **Milestone in an ion channel drug discovery collaboration with Ono Pharmaceutical Co., Ltd. achieved** Evotec successfully identified multiple compounds meeting various criteria in activity, selectivity, and pharmacokinetic characteristics. Evotec and Ono have now agreed to continue this research collaboration until April 2012 and enter into lead optimisation with the goal of generating new chemical entities, which have the potential to become new drug candidates.


COMMUNICATION

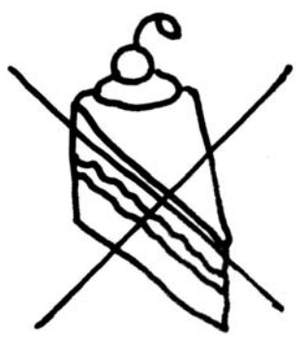
CLEAR VISIONS – CUREBETA

CureBeta – clearly innovate with a long-term view

Probably the biggest challenge in diabetes therapy is addressing the loss of insulin-producing beta cells, which is ultimately the cause of elevated blood glucose levels in type 1 and type 2 diabetes patients.

Diabetes has taken on pandemic proportions with a patient population of approximately 300 m people worldwide and growing steadily. In the US alone, approximately 2 m new cases of diabetes are diagnosed annually. In the US, the total annual economic cost of diabetes was estimated to be $ 174 bn in 2007 and medical expenditures totalled $ 116 bn, comprising $ 27 bn for care to directly treat diabetes and $ 58 bn for chronic diabetes-related complications.

The main reason for this enormous increase in patients with diabetes and diabetic complications is the spread of the Western lifestyle, which has become increasingly sedentary and is associated with the consumption of high calorie food. Furthermore, the number of diabetic patients that are suffering from diabetic complications continues to grow. This is driven by suboptimal treatment options, which do not provide adequate control of blood glucose levels. Current treatments are associated with side effects, and in particular, do not prevent progression of the disease. In order to meet this significant health care challenge it will be necessary to develop disease-modifying therapies which stop or even reverse the progression of the disease and thereby prevent or at least reduce the development of diabetic complications. The limitations of current therapies make it increasingly clear that future drug development for diabetes treatments will focus on mechanisms that are disease modifying, such as targeting weight gain, insulin resistance, and in particular, the functional beta cell mass, in order to achieve recommended targets of blood glucose levels. Finally, it is important to note that restoring the functional beta cell mass in diabetic patients is probably the only way to revert disease progression in patients that depend on injectable insulin therapy.



CureBeta – clearly innovate with a long-term view

Evotec's CureBeta beta cell regeneration programme is designed to identify and exploit physiological embryonic and adult mechanisms involved in the maintenance and expansion of the endogenous beta cell mass.

Evotec has already achieved its first commercial partnering success in the field of beta cell regeneration through the agreement with MedImmune (Dec 2010), which gives MedImmune exclusive access to a portfolio of research programmes. Using a unique screening approach for beta cell regeneration targets, Evotec's scientists 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.

Another very important agreement that places Evotec at the forefront of beta cell research has been the collaboration with Harvard University and the Howard Hughes Medical Institute (HHMI), announced in March 2011. This collaboration is based on the vision of combining academic and industrial excellence and expertise in the field of diabetes, and in particular, beta cell regeneration.

It is a great honour for Evotec that Prof Doug Melton has agreed to become the key strategic advisor for the Company in the field of regenerative medicine. He will contribute his experience and expertise in the field of beta

cell regeneration, as well as his far reaching academic and industrial network to Evotec. Doug Melton's laboratory is world leading in stem cell and beta cell biology with extensive experience in conducting screenings designed to identify key mechanisms involved in beta cell development, function, and regeneration. Evotec has extensive experience in screenings and selecting high potential drug targets and development, regardless of treatment modality – small molecules, peptides and biologicals. Combining assets and experience from both institutions establishes one of the largest and most experienced teams of scientists dedicated to the identification of novel approaches targeting beta cells.

Together the team will conduct an all-inclusive search for target candidates that have the potential to improve beta cell mass and function. The product pipeline currently includes small molecules with *in vitro* and *in vivo* activity and long lists of target candidates. Additional screens have been designed and will be conducted to identify additional target candidates that can be fed into the proven target selection cascade. The goal is to conduct a highly systematic and exhaustive search and feed the most attractive beta cell target candidates into a rigorous selection process for further development.

Dr Joanna Hergovich Lisztwan

in person

Thriving in the midst of unknowns

Dr Lisztwan joined Evotec as Research Leader in June 2011. In her role she is res-ponsible for providing biology project leadership and oncology expertise on existing oncology programmes at Evotec, as well as proactively seeking out new project, client and collaborator opportunities in academia, biotech, and industry. It is her vision to also contribute to the build-up of a world-leading integrated oncology drug discovery platform at Evotec, spanning *in vitro*, *in vivo*, and biomarker approaches.

Dr Lisztwan spent over 12 years in cancer research at the Friedrich-Miescher Institute, where she obtained her PhD in Molecular Biology, and Novartis Oncology Research, where she was involved in various drug discovery and research related programmes. The most exciting of these was leading a protein-protein interaction inhibitor project from screen to identification of a clinical candidate. She has authored and co-authored a number of publications and patents.

Heidi Pavliska

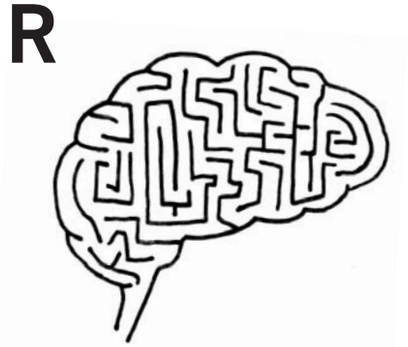
in person

A truly international person to support our global customer team

Heidi Pavliska joined Evotec in September 2011 as Vice President of Strategic Business Development. She is responsible for creating high value partnerships with major pharma players, globally. The vision here is to become the integrated discovery partner of choice, leveraging not only the high quality expertise of Evotec but also the refreshingly open-minded approach to shared-risk business models.

Heidi is originally from Portland, Oregon and holds degrees in Microbiology and Biology from Oregon State University. Heidi was one of the original groups of scientists in the start-up of Galapogos NV in 1998. She was instrumental in the development of the company's target discovery platform and was later responsible for its commercialisation across Europe. During the acquisition of BioFocus, Heidi transitioned to a role within that organisation and began orchestrating integrated discovery programmes on a global basis. After 11 years with Galapagos and BioFocus, Heidi joined AMRI in 2009 as Director of Business Development, Northern Europe, bringing a new depth of European market share to this mainly US focused organisation.

CLEAR YOUR MIND



After the failure of EVT302 in Phase II studies in smoking cessation, we decided not to invest further in the clinical development of our MAO-B inhibitor. This decision was fully in line with our Action Plan 2012, implemented in 2009. We have since focused on positioning the compound for development in Alzheimer's disease (AD) with good preclinical and clinical validation.

AD represents a huge market opportunity for new therapies, an opportunity driven by the growing patient population and increasing diagnosis rates. In the seven major markets alone, excluding China and India, the number of prevalent cases will increase from currently approximately 7.4 m to about 9.5 m in 2019. Nowadays just 45% of all AD patients are treated with drugs, and this is partly due to unsatisfactory therapy options. With new treatment possibilities the numbers of drug treated patients is expected to grow significantly to 55%. Currently, Alzheimer's disease is the only cause of death among the top 10 in America without a way to prevent, cure, or even slow its progression.

In AD patients, oxidative stress contributes to neurodegeneration. Due to highly increased levels of MAO-B activity in their brains, oxygen radical formation can be correlated to this enzymatic activity. Inhibition of MAO-B has the potential to slow down disease progression and to improve disease symptoms.

This easy logic, together with a good safety profile of Evotec's compound EVT302, convinced Roche to continue the development.

"We at Evotec are convinced that specific inhibition of MAO-B activity in the brain can offer an alternative treatment approach to alleviate Alzheimer's disease, by reducing symptoms and slowing down disease progression. Sharing our conviction with the leading experts at Roche, we are proud to tackle this unmet medical need, thereby creating benefits for patients and ultimately value for our shareholders."

Dr Klaus Maleck, Executive Vice President Corporate Development of Evotec.

Out of several compounds Evotec was able to prioritise a highly selective, safe, well-tolerated, and efficacious candidate and brought it into clinical development. In addition to an extensive Phase I package, selectivity against MAO-A, a related enzyme to MAO-B, was demonstrated clinically by the absence of any tyramine liability and hence food effect.

Roche was also able to combine efficacy data from earlier compounds possessing less favourable toxicology profiles with the convincing safety data of EVT302 to support the progression of EVT302 into the clinic.

AD is a dramatically growing unmet medical need, and current treatments, such as acetylcholine esterase inhibitors, really only show short-term symptomatic effects. Most other late stage development programmes target the beta-amyloid pathway, a concept that is still lacking clinical proof-of-concept.

Both partners agreed on the concepts of clear, stringent development stewardship and a full speed development plan to accelerate the path to market. The parties also agreed on a deal structure that fairly reflects the interests of both sides. The financial component needed to reflect:

- The high risk that Roche assumes by paralelised study design
- The high revenue potential depending on either symptomatic treatment or disease modification
- Evotec's investment in this programme and Evotec's dependency on Roche's future development efforts

The contract is a asset purchase agreement, consisting of an upfront payment in the amount of $ 10 m, solid development milestones (up to $ 170 m), rich commercial milestones (up to $ 650 m), as well as tiered, double-digit royalties. This agreement represents a fair-value split under each market scenario for both parties, thereby incentivizing a healthy partnership.

Evotec values very highly the professional relationship that has been built-up with Roche. The Company is convinced that the selected team can create a lasting success story and is looking forward to on-going discussions with this partner.

CLEAR

GROWTH –

FOCUS YOUR MIND

Two Important Acquisitions in 2011

Growth was our clear focus for 2011: We acquired two excellent companies and strengthened our ability to grow further. With Compound Focus, Inc., we augmented our early drug discovery offering and provided critical mass to our already existing compound management capabilities. The acquisition of Kinaxo Biotechnologies GmbH provided access to innovative technologies for timely decisions on drug efficacy and safety, improving drug development across the whole value chain.

New cutting-edge technologies in the area of oncology

In February 2011, Evotec acquired all shares in Kinaxo Biotechnologies GmbH. The transaction became effective 18 April 2011. The purchase price amounted 2.6 m shares and maximum of € 7 m in cash. The Munich-based drug discovery alliance company is supporting the development of targeted drugs and adds a fast-growing profitable business. Furthermore, Kinaxo enables Evotec to expand its drug discovery platform with cutting-edge technologies and, consequently, to strengthen its performance-based business model by offering a strong value proposition, especially in oncology.

The new portfolio comprises a number of major technologies:

- Cellular Target Profiling®, uncovering the molecular targets of compounds with unknown modes-of-action and revealing possible off-target side effects early in the discovery and development process.
- KinAffinity®, determining the cellular selectivity of kinase inhibitors, the most important class of targeted cancer drugs. KinAffinity® analyses, providing critical information on drug safety and efficacy and thus supporting the decision-making process with respect to the compound's further clinical testing.

"Joining forces with Evotec has already borne fruit. Kinaxo's response prediction platform turned out to be a perfect fit with Evotec's integrated drug discovery services. Following the acquisition we quickly entered into a significant collaboration with Roche to predict the response to personalised treatment options developed at Roche. In 2012, we look forward to entering new pharma collaborations and further growing our business within Evotec's established discovery alliances."

Dr Andreas Jenne, Executive Vice President Strategic Planning Biomarkers, Evotec Munich

Another cutting-edge technology is PhosphoScout®, which provides valuable insights into a drug's mode-of-action. Furthermore, it holds promise to deliver novel protein-activity-based biomarkers that predict response to drug treatment in the clinic.

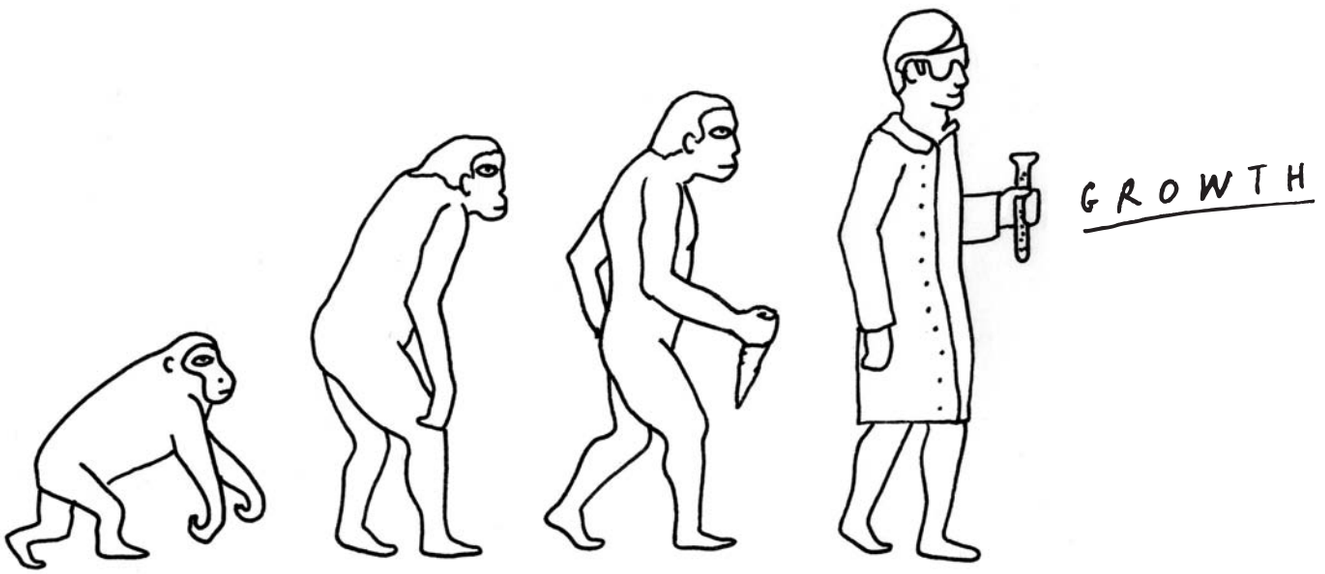
To explore this new approach Evotec entered into a collaboration with Roche. Within this alliance PhosphoScout® is used to discover proteinphosphorylations that should allow identification of patients which are likely to benefit from Roche's cancer therapies.

Evotec's enhanced capabilities have already convinced leading pharma companies and strengthened the Company's position as leader in drug discovery. In 2011, Evotec Munich expanded, for example, its collaborations with Johnson & Johnson, Takeda, Ono, and Boehringer Ingelheim.

Strong foundation – stable, profitable business

To further strengthen its integrated innovation offering with compound management, Evotec acquired Compound Focus Inc., the compound management business of BioFocus, a Galapagos Company, for a maximum of € 11.7 m in cash in June 2011.

Compound Focus (Evotec San Francisco) is based in South San Francisco, US and is truly



the leader in the market for storage and management of libraries.

The company has state-of-the-art equipment and techniques and is specialised on automatic storage and custom design solutions for small molecule drugs.

With the help of Compound Focus, academic and commercial organisations can build, grow, and manage small molecule collections to the highest quality in support of high-throughput biological screening. Key customers, like the National Institute of Health, one of the largest scientific institutes in the US, and pharma companies, such as Elan, Sunovion Pharmaceuticals (formerly: Sepracor) and Procter & Gamble, use these world-leading compound management services.

The acquisition enables Evotec to generate even more synergies in its drug discovery alliance business and to support its partners with the development and management of their compound libraries. Furthermore, Compound Focus will strengthen Evotec's screening platform and hit identification capabilities in the future and will also add profitable revenues.

The integration of these two excellent companies enables Evotec to further grow and strengthen its ability to provide integrated drug discovery solutions for customers.

Dr Dirk Ullmann

in person

"As Bavaria is a blank spot for premier league handball I definitely have to come to Hamburg regularly…"

Dr Dirk Ullmann has more than 14 years experience in drug discovery research and collaborative business. In his role as Executive Vice President, Lead Discovery he oversees the operational business and has core responsibility for the scientific strategy of the Company in structure-based drug discovery, biochemistry, and biophysics of molecular interactions together with the screening platform. Before joining Evotec, Dirk held the position of Chief Scientific Officer at Proteros, Munich for roughly three years, following an initial 11-year spell with Evotec that he ended as Senior Vice President of Discovery Biology. He played a pivotal role in developing and designing Evotec's ultra-high-throughput screening platform (EVOscreen) and its single molecule detection technology FCS+plus.

Dr Ullmann obtained his PhD in Chemistry and Biochemistry from the University of Leipzig, Germany on protease-catalyzed peptide synthesis and did his post-doctoral training on protein engineering at Brandeis University, Waltham MA, USA.

In his scientific career he has published more than 40 papers within the life sciences area and, in 1995, he was awarded the "Friedrich-Weygand-Award" in Peptide Chemistry by the Max-Bergmann-Kreis e.V. Dr Ullmann is a member of the German Chemical Society, Verband der Chemischen Industrie e. V. (VCI) and Society for Laboratory Automation and Screening.

GIVE CLEAR INSIGHT

Evotec's employees explain what they are doing

The work of scientists in biotechnology is very complex and therefore often hard for non-professionals to fully understand. There are items which seem to be inexplicable. Therefore, in this Annual Report, we want to give a clear insight into the daily business of our scientists. What exactly is an assay? What does medicinal chemistry mean? And, what does a compound library look like?

What is a library?
Explanation by Hormuzd Mulla, Head of Custom Libraries, Evotec India

My job is to synthesize compound libraries based on client requirements. Synthesis involves converting commercially available chemicals into novel chemical entities through chemical reactions.

A library is a large collection of unique chemical entities constructed around a central building block with incrementally varying properties, which are used in a high-throughput screen (HTS). The aim of the library is to provide a starting point of chemical matter for a particular therapeutic target in a drug discovery programme.

Libraries provide variety or versatile chemical matter as a starting point for drug discovery. When one of the library compounds shows a "hit" in the assay for a particular target, it becomes the starting point for a medicinal chemist to develop newer and better compounds around the hit, which will ultimately fit into a target product profile. It accelerates the early drug discovery process because of the large volume of chemical matter tested per unit time.

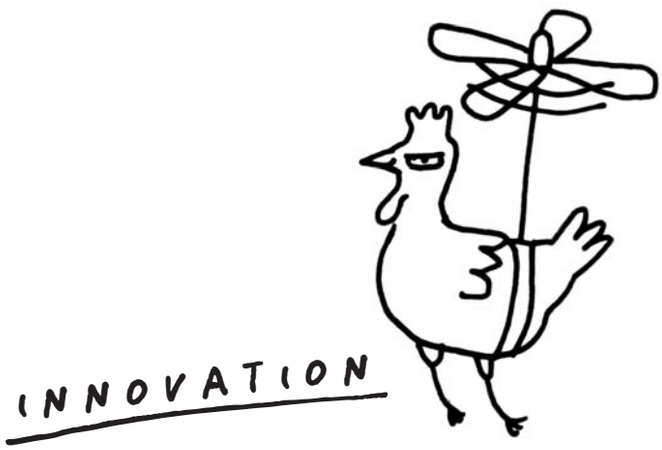
This increases the probability of finding a molecule with significant therapeutic and commercial value. The core or central building block usually has 2–3 points of modifications, for example, a building block with 3 points of diversity reacted with 10 units per step will give a library of $10 \times 10 \times 10 = 1000$ compounds after 3 steps. A library differs from conventional synthesis in the fact that multiple reactions are run in parallel to get a large variety of chemical matter in a shorter possible time.

What is an assay?
Explanation by Dr Sabine Schaertl, Senior Research Scientist Cellular Assays, Evotec AG

An assay is a test system where a triggered or spontaneous biological reaction is quantified. Active substances (drug candidates) will change the progress of this biological reaction in a specific way, to a degree depending on their activity. Thus, the effect of substances on the target can be assessed.
In principle, there are two main categories (or formats) of assays based on the experimental conditions:

- Biochemical: the assay is performed directly on the molecular target of interest in a non-cellular environment.
- Cellular: the assay is performed using live cells. Here, the molecular target could be known, like a particular receptor or an enzyme, which are involved in generating the readout. However, the target may not be known if a certain effect (i.e. phenotype) can be linked to the disease of interest.

But whatever the format is, all assays have one thing in common: they have a readout. This is important because it enables quantification of the respective biological process and thus helps to measure the activity of an active substance. Usually something has to be done to the molecular target of interest, like labeling with a fluorescent tag (this is the basis for our single molecule technology). Or at least linking one chain in the assay reaction to an (usually) optical effect; optical, because this can be monitored easily and fast. Of course it is desirable not to modify the target of interest and to measure its action in the most direct way. This is feasible, although usually with the down-side of low throughput, with label-free technologies such as SPR (surface plasmon resonance), NMR (nuclear magnetic resonance) or LC-MS (liquid



chromatography mass spectrometry); being a whole new chapter to explain.

But apart from how an assay is set up and measured, its most important role is to identify and validate new drug candidates.

It depends very much on what is known about the disease, to decide whether a particular molecular target is the best handle to develop promising drug candidates. A biochemical assay now provides you with a clear yes/no answer to the "Does a drug candidate modulate the molecular target of interest?" question. A cellular assay may not give such a clear-cut answer (e.g. due to side effects or toxicity), however, the target is in a more physiologically relevant environment. It helps tremendously to have both for hit identification, and to use one of them for the first screen and the other to validate the promising substances (the hits). At later stages when drug candidates are optimised, assays with a closer to a "real life" situation whilst still *in vitro* are desirable. These move away from the original target and monitor cellular properties such as neurite outgrowth, cell survival, migration, or other phenotypic properties which are linked to the disease.

To conclude, in an ideal scenario a drug hunter would have access, as part of its armory, to a whole set of biochemical and cellular assays to help drive the optimisation of drug candidates, but this is never easy!

What is medicinal chemistry?

Explanation by Dr Tara Fryatt, Team Leader Discovery Chemistry, Evotec UK

Medicinal chemistry is a multi-faceted discipline, which is involved in the drug discovery process from the initial hit discovery phase through preclinical development and beyond. In a drug discovery programme the first activity of the medicinal chemistry team is the analysis of all the available data for the initial "hit molecules", most commonly identified from either high-throughput or fragment-based screening – this data includes the chemical structure, biological activity, and possibly crystallographic information. Compounds are ranked and the hit-set is refined to exclude compounds containing undesirable structural motifs/inconsistent structure-activity relationships to leave a manageable number of interesting starting points for further development and optimisation.

The hit-to-lead and lead optimisation phases, consist of iterative cycles of molecule design and synthesis followed by screening (including crystallography/modelling in fragment-based programmes) and analysis of the results to build up a picture of the relationships between activity and the structural features of the molecule. This information is used to generate the next modifications to the molecule to optimise both primary activity (for the desired biological target) and to reduce activity at secondary targets, which may lead to adverse effects. Within this process, the pharmacokinetic properties (effects of the body on the drug) and pharmacodynamic profile (effect of the drug in an animal) are assessed and similar structure-property relationships are established following testing in a panel of *in vitro/in vivo* assays and appropriate disease relevant animal models.

Medicinal chemistry teams utilise synthetic organic chemistry skills together with an understanding of the relationships between the chemical structure and the data generated in the *in vitro/in vivo* pharmacology, DMPK, structural biology and computational chemistry groups to identify molecules with the best overall balance of properties for the potential new drug candidate.

BETTER THAN AVERAGE IS NOT GOOD ENOUGH

Better than average is not good enough. In the year 2011 Evotec delivered clear growth that indicates the success of Evotec's revised business model: "Evotec 2012 – Action Plan to Focus and Grow", which was implemented in 2009 to drive the Company to profitability and achieve sustainability by 2012. "Evotec 2012 – Action Plan to Focus and Grow" has been put into effect earlier than initially planned. However, despite a solid flow of strong news including more than 40% revenue growth, strong liquidity, and a strong sales order book for 2012, Evotec's share price finished the year broadly in line with the German technology stock index TecDAX.

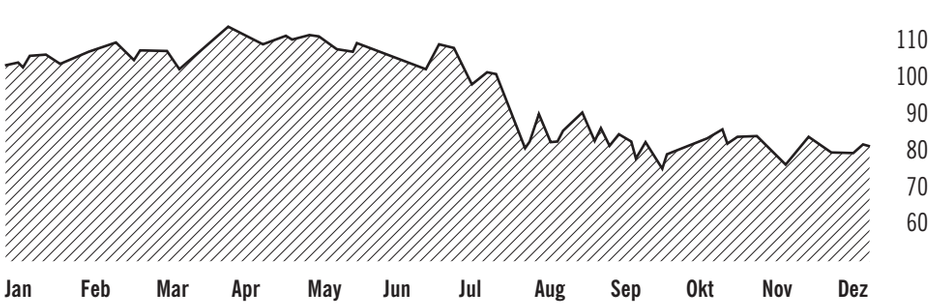
German blue chips in line

The positive momentum from late 2010 carried over to the early months of 2011, despite political shocks in the Middle East & North Africa and the devastating earthquake in Japan. The second half of 2011 was less inspiring as the global markets recorded massive falls. On the back of EURO uncertainties, sovereign debt and bank financing concerns, plus global macroeconomic issues, in September the blue chip DAX Index hit a year low, about 28% down in the year. The remainder of the year saw volatile growth in the index, regaining 19% from early September to close the full year down 15%. The German index kept pace with the European Stoxx50, which closed the year off 17%.

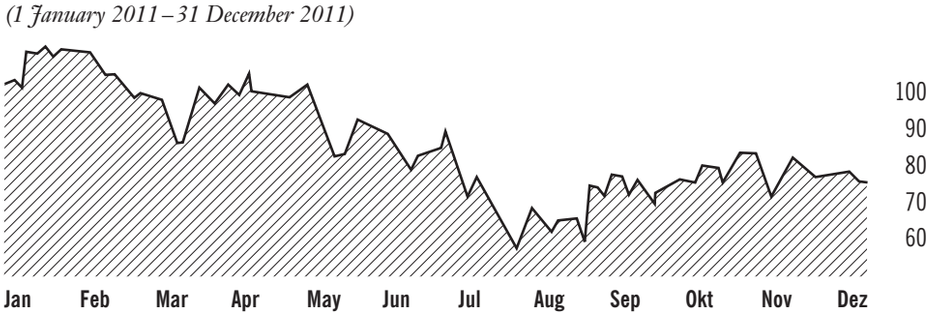
Good for a few in biotech

In the biotech area, the first half-year looked positive for the sector on the back of selective gains on a full calendar of clinical and regulatory events and an extremely strong financing environment for late-stage companies. Positive sentiment was expected to feed down into mid-cap companies. But, early in the second half-year macroeconomics took over; deficit reductions in the US and the European credit crisis weighted heavily on the large cap companies, while many mid-cap and small cap companies suffered from worries about undercapitalisation and the broader investor dash-to-cash as the world teetered on the edge of an economic abyss. Of the major biotech indices the AMEX Biotech Index plunged 16%, while the NASDAQ Biotech Index gained 12% on the year. In general for biotech investors in general 2011 will be a year to forget. As for 2012, until the politicians sort out this macroeconomic debacle, investors will most probably head for safe havens and short-term investment bets.

Development of the Evotec share (indexed)
(1 January 2011 – 31 December 2011)



Development of the TecDax (indexed)
(1 January 2011 – 31 December 2011)



Excellent news flow could not compensate for EVT100 setback

Evotec shares began the year strongly on the back of deals, such as the Takeda partnership and the research collaboration with Harvard University and Howard Hughes Medical Institute in diabetic research, plus strategic acquisitions and milestones from collaborations. The return of the rights for the EVT100 series by Roche was a clear setback in April, but capital markets took this probably much more severely than one would have analytically expected.
Once again, global disquiet pulled back the gains and in early August Evotec shares hit the 2011 low. On news of the partnering shares turned and the last four months of 2011 were positive, overcoming the macro issues and gaining 48% from the low. Early September, the strategic collaboration with Roche in Alzheimer's disease confirmed investor confidence in the Company through December, with positive Phase III clinical indications on type I diabetes treatment DiaPep277 reported by partners Andromeda Biotech/TEVA and further potential milestone payments for Evotec. Despite a solid flow of strong news, including 45% revenue growth, strong liquidity, and a strong sales order book for 2012, Evotec's share price finished the year broadly in line with the German technology stock index TecDAX. The Company closed the year off 20% at € 2.34 while in line with the index. Based on growing investor interest, Evotec's average daily trading volume on all German stock exchanges increased to € 1,385,848 in 2011, compared to € 846,874 in 2010.

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*

KEY FIGURES PER SHARE

	2011	2010
High (date)	*€ 3.48 (27 Jan)*	*€ 2.92 (30 Oct)*
Low (date)	*€ 1.58 (9 Aug)*	*€ 1.82 (26 Jan)*
Opening price	*€ 2.92*	*€ 2.19*
Closing price	*€ 2.34*	*€ 2.92*
Weighted average number of shares outstanding	*116,022,213*	*109,012,908*
Total number of shares outstanding as at 31 December	*118,315,8649*	*115,595,129*
Average trading volume in shares (all exchanges)	*€ 1,385,848*	*€ 846,874*
Market capitalisation as at 31 December	*€ 270.2 m*	*€ 337.5 m*
Earnings per share	*0.06*	*0.03*

ANALYST COVERAGE

Close Brothers Seydler Research AG	*Igor Kim*
Commerzbank AG	*Volker Braun*
DZ Bank AG	*Elmar Kraus*
Edison Investment Research	*Mick Cooper*
Kempen & Co N.V.	*Mark Pospisilik*
Berenberg	*Adrian Howd*

New Evotec Shares Issued for Acquisition of Kinaxo

During the second quarter of 2011, Evotec completed the acquisition of Kinaxo Biotechnologies GmbH (now Evotec Munich). Evotec issued 2,597,403 new shares from its authorised capital as part of the consideration for this acquisition. Consequently, including the exercise of conditional capital from share options, Evotec's issued share capital increased to € 118,315,864 and the total number of Evotec shares outstanding increased to 118,315,864 at year-end (year-end 2010: 115,595,129).

Deregistered from US capital markets

Early 2011, Evotec deregistered from the SEC and terminated its comprehensive and cost intensive 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 was the final step following Evotec's delisting from NASDAQ, which was initiated in November 2009. Evotec shares continue to be traded on the Frankfurt Stock Exchange; Evotec's ADSs are traded on the Over-The-Counter (OTC) market in the US.

Stable strategic shareholder base

At year-end 2011, three shareholders were known by Evotec to have exceeded the 3% threshold: ROI Verwaltungsgesellschaft mbH with its holding in Evotec to approximately 15%; TVM V Life Science Ventures GmbH & Co. KG including their affiliates and LBBW Asset Management were stable at approximately 10% and 3% of Evotec shares, respectively. Evotec's management held approximately 0.5% of shares. The free float according to Deutsche Börse AG, which is used to determine the weighting of the Evotec stock in stock indexes, was approx. 70% of the capital stock.

Focused Investor Relations activities

Evotec places great emphasis on a professional dialogue with capital market experts. During the financial year 2011 the Company focused primarily on communicating the strategic model of the discovery alliances business and the upsides in its Alzheimer's disease and diabetes development partnerships. Management gave presentations at 14 national and international investor conferences as well as at 10 road shows in key financial centres, primarily in Germany, Switzerland and Austria with focused activities in the UK and the United States. The Company's Annual Shareholder Meeting in June attracted 147 shareholders, representing 38,98% of the Evotec share capital (2010: 35,48%).

FINANCIAL CALENDAR	MEET EVOTEC
20 March 2012	*Annual report 2011*
10 May 2012	*First quarter report 2012*
14 June 2012	*Annual General Meeting*
8 August 2012	*Half year report 2012*
8 November 2012	*Third quarter report 2012*

CORPORATE GOVERNANCE REPORT 2011

Corporate Governance – The Word for Good Corporate Management and Supervision

Evotec takes its Corporate Governance responsibilities very seriously. As a consequence of its shares' listing on the Frankfurt Stock Exchange, and its international shareholder base, the Company recognises not only German but also international Corporate Governance standards. 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 recognised 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 2011, Evotec's Management Board and Supervisory Board declared in accordance with Section 161 of the German Stock Corporation Act (AktG):

"Evotec AG complied in 2011 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.

The Company's D&O insurance and the deductible for members of the Management Board contained therein are in line with Section 3.8 of the Code and with the regulations of the Act on the Appropriateness of Management Board Compensation (VorstAG). For members of the Supervisory Board, the D&O insurance contains a reasonable deductible as foreseen by the version of the Code in force before its version published on 5 August 2009. The Company has decided to stick to this reasonable deductible for the time being. This decision was made in view of the Company's interest in attracting international expertise for its Supervisory Board and the fact that a deductible for non-executive directors is not very common in international practice. While almost half of the German companies quoted on the TecDAX do not have a corresponding deductible at all, the Company believes that a reasonable deductible is a good compromise.

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 makes it possible 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".

GENERAL INFORMATION ON EVOTEC'S MANAGEMENT STRUCTURE

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 accepted no 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 105.

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 2011 Evotec's Supervisory Board consisted of six 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 represented 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 deploying the highest scrutiny 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: three 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.

The Supervisory Board was not aware of any potential conflict of interests among any of its members during the year 2011.

Information on the professional affiliations of board members and on related party transactions can be found on pages 101 and 105.

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 established, pursuant to the German Stock Corporation Act (AktG) and the recommendations of the Code, an Audit Committee and a Remuneration and Nomination Committee. Members of both committees are appointed in accordance with the Code.

Tenures and Composition of Supervisory Board Committees*

	END OF TENURE [1]	AUDIT COMMITTEE	REMUNERATION AND NOMINATION COMMITTEE
Dr Flemming Ørnskov, Chairman	*2014*		×
Dr Walter Wenninger, Vice Chairman	*2014*		× *(Chair)*
Dr Hubert Birner	*2014*	× *(Chair)*	
Roland Oetker	*2014*		×
Prof Dr Andreas Pinkwart	*2014*	×	
Mary Tanner	*2014*	×	

[1] Following the Annual Shareholder Meeting in June 2014
** Information on the professional affiliations of Supervisory Board members can be found on page 105*

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 scrutinises 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. 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 53 of the "Remuneration Report".

More details on the activities of the Supervisory Board can be found in the "Supervisory Board Report" on page 26.

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 organised efficiently and that the Management Board and the Supervisory Board interact efficiently and effectively.

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 38 % of the share capital was represented, took place in Hamburg on 16 June 2011.

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 for 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 2011.

The remuneration system for the members of the Management Board was on the agenda of the 2011 Annual General Meeting and was approved by the Annual Shareholder's Meeting.

REMUNERATION REPORT

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 52. This Remuneration Report also becomes part of this Corporate Governance Report.

DIRECTORS' DEALINGS AND SHAREHOLDINGS

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 2011 was as follows (see page 22):

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 long 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 2011, the following transactions (Directors' Dealings) were reported to the Company (see table on page 22).

Directors' Holdings *as of 31 December 2011*

	SHARES	STOCK OPTIONS
Management Board		
Dr Werner Lanthaler	*496,494*	*1,540,000*
Colin Bond		*390,000*
Dr Cord Dorhmann	*27,226**	*390,000*
Dr Mario Polywka	*60,000*	*1,195,000*
Supervisory Board		
Dr Flemming Ørnskov	*32,954*	
Dr Walter Wenninger	*23,131*	
Dr Hubert Birner	*41,711*	
Roland Oetker	*17,427,355*	
Prof Dr Andreas Pinkwart		
Mary Tanner	*68,005*	

* *Dr Cord Dohrmann received his shares in Evotec in part exchange for his share in DeveloGen according to the share purchase agreement signed in July 2010.*

Reported Directors' Dealings *2011*

DATE	NAME	POSITION TRANSACTION	TYPE OF TRANSACTION	NO OF SHARES	SHARE PRICE	TOTAL PRICE
29 Dec 2011	*Werner Lanthaler*	*Member of Management Board*	*Purchase*	*12,000*	*€ 2.30*	*€ 27,600.00*
24 Nov 2011	*ROI Verwaltungsgesellschaft, Roland Oetker*	*Member of Supervisory Board*	*Purchase*	*10,000*	*€ 2.23*	*€ 22,329.70*
07 Sep 2011	*Werner Lanthaler*	*Member of Management Board*	*Purchase*	*10,000*	*€ 2.25*	*€ 22,480.00*
18 May 2011	*Werner Lanthaler*	*Member of Management Board*	*Purchase*	*10,000*	*€ 2.67*	*€ 26,686.16*
04 April 2011	*Werner Lanthaler*	*Member of Management Board*	*Loan*	*150,000*	*€ 0.00*	*€ 0.00*

CORPORATE GOVERNANCE PRACTICES

Compliance and Code of Conduct

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 (whistle-blowing).

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.

Sustainability

For Evotec, sustainability plays a major role in the Company's business and attitude. Consequently, Evotec sets out its values and economic, ecological, and social responsibility. All three criteria are important and are reflected in Evotec's strategy and firmly established in its business processes. Evotec is pursuing a business model that aims at sustainable growth, protecting the interests of its shareholders, and creating value for all stakeholders. Taking responsibility for the

Company's employees and business partners and maintaining its commitment to society and a healthy environment are two of Evotec's guiding principles. In its R&D activities, Evotec adheres to the highest scientific and ethical principles.

Further information can be found in the Sustainability Report on page 49 in the Group Management Report.

Risk Management

An important element of sound Corporate Governance is dealing 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 57.

FURTHER INFORMATION

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" in notes 19 and 35d.

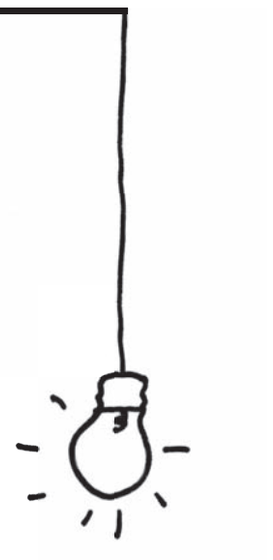
Investor Relations / Transparency

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.

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 2011, management presented the Company at 14 national and international investor conferences.

CLEAR UNDER-STANDING



Glossary of Terms

ADMET: Acronym for **A**bsorption, **D**istribution, **M**etabolism, **E**xcretion and **T**oxicity of a substance reflecting the physiological processes ➜ *in vivo*.
ADMET studies are used to characterize how drugs are taken up by the body, where they go in the body, the chemical changes they undergo in the body, and how they are eliminated from the body. See also ➜ DMPK

Agonist: Drug that binds a cellular receptor, which is ordinarily stimulated by naturally occurring substances, triggering a response.

Alzheimer's disease (AD): The most common cause of dementia and, according to the World Health Organisation affects around 35 million people worldwide. During the course of the disease, protein plaques appear in the brain, leading to the death of brain cells. No single factor has been identified as the cause for AD.

Antagonist: Drug that binds a cellular receptor thereby blocking the action of the natural activator of the receptor.

Assay: Any combination of ➜ targets and ➜ compounds, which is exposed to a detection device to measure chemical and biological activity.

Betacell: A type of cell in the pancreas, which produces insulin; the loss of such cells is ultimately the cause for elevated blood glucose levels in type 2 and type 1 diabetes patients.

Biomarker: A characteristic that is objectively measured and evaluated as an indicator of normal biologic processes, pathogenic processes, or pharmacologic responses to a therapeutic intervention. It can foretell the therapeutic outcome in a patient, which in turn allows a personalized therapy approach.

Cellular target profiling®: Uncovers the molecular ➜ targets of ➜ compounds with unknown mode-of-action and reveals possible off-target side effects early in the discovery and development process.

Central nervous system (CNS): Represents the largest part of the nervous system, including the brain and the spinal cord. Together with the peripheral nervous system, it has a fundamental role in the control of behaviour.

Clinical trials: Drug research studies that involve patients.

Computational chemistry: Discipline of using computational methods to calculate properties of chemical ➜ compounds and their interaction with biological ➜ targets (e.g. proteins).

Compound: A pure, macroscopically homogeneous substance that consists of atoms or ions of different elements in definite proportions that cannot be separated by physical means, and that have properties unlike those of its constituent elements.

Compound Library: Collection of a multitude of different molecules; used for ➜ screening.

DMPK: Acronym for Drug Metabolism and ➜ Pharmacokinetics; is part of a larger battery of studies often referred to as ➜ ADME (absorption, distribution, metabolism, and elimination). DMPK includes the study of the mechanisms of absorption and distribution of an administered drug, the rate at which a drug action begins and the duration of the effect, the chemical changes of the substance in the body by metabolic enzymes and the effects and routes of excretion of the metabolites of the drug.

EVOlution℠: Evotec's fragment-based drug discovery platform, which combines biochemical and biophysical techniques including ➜ nuclear magnetic resonance (NMR), ➜ surface plasmon resonance (SPR) and ➜ X-ray crystallography for the ➜ screening of low molecular weight ➜ compounds and characterization of the fragment ➜ hits.

Drug response prediction: Enables earlier educated decisions on drug efficacy, safety and response in patients.

Fragment-based drug discovery: A drug discovery strategy that utilises small molecules – fragments of more complex molecules – to generate efficient starting points for drug dis-covery. This approach thus provides the opportunity to effectively manage the molecular

weight and overall complexity of drug candidates, a recognised success factor in drug development.

Hit (compound): ➜ Compound found by ➜ screening to have a desired biological effect.

Inhibitor: A ➜ compound that binds to an enzyme/receptor and decreases or blocks its activity.

In-vivo/in-vitro: *in vivo*. In the living organism as opposed to *in vitro*.

Ion channels: Transmembrane protein which, when activated, allows the passage of ions across cell membranes that influence the physiology of a cell.

Kinases: Any of several enzymes that catalyse the transfer of a phosphate group from one molecule to another.

Lead (compound): A representative of a ➜ compound series with sufficient potential (as measured by potency, selectivity, ➜ pharmacokinetics, physicochemical properties, novelty and absence of toxicity) to progress to a full drug optimisation programme.

Lead optimisation: The synthetic modification of a biologically active ➜ compound, to fulfil all pharmacological, physicochemical, ➜ pharmacokinetic, and toxicological requirements for clinical usefulness.

Medicinal chemistry: A chemistry-based discipline, also involving knowledge and aspects of biological, medicinal, and pharmaceutical sciences. It is concerned with the invention, discovery, design, identification, and preparation of biologically active ➜ compounds, the study of their ➜ ADMET properties, the interpretation of their mode of action at the molecular level, and the construction of structure activity relationships. Medicinal chemistry optimisation is "fine tuning" required to turn a validated ➜ lead into a ➜ preclinical development candidate involving subtle structural changes to the lead using a "hand-crafted" approach.

Neuropathic pain: A type of pain which is caused by damage to or dysfunction of the nervous system. There is often no "injury" or tissue damage that triggers the pain. However, the function of the nerve is affected in a way that causes it to send pain messages to the brain.

NMR (nuclear magnetic Resonance): Technology that is used to study the interaction of ➜ small molecules, such as drug candidates, with their ➜ targets.

Pharmacokinetics: Time-dependent availability and compartmental distribution, as affected by absorption, distribution, metabolism, excretion (➜ ADME).

Phosphoproteomic: A branch of proteomics that identifies, catalogues, and characterizes proteins containing a phosphate group as a post-translational modification.

Preclinical development candidate: The molecule identified by the process of ➜ medicinal chemistry optimisation to be a suitable candidate for development as a potential pharmaceutical entity.

Preclinical phase: The phase of drug discovery research extending from ➜ target identification, the search for chemical ➜ compounds with desired properties, through to the end of efficacy studies in animal models.

Regenerative medicine: The process of creating living, functional tissues to repair or replace tissue or organ function lost due to age, disease, damage, or congenital defects.

Screening: Mass testing of ➜ compound libraries using an established ➜ assay format.

Small molecule: A low molecular weight organics ➜ compound. These are preferred for drugs, as they usually are orally available (unlike proteins that must be administered by injection). The size of small molecules is less than 1,000 Daltons, and is usually in the range from 250 to 700 Daltons.

Surface plasmon resonance (SPR): Technology that is used to study the interaction of ➜ small molecules, such as drug candidates, with their ➜ targets.

Target: Specific biological molecule, such as an enzyme, receptor, or ➜ ion channel, assumed to be relevant to a certain disease. Most drugs work by binding to a target, thereby affecting its biological function.

Target identification: Identifying a molecule (often a protein) that is instrumental to a disease process (though not necessarily directly involved), with the intention of finding a way to regulate that molecule's activity for therapeutic purposes.

Target validation: Involves the verification of the relevance of a ➜ target to the course of a specific illness.

Ultra-high-throughput screening: Technique of rapidly searching for molecules with desired biological effects from very large ➜ screening libraries, often exceeding 100,000 tests a day.

X-ray crystallography: The determination of 3D structures of molecules from the diffraction pattern obtained upon irradiation of a crystalline form of the substance being studied by X-ray radiation.

SUPERVISORY BOARD REPORT

Dr Flemming Ørnskov
Chairman of the Supervisory Board

The primary task of the Supervisory Board is to supervise and provide advice regularly to the Management Board on the management of the Company.
In the course of 2011, the Supervisory Board convened for five formal meetings and held two telephone conferences to discuss the operational and strategic developments of Evotec AG as well as two acquisition opportunities. 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 analyses on 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 explanatory text. In addition, the Chairman of the Supervisory Board and the Chief Executive Officer as well as other members of the Management Board discussed current topics via numerous conference calls, held whenever appropriate.
Further to business updates, the status of the Company's discovery alliance business, its scientific initiatives, its development partnerships and out-licensing activities and regular standard agenda items, the Supervisory Board discussed the following subjects in detail in its meetings:

- In a telephone conference in February, the Supervisory Board discussed and approved a Management Board proposal to acquire all shares in Kinaxo Biotechnologies GmbH.
- In March, the Supervisory Board discussed the situation of the Company and its strategic development activities. Furthermore, the Supervisory Board discussed and approved the 2010 annual financial statements in the presence of the auditors.
- In a telephone conference in May, the Supervisory Board approved a Management Board's proposal to proceed with the acquisition of Compound Focus, Inc.
- In June, the Supervisory Board focused on the operational business of the Company, on strategic development opportunities, and on key internal process upgrades.
- In a second meeting in June, subsequent to the Company's annual general meeting, which had elected two new Supervisory Board members, the Supervisory Board decided on the composition of its committees.
- In its September meeting, the Supervisory Board discussed the status of the Company's operational business. Furthermore, it discussed and agreed to the acquisition of 30 % equity in Evotec (India) Private Ltd., thereby making the Company a 100 % shareholder in that entity.
- In December, the Board focused on the budget for the year 2012, which was approved. It discussed the mid-range plan of the Company and a new long-term incentive plan for key employees of the Company.

The financial statements and the management report for Evotec AG for the year 2011, 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 15 March 2012, the Auditors presented the status of the 2011 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 March 2012 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 2011.

The Supervisory Board was not aware of any potential conflict of interests among any of its members in the course of 2011.
The Company's annual general meeting held on 16 June 2011 elected Mr Roland Oetker and Professor Dr Andreas Pinkwart as Supervisory Board members, replacing Dr Corey Goodman who had resigned effective 31 January 2010 and Dr Peter Fellner who resigned effective 16 June 2011.

The Supervisory Board thanks the Management Board and the Company's employees for their hard work during the year and wishes them ongoing success for 2012.

Hamburg, 15 March, 2011
The Supervisory Board
Dr Flemming Ørnskov

MANAGEMENT REPORT 2011

CONTENT

OPERATIONS AND BUSINESS ENVIRONMENT

ORGANISATIONAL STRUCTURE AND BUSINESS ACTIVITIES

GROUP STRUCTURE

Evotec is a drug discovery alliance and development partnership company. The Company operates worldwide and has integrated top-class scientific experts, state-of-the-art technologies as well as experience and expertise in key therapeutic areas, including neuroscience, pain, metabolic diseases as well as oncology and inflammation. Through the adoption of IFRS 8, Evotec reports as one business segment in accordance with its management approach.

Evotec is a publicly listed stock corporation operating under German law. The Evotec AG is the parent company of the Group and has its headquarters in Hamburg, Germany, where the majority of the management functions are centralised. These include the following areas: Group Accounting & Controlling, Investor Relations & Corporate Communications, Legal & Intellectual Property and Human Resources.

In addition to Evotec AG, major operating subsidiaries exist in Abingdon, UK; Thane, India; Göttingen and Munich, Germany; and South San Francisco, USA. Offices in Hamburg, Germany, Abingdon, UK, North Potomac and South San Francisco, USA, and Thane, India handle Evotec's international sales activities. The Evotec Group employed 610 people at the end of 2011. All consolidated subsidiaries and equity investees are listed in Note 35d to the Consolidated Financial Statements.

PRODUCTS, SERVICES, AND BUSINESS PROCESSES

Evotec focuses on providing integrated and innovative drug discovery solutions to the life sciences industry. In addition, Evotec has a selected number of proprietary drug candidates at various stages of development either partnered or available for partnering.

In its discovery alliances, Evotec provides innovative and integrated solutions to pharmaceutical and biotechnology companies. The Company has developed substantial drug discovery expertise and an industrialised platform that can assist its partners in driving new, innovative small molecule compounds into clinical trials. This expertise covers the entire spectrum of discovery and is applicable to drug targets across multiple therapeutic indications. Its capabilities include early-stage assay development and screening, compound management, fragment-based drug discovery, medicinal chemistry, *in vivo* pharmacology, *in vitro* ADMET, as well as an unparalleled chemical proteomics platform. In addition, Evotec has built up a deep internal knowledge base in various therapeutic areas. The Company continuously updates its capabilities to consistently deliver a first-class infrastructure and service (see "Upgrading the Technology Platform 2011" on page 30 of this report). Evotec's alliance partners include, among others, Biogen Idec, Boehringer Ingelheim, CHDI, MedImmune (AstraZeneca), Genentech, Vifor, Ono Pharmaceutical, and UCB. 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 development partnerships, Evotec continues to progress a selected number of drug candidates through clinical development. The Company will always enter into partnerships for clinical development programmes rather than developing programmes alone. In 2011, EVT401, a P2X7 antagonist for the treatment of inflammatory diseases has been partnered with a leading animal healthcare company, and EVT302, a MAO-B inhibitor, was partnered under an exclusive licensing agreement with Roche for the development of treatments for Alzheimer's disease. Partnerships continued with Zhejiang Jingxin Pharmaceutical Co., Ltd for EVT201 for insomnia and DiaPep277 with Andromeda/Teva for type I diabetes. In May 2011, Roche terminated the phase II clinical trial with EVT101/103 for treatment resistant depression, and decided not to exercise an option to acquire the rights on the compounds. Evotec is actively pursuing other commercial opportunities for this serie of compounds. In exchange for the in-licensing of drug candidates, pharmaceutical companies pay Evotec upfront and milestone payments, as well as royalties on future sales of drugs.

In summary, Evotec works as a high-quality discovery solution provider for dedicated project groups within pharmaceutical and biotechnology

Major Operating Entities as of 31 December 2011

Evotec AG, Hamburg, D				
Evotec (UK) Ltd. Abingdon, UK 100%	Evotec (India) Private Ltd. Thane, IN 100%	DeveloGen AG Goettingen, D 100%	Kinaxo Biotechnologies Gmbh, Munich, D 100%	Compound Focus, Inc. South San Franciso, USA 100%

companies which outsource drug discovery projects to manage their core functions and increase capital efficiency. Evotec has integrated all disciplines of drug discovery, optimised the whole process and consequently implemented a strategy of providing innovation as the core of its partnering activities.

MARKET AND COMPETITIVE POSITION

The global pharmaceutical industry is facing a significant productivity challenge. R&D costs have escalated over the years, yet product pipelines are nowhere near producing the returns experienced in earlier decades. Against this industry backdrop, biotech and pharma companies are increasingly turning to the outsourcing of R&D activities as they are forced to seek greater cost savings and improvements in efficiency. The use of external solution providers allows fixed costs to be converted into variable costs, and also provides expertise in selected areas without the client needing to maintain or build internal capabilities and infrastructure. In 2011, this market is worth about $ 9-10 bn (Source: Report "Outsourcing in Drug Discovery", Kalorama Information).

Outsourcing has been used by the pharmaceutical industry for more than twenty years, mainly for supporting clinical trials or regulatory affairs in a particular country or region. In the current environment, companies are expected to increase their outsourcing of upstream activities in the R&D process. All stages of drug discovery can be outsourced: target identification, target validation, high-throughput screening (HTS) and lead optimisation, but the productivity challenge facing the pharmaceutical industry is set to drive an increase in strategic outsourcing, which will likely lead to larger outsourcing contracts favouring bigger players with lower perceived risk. This will present a challenge for the highly fragmented drug discovery industry, in which the "branded" leaders, including Evotec, BioFocus, and AMRI, hold less than 10% market share each.

Evotec is ideally positioned to take full advantage of these market developments. 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. Evotec is one of the 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.

SIGNIFICANT CORPORATE DEVELOPMENT EVENTS 2011

In April 2011, Evotec acquired Kinaxo Biotechnologies GmbH, a Munich-based biotechnology company supporting the development of personalised drugs. The acquisition confirmed Evotec's leading position as a fully integrated drug discovery and early development partner for pharma and biotechnology companies, and added a unique combination of innovative technologies improving drug development across the entire pharma value chain (see also "Acquisition of R&D know-how" on page 34). The purchase price consists of € 3 m in cash and € 2.6 m in shares; plus earn-out payments of up to € 4 m dependent on certain performance milestones. In 2011, € 1.5 m has been paid from this earn-out payment.

In May 2011, Evotec and Roche decided to voluntarily terminate the first proof-of-concept study in treatment-resistant depression with Evotec's NR2B sub-type selective NMDA antagonist EVT101. The decision to terminate this phase II study was triggered by difficulties in recruiting patients under the current study protocol, resulting in the possibility of inconclusive results. This clinical development had been the key part of an alliance between Evotec and Roche, in which Roche has provided all funding in exchange for certain option rights after a proof-of-concept result. Evotec retains all rights in the EVT100 series, especially the back-up compound EVT103, and continues to have partnering discussions for the continued clinical development of these assets.

In June 2011, Evotec acquired Compound Focus, Inc., the South San Francisco-based compound management business of BioFocus, a Galapagos Company. This acquisition allows Evotec to substantially augment its early drug discovery offering, provides critical mass to its existing compound management business, and adds profitable revenues. Compound Focus, Inc. is the world leader in small molecule compound management services. The company's technologies are focused on automated storage and custom design solutions for small molecule drugs. For the acquisition of all shares in Compound Focus Inc., Evotec paid an immediate cash component of € 10.25 m and an additional € 2.25 m in potential earn-out payments dependent on the revenue performance of the business in 2012/2013 and certain corporate milestones.

In August 2011, Evotec announced it had entered into a world-wide license and collaboration agreement with a top-tier animal health company that intends to develop the proprietary Evotec compound EVT401, a selective, small molecule P2X7 antagonist, in the companion animal market. As part of the deal, Evotec is entitled to receive a technology-transfer payment, development and commercial milestone payments, and tiered royalties on net sales. Evotec retains all rights to the programme for human therapeutic use.

In September 2011, Evotec announced an exclusive worldwide agreement with Roche for the development and commercialisation of Evotec's MAO-B inhibitor in patients with Alzheimer's disease, EVT302. EVT302 had previously failed a clinical trial for smoking cessation. Under the terms of the agreement, Roche paid Evotec an upfront fee of $10 m. Evotec could receive further development and commercial milestone payments of up to $ 820 m as well as tiered double-digit royalties on sales. Roche will initiate studies in 2012 to demonstrate proof-of-concept and will be responsible for all clinical development, manufacturing, and commercialisation activities.

Finally, in October 2011, Evotec acquired the remaining 30% interest in Evotec (India) Private Limited, from DIL Limited India, for € 1.7 m. This acquisition gave Evotec 100% ownership of this subsidiary, of which 70% was first acquired in August 2009. As a result of the deal, Evotec successfully expanded its global scientific resource, primarily in the area of Medicinal Chemistry, to offer the most complete and cost-efficient drug discovery solutions to the pharmaceutical and biotech industry. Evotec is now able to operate and accelerate its business in India with full control. The transaction allows financial, optimisation and a reduction in administration costs.

UPGRADING THE TECHNOLOGY PLATFORM 2011

In order to accelerate the drug discovery process with the best possible tools available Evotec is continually upgrading its technology base and enhancing its offering to partners by investing in its technology platform through internal R&D activities (see page 34), technology agreements with other companies, and the acquisition of tangible assets and investments in companies. These acquisitions included in 2011, for example, the automated storage and custom design solutions of Compound Focus for small molecule compound management, the proprietary technologies of Kinaxo for drug response prediction as well as drug efficacy and safety assessment (see "Research & Development" on page 34). Further capital investments were made in new areas of instrumentation to support Evotec's drug discovery offering and keep Evotec at the cutting edge of scientific innovation, including screening, protein production, structural biology, and chemical proteomics. Furthermore Evotec replaced and upgraded old equipment in the areas of screening, chemical purification, and analysis and ADMET as well as IT as part of Evotec's major 2011 technology upgrading initiative. In addition, in 2011, Evotec entered into technology agreements with ChemBridge to further enhance its screening library through the addition of initially 110,000 diverse and lead-like compounds from the ChemBridge library collection, and with PsychoGenics to provide integrated CNS drug discovery solutions. The company's capabilities in preclinical neuro-biology applied to CNS, coupled with its proprietary, high-throughput behavioural testing platforms that employ cutting-edge bioinformatics, allow the rapid screening and optimisation of compounds for CNS activity.

LEGAL STRUCTURE 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 vice-chairman 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. Management Board members may be reappointed and may be dismissed with good cause prior to the completion of their terms of office.

The Evotec Management Board consists, next to the CEO, of three additional board members. The CEO is functionally responsible for the areas of Corporate Development, Investor Relations & Corporate Communications, the CFO for Finance, Controlling, Information Technology, Legal, Purchasing, Facility Management and Human Resources, the COO for Business Development and Business Operations, and the CSO for Intellectual Property and the Research Operations.

In 2011, Dr Werner Lanthaler, CEO, and the Company agreed upon a new contract starting March 2012 for a further five-year term until February 2017.

Information regarding the remuneration of Evotec's Management Board and Supervisory Board can be found in the "Remuneration Report" on page 52 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 OBJECTIVES AND STRATEGY

Management's objective is to systematically and continuously increase the value of the Company by achieving the leadership position in drug discovery solutions. Evotec 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, and has a number of drug candidates at various stages of development that are either partnered or available for partnering.

GROWTH STRATEGY

Evotec's strategy is to grow the Company through sustainable and profitable drug discovery alliances and development partnerships. To this end, in March 2009, the Company implemented its strategy "Evotec 2012 – Action Plan to Focus and Grow".

Evotec 2012 – Action Plan to Focus and Grow
The Company evaluated its strengths and made clear decisions regarding its financial resources and future strategic course. It focused all efforts on core projects and activities with the aim of delivering maximum value to partners and shareholders.

The core elements of this strategy were to strengthen the discovery alliances business, re-focus the pipeline on the most valuable assets, and significantly

reduce operating expenses and strategic clinical risks, the later through strategic development partnerships on selected proprietary projects.

	Objectives	Achievements
Defend and expand discovery alliances	▸ Build more high-value alliances with prime partners ▸ Invest in key areas of diversification	▸ New strategic alliances, e.g. UCB, Roche ▸ Acquisition of DeveloGen, Compound Focus, Kinaxo, RSIL; major technology upgrading programme 2011
Refocus pipeline on most valuable assets	▸ Focus on core value differentiated programmes ▸ Invest in selected early assets to kick-start new strategic alliances ▸ Focus on research efficiencies	▸ Clinical assets, e.g. EVT302 and EVT401 partnered ▸ CureBeta and CureNephron ▸ Concentrate on infrastructure in Europe; close US site in 2009 (Renovis)
Strict cost containment and cost cutting	▸ Reduce SG&A expenses ▸ Focus R&D expenses: Limit investments in early programmes; no clinical studies without a development partnerships to de-risk the portfolio ▸ Reduce annual cash burn by a minimum of 30% ▸ Achieve sustainable profitability by 2012	▸ SG&A reduced by 21% vs. 2008 ▸ R&D reduced by 80% vs. 2008 ▸ Cash flow positive

Action Plan 2012 was set to drive the Company to profitability and long-term sustainability by 2012. The main elements of the Plan were put into effect slightly earlier than initially anticipated.

With "Action Plan 2016 – Leadership in Drug Discovery Solutions' Evotec has defined the next goals that the Company wants to achieve in the years to come (see "Outlook", "Business Direction and Strategy" on page 63 of this Management Report).

STRATEGIC GROUP STRUCTURE AND FINANCIAL INTEREST

Evotec will seek to expand its technology and capabilities in offering an integrated drug discovery platform in areas that complement its current operations. In order to accelerate future growth Evotec is willing to acquire or buy shares in other companies when they perfectly fit in its portfolio and when the conditions are attractive. Therefore, the strategic Group structure will depend on the occasions Evotec will have in the M&A environment of the Company.

STRATEGIC FINANCING MEASURES

Evotec is pursuing the goals of ensuring a balanced capital structure and of limiting refinancing risks through diversification of the financing sources and instruments. The Company increased its access to non dilutive financing during 2011, and significantly improved the terms and conditions on which this financing is made available. The Company has defined its minimum liquidity in order to ensure that sufficient cash is available at all times to support the ongoing operations. A Treasury Committee was established at the end of 2010. This Committee meets on a monthly basis to consider all aspects of the Company's funding, liquidity, and cash management. Evotec is confident that adequate funding is in place to support its medium-term objectives.

PERFORMANCE MEASUREMENT

FINANCIAL PERFORMANCE MEASURES

Evotec's Management Board uses various financial indicators when operating the Company. Evotec's goal is to continue to grow its top line and maintain operating profitability before potential impairment and cash generation. The Company believes that the strong growth achieved and anticipated in its discovery alliances, combined with strict cost control and a prudent investment policy, form the continued basis for future financial success and shareholder value creation.

Evotec's long-term key performance indicators are derived from this. In addition to increasing revenues, Evotec wants to increase the Company's profitability and cash flow. This is measured using the operating result and liquidity status.

in T€	2007*	2008	2009	2010	**2011**
Revenues	32,885	39,613	42,683	55,262	**80,128**
Operating result, before impairment**	(49,569)	(45,627)	(24,461)	1,715	**5,764**
Liquidity	93,676	92,401	70,594	70,401	**62,428**

* *continuing operations*

** *operating result excluding impairment of goodwill and intangible assets and excluding reversal of impairment of intangible assets.*

Management engages in monthly financial reviews with a strong emphasis on financial performance drivers, such as revenues, order book status, and margins, as well as careful cost analysis (Sales, General & Administrative and Research & Development 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 in optimising Evotec's short- and mid-term financial performance. Treasury management is undertaken 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 regarding M&A projects and in-licensing opportunities.

NON-FINANCIAL PERFORMANCE MEASURES

In an emerging industry like biotechnology, pure financial information shows an incomplete picture of a company's value creation. The key non-financial performance measures of Evotec's strategy are as follows:

Quality of Drug Discovery Solutions and Performance in Discovery Alliances
With a strong focus on discovery alliances with pharmaceutical and biotechnology companies, probably the most important non-financial 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 in its technology platform through internal R&D activities, technology agreements with other companies and acquisition of tangible assets and investments in companies. For more detail see the chapter "Upgrading the Technology Platform 2011" on page 30 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 consistently deliver to its partners.

There are different parameters to measure customer satisfaction with Evotec's offering and performance in discovery alliances. The number and growth of alliances and the status of the Company's sales and order book are good indicators. During its 18 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 90 pharma and biotech companies on a global scale.

In 2011, new collaborations were announced with Active Biotech, Apeiron Biologics, Avixgen, Harvard University and the Howard Hughes Medical Institute, NoNo, Roche, Takeda Cambridge, and UCB, and contract extensions were signed with CHDI, Ono Pharmaceutical, Boehringer Ingelheim, Cardioxyl, Epizyme and Epitherapeutics. With these deals the Company further strengthened its customer and revenue base and improved the foundation for future growth.

	2008	2009	2010	**2011**
Number of alliances	58	76	72	**97**
Growth in %		31	(5)	**35**
New business during the year**	21	29	22	**45***
Growth in %		38	(24)	**105**

* *thereof 22 related to Kinaxo and Compound Focus*
** *number of new costumers*

At least equally important as 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. Evotec, with its fully integrated drug discovery process, is uniquely positioned to execute a comprehensive outsourcing strategy. In 2011, revenues from Evotec's TOP 10 customers grew by 35%, with revenues from Evotec's TOP 1 customer Boehringer Ingelheim growing by 24% because of significant milestone achievements.

in T€	2007	2008	2009	2010	**2011**
TOP 1: Boehringer Ingelheim	4,425	12,558	7,988	13,754	**17,022**
TOP 2: Roche	2,967	1,461	5,610	6,208	**11,859**
TOP 3: CHDI	8,072	8,285	9,090	9,211	**8,915**
TOP 4 – 10	7,292	10,078	11,998	17,457	**25,198**
Total TOP 10 revenues	**22,756**	**32,382**	**34,686**	**46,630**	**62,994**
Growth in %		42	7	34	**35**

Research & Development Performance

As a company developing novel pharmaceutical drug compounds, productivity in R&D is obviously a second key non-financial performance indicator. Evotec's R&D expenditure has decreased considerably over the past years. This reduction was initially the consequence of implementing Evotec's Action Plan 2012 (see page 30), focusing R&D spending on fewer core programmes, and reducing the number of unfunded research and development projects, which especially reduced 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. Evotec's clinical programmes are now almost exclusively developed in partnerships with pharmaceutical companies which fund their development. As a consequence, the Company's clinical development expenses have decreased significantly over the past years.

Good progress was achieved during the year, and the number of compounds in clinical trials was the same as in 2010. In 2011, EVT401 was partnered with a leading animal healthcare company and, EVT302 was partnered with Roche for the development of treatments for Alzheimer's disease. Partnerships continued with Zhejiang Jingxin Pharmaceutical Co., Ltd for EVT201 for insomnia and DiaPep277 with Andromeda/Teva for type I diabetes. In addition, one compound to treat neuropathic pain progressed into the clinic through Evotec's collaboration with Boehringer Ingelheim. There was also one major setback in 2011. In May, Roche terminated the phase II clinical trial with EVT101/103 for treatment-resistant depression.

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. For a more detailed description of those research programmes, please see chapter "Research & Development" on page 34 of this Management Report.

in T€	2007	2008	2009	2010	**2011**
Clinical	23,542	20,796	6,074	1,033	**2,512**
Discovery	8,574	16,411	10,895	1,804	**1,897**
Platform R&D	1,617	1,918	1,562	868	**1,101**
Overhead R&D	3,205	3,412	2,416	2,411	**2,927**
Total R&D	**36,938**	**42,537**	**20,947**	**6,116**	**8,437**
Funded R&D	169	20	2,846	3,878	1,648

	Status	31 Dec 2010	**31 Dec 2011**	Partner
Partnered assets	Clinical phase III	DiaPep277	**DiaPep277**	Andromeda Teva
	Clinical phase II	EVT100	–	Roche*
	Clinical phase II	EVT201	**EVT201**	JingXin
	Clinical phase II	–	**EVT302**	Roche
	Clinical phase I/Preclinical	VR1	**VR1**	Pfizer
	Clinical phase I	not named	**not named**	Boehringer Ingelheim
	Efficacy testing	–	**EVT401**	Animal health (undisclosed)
	Lead optimisation	DG770	**DG770**	MedImmune (AZ)
	Lead optimisation	Insulin Sensitzer	**Insulin Sensitzer**	Boehringer Ingelheim
Unpartnered assets	Clinical phase II	–	**EVT100**	
	Clinical phase II	EVT302	–	
	Clinical phase I	EVT401	–	
	Preclinical	EVT501	**EVT501**	
	Lead optimisation	P2X3	**P2X3**	

** EVT100 series was partnered with Roche until Q 2/2011*

EARLY INDICATORS

To evaluate early on the degree to which the Company goals will be fulfilled, several factors are used. Early indicators include:

1. Current and expected developments of the market for drug discovery alliances and general trends in research & development
2. The development of Evotec's IP position (see chapter "Research & Development" on page 34)
3. The achievement of milestones in discovery collaborations and development partnerships
4. The monthly/quarterly results
5. The sales and order book

RESEARCH AND DEVELOPMENT

A multi-year overview of Evotec's key R&D figures are reported in the section "Non-financial Performance Measures; Research & Development performance" on page 33 of this Management Report.

UPGRADING THE TECHNOLOGY PLATFORM

In addition to technology agreements with other companies and through the acquisition tangible assets and investments in companies. Evotec is continually upgrading its technology base and enhancing its offering to partners by investing in its technology platform through internal R&D activities. In 2011, internal platform R&D primarily involved further development of the proteomics platform in Munich and Evotec's oncology offering.

DEVELOPMENT OF INNOVATIVE EARLY ASSETS IN KEY THERAPEUTIC AREAS

Evotec also invests in highly innovative approaches to address key therapeutic areas and major pharmaceutical markets, e.g. beta cell technology and technologies that improve understanding of oncology or metabolic diseases. The acquisition of DeveloGen added expertise and early discovery assets in two key medical areas, diabetes and metabolic disorders, and additionally opened the field of regenerative medicine – a key strategic step for Evotec in 2010. In 2011, Evotec continued to focus on developing early assets in innovative areas of drug discovery, such as regenerative medicine. Maintaining its position as a worldwide leader in metabolic disease, Evotec established in March 2011 a research collaboration with Harvard University and the Howard Hughes Medical Institute (HHMI) aimed at discovering and developing new treatments in the field of diabetes ("CureBeta"). The initial goal of the collaboration is to pursue a comprehensive and systematic approach towards the identification and development of physiological mechanisms and targets that regulate beta cell replication. In the field of diabetic complications, Evotec is currently also focusing on chronic kidney disease by designing screens and assays geared towards the identification of mechanisms and targets that protect and/or regenerate key cell types affected during disease progression ("CureNephron"). The early assets and targets from such research will then be actively partnered with third parties.

ACQUISITION OF R&D KNOW-HOW

In February 2011, Evotec announced the acquisition of Kinaxo Biotechnologies GmbH, a biotechnology company supporting the development of personalised drugs. The acquisition added a unique combination of innovative technologies improving drug development across the entire pharma value chain:

— Cellular Target Profiling® uncovers the molecular targets of compounds with unknown mode-of-action and reveals possible off-target side effects early in the discovery and development process.

— KinAffinity® determines the cellular selectivity of kinase inhibitors, which represent the most important class of targeted cancer drugs.

— PhosphoScout® provides valuable knowledge on drug modes-of-action *in vivo* and how they respond to drug treatment. PhosphoScout® generates a phosphosignature closely correlated to drug action thus making it possible to predict drug efficacy in specific patients.

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 2011, Evotec had more than 110 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 certain of its own discovery projects and monitors the research activities and results of its in-house research in order to identify potentially patentable drug candidate series which have the potential for partnering. 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 EVT100 compound family and EVT201. These are protected by diverse composition-of-matter patent families, covering also 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 Evotec subsidiary DeveloGen AG (Evotec Göttingen) contributes key metabolic disease know-how and complementary drug discovery expertise to the Evotec Group. Evotec Göttingen 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.

GENERAL MARKET AND HEALTHCARE SUMMARY

ECONOMIC DEVELOPMENT

The global economy experienced a significant degree of uncertainty in 2011. Key contributors were instability in the eurozone caused by sovereign debt issues in a number of countries, Greece in particular, but also Italy, Spain, Ireland, and Portugal, and a general slowing of growth rates not only in Europe but throughout most of the developed world. A package of counter measures, designed to prevent the collapse of EU member economies, was implemented, including the enlargement of the European Financial Stability Facility (EFSF), a special purpose vehicle financed by members of the eurozone to combat the crisis. Only the emerging markets, including China, India, Brazil, and Russia, remained a solid growth factor in 2011.

As a result, there was a high degree of volatility on both stock exchanges and in foreign currency markets. The positive momentum from late 2010 carried over to the early months of 2011, despite political shocks in the Middle East & North Africa and the earthquake in Japan. The second half of 2011 was less inspiring as the global markets recorded massive falls. On the back of euro uncertainties, sovereign debt and bank financing concerns plus, global macro-economic issues, in September the blue chip DAX Index hit a year low, about 29% down on the year. The remainder of the year saw volatile growth with the index regaining 19% from early September to close the full year down 15%. The German index kept pace with the European Stoxx50, which closed the year off 17%.

DEVELOPMENT IN THE PHARMACEUTICAL AND BIOTECHNOLOGY SECTOR

The performance of the pharmaceutical industry continues to be 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 continued to experience significant M&A activity and in-licensing transactions to make up for the loss of revenues that will arise as key products lose patent exclusivity. For example, in 2011 Sanofi acquired Genzyme for $ 20 bn; Teva acquired Cephalon for $ 6.2 bn; Johnson & Johnson acquired Synthes for $ 21.3 bn; and Takeda acquired Nycomed for $ 13.6 bn. At the same time, a number of major pharmaceutical companies, such as Pfizer, Merck, and Abbott announced restructuring programmes. These programmes included 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 2012 and beyond. 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, 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 to provide financial and operational flexibility.

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 Euro (EUR) to US dollar (USD) **exchange rate** fluctuated between 1.29 and 1.49 in 2011. The euro remained relatively strong in the middle of the year despite the euro crisis and the sovereign debt issues in a number of the eurozone countries. One of the reasons for US dollar weakness was concern about the scale of the budget deficit in the US, the level of US government borrowings, and the extent of fiscal stimulus provided by the Federal Reserve. However, the euro weakened significantly against the US dollar in Q4 2011, as investors were attracted by the traditional safe-haven status of US Government debt and some relatively positive economic data in the United States. For Evotec, a strengthening USD leads to an increase in reported revenues in EUR and to an increase in liquidity in EUR terms. Evotec's expenses in USD in the first half of 2011 were minor but increased significantly from June 2011 onwards, following the acquisition of Compound Focus. Overall, the USD was weaker against the EUR in 2011 compared to 2010, with an average exchange rate of 1.39 compared to 1.33 in the prior year. This had a negative impact on 2011 revenues of approx. € 2.3 m in comparison to 2010. In terms of liquidity at the end of the year, the USD strengthened from 1.33 to 1.29, which resulted in an unrealised gain of € 0.4 m for the year-end position of € 11.7 m.

Overall, the company is USD and EUR generative and British Pounds (GBP) consumptive. This is due to the fact that the Company generates approximately 44% of its revenues in USD, and approximately 48% 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 and to convert surplus USD into EUR in accordance with decisions made by Evotec's Treasury Committee.

Historically low **interest rates** continued throughout 2011. In Europe the ECB inter-banking interest rate was between 1.0% and 1.5% during the year and ended 2011 at 1.0% because of the slow-down in growth in the eurozone. 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 a reduction in interest income received on the cash deposits and the short-term investments of the Company. However, there is a partially offsetting decrease in the interest expense on the borrowings of the Company.

At the start of 2011, all the debt financing of Evotec was backed by cash collaterals. During the course of 2011 this was entirely replaced with traditional debt without any collateral requirements. This was achieved through the significant improvement in the financial performance of the Company in 2010 and 2011. 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 ensure that Evotec's cash will be sufficient to develop the Company to sustainability.

DEVELOPMENT OF EVOTEC'S SHARES

Evotec shares started 2011 at € 2.94 and began the year in strength on the back of deals, strategic acquisitions, and milestones from collaborations. The termination of the phase II clinical trial with EVT101/103 for treatment-resistant depression, and the relating decision by Roche not to exercise an option to acquire the rights on the compounds was a clear setback in April. In addition, global disquiet pulled back the stock price, and in early August Evotec shares hit the 2011 low at € 1.58. On news of the partnering, the shares turned positive in the last four months of 2011, overcoming the macro issues and gaining 48% from the low. Early September, the strategic collaboration with Roche in Alzheimer's disease confirmed investor confidence in the Company through December with positive Phase III clinical indications on Type I diabetes treatment DiaPep277 reported by partners Andromeda Biotech/TEVA and further potential milestone payments for Evotec. Despite a solid flow of strong news also including 45% revenue growth, strong liquidity, and a very strong sales order book for 2012, Evotec's share price finished the year broadly in line with the German technology stock index TecDAX. The Company closed the year off 20% at € 2.34.

MANAGEMENT BOARD'S GENERAL ASSESSMENT OF THE ECONOMIC SITUATION AND BUSINESS PERFORMANCE

Evotec's business performance as a provider of drug discovery solutions is not directly impacted by the economic cycle. Regarding the health-care market, the development in 2011 can be evaluated as positive for the Company. Evotec recognised the current trend within the pharmaceutical landscape of optimising the whole drug discovery process and, consequently, implemented a strategy of providing innovation and solutions as the core of all its partnering activities. Evotec is one of the few drug discovery businesses that can execute a comprehensive outsourcing strategy, because of its highly integrated drug discovery capability.

FINANCIAL REPORT

The 2010 and 2011 results are not fully comparable. The major difference results from the acquisitions of DeveloGen AG (Evotec Göttingen), effective 3 September 2010; of Kinaxo Biotechnologies GmbH (Evotec Munich), effective 18 April 2011; and of Compound Focus, Inc. (Evotec San Francisco), effective 1 June 2011. The results of Evotec Göttingen, from the period 1 January 2011 through 31 December 2011; of Evotec Munich, from the period 18 April 2011 through 31 December 2011; and of Evotec San Francisco, from the period 1 June through 31 December 2011, are included in the accompanying consolidated interim statements of operation for 2011. These results were either not included at all or not fully included in the corresponding period of the previous year. The assets and liabilities of Evotec Göttingen are included in the accompanying consolidated statement of financial position for both periods. The assets and liabilities of Evotec Munich and Evotec San Francisco are only included in the accompanying consolidated statement of financial position for the period as of 31 December 2011.

For further discussion on the Kinaxo and Compound Focus acquisitions and selected pro-forma financial results, see Note 3 of the Consolidated Financial Statements.

Condensed Income Statement

		2010	**2011**
Revenues	T€	55,262	**80,128**
Gross margin	%	44.1	**43.7**
— R&D expenses	T€	6,116	**8,437**
— SG&A expenses	T€	15,956	**15,760**
— Amortisation	T€	672	**1,703**
— Impairment result (net)	T€	0	**557**
— Other operating expenses (income)	T€	(113)	**3,321**
Operating income (loss)	T€	(1,715)	**5,207**
Net income (loss) total	T€	**2,985**	**6,651**

COMPARISON OF 2011 FINANCIAL RESULTS WITH FORECAST

REVENUE GUIDANCE INCREASED, LIQUIDITY GUIDANCE ALMOST STABLE DESPITE ACQUISITIONS

In Evotec's financial guidance for the full year 2011, as stated in the "Outlook" of the 2010 annual report, total Group revenues before out-licensing income were expected to grow by more than 15% to between € 64 m and € 66 m. R&D expenses were expected to increase, compared to 2010, to approximately € 10 m. The operating result before impairment was expected to improve over 2010. Liquidity (cash and investments) was predicted to amount to approximately € 65 m at the end of 2011, excluding any potential cash outflow for M&A or similar transactions.

Evotec increased its revenue target after the acquisition of Compound Focus, Inc. in June 2011 to between € 68 m and € 70 m, in its second quarter reporting to between € 70 m and € 72 m, and in its third quarter report to between € 77 m and € 79 m. The year-end liquidity target was adjusted to € 55 m following the acquisition of Compound Focus but was then increased in the third quarter report to > € 60 m at constant year-end 2010 currencies, despite using € 15.1 m in cash for the various initial acquisitions and subsequent earn-out payments involving Evotec Munich, Evotec San Francisco, Evotec Göttingen, and Evotec (India).

Evotec ended the year with a very successful financial performance compared to guidance. The final results for the fiscal year 2011 were € 80.1 m in revenues, € 8.4 m in R&D expenses and € 62.4 m in liquidity. The revised guidance was fully achieved, and the original financial objectives (as stated in the "Outlook" of the 2010 annual report) were exceeded by a significant amount. The operating result before impairment increased significantly to € 5.8 m compared to the prior-year amount of € 1.7 m.

Performance against Forecasts

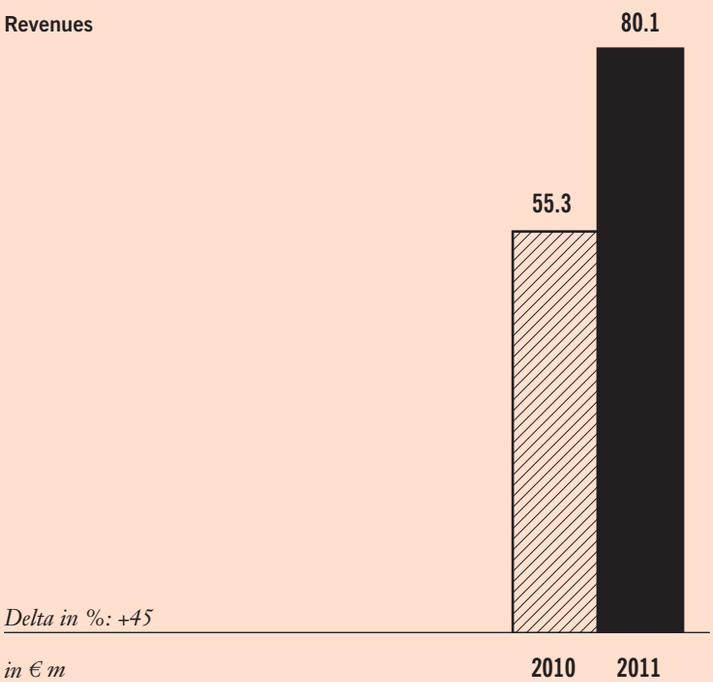
	Forecast March '11	Forecast June '11	Forecast Aug '11	Forecast Sep '11	**Final Results**
Revenues	€ 64–66 m	€ 68–70 m	€ 70–72 m	€ 77–79 m	**€ 80.1 m**
R&D expenses	~ € 10 m	~ € 10 m	~ € 10 m	~ € 10 m	**€ 8.4 m**
Operating result before impairment	Improved over 2010	Improved over 2010	Improved over 2010	Improved over 2010	**Improved over 2010**
Liquidity	> € 65 m	> € 55 m	> € 55 m	> € 60 m	**€ 62.4 m**

RESULTS OF OPERATIONS

REVENUES
45% GROWTH OVER 2010

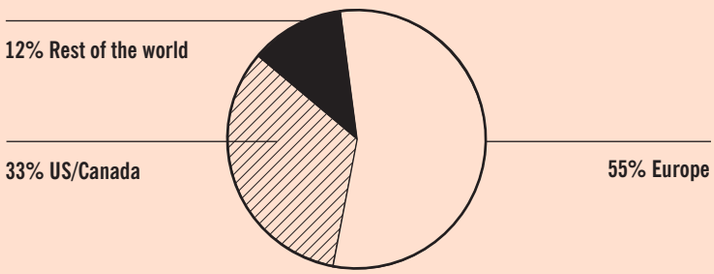
Evotec Group revenues increased by 45% compared to the prior year to € 80.1 m (2010: € 55.3 m). Growth in 2011 was very strong because of a € 6.9 m upfront payment from Roche as part of its development partnership for the treatment of Alzheimer's disease with EVT302. Next to this payment, Evotec's growth was driven by a strong performance in the Company's drug discovery alliances, including milestone payments received from Boehringer Ingelheim, Ono Pharmaceutical and Shionogi in the amount of € 10.8 m (2010: € 11.2 m), as well as contributions from the acquired businesses of Evotec Munich and Evotec San Francisco in 2011 totalling € 8.0 m.

Key collaborations were announced in 2011 with Takeda, Roche, UCB. In addition, the Company received four milestones through its long standing collaboration with Boehringer Ingelheim and also received further milestones from collaborations with Shionogi and Ono. Through these alliances, the Company further strengthened its customer and revenue base and improved the foundation for future growth.



Geographically, 55% of Evotec's revenues were generated from customers in Europe, 33% in the US, and 12% in Japan and the rest of the world. This compares to 52%, 34% and 14%, respectively, in the same period of the previous year. The Company grew revenues in all three geographic regions, in the US primarily through a new alliance with Genentech and the US business of Evotec San Francisco; in Japan through the extended alliance with Ono Pharmaceutical and a new collaboration with Shionogi. The relatively higher contribution of European revenues to Group revenues in 2011 mainly reflects the upfront payment from Roche for EVT302, higher milestone payments from Boehringer Ingelheim, and the Evotec Göttingen contributions for the full 12 months.

Revenues by region



Currency effects had a negative impact of € 2.4 m on reported revenues for 2011, compared to 2010, primarily due to the fact that on average the US dollar was weaker versus the Euro in 2011, compared to 2010.

COSTS OF REVENUE
INCREASE IN COSTS IN PROPORTION 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.

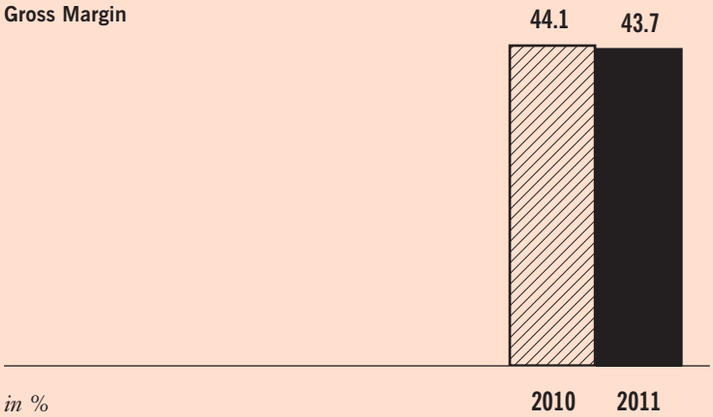
Costs of revenue increased by 46% to € 45.1 m (2010: € 30.9 m), in line with the rate of increase in revenues of 45%. The slight variance can be attributed to an increase in compound management and biology service based revenues which have a lower gross margin than chemistry-based revenues because of higher operational costs.

GROSS MARGIN
DIFFERENT REVENUE MIX AFTER ACQUISITIONS AND EFFECT FROM ROCHE UPFRONT PAYMENT

The gross margin for the Group decreased slightly in 2011 by 0.4% points to 43.7% (2010: 44.1%). Excluding the effect of the significant upfront payment from Roche, gross margin was 38.3%. The decline in the underlying margin in 2011, compared to 2010, is attributable primarily to a different revenue mix following Evotec's acquisitions, a lower share of milestones in relation to total revenues, as well as currency effects resulting mainly from the weaker US dollar.

Gross margins in the future may continue to be volatile, and may significantly depend on potential milestone or out-licensing revenues.

Gross Margin



RESEARCH & DEVELOPMENT EXPENSES IN LINE WITH GUIDANCE, EFFECTS FROM ACQUISITIONS

As forecasted, R&D expenditure increased to € 8.4 m in 2011 (2010: € 6.1 m), which was in line with the guidance of approximately € 10 m. The increase mainly resulted from the inclusion of Evotec Göttingen and Evotec Munich R&D expenses and the resulting build-up of the Evotec CureBeta franchise, as well as expenses for pre-clinical development of EVT501 (H3 antagonist).

R&D Expenses

R&D expenses, however, continued to be significantly below prior years, as Evotec continued to follow its strategy of spending only on selected discovery projects in key medical areas and of conducting later-stage clinical trials only in partnerships with pharmaceutical companies, who pay for the clinical development programme.

In 2011, Evotec again signed important development partnerships to externally fund a number of its core assets (for strategy and achievements in R&D in 2011 and a five-year overview of the R&D key financial, see also "Non-financial Performance Measures, Research & Development Performance" on page 33 of this report).

Evotec's unfunded research initiatives focused on selected discovery projects (e.g. BetaCell molecules). These projects progressed according to plan, with the primary focus being on delivering compounds to the clinical pipeline in future years and preparing selected programmes for partnering. This internal discovery accounted for approximately 22% of total R&D spending. R&D to support specific platform technologies accounted for 13% of the R&D expenses. Platform R&D was primarily attributed to further development of the proteomics platform in Munich and our oncology offering. The clinical R&D expenses accounted for 30% of the total R&D spending, the majority of which was due to Evotec's NMDA antagonist EVT101/103. After the termination of the phase II clinical trial with EVT101/103 for treatment-resistant depression and the alliance between Evotec and Roche, Evotec is actively pursuing other commercial opportunities for this series of compounds. Finally, the 35% of total R&D expenditure categorised as overhead consisted of patent costs as well as the expenses for managing the clinical development of the EVT100 compound family and EVT501, and the early discovery programmes (see table below).

R&D Expenses by Categories

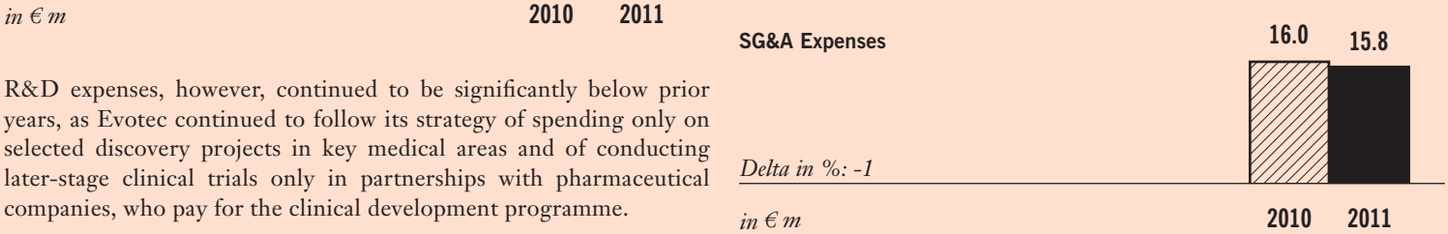
in T€	2010	2011
Clinical projects	1,033	2,512
Discovery projects *	1,804	1,897
Platform R&D	868	1,101
Overhead expenses	2,411	2,927
Total	6,116	8,437

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

SELLING, GENERAL & ADMINISTRATIVE EXPENSES REDUCED DESPITE ACQUISITIONS

Selling, general & administrative (SG&A) expenses of the Group decreased by 1% to € 15.8 m in 2011 (2010: € 16.0 m) despite the inclusion of the incremental costs of Evotec Göttingen, Evotec Munich, and Evotec San Francisco following their acquisition. This was the result of judicious cost containment throughout the Company – "Evotec Action Plan 2012". However, one should consider that the Evotec Munich and Evotec San Francisco acquisitions were only included for 8.5 and 7 months of 2011, respectively.

SG&A Expenses



OPERATING INCOME/EXPENSES APART FROM R&D AND SG&A

In 2011, amortisation increased to € 1.7 m, compared to the previous amount of € 0.7 m in 2010. This was primarily due to the amortisation of acquisition-related intangible assets, such as part of the developed technologies of DeveloGen partnered with MedImmune as well as the customer lists of Evotec Göttingen and Evotec San Francisco.

The impairment in the amount of € 2.1 m is a result of the difficult partnering situation in the US market for EVT201 (for more details, see also "Impairment Review" on page 45 of this report).

The signing of a license and collaboration agreement for the development of Evotec's compound EVT401 in an animal health indication was a triggering event and resulted in a reversal of impairment of intangible assets of € 1.5 m in 2011.

The decrease in other operating income and the increase in other operating expenses in 2011 primarily resulted from two effects. Firstly, the reimbursement of expenses incurred by the clinical programmes with EVT101 and EVT103 by Roche decreased. The alliance was terminated in the second quarter of 2011. Secondly, parallel rental payments for the old facility in Hamburg and the new "Manfred Eigen Campus" in Hamburg along with the resulting planned underutilisation of parts of those buildings during the transition period led to higher operating expenses. This was an Other Operating Expense of approximately € 3.1 m. The parallel rental period is for a two-year period beginning 1st January 2011.

OPERATING RESULT
MATERIALLY IMPROVED OVER 2010

Due to the higher gross profit, Evotec's operating income for 2011 improved significantly over the prior year despite the increase in the R&D investment to € 5.2 m (2010: € 1.7 m). The operating income before impairment amounted to € 5.8 m (2010: € 1.7 m).

Delta in %: +204

in € m

NET RESULT
123% IMPROVEMENT IN NET RESULT

Net income improved strongly in 2011 to € 6.7 m (2010: € 3.0 m). This was mainly caused by higher top-line results and an improved operating income.

After allocation of non-controlling interest, net profit attributable to the shareholders of Evotec amounted to € 6.7 m (2010: € 3.3 m).

The total non-operating result of € 0.0 m income (2010: € 2.2 m) decreased because of lower foreign-exchange gains and higher interest expenses. The earn-outs, which are related to the Evotec Göttingen, Evotec Munich and Evotec San Francisco, acquisitions caused interest expenses in the amount of € 1.3 m because of the unwind of the discount since the acquisition date.

The interest result, excluding the interest expenses related to earn-outs, amounted to € 0.2 m (2010: interest expense of € 0.2 m).

Evotec recorded a foreign-exchange gain of € 1.4 m in 2011 (2010: € 2.7 m), mainly due to a foreign-exchange gain in accordance with IAS 21 as a result of the reduction in the capital reserve of one subsidiary paid to Evotec AG. In the prior year, there was a reduction in capital reserve that generated an even higher favourable foreign-exchange effect.

Income taxes amounted to € 1.2 m in 2011, primarily due to the higher profitability of Evotec NeuroSciences GmbH, who is contract partner of Roche in the partnering of EVT302. Also, the 2010 income tax (€ 0.7 m) related mainly to taxable income in the Evotec NeuroSciences GmbH. In 2011 Evotec incurred a deferred tax income of € 2.5 m (2010: deferred tax expense of € 0.2 m), because Evotec NeuroSciences GmbH has released an amount of € 7.4 m from the valuation allowance since it is expected that this entity will be profitable in the future.

This translates into a total net income per share for Evotec of € 0.06 (2010: € 0.03) based on a weighted average number of shares of 116,022,213 (2010: 109,012,908).

Delta in %: +123

in € m

Multiple-year Overview Results of Operations

in T€	2007*	2008	2009	2010	2011
Revenues	**32,885**	**39,613**	**42,683**	**55,262**	**80,128**
Cost of Revenues	24,862	21,977	24,262	30,916	45,143
Gross profit	**8,023**	**17,636**	**18,421**	**24,346**	**34,985**
Research and development expenses	36,938	42,537	20,947	6,116	8,437
Selling, general and administrative expenses	17,806	19,950	16,695	15,956	15,760
Amortisation	2,589	553	455	672	1,703
Impairment result (net)	8,546	27,583	17,838	0	557
Restructuring expenses	356	132	4,849	0	0
Other operating income and expenses (net)	(97)	91	(64)	(113)	3,321
Operating result	**(58,115)**	**(73,210)**	**(42,299)**	**1,715**	**5,207**
Non-operating income and expenses (net)	3,710	(2,760)	(2,520)	2,152	49
Profit (loss) before taxes	**(54,405)**	**(75,970)**	**(44,819)**	**3,867**	**5,256**
Tax expenses	6,352	(2,317)	678	882	(1,395)
Net result	**(48,053)**	**(78,287)**	**(45,497)**	**2,985**	**6,651**

*) *Continuing operations*

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 utilises selected debt financing and has historically raised capital through the issuance of new shares, most recently for the acquisition of Kinaxo Biotechnologies GmbH that expands the Company's drug discovery offering. 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. Capital investments are expected to be financed from the cash generated by the operating business.

Evotec is currently well financed and has no plans or need to raise capital in the near- to mid-term. However, the option of increasing 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 adequate funding is allocated or secured.

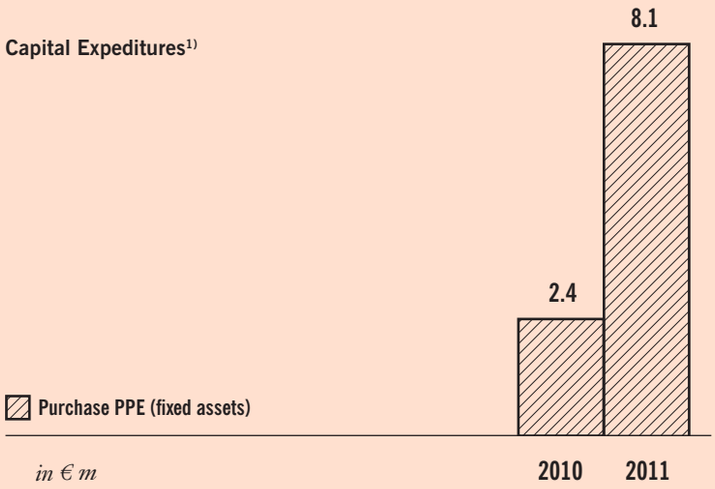
CASH FLOW

STRONG OPERATING CASH FLOW

Group **cash flow provided by operating activities** improved significantly in 2011 compared to the prior year. It was positive at € 10.1 m (2010: € 0.9 m). This is the result of the Company's positive operating result before depreciation, amortisation and impairment.

Cash flow used in investing activities was € (15.1) m (2010: € (9.9) m). The proceeds from sale of current investments in the amount of € 82.3 m were reinvested in the amount of € 77.6 m. The difference was primarily used for the purchase of companies, or shares in companies (€ 12.2 m) i.e. the cash components of the purchase prices for the acquisition of Compound Focus, Inc. (Evotec San Francisco) in the amount of € 9.5 m and for Kinaxo Biotechnologies GmbH (Evotec Munich) in the amount of € 3.0 m. Cash acquired with these companies amounted to € 0.3 m.

Capital expenditures in 2011 amounted to € 8.1 m (2010: € 2.4 m) with the investments being made in the following three areas: (i) New areas of instrumentation to support Evotec's drug discovery offering and keep Evotec at the cutting edge of scientific innovation. Areas invested in included screening, protein production, structural biology, and chemical proteomics. (ii) In replacing and upgrading old equipment to ensure that Evotec's employees are working with best-in-class instrumentation. Areas invested in included screening, chemical purification, and analysis and ADMET as well as IT. (iii) In fitting out the new Manfred Eigen Campus in Hamburg. Although Evotec leased a fitted-out facility, investment has been required to house the bespoke screening activities, *In vivo* pharmacology, and IT infrastructure. Capital expenditures in 2011 also included investments in the two newly acquired businesses, Evotec Munich and Evotec San Francisco. Proceeds from the sale of old equipment amounted to € 0.6 m.



[1)] *Without finance leases*

Net cash flow provided by financing activities amounted to € 2.1 m (2010: € (3.4) m) and related mainly to an increase in bank loans (€ 3.6 m). The Company increased its access to non-dilutive financing during 2011 and significantly improved the terms and conditions on which this financing is made available. The new bank loans were partly used for the acquisition of the remaining 30% of the shares of Evotec (India) (€ 1.7 m).

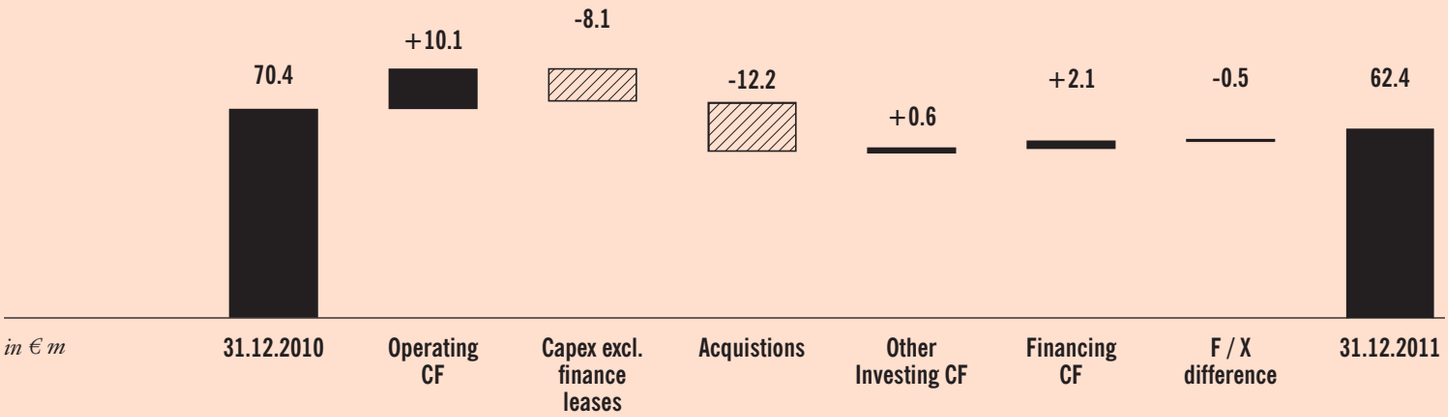
The impact of exchange-rate movements on the net increase in cash and cash equivalents in 2011 was € (0.5) m.

Condensed Statement of Cash Flows

in T€	2010	2011
Net cash provided by (used in)		
— Operating activities	899	10,146
— Investing activities	(9,877)	(15,068)
— Financing activities	(3,367)	2,139
Net increase/decrease in cash and cash equivalents	(12,345)	(2,783)
Exchange rate difference	510	(531)
Cash and cash equivalents		
— At beginning of year	32,926	21,091
— **At end of year**	21,091	17,777
— Investments	49,310	44,651
Liquidity at end of year	70,401	62,428

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

Liquidity Development



LIQUIDITY AND HEDGING
LIQUIDITY AT € 62 M, CASH USED FOR ACQUISITIONS

Evotec ended 2011 with a liquidity of € 62.4 m (2010: € 70.4 m), which is composed of cash and cash equivalents (€ 17.8 m) and of investments (€ 44.6 m). Cash and cash equivalents as well as short-term investments can all be accessed within a period of less than three months. The reduction in liquidity of € 8.0 m in 2011 is primarily due to the use of € 16.6 m cash for acquisitions incl. earn-out payments.

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

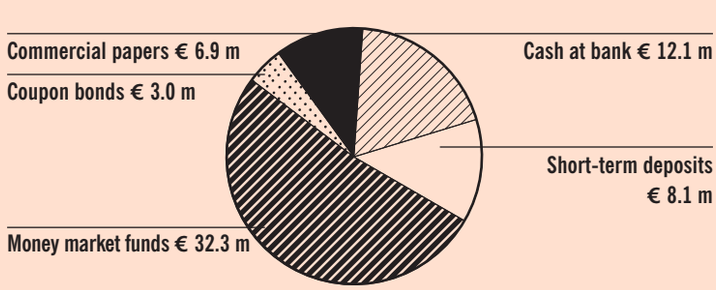
Liquidity as of 31 December

in T€	2007	2008	2009	2010	**2011**
Cash and cash equivalents	37,991	55,064	32,926	21,091	**17,777**
Short-term investments	55,685	29,034	25,432	46,303	**44,651**
Long-term financial investments	0	8,303[1)]	12,236[1)]	3,007	**0**
Total liquidity	**93,676**	**92,401**	**70,594**	70,401	**62,428**

[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 at the right). In 2011, approximately 44% of the Company's revenues were generated in US dollars and approximately 48% of its cost of goods sold was in UK sterling. The primary risk exposure of the Group relates to these two currencies. Evotec uses forward contracts and spot transactions to convert US dollars to UK sterling to address this risk. During the year, Evotec reduced its currency holdings in US dollars from € 14.8 m at the end of 2010 to € 11.8 m at the end of 2011. The currency holdings in UK sterling, Indian rupees and Singapore dollars were kept at a low level, with the objective of having sufficient available cash to meet short-term local operating needs.

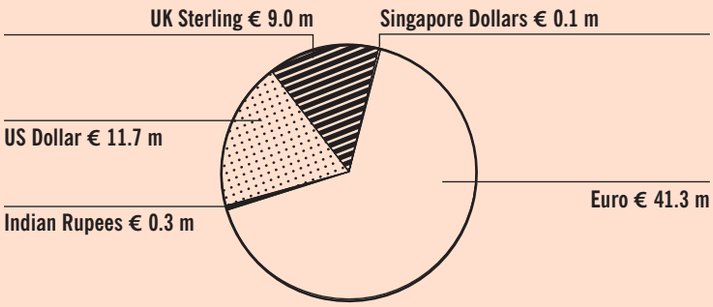
Liquidity by Investment Type



Evotec actively manages its funds to maximise 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).

Functional Currency Holdings



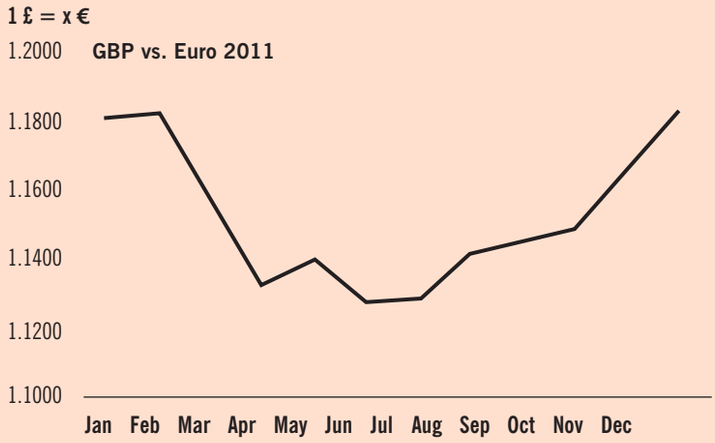
A CONTINUED CHALLENGING CASH MANAGEMENT ENVIRONMENT

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

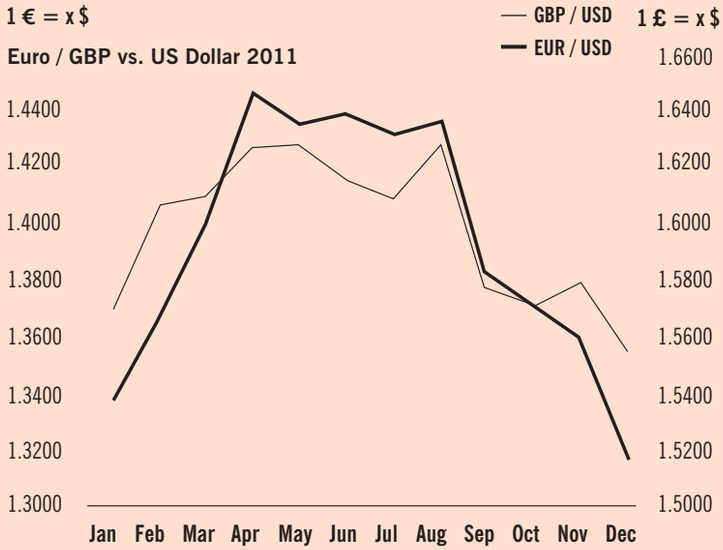
The translational foreign currency risk is the exchange-rate risk associated with companies that deal in foreign currencies or list foreign assets on their balance sheets. Evotec's translation exposure primarily relates to the conversion of the income statements and balance sheets of its UK, US, and Indian based subsidiaries into the reporting currency, the 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.

During the second and third quarter of 2011, the US dollar was weaker against the Euro in comparison with the 2010 exchange rates. Q1 and Q4 were similar to 2010. On average, the US dollar was weaker in 2011 in comparison to 2010. This had a negative impact of € 2.3 m on 2011 revenues. The UK sterling weakened slightly on average against the Euro during 2011 in comparison with the prior year, which positively affected the cost base of the UK operations. In total, gross margin dropped by 0.8% points because of FX movements in 2011. To protect against adverse currency movements, the Company entered into forward contracts, selling US dollars against UK sterling.



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 2011 were $ 6.0 m (2010: $ 12.0 m). These were exclusively forward contracts selling US dollars 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. During 2011, the sum of debt instruments – including both long-term and current portions – was increased by € 3.5 m to € 15.5 m at 31 December 2011 (2010: € 12.0 m). The currency of these year-end debt positions were € 15.5 m in Euro, € 7 thousand in UK sterling and € 0.0 m in Indian rupees (2010: € 10.3 m in Euro, € 12 thousand in UK sterling and € 1.7 m in Indian rupees, respectively).

Multiple-year Overview financial position

in T€	31 Dec 2007	31 Dec 2008	31 Dec 2009	31 Dec 2010	**31 Dec 2011**
Current liabilities	24,337	21,826	26,445	32,802	**42,833**
Non-Current liabilities	12,988	11,215	8,667	26,420	**28,135**
Shareholder's equity	170,553	149,859	111,487	132,637	**147,245**
Total liabilities and shareholder's equity	**207,878**	**182,900**	**146,599**	**191,859**	**218,213**

ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY

ACQUISITIONS

In the year under review, Evotec has completed three significant acquisitions (purchase of companies or shares in companies) that are completely in line with the corporate objectives and strategy "Evotec Action Plan 2012" (for more information see "Operations and Business Environment, Significant Corporate Development Events 2011" on page 29 of this Management Report).

On 18 April 2011 Evotec acquired **Kinaxo Biotechnologies GmbH** (Evotec Munich), a Munich-based drug discovery alliance company. Evotec issued 2,597,403 shares from its authorised capital as part consideration for the transaction, paid a cash component of € 3.0 m and an earn-out component of € 1.5 m. A potential additional € 2.5 m payment as earn-out based upon performance of the business in 2011/2012 may be due.

In June 2011, Evotec acquired **Compound Focus, Inc.** (Evotec San Francisco), the compound management business of BioFocus, based in South San Francisco, US. For the acquisition of all shares in Compound Focus Inc., Evotec paid a cash upfront of € 10.25 m, received a working capital adjustment of € 0.8 m and could pay an additional € 2.25 m as an earn-out based upon performance of the business in 2012/2013.

In September 2011, Evotec signed a Share Purchase Agreement to acquire the remaining 30% of the equity of its Indian subsidiary **Evotec (India)** from DIL for € 1.7 m. This acquisition gives Evotec 100% ownership of this subsidiary, allowing it to operate and accelerate the business with full control.

CAPITAL STRUCTURE

CAPITAL INCREASE THROUGH ACQUISITION OF KINAXO

In April 2011, Evotec's capital structure changed through the acquisition of Kinaxo Biotechnologies GmbH. As a consequence, Evotec's share capital increased to € 118.3 m (31 December 2010: € 115.6 m) because this acquisition was partly financed from authorised capital (2.6 m shares). Total equity increased to € 147.2 m (31 December 2010: € 132.6 m) primarily because of the acquisition and the positive net result.

122,732 shares were issued for Evotec employee stock option plans during the year (2010: 7,000 shares). In 2011, 110,000 shares were issued to a former member of the management board and 12,732 shares to employees. No shares were issued in terms of options to the current Management Board in either period.

Evotec's equity ratio continued to be strong, amounting to 67.5% (2010: 69.1%).

ASSETS AND LIABILITIES

INCREASE IN TOTAL ASSETS DUE TO ACQUISITION

The Company's total assets increased by € 26.3 m to € 218.2 m as of 31 December 2011 (31 December 2010: € 191.9 m). This is primarily because of the assets and liabilities acquired as a result of the Kinaxo and Compound Focus transaction.

Current assets as of 31 December 2011 decreased by € 3.4 m to € 83.3 m (31 December 2010: € 86.7 m) primarily because of cash used for acquisitions. Trade accounts receivables were reduced from € 11.9 m (31 December 2010) to € 10.4 m at the end of December 2011. The position at 31 December 2011 included an invoiced milestone of € 2.5 m. Trade accounts receivables at 31 December 2010 were extraordinarily high because the MedImmune upfront payment of € 5.0 m was invoiced in December but received in 2011. Inventories increased by € 0.8 m to € 3.6 m (31 December 2010: € 2.8 m) because of the acquisition of Compound Focus.

Property, plant and equipment increased by € 6.4 m to € 24.9 m in 2011 (31 December 2010: € 18.5 m), firstly because of fixed assets acquired with Kinaxo and Compound Focus and secondly because of capital investments exceeding depreciation.

Goodwill and intangibles increased by € 26.3 m to € 109.9 m (31 December 2010: € 83.6 m) driven by acquisitions. With Kinaxo intangible assets for know-how of € 7.1 m and goodwill of € 8.0 m were added. With Compound Focus, intangible assets related to customer lists of € 4.5 m, and to goodwill of € 7.7 m were recognised.

In 2011, current liabilities increased by € 10.0 m to € 42.8 m (31 December 2010: € 32.8 m) as a result of an increase in loans, provisions, and trade accounts payable. A new loan which was taken in October has a maturity of one year. The increase in provisions resulted from the short-term portion of the earn-outs for Kinaxo (€ 3.8 m) and for Compound Focus (€ 2.0 m). Trade accounts payable increased mainly because of the acquisitions and because of capex and construction work related to the fit-out of the new facility in Hamburg.

Total non-current liabilities increased by € 1.7 m to € 28.1 m at 31 December 2011 (31 December 2010: € 26.4 m). Provisions increased by € 1.9 m to € 14.6 m and were related to the earn-out component of the acquisitions. Deferred tax liabilities increased by € 3.2 m to € 9.9 m because of the purchase price allocation of Kinaxo (€ 1.3 m) and Compound Focus (€ 1.9 m). Furthermore, deferred revenues decreased by € 3.5 m, which resulted from the consumption of the upfront for EVT100 from Roche. The long-term portion of loans reduced by € 1.1 m to € 2.4 m at 31 December 2011 (31 December 2010: € 3.5 m).

Condensed Balance Sheet

in T€	2010	2011
Cash, cash equivalents and investments	67,394	62,428
Trade accounts receivables	11,869	10,393
Inventories	2,819	3,556
Other current assets	4,610	6,894
Property, plant and equipment	18,487	24,946
Assets held for sale	0	62
Intangible assets and goodwill	83,594	109,854
Other non-current assets	3,086	80
Total assets	**191,859**	**218,213**
Current maturities of loans and finance leases	8,465	13,206
Trade account payable	6,980	10,134
Current provisions	6,656	11,045
Other current liabilities	10,701	8,448
Long-term loans and finance leases	3,532	2,360
Deferred tax liabilities	6,660	9,904
Other Long-term liabilities	16,228	15,871
Liabilities held for sale	0	0
Total stockholders' equity	132,637	147,245
Total liabilities and stockholders' equity	**191,859**	**218,213**

Working Capital Calculation

in T€	2010[2)]	2011[2)]
Trade accounts receivables	11,869	10,393
Inventories	2,819	3,556
Other current assets	4,610	6,894
Assets	19,298	20,843
Trade accounts payable	6,980	10,134
Current provisions	6,656	11,045
Other current liabilities[1)]	10,701	8,448
Liabilities	**24,337**	**29,627**
Working Capital	**(5,039)**	**(8,784)**
Δ Working Capital	**1,491**	**(3,745)**

[1)] *Excluding loans and finance leases*

[2)] *2010: Incl. acquired DeveloGen assets*
2011: Incl. acquired Kinaxo and Compound Focus assets

INTANGIBLE ASSETS

Intangible assets, excluding goodwill, at Evotec include separately identified intangible assets, such as developed technologies, customer list, patents and licenses, which were acquired in business combinations and purchased licences and patents.

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 2011.

During this annual regular review, Evotec performed an impairment review of the intangible assets acquired in the acquisition of ENS Holdings, Inc. (ENS) in 2005. As a result, an impairment charge of € 2.1 m was taken against EVT201. This is seen as a prudent step given the lack of progress in 2011 for partnering in the US market, on which the valuation of this asset is based. However, management still believes that EVT201 has upside potential in markets other than the US. This is supported by the ongoing deal that was signed in October 2010 with Jingxin Pharma. The agreement grants Jingxin Pharma exclusive rights to develop and market EVT201 in China. Evotec will have the right to reference clinical data produced by Jingxin to support potential further development of EVT201. There are currently ongoing negotiations to partner the asset in other markets.

No impairment was deemed necessary in 2011 for goodwill or any of the other intangible 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 for IT equipment and company vehicles. These instruments have no material impact on the economic position of the Company.

Multiple-year Overview Balance Sheet Structure

in T€	31 Dec 2007	31 Dec 2008	31 Dec 2009	31 Dec 2010	**31 Dec 2011**
Cash, cash equivalentes and short-term investment	93,676	84,098	58,358	67,394	**62,428**
Other current assets	18,165	8,980	10,599	19,298	20,905
Property, plant and equipment	18,561	18,468	19,162	18,487	24,946
Intangible assets, excluding goodwill	37,421	47,167	29,010	57,615	67,652
Goodwill	38,978	13,288	16,557	25,979	42,202
Other non-current assets [1)]	1,077	10,899	12,913	3,086	80
Total liabilities and shareholder's equity	**207,878**	**182,900**	**146,599**	**191,859**	**218,213**

[1)] 2008 and 2009 including auction rate securities

MANAGEMENT BOARD'S GENERAL ASSESSMENT OF EVOTEC'S ECONOMIC SITUATION

Evotec has achieved a very strong top-line performance, with 45% revenue growth (30% excl. acquisitions) in 2011 at stable margins, significant milestones achieved, and important new contracts or contract extensions signed. In particular, the € 6.9 m upfront payment from Roche as part of the EVT302 development partnership was significant in helping revenues exceed the original guidance. At the same time, R&D expenses were kept in line with guidance and were focused on selected promising discovery projects, while SG&A expenses slightly declined despite acquisitions. Consequently, the Company reached profitability for the second time in its history, significantly above 2010 levels, and exceeded its financial targets for the year (see details above).

Going forward, it is imperative for the long-term sustainable growth of the Company to invest in innovation, which Evotec accelerated in 2011 and which is a key focus of the strategy. Based on this, the Company anticipates continued double-digit growth and ongoing profitability. In summary, the business is now well positioned for the challenges of 2012 and beyond.

JUDGEMENTS BY MANAGEMENT

The accounting policies 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" in the notes to the consolidated financial statements, which addresses changes in accounting policies. Information on the effects of the use of estimates, assumptions, and judgements by management can be found in the notes to the consolidated financial statements.

HUMAN RESOURCES

Evotec's employees are the Company's most important and valuable asset. The significant growth in the business in 2011 is also reflected in the increasing headcount. The commitment and dedication of its associates is paramount to the continued success of the Company.

ATTRACTING AND RETAINING OUR PEOPLE

As at 31st December 2011, the Evotec Group employed a total of 610 people in Europe, Asia and the US. This represents an increase of nearly 18 % in global headcount compared to the end of 2010. A total of 153 new employees joined the Company in 2011 of whom 42 hold a PhD. It also demonstrates the significant growth in operations and the integration of both the Kinaxo and Compound Focus acquisitions, adding 57 employees.

Headcount as of 31 December

	2010	2011
Discovery Alliances Germany	129	195
Discovery Alliances UK (incl. Singapore)	189	175
Discovery Alliances India	119	106
Compound Management	0	26
Sales & Administration	82	108
Total Evotec Group	519	610
Total Germany	161	236
Total UK (incl. Singapore)	219	210
Total India	139	130
Total South San Francisco	0	34
Total Evotec Group	519	610

The majority of the 610 people are graduates. About 40 % of the employees have been working with the Company for more than 5 years.

FLEXIBILITY IN 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 more vocal in their demand that such circumstances should be taken into consideration. Given this trend, employee work-life balance is becoming an increasingly important factor in recruiting and retaining staff. Evotec therefore offers, where appropriate, the possibility of part-time employment arrangements as well as work-at-home options.

FOSTERING DIVERSITY

As a global enterprise with international customers, Evotec is proud to have a diverse and international employee population possessing a rich diversity of skills, capabilities, and creativity. The Company benefits from having a highly talented group of employees drawn from thirty different nationalities. Their diverse backgrounds bring a range of perspectives to the workplace, helping to grow the business and to create a strong link to clients all over the world. Women account for nearly 40% of employees globally and 5 of the 20 senior managers reporting to members of the Management Board are women. At the junior entry level for young academics, more than 50 percent of the people Evotec hired this year are females. Evotec aims to increase the proportion of women working for the Company, especially the percentage of female managers. To help achieve this goal, the succession planning and development programme will be further enhanced in 2012.

REWARDING PERFORMANCE

Evotec operates a uniform and transparent compensation system for all employees. This system promotes performance-based remuneration, whereby employees are rewarded for achievement. According to the philosophy of Evotec, employees should be incentivised to add value and to share in the success of the Company.

Evotec's compensation system consists of three elements:

1. A base compensation that takes into account the employees' professional and personal abilities and the level of responsibility.
2. A performance-related bonus scheme. The key criteria 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. During 2011, this scheme was extended to Evotec's new employees in Munich and South San Francisco as a result of the Kinaxo and Compound Focus acquisitions.
3. Share options to all employees. Individual awards were performance based. The Goettingen employees joined the share option plan for the first time in 2011.

Regular feedback and an open dialogue between employees and their line managers is a critical and ongoing activity for which both parties are held accountable. In 2011, all employees took part in company-wide performance appraisals with their managers, to reach a shared understanding of their performance and of the achievement of their individual objectives. For the first time, common performance metrics were used company-wide to determine compensation in 2011.

ALIGNING HUMAN RESOURCES SYSTEMS AND PROCESSES

In order to further simplify and adjust Human Resources (HR) processes across all sites, Evotec has implemented a common HR Information system called CASCADE. This system provides a comprehensive and powerful management tool for the HR team that facilitates globally aligned HR processes. In addition, it offers a self-service to employees, in that they can access any data that HR chooses to make available to the individual. For example, Evotec employees can request vacation, give notice of absence, or make changes to any personal details online via CASCADE. In 2012, the system will be further optimised with additional functionality and the implementation of additional features.

New building at Headquarters

Evotec's German headquarters and facilities began relocating in 2011 to the Manfred Eigen Campus in the north of Hamburg to meet the needs of a growing workforce, especially in the area of drug discovery biology. This new building allows Evotec to consolidate its operations in northern Germany, provides an increase of approximately 3,000 sqm compared to the previous footprint, and delivers an increase in technical standards. The Manfred Eigen Campus, boasting a modern architecture and a spacious atrium, is conveniently located near Hamburg airport. It is expected that these features will create energy and encourage transparency while helping to attract additional talent in a competitive job market. To support the transition of the employees to the Manfred Eigen Campus, Evotec has decided to subsidise the cost of individual public transport tickets (HVV Proficard) for an initial period of two years.

By the beginning of 2012, the majority of employees had already successfully completed the move into the Manfred Eigen Campus.

Looking to the future

In 2012, Evotec will continue its efforts to stay a truly great place to work, by providing an environment where people can grow and develop and make their mark. As demographics change and talent shortages continue to impact the labour market, recruitment, succession planning, and professional development will be the key priorities for HR in the coming year.

SUSTAINABILITY REPORT

DEDICATED TO ECONOMIC, ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

For Evotec, sustainability means combining economic success with environmentally and socially responsible activities. All three criteria are important and are reflected in Evotec's strategy and firmly established in all business processes. Taking responsibility for the Company's employees and business partners and maintaining its commitment to society and a healthy environment are two of Evotec's guiding principles. By doing this, Evotec also takes responsibility for current and future generations while ensuring the basis for long-term business success. This sustainability report contains information on Evotec's social and ecological activities and the set-up and responsibilities within the organisation. Information on Evotec's management structure and corporate governance practices are disclosed in the Corporate Governance Report.

SUSTAINABLE CORPORATE MANAGEMENT AT EVOTEC

LIFE SCIENCE IS MAKING A HUGE CONTRIBUTION TO THE SOCIETY

The life science industry is making a huge contribution to the well being of our society. For a large number of serious diseases there is no cure available today, and consequently, indirect healthcare costs are significant, especially considering the impact of the aging population. Evotec's purpose as a business is to find new, efficacious therapies that will improve the lives of millions of patients suffering from serious diseases.

EVOTEC'S BUSINESS MODEL AIMED AT SUSTAINABLE GROWTH

Evotec is pursuing a business model that aims at sustainable growth, protecting the interests of its shareholders, and creating value for all stakeholders. This is reflected in the Company business strategy "Evotec 2012 – Action Plan to Focus and Grow" (see "Operations & Business Environment" on page 30 of this Management Report), the success of which is measured by financial and non-financial performance indicators (see "Performance Measurement" on page 31 of this Management Report). It is also the basis for Evotec's long-term oriented personnel policy (also see "Human Resources" on page 47) as well as the Company's forward-looking R&D activities and ethics (see below).

In order to ensure that factors potentially endangering the sustainable performance of the Company are recognized at an early stage and adequate countermeasures are taken, a comprehensive risk management system has been implemented within the Company (see "Risk Report" on Page 57 of this Management Report). It is important to note that, during the past three years, no services were recalled and neither fines nor settlement payments related to litigation in Evotec's drug discovery alliances were due.

According to the management's view, the business model of Evotec does not contain any aspects that contradict the interests of shareholders focusing on sustainable investments.

CLEAR DEFINITION OF CORPORATE SOCIAL RESPONSIBILITY (CSR)

At Evotec the entire Management Board, under the leadership of the CEO, is responsible for ensuring Group-wide adherence to the Company's sustainability strategy. The strategy is integrated into Evotec's planning and affects the entire business at all the Company's sites. A description of how this strategy translates into the daily business of every employee at Evotec is included in the Company's Ethical Business Conduct Policy, the so called Code of Conduct, which is published on Evotec's website. It comprises topics such as the use of corporate funds and proper record keeping, behaviour with regard to personal conflicts of interest, compliance with antitrust laws, the employee work environment, health and safety protection, and minimizing the impact on the environment, as well as confidentiality with respect to intellectual property and trade secrets. Evotec's code of conduct also provides the framework for its responsible and correct behaviour towards business partners; Evotec's conduct as well as its processes in research and development are based on Company and industry standards and regulations.

In order to ensure a corporate behaviour that complies with these regulations, Evotec provides regular employee trainings on the Code of Conduct. Employees should immediately report any actions or facts which indicate even the slightest possibility of a breach of this Ethical Business Conduct Policy to the in-house legal Counsel or the CFO of the Company. No new commitments with a likelihood of breaching this Policy should be undertaken. Also, in cases where an employee does not want to report an observed breach to the Counsel or CFO, there is the possibility to contact a (non-executive) Supervisory Board Member under the Company's separate "whistleblower" policy. However, the Company regards serious violations by individual employees, which could have a significant impact on the net assets, financial positions, and results of operations, as unlikely and no breach has been reported so far.

EVOTEC'S CSR ACTIVITIES

FOCUS ON SOCIALLY RESPONSIBLE PRODUCTS WITH A CLEAR BENEFIT FOR 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 for the benefit of millions of people. Several examples of Evotec's efforts in different areas are given below.

Evotec has put together a unique pipeline of potentially first-in-class products targeting key underlying causes of type 1 and 2 diabetes.
Diabetes, the CDC* says, costs $ 174 billion annually (2007). Diabetes / obesity is the fastest growing disease in the US, afflicting one in four Americans. It is estimated, that if current trends continue, as many as 1 in 3 US adults could have diabetes by 2050. In 2010 alone, 1.9 million new cases were diagnosed in adult Americans.

In collaboration, with Andromeda Biotech Ltd. (a company partially owned by Teva Pharmaceuticals) Evotec is developing DiaPep277®, a novel and potentially disease modifying immunotherapeutic for patients with type 1 diabetes. In November 2011, Evotec's partner Andromeda Biotech Ltd. announced, that the first phase III study with DiaPep277® came to its primary endpoint.

In March 2011, Evotec established a research collaboration with Harvard University and the Howard Hughes Medical Institute in diabetes research. This unique collaboration will be fueled by substantial scientific contributions from Harvard and HHMI as well as Evotec's firm commitment to deliver on their common goal of developing orally available small molecule therapies that trigger or support beta cell replication.

Evotec's collaboration with Roche to develop a compound that could slow the progression of Alzheimer's disease (AD)
AD represents a huge market opportunity for new therapies, an opportunity driven by the growing patient population and increasing diagnosis rates. In the seven major markets, alone, excluding China and India, the number of prevalent cases will increase from currently approximately 7.4 m to about 9.5 m in 2019. Nowadays just 45% of all AD patients are treated with drugs, which is primarily due to unsatisfactory therapy options. With new treatment alternatives the numbers of drug treated patients is expected to grow significantly to 55%. Currently, Alzheimer's disease is the only cause of death among the top 10 in America without a way to prevent, cure, or even really slow its progression.

EVT302 is a novel, potent inhibitor of monoamine oxidase type B (MAO-B) currently in phase II clinical trials in collaboration with Roche. The enzyme MAO-B breaks down the chemical messenger dopamine in the brain and contributes to the production of free radicals. Free radicals are known to cause oxidative stress, which may contribute to pathogenesis of AD as demonstrated by the up-regulation of MAO-B expression in the brain of AD patients. For these reasons, the selective MAO-B inhibitor is targeted to treat AD symptoms and potentially slow disease progression.

Development of a novel potential treatment for neuropathic pain and oncology
From its collaboration with Evotec Boehringer Ingelheim has 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 most advanced project has entered formal preclinical development. In collaboration with Boehringer Ingelheim, Evotec is discovering and developing novel treatments based on well-validated targets which have the potential to become highly differentiated cancer therapies.

* *Center for Disease Control; http://www.cdc.gov*
** *Decision Resources Pain Management Study Chronic Pain, September 2009*

HIGHEST RESEARCH & DEVELOPMENT ETHICS

In its R&D activities Evotec adheres to the highest scientific and ethical principles.

In its development activities, Evotec conducts and commissions animal studies in Europe. European law requires studies to be conducted in animals to determine the toxicity, pharmacokinetics and pharmacodynamics of drug candidates. Studies conducted at Evotec comply with the German Animal Welfare Act and European Communities Council Directive (86/609/EEC). Studies that cannot be completed in-house are subcontracted to dedicated Contract Research Organizations. Evotec selects those partners on the basis of its commitment to responsible animal care and works only with companies complying with the ECCD or equivalent. All necessary animal studies will be assessed and approved by the local ethics committee prior to their execution.

To the extent possible, Evotec strives to avoid animal studies. The Company is developing alternative methods, e.g. cell culture systems, to predict a drug candidate's characteristics early on *in vitro*. Evotec also performs extensive profiling tests prior to animal and human *in vivo* testing. Those tests help to select drug candidates with the best characteristics and lowest risk of side effects for animal and, ultimately, human studies.

Evotec no longer manages and sponsors clinical trials internally. All clinical development activities are conducted and funded by Evotec's partners, who license the respective drug candidates from Evotec.

STRONG EMPHASIS ON OCCUPATIONAL SAFETY AND ENVIRONMENTAL MANAGEMENT

Occupational safety and environmental management are fundamental considerations in any activity undertaken by Evotec. The Company operates in a tightly regulated sector where concerns over stakeholder safety are treated with the appropriate level of importance. In recent years Evotec has placed increasing emphasis on addressing the environmental impact of the Group's operations. Evotec has identified and implemented programmes, initiatives and best practice to reduce the environmental impact of the Company's business activities and, at the same time, control cost, while maintaining a clear business focus. Going forward, Evotec intends to

accelerate the identification and implementation of further initiatives.

Reducing energy consumption and waste production and increasing the amount of recycling are areas that have a positive effect on costs and the environment. Initiatives are in place to continue and accelerate these improvements. A comprehensive programme of maintenance and repair for plant, building and equipment ensures that the energy use and the environmental impact of operations are minimised by extending the lives of the assets available to the Group. Examples of such initiatives are as follows;

(i) The installation of new, low-energy-use equipment;

(ii) An audit of possible routes for energy recovery from building processes; and

(iii) The implementation of an energy-efficient cooling system in the server room in the new Group headquarters in Hamburg, which has earned a grant by the Hamburg "Ministry of Urban Development and the Environment" that will contribute to the reduction of cost of this facility;

(iv) The new headquarters use renewable energy and have been rewarded accordingly with the RECS (renewable energy certificate system) certificate.

Many of the chemicals used in the operations require specific licences or are controlled by statutory regulation. Evotec follows strict protocols to ensure that these chemicals and other potentially hazardous substances are well controlled and that risk to health and safety are kept to a minimum. This forms part of the wider focus undertaken by the Group with respect to Health and Safety to ensure the welfare of staff, customers, and suppliers while seeing to it that the 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 and environmental control relevant to the operations undertaken. Documentation, practices, and audits of 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.

HIGHLIGHTS IN PROCUREMENT AND FACILITY MANAGEMENT 2011

The Evotec Group undertook a key initiative during 2011 to put in place a full global procurement programme. The Group also reorganised its procurement function to better exploit the increasing levels of synergy available to the Group as a global growth business.

A key component of this initiative has been identifying capital equipment requirements on a global basis and thereby maximising synergies and delivering economies of scale, while at the same time achieving standardisation. As a result, the Group has increased its access to improved pricing and payment terms. Evotec has worked closely with suppliers, actively sharing with them the future strategic direction of the Group. This has made it possible to identify opportunities that will bring significant benefits to both the Group and our core network of key suppliers. And it has also provided clarity as to the direction and focus of Evotec's growth as well as a deeper understanding of Evotec's requirements in terms of preferred payment currencies, payment terms, ongoing maintenance, and consumable supply.

In addition, reorganising the approach to procurement within Evotec has led to a clearer set of guidelines on cost control and a heightened awareness of procurement objectives throughout the Group. As a result the procurement control environment has further improved and the efficiency by which Evotec manages suppliers has significantly increased.

2011 saw the move of the headquarters of the Group from Schnackenburg-allee to the Manfred Eigen Campus in northern Hamburg. This facility, with immediate access to Hamburg airport and 11,000 square meters of laboratory and office space, provides Evotec with Global Headquarters consistent with the positioning of the Group as the premium supplier of drug discovery services. The new facility is capable of accommodating the strong growth of operations expected in Hamburg in 2012 and beyond. Additionally, this facility allows Evotec to bring its *in vivo* pharmacology team and its nuclear magnetic resonance (NMR) screening team under one roof with the rest of the biology-based activities in Hamburg.

Elsewhere in the Group, improvements in the utilisation of the facilities have been undertaken, with analytical services being implemented in the Thane site in India. In addition, laboratory refurbishments and reorganisations have occurred in both Thane, India and Abingdon, UK. Going forward, optimising the facilities of the Group has been identified as a key initiative for 2012 and beyond.

SOCIAL RESPONSIBILITY

Evotec fulfils its social responsibility by supporting charities and other good causes to the extent possible for a company of its size. For example, in 2011, Evotec (UK) Ltd's chosen charity was the Children's Hospital of the John Radcliffe Hospital in Oxford. Employees held various fund raising events to raise money for the charity, including raffles and a sponsored abseil from the roof of the hospital. Another group of employees took part in the Great South Run to raise funds for Macmillan – a charity that supports the medical and emotional needs of patients and their families affected by cancer.

Evotec also assists students in choosing a career in the pharmaceutical industry by hosting them in periods of work experience. In 2011, the Company helped many students from a wide variety of schools and universities spend a few weeks or months gaining valuable experience and insight into their future careers. Evotec (UK) has also begun sponsoring PhD students studying Computational Chemistry and Structural Biology.

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. The variable remuneration for all employees is detailed in the section "Human Resources" on page 47 of this Management Report.

REMUNERATION OF THE MANAGEMENT BOARD

The total annual compensation of the individual members of the Management Board, which is fixed by the Supervisory Board and agreed with all Management Board members, is composed of fixed and variable compensation components. It is guided by Sec. 87 AktG and the German Corporate Governance Code. In line with those requirements it 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 members 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.

The Law on the Appropriateness of Management Board Compensation (VorstAG) of 31 July 2009 allows the AGM to decide on approval of the system of remunerating members of the Management Board (Sec. 120 Para. 4 AktG). The Management Board and the Supervisory Board of Evotec AG proposed such an approval at the AGM on 16 June 2011 with item 5 on the agenda "Resolution regarding the approval of the system for remuneration of the Executive Board Members". The shareholders and shareholder representatives voted in favour of this item of the agenda with a majority of 95.6% of the votes.

In 2011, fixed and variable remuneration as well as components with a long-term incentive effect of active members of the Management Board totaled T€ 3,265 of which the variable part amounted to T€ 511 and the components with a long-term incentive effect amounted to T€ 1,525.

Fixed remuneration includes base salaries paid in twelve monthly instalments at the end of each month and fringe benefits such as contributions to retirement insurances, premiums for accident and accidental death insurances as well as the benefit derived from the use of company cars in the upper medium range for their own use. Apart from the remuneration, business related payments, expenditure and expenses are reimbursed.

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 in March 2011 was based on the achievement of certain strategic targets for the business year 2010. For the Company's Chief Executive Officer Dr Werner Lanthaler, it was 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 was based on the same corporate milestones for 60% of their bonus, and for the remaining 40% on the achievement of personal objectives. The corporate milestones related to the achievement of budget results concerning revenues and cash, to the implementation of a growth strategy and the R&D strategy, and to Company organisation.

The variable portion of the remuneration to be paid out in 2012 depends on the achievement of strategic targets for the business year 2011. For Dr Werner Lanthaler, 80% of his bonus will be based on the achievement of five sets of corporate milestones, and the remaining 20% on the achievement of personal objectives. For Colin Bond, Dr Cord Dohrmann, and Dr Mario Polywka, as the other members of the Management Board, 60% of their bonus will be based on the same corporate milestones, and the remaining 40% on the achievement of personal objectives. The 2011 corporate objectives refer to targets considered important for the positive development of the Company, including the achievement of revenue, profitability, and cash flow targets to be reached during the year.

In addition to their fixed and variable remuneration, the members of the Management Board received a total of 1,660,000 stock options in 2011 under the Company's stock option plans. The options granted in 2011 are subject to the stipulations of various Option Plans and may be exercised at the earliest after three and four years respectively if the conditions of the respective plans are met. The fair values of all options granted as of the grant dates amounted to a total of T€ 1,525.

Remuneration of the Management Board 2011

	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	376	294	640,000	597	1.267
Colin Bond	276	52	290,000	261	589
Dr Cord Dohrmann	266	42	290,000	261	569
Dr Mario Polywka	311	123	440,000	406	840
Total	1,229	511	1,660,000	1,525	3,265

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, each, the payment shall be equal to 12 months base salary plus bonus. In no case shall the respective severance payment be higher than the total compensation due for the remaining term of the respective Management Board member's contract.

In accordance with section 4.2.3 of the German Corporate Governance Code, in case of an early termination of their respective Service Agreement in the absence of a Change-of-Control situation, payments to the members of the Management Board shall not exceed the amount of two annual remunerations and shall not exceed the amount of remuneration that would be due until the expiration date of the Service Agreement.

In 2011, Evotec paid a variable remuneration to its former Management board member Dr Klaus Maleck in the amount of T€ 63. The Company has made a provision for pension for one former Management Board member amounting to T€ 116. No such further provisions are due for other former Management Board members or their surviving dependents.

REMUNERATION OF THE SUPERVISORY BOARD

The remuneration of the members of the Supervisory Board is set forth in the Company's Articles of Association as decided by the Annual Shareholder Meeting. They came into force in their current version on 16 June 2011 and also apply for the following years, unless a new AGM passes different resolutions for the future.

According to Sec. 113 AktG, Supervisory Board remuneration is to be in appropriate relation to the task of the Supervisory Board members and the situation of the Company. The members of Evotec's Supervisory Board are entitled to fixed and performance-based payments as well as out-of-pocket expenses. 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. Consequently, 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 2011, the individual members of the Evotec Supervisory Board receive the following compensation:

Remuneration of the Supervisory Board 2011

T€	Cash Remuneration	Value of Share based Remuneration	Total
Dr Flemming Ørnskov	48.8	30.0	78.8
Dr Walter Wenninger	41.7	30.0	71.7
Dr Hubert Birner	25.0	20.0	45.0
Roland Oetker[1)]	10.2	5.4	15.6
Prof Dr Andreas Pinkwart[1)]	10.2	5.4	15.6
Mary Tanner	18.8	10.0	28.8
Dr Peter Fellner[2)]	8.5	4.6	13.1
Total	163.2	105.4	268.6

[1)] Elected by the Annual Shareholder Meeting on 16 June 2011
[2)] Tenture ended with the Annual Shareholder Meeting on 16 June 2011

After his resignation from the Supervisory Board in August 2008, Professor Dr Heinz Riesenhuber had entered into a two-year consultancy agreement with Evotec. 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€ 20 for the one year term until 31 August 2011, when the agreement expired.

There are currently no further consultancy agreements in place 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 Companyof T€ 124 in 2011. 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 of 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 2011 the share capital of Evotec AG amounted to € 118,315,864.00 and was divided into 118,315,864 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 with the following exceptions: (i) A soft lock-up agreement entered into with regard to 6,750,014 Evotec shares issued in the context of the acquisition of DeveloGen AG which expired on 16 February 2011, and (ii) a lock-up agreement entered into with regard to a total of 2,597,403 Evotec shares issued in the context of the acquisition of Kinaxo Biotechnologies GmbH, out of which 991,619 shares were not to be sold before 18 October 2011, while 991,619 shares are locked until 18 April 2012. With these exceptions, 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. Existing stock option schemes do not allow for immediate vesting or additional issuance in the case of a takeover offer.

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 of the Company, the Management Board, with the approval of the Supervisory Board, is authorised to increase the Company's share capital by up to € 23,637,226.00 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 2011, the Company had a conditional capital in the total amount of € 11,669,648.00. 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, 28 August 2008, or 16 June 2011, 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

On 13 May 2011, Evotec was notified by its shareholder Roland Oetker that he, via ROI Verwaltungsgesellschaft mbH, Königsallee 20, 40212 Düsseldorf, Germany, owned 14.74% of the shares of the Company. 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 "Legal structure and Supervision" on page 30 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 who 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 2011, the Company is authorised by two resolutions of the 2011 annual shareholder meeting to acquire own shares with a computed proportion of the share capital totalling up to € 1,000,000.00 and € 10,818,613.00 respectively. Together with other own shares, which are in the possession of the Company or are attributable to the Company pursuant to section 71a and following of the German Stock Corporation Act (AkG), the own shares acquired on the basis of these authorisations may at no time exceed 10% of the Company's current share capital. Acquisitions for the purpose of trading with own shares are excluded. The respective authorisations are effective until 15 May 2016.

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, each, the payment shall be equal to 12 months base salary plus bonus. In no case, shall the respective severance payment 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 35e to the Consolidated Financial Statements and in the "Remuneration Report" on page 52 of this Management Report.

RISK AND OPPORTUNITIES MANAGEMENT

Entrepreneurial success cannot be achieved without consciously taking risks. Owing to its worldwide activities, Evotec is naturally exposed to a variety of risks directly related to the Company's business. Risk management helps to master the risks associated with strategic objectives of the business and to maximise strategic potential. Regular strategy reviews ensure that opportunities and risks are reasonably balanced.

RISK MANAGEMENT

Evotec considers risk management as the ongoing task of determining, analysing and evaluating actual and potential developments in the Company and the Company's environment. Where possible Evotec takes corrective measures. The Company's risk management system is therefore an important component of its management and control and plays a major role in the Group-wide guidelines described in more detail below. It enables the Management Board both to identify at an early stage risks that could threaten the growth or existence of Evotec and to take actions to reduce their impact as much as possible.

OPPORTUNITIES MANAGEMENT

Evotec identifies opportunities based on comprehensive quantitative and qualitative analyses of market data, research projects, and general trends in the biotechnological environment. The close cooperation between the Company's strategic and global operating departments allows Evotec to recognise opportunities worldwide at an early stage. An overview of the most important opportunities, which Evotec intends to seize for business development, can be found in the chapter "Outlook" on page 65.

RISK MANAGEMENT SYSTEM

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 all 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 tested on a continuous basis. Besides the formal risk management policy, as explained in the remainder of this section, 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 and incurs risks only when the businesses are in line with its strategy, when they have a risk profile consistent with industry norms, when there is a corresponding opportunity for an increase in value, and when the risks can be managed using established methods and measures within Evotec's organisation. 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 emphasison 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 secure 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)). Subsequent to the financial crisis in 2008, the Management Board increased its focus on mitigating financial risks. The Board is therefore directly involved in all key 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 regularly reviews its insurance coverage. Compliance with the regulatory environment, for example, environment, health, and safety, has a high priority at all operational sites of the Group and appropriate training programmes are in place. 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 quickly 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, and 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** exists 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 employee responsible, 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 of the risks described in an interim Prompt Notification (if any), (ii) report 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 priorly reported risks.

The Group Risk Manager together with the Chief Financial Officer 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 materialise 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)) would be reported directly to the Management Board immediately after the detection of such an event. 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 are formally included in the Company's risk management system **(Risk Prevention System)**. This procedure increases general alertness to risk and risk management, and also emphasises the principle of risk prevention across the Group.

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 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 fully with the requirements of the German Commercial Code.

According to the German Commercial Code Evotec's Management Board is required to annually assess the effectiveness of internal controls over financial reporting. In order to ensure the utmost effectiveness of the control environment Evotec has decided to maintain almost all of the Key Controls from the processes defined to comply with Sarbanes-Oxley Act despite the formal deregistration of the Company from the SEC in March 2011. These controls will be tested on an ongoing basis and once a year will be subject to testing by an expert and independent third party. These internal assessments identified no material weaknesses and detected deficiencies were remediated immediately. The effectiveness of Evotec's internal controls over the processes relating to the consolidated financial statements is also audited by its independent registered public accounting firm. The Audit Committee of the Supervisory Board is informed regularly and reviews and discusses the auditing activities.

Evotec maintains an adequate internal control system both 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 risks from fraud. The Company's control system is based upon the following:

— various automated and manual preventive and detective controls;
— a clear segregation of financial related duties; and
— a strict adherence to Evotec's policies.

Among other things, Evotec regularly checks that:

— issues relevant for financial reporting and disclosure from agreements entered into are recognised 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 Evotec's internal controls over financial reporting based on the integrated framework of the Committee of Sponsoring Organization of the Treadway Commission (COSO) were effective in their design and operation.

Evotec routinely engages external specialists in order to minimise the risk in relation to specific issues, 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. 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 2010.

BUSINESS ENVIRONMENT AND INDUSTRY RISK

(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 prior year:

— The market environment is marked by *pricing pressures* originating from funding restrictions of some biotechnology customers, the restructuring activity of major pharmaceutical companies, 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.

— 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 2011, Evotec's largest customer accounted for 21% of total revenues (see table "Top 10 alliances" on page 32).

— 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 the scale required to leverage such risks.

— 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 limited proprietary discovery activities only in order to kick-start such alliances. Later-stage clinical development projects are only undertaken if a partner is funding the development costs. 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. This concept was again proven when Evotec entered into a license and collaboration agreement in September 2011 with F. Hoffmann-La Roche Ltd. Switzerland for EVT302, for the treatment of Alzheimer's disease. From this agreement F. Hoffmann-La Roche Ltd. receives the exclusive rights to this drug candidate, including all developments conducted by Evotec. In return, Evotec received a significant upfront payment of $ 10 m, together with commercial milestones and significant royalties.

Although Evotec's proprietary investments are limited, drug discovery and development always carries inherent risk. Today, the Company has no commercial drug products and there is no assurance that Evotec or its strategic partners will successfully develop and commercialise potential drugs. Significant returns are only expected to materialise when successful research leads to upfront and milestone payments and when potential royalties from future drug sales are received. However, if the development of an in-licensed or acquired project or drug candidate is not as expected, an impairment of the intangible asset maybe required. Evotec believes that the associated risks have to be assessed as medium/high but remain more or less unchanged in comparison to the prior 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, as had happened in 2011 with Evotec's EVT101/103

programme. The rate of failure is higher 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. Even if Evotec identifies promising compounds to valuable targets, or in-licences 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 as well as the approval and marketing of a pharmaceutical product are subject to extensive *regulation* by the USA FDA, the European Medicines Agency (EMA) 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 and time-consuming, and the timing of receipt of regulatory approval is difficult to predict. 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. 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.

— 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.

(III) COMMERCIAL RISKS

Regarding commercial risk, Evotec trusts that the associated risks could be assessed as medium and are unchanged in comparison to the prior year. Those risks are:

— The Company continues to be engaged in a selected number of active drug discovery and early development programmes that it intends to license to pharmaceutical companies for clinical development and commercialisation. This concept was proven again when Evotec entered into a license and collaboration agreement in September 2011 with F. Hoffman-La Roche Ltd. Switzerland for EVT302, for the treatment of Alzheimer's disease (see also above).

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 actual timing and commercial values of, or the financial proceeds from, partnering individual projects could therefore deviate significantly from earlier projections.

— Evotec's ongoing efforts to serve as an innovative source of drug candidates to the pharmaceutical industry make 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 the degree of innovation and the 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 commercialised 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.

STRATEGY RISKS

(I) MERGER AND ACQUISITION

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 2011, this was exemplified in the acquisition of Kinaxo Biotechnologie GmbH in Munich und Compound Focus Inc. in San Francisco, USA. However, such merger and acquisition activities contain specific risks that need to be managed.

The acquisition of Kinaxo and Compound Focus bear the risk that the integration of each company into the Evotec Group may be difficult and expensive to achieve. These transactions inevitably present challenges to Evotec's management, including the integration of operations and personnel. In addition, mergers and acquisitions may present specific risks, including unanticipated liabilities, unexpected costs, management attention being diverted, and the loss of personnel. Evotec has successfully integrated Kinaxo and Compound Focus into its operations and successfully manages the activities acquired in the acquisition. However, if Evotec's management is not able to implement a business plan that effectively integrates Kinaxo's and Compound Focus' operations, the anticipated benefits of the acquisitions may not be realised, which may adversely affect the price of Evotec ordinary shares. Evotec believes that these risks can be assessed as low/medium, as the integration is progressing well.

Overall, M&A associated risks are considered as medium and remain unchanged in comparison to the prior year.

(II) IMPLEMENTATION OF STRATEGIC PLANS

In addition to its M&A activities, Evotec implemented in March 2009 a strategic plan "Action Plan Evotec 2012 – Focus and Grow" to concentrate on drug discovery alliances and to engage only in selective proprietary discovery and development activities. Action Plan 2012 was set to drive the Company to profitability and long-term sustainability by 2012.

Following this Plan, Evotec continued in 2011 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 it will concentrate its efforts on bringing proprietary products from its existing portfolio to important value inflection points or to partner them.

Overall, the main elements of the Plan were put into effect slightly earlier than initially anticipated and therefore the risk of Evotec not becoming profitable and sustainable could be decreased in comparison to the years before.

FINANCIAL RISKS

Evotec's financial risk management is characterised by the clear allocation of responsibilities and the conscious alignment of the instruments deployed with the requirements of its business.

LIQUIDITY RISKS

— 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 has defined minimum liquidity levels and prepared a scenario planning to safeguard its cash position. Evotec believes that existing liquidity reserves are sufficient to cope with the cumulative impact of all identified risks.

— Evotec is currently well financed and has no plans or necessity to raise capital in the near- to mid-term. However, the option of increasing 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 adequate 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 is currently well financed and assesses the finance associated risks to be low/medium, remaining unchanged in comparison to the prior year.

DEFAULT RISKS

— Evotec's customers are generally financially stable pharmaceutical companies, foundations, and larger biotech companies. There has been no history of significant 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-quality credit instruments in full compliance with the Company's approved investment policy. Evotec monitors its banks and investments on an ongoing basis.

Therefore, Evotec assesses the current default risks to be low, remaining unchanged in comparison to the 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. The hedging instruments used do not expose the Company to any material additional risk. 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 the prior year.

INTELLECTUAL PROPERTY RISKS

The intellectual property (IP) associated risks could be assessed as low and remaining stable in relation to the prior 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 licences granted by Roche for the EVT100 compound family and for EVT201, and by other parties related to certain of Evotec's preclinical research projects. Any termination of these licences could result in the loss of significant rights and could harm Evotec's ability to commercialise 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 EVT100 compound family and EVT201.

LEGAL RISKS

As reported in 2010, in a letter on 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 in 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 is therefore convinced that no infringement took place. In addition, considering the time that has now elapsed since October 2010, Evotec is confident that this proceeding is closed.

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 despite strong growth in recent years and no change is currently foreseen. The risk is therefore assessed as low and is unchanged compared to the prior year.

OTHER RISKS, INCLUDING IT

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

Evotec entered into a long-term lease contract effective from 1 January 2011 for new office and labs premises in Hamburg. To meet Evotec's specific requirements, various re-building measures were necessary throughout 2011 with completion expected in early 2012. There are several risks related to the decision to relocate to the new premises. The risk that costs for the re-building measures exceed the budgeted amount was mitigated where possible by agreeing fixed price contracts. The risk of greater-than-planned revenue losses from operational downtime during the move were mitigated by preparing a detailed transition plan. This plan spreads the move over a three month period in order to minimise the disruption and to ensure that part of the operations are always operational, either in the new or in the old premises.

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 and the Evotec Group.

Evotec has no external credit rating.

POST-BALANCE SHEET EVENTS

There are no material events to be reported.

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 Evotec's 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

The global economic development will again vary widely from region to region in the coming years. Overall analysts are forecasting a more difficult year in the global economy in 2012 compared to 2011. Global gross domestic product (GDP) will expand moderately in real terms both 2012 and 2013, again significantly faster in the emerging markets than in the industrialised countries. The forecast for the economic growth in 2012 is around 3%, and probably slightly higher in 2013.

GDP growth in Europe is estimated to be below 1%, and therefore, below the rate achieved in 2011. In the USA economic growth could pick up slightly to 2% in 2012. It is not yet possible to assess what effects any further government stimulus programs may have. For Asia growth forecasts are significantly stronger, but probably not reaching double-digit growth. These expectations relating to the overall situation are subject to considerable uncertainties due to the financial and economic crisis in the USA as well as Greece, Italy and other European countries. However, Evotec is confident that these factors will not have a major impact on the Company's expected developments.

THE MARKET FOR DRUG DISCOVERY ALLIANCES

Despite the challenging global environment, the global drug discovery market is expected to experience continued robust growth, exceeding a 5% annual growth rate. 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, reaching $ 14 bn in 2014. The total market for outsourced early-stage drug discovery work is estimated to be between € 2–4 bn.

As outlined in the "General Market and Healthcare Summary" on page 35 of this Management Report, the global pharmaceutical industry continues to face 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 2012.

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 toward larger strategic research contracts favouring big alliance partners, which feature a 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

No significant changes could be observed in this market in recent years. 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. Across the USA, Europe and Canada, biotech companies raised $ 25 bn in 2010. Hence, 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 be a leading provider of drug discovery solutions, building on the competitive advantages and reputation established. By the end of 2011, Evotec had implemented the main elements of its Action Plan 2012 (see "Corporate Objectives and Strategy" on page 30 of this report) slightly earlier than initially anticipated. With "Action Plan 2016 – Leadership in Drug Discovery Solutions" Evotec defined at the end of 2011 the next goals that the Company wants to achieve in the years to come.

ACTION PLAN 2016 – LEADERSHIP IN DRUG DISCOVERY SOLUTIONS

The strategic offering of Evotec is now divided into three key building blocks that will help Evotec to achieve long-term leadership in the drug discovery solutions market.

Action Plan 2016

EVT Execute	EVT Integrate	EVT Innovate
▸ Provide high tech functional solution tools and capabilities to optimise efficiency at any point of a drug discovery process ▸ Achieve strong foundation of repeat business ▸ Drive profitability via economies of scale and process optimisation ▸ Deliver double-digit revenue growth	▸ Offer integrated drug discovery alliances that can start at any point in the drug discovery process ▸ Deliver an increase in the number of integrated collaborations ▸ Risk-shared arrangements, profitability dependent on project success, milestones and royalties	▸ Deliver unique target driven drug discovery initiatives for first in class novel drugs ▸ Focused investments in research to drive higher returns ▸ Achieve significant upfronts, milestones and royalty payments associated to projects

EVT Execute: EVT Execute will deliver an even more industrialised high-tech infrastructure to Evotec's partners in long-term relationships. The goal is to optimise the capital efficiency of the work dedicated to every target that its partners are working on. Partners who work with Evotec receive selected access to the latest science, and globally the best-in-class technology infrastructure.

EVT Integrate: EVT Integrate represents the most comprehensive and systematic integrated process for drug targets in Evotec's key areas of expertise. Pharma and biotech companies have already started to experience the multiple advantages of developing drug candidates in integrated performance-based projects with Evotec: Evotec does not simply lower costs for its customers; most importantly, the Company significantly reduces the time to market for these projects. Evotec will significantly expand its core business expertise around metabolic disease, pain, oncology, and CNS drug targets. In these integrated approaches, Evotec will share some discovery risks with the partners in exchange for future returns.

EVT Innovate: Evotec is committed to delivering solutions for some of the largest and most pressing medical needs. With EVT Innovate the Company brings forward the most promising scientific ideas to make a difference in key medical areas. Evotec will partner its proprietary solutions to pharmaceutical companies at early stages of discovery.

EXPECTED RESEARCH & DEVELOPMENT, NEW PRODUCTS, SERVICES AND TECHNOLOGIES

All of Evotec's new products, services or technologies are based on internal R&D activities, technology agreements with other companies, and acquisition of assets. In 2011, Evotec significantly expanded its offering and will thus be able to provide even more comprehensive, integrated and innovative discovery solutions in 2012 and beyond. Details on Evotec's 2011 initiatives can be found in the section "Upgrading the Technology Platform 2011" and "Research and Development" on pages 30 and 34 of this Management Report.

Evotec is continually upgrading its capabilities to consistently offer the best infrastructure and skills to its partners. This trend is expected to continue in 2012 and beyond, as the Company seeks to expand its technology and skills in areas that complement its current operations so that it may offer the most integrated and state-of-the-art drug discovery platform.

In internal R&D, the Company will continue to invest into a selected number of highly innovative approaches to address key medical areas such as beta cell technology and technologies that improve understanding of oncology or metabolic diseases. The Company's beta cell research programme "CureBeta" in collaboration with Harvard University and the Howard Hughes Medical Institute (HHMI) is making excellent progress. This project and others more to come are expected to form the basis of larger strategic alliances going forward. In terms of clinical development, Evotec will continue not to take on any significant clinical risk and will run clinical development programmes only in partnerships in which the pharmaceutical company is funding the later-stage clinical trials.

FINANCIAL OUTLOOK FOR 2012 AND 2013

EXPECTED OPERATING RESULTS

In 2012, total Group **revenues** are expected to see double-digit % growth and exceed € 88 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 2013, growth is expected to continue at more than 10% per year.

On this basis, **2012 gross margins** are expected to be in line with those achieved in 2011. They will, however, continue to be somewhat volatile, as they are dependent upon the timing of contributions from high-margin milestone payments. The margin level and the dependence on milestones are expected to continue into 2013.

Evotec expects **research & development (R&D) expenses** in 2012 and 2013 to remain broadly in line with 2011 levels. The Company will focus on key programmes and targets to invest in, especially in innovation in the fields of metabolic diseases and regenerative medicine. In total, it is expected that approximately € 10 m will be spent on R&D in both 2012 and 2013.

Evotec's Group **operating result** before impairment and changes in contingent consideration, if any, for the years 2012 and 2013 is expected to improve from its 2011 level.

EXPECTED FINANCING AND FINANCIAL POSITION

In 2012, Evotec will invest in its long-term growth aspirations through another year of significant investment in **capital expenditures,** even exceeding the high levels of 2011. It is planned that more than € 10 m will be invested in the long-term upgrading of Evotec's capacities. In 2013, capital expenditures are expected to decrease compared to 2012.

The Evotec Group started 2012 with a **liquidity** of more than € 60 m. In 2012, top-line growth is expected to generate a positive operating cash flow. However, a significant proportion of the cash generated will be re-invested in the upgrading of capacities in order to position the Company for future growth. At constant year-end 2011 currencies, the Company therefore expects to maintain its liquidity above € 60 m at the end of 2012 and to further improve it by end of 2013. This excludes any potential cash outflow for M&A transactions and related payments.

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

DIVIDENDS

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 re-invest them in the Company. Nevertheless, given the very solid growth path, dividend payments will be carefully considered in the near- to mid-term.

OPPORTUNITIES

Evotec operates in a market which has excellent growth opportunities. The need to improve efficiency is putting increasing pressure on pharmaceutical and biotechnology companies to outsource drug discovery and development. There is a clear trend towards larger contracts within a full-service outsourcing model, meaning increased opportunities for alliance partners, such as Evotec, which offer integrated drug discovery capabilities and project management from across the entire discovery value chain. Consequently, there are significant opportunities for Evotec to enter into even more large, multi-year discovery alliances.

In addition, Evotec has entered into partnerships with pharmaceutical companies for a number of its development programmes. As development costs are taken up entirely by the partner and as Evotec is not investing itself, there is no financial risk for the Company. The upside, however, may be significant. In case of clinical and commercial success, Evotec will benefit significant milestone payments and double-digit royalties.

Evotec's as-yet-unpartnered assets are also significant opportunities, even short- to mid-term. In exchange for the in-licensing of drug candidates, pharmaceutical companies pay Evotec upfront and milestone payments, as well as royalties on future sales of drugs. The potential financial income will be dependent on the continued success of the scientific development activity and commercial negotiations.

As the Company continues to grow, there will be significant opportunities to optimise parts of the business through economies of scale and process optimisation, resulting in an improved financial performance.

GENERAL STATEMENT OF EXPECTED DEVELOPMENT BY THE MANAGEMENT BOARD

Evotec has continued to strengthen its business and move the Company into the leadership position for offering drug discovery solutions. Evotec is therefore well positioned to bring real value to the pharmaceutical and biotechnology industry, addressing the industry's growing demand for innovative drugs.

Hence, the Management Board is convinced that Evotec will benefit from the outsourcing trend in the pharmaceutical industry and partner with even more customers, especially as the Company is uniquely positioned to address the increasing demand for more strategic multi-year discovery alliances.

On this basis, the Management Board expects Evotec to show double-digit revenue growth in both 2012 and 2013, and continued profitability, exceeding the 2011 levels. Its strong cash position will provide opportunities for M&A that could build the business even faster.

All these assumptions do not take into account the digital events with respect to Evotec's partnered development programmes. Should those programmes be scientifically and commercially successful as novel drugs, the Company has a chance to significantly exceed its current guidance.

CONSOLIDATED FINANCIAL STATEMENTS (IFRS) 2011

Evotec AG and Subsidiaries – Consolidated statement of financial position as of 31 December 2011

in T€ except share data	footnote reference	as of 31 Dec 2011	as of 31 Dec 2010
ASSETS			
Current assets:			
Cash and cash equivalents	4	17,777	21,091
Investments	4	44,651	46,303
Trade accounts receivables	5	10,393	11.869
Inventories	6	3,556	2,819
Current tax receivables		201	569
Deferred tax asset	18	2,373	-
Other current financial assets	7	1,355	1,142
Prepaid expenses and other current assets		2,965	2,899
Assets classified as held for sale	8	62	-
Total current assets		**83,333**	**86,692**
Non-current assets:			
Long-term investments	9	10	10
Property, plant and equipment	10	24,946	18,487
Intangible assets, excluding goodwill	11	67,652	57,615
Goodwill	12	42,202	25,979
Other non-current financial assets	13	70	3,076
Total non-current assets		**134,880**	**105,167**
Total assets		**218,213**	**191,859**

See accompanying notes to consolidated financial statements.

in T€ except share data	footnote reference	as of 31 Dec 2011	as of 31 Dec 2010
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Current loan liabilities	14	13,174	8,356
Current portion of finance lease obligations	15	32	109
Trade accounts payable		10,134	6,980
Advanced payments received		782	1,421
Provisions	16	11,045	6,656
Deferred revenues	17	5,875	7,675
Current income tax payables	18	492	773
Other current financial liabilities		1,147	225
Other current liabilities		152	607
Total current liabilities		**42,833**	**32,802**
Non-current liabilities:			
Non-current loan liabilities	14	2,359	3,500
Long-term finance lease obligations	15	1	32
Deferred tax liabilities	18	9,904	6,660
Provisions	16	14,618	12,722
Deferred revenues	17	9	3,506
Other non-current liabilities		1,244	-
Total non-current liabilities		**28,135**	**26,420**
Stockholders' equity:			
Share capital*	20	118,316	115,596
Treasury shares		(1)	-
Additional paid-in capital		663,820	658,888
Accumulated other comprehensive income		(25,995)	(26,679)
Accumulated deficit		(608,895)	(615,644)
Equity attributable to shareholders of Evotec AG		**147,245**	**132,161**
Non-controlling interest		-	476
Total stockholders' equity		**147,245**	**132,637**
Total liabilities and stockholders' equity		**218,213**	**191,859**

** 153,622,738 and 141,171,973 shares, 1€ nominal amount, authorised at 31 December 2011 and 2010, respectively*
118,315,864 and 115,595,729 shares issued and outstanding in 2011 and 2010, respectively

See accompanying notes to consolidated financial statements.

Evotec AG and Subsidiaries – Consolidated income statement for the period from 1 January to 31 December 2011

in T€ except share and per share data	footnote reference	Year ended 31 Dec 2011	Year ended 31 Dec 2010
Revenues	21	80,128	55,262
Costs of revenue		45,143	30,916
Gross profit		**34,985**	**24,346**
Operating expenses (income)			
Research and development expenses	22	8,437	6,116
Selling, general and administrative expenses		15,760	15,956
Amortisation of intangible assets	11	1,703	672
Impairment of intangible assets	11	2,058	-
Reversal of impairment of intangible assets	11	(1,501)	-
Other operating income	23	(1,426)	(4,536)
Other operating expenses	23	4,747	4,423
Total operating expenses		**29,778**	**22,631**
Operating income		**5,207**	**1,715**
Other non-operating income (expense)			
Interest income		413	241
Interest expense		(1,858)	(866)
Other income from financial assets	24	-	979
Other expense from financial assets	25	(77)	(755)
Foreign currency exchange gain (loss), net	26	1,360	2,729
Other non-operating income		211	221
Other non-operating expense		-	(397)
Total non-operating income (expense)		**49**	**2,152**
Income before taxes		**5,256**	**3,867**
Current tax income (expense)	18	(1,153)	(676)
Deferred tax income (expense)	18	2,548	(206)
Total taxes		**1,395**	**(882)**
Net income		**6,651**	**2,985**
thereof attributable to:			
Shareholders of Evotec AG		6,749	3,260
Non-controlling interest		(98)	(275)
Weighted average shares outstanding		**116,022,213**	**109,012,908**
Net income per share (basic)		**0.06**	**0.03**
Net income per share (diluted)		**0.06**	**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 2011

in T€	footnote reference	Year ended 31 Dec 2011	Year ended 31 Dec 2010
Net income		**6,651**	**2,985**
Other comprehensive income			
Foreign currency translation		284	1,093
Revaluation and disposal of available-for sale securities		400	(294)
Other comprehensive income		**684**	**799**
Total comprehensive income		**7,335**	**3,784**
Total comprehensive income (loss) attributable to:			
Shareholders of Evotec AG		7,433	4,059
Non-controlling interest		(98)	(275)

See accompanying notes to consolidated financial statements.

Evotec AG and Subsidiaries – Consolidated statements of cash flows for the year ended 31 December 2011

in T€	footnote reference	Year ended 31 Dec 2011	Year ended 31 Dec 2010
Cash flows from operating activities:			
Net income		**6,651**	**2,985**
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation of property, plant and equipment		4,504	4,093
Amortisation of intangible assets		1,703	672
Depreciation of current assets		401	345
Impairment of intangible assets	11	2,058	-
Reversal of impairment of intangible assets	11	(1,501)	-
Depreciation of long-term assets		-	397
Stock compensation expense	19	929	478
Non-cash foreign exchange gain		(1,052)	(3,501)
Interest expense (benefit)		1,302	685
Gain on sale of financial assets		-	(979)
Loss on derivatives		24	604
Loss on sale of property, plant and equipment		45	48
Gain on sale of property, plant and equipment		(150)	(3)
Deferred tax expense (benefit)	18	(2,548)	206
Decrease (increase) in:			
Accounts receivable		2,338	(7,614)
Inventories		(1,098)	(710)
Other assets		784	(551)
Increase (decrease) in:			
Accounts payable		2,304	1,517
Advanced payments received		(638)	1,118
Deferred revenues		(6,295)	3,655
Provisions		(909)	(2,185)
Current income taxes payable		161	1,089
Other liabilities		1,646	(590)
Cash received during the year for:			
Interest		408	233
Cash paid during the year for:			
Interest		(446)	(532)
Taxes		(475)	(561)
Net cash provided by (used in) operating activities		**10,146**	**899**
Cash flows from investing activities:			
Purchase of current investments		(77,551)	(74.160)
Purchase of investments in affiliated companies	3	(12,196)	-
Purchase of property, plant and equipment		(8,139)	(2,433)
Cash acquired in connection with acquisitions	3	-	1,202
Proceeds from sale of property, plant and equipment		562	1
Proceeds from sale of financial assets		-	11,404
Proceeds from sale of current investments		82,256	54,109
Net cash provided by (used in) investing activities		**(15,068)**	**(9,877)**

See accompanying notes to consolidated financial statements.

in T€	footnote reference	Year ended 31 Dec 2011	Year ended 31 Dec 2010
Cash flows from financing activities:			
Proceeds from option exercise	19	298	208
Proceeds from sale of treasury stock		-	11
Proceeds from issuance of loans		15,928	591
Acquisition of non-controlling interests	3	(1,700)	-
Purchase of treasury stock		(67)	(96)
Repayment of loans		(12,320)	(4,081)
Net cash used in financing activities		**2,139**	**(3,367)**
Net increase in cash and cash equivalents		**(2,783)**	**(12,345)**
Exchange rate difference		(531)	510
Cash and cash equivalents at beginning of year		21,091	32,926
Cash and cash equivalents at end of the period		**17,777**	**21,091**
Supplemental schedule of non-cash activities:			
Acquisition of subsidiaries by issuance of shares	3	7,922	16,538
Additions to finance leases		-	13

See accompanying notes to consolidated financial statements.

Evotec AG and Subsidiaries – Consolidated statements of changes in stockholders' equity for the year ended 31 December 2011

		Share Capital				
in T€ except share data	footnote reference	Shares	Amount	Additional paid-in capital	Treasury shares	
Balance at 1 January 2010		**108,838,715**	**108,839**	**648,417**	**-**	
Capital increase	20	6,750,014	6,750	9,788	-	
Exercised shares from shares in trust	19	-	-	199	-	
Stock option plan	19	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**	**-**	
Capital increase	20	2,597,403	2,597	5,325	-	
Exercised stock options	19	122,732	123	175	-	
Stock option plan	19	-	-	929	-	
Acquisition of non-controlling interests in Evotec (India)		-	-	(1,466)	-	
Acquisition of non-controlling interests in DeveloGen AG		-	-	(31)	-	
Purchase of treasury shares		-	-	-	(67)	
Transfer of treasury shares		-	-	-	66	
Total comprehensive income (loss)						
Balance at 31 December 2011		**118,315,864**	**118,316**	**663,820**	**(1)**	

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
	(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**
	-	-	-	7,922	-	7,922
	-	-	-	298	-	298
	-	-	-	929	-	929
	-	-	-	(1,466)	(234)	(1,700)
	-	-	-	(31)	(144)	(175)
	-	-	-	(67)	-	(67)
	-	-	-	66	-	66
	284	**400**	**6,749**	**7,433**	**(98)**	**7,335**
	(33,350)	**7,355**	**(608,895)**	**147,245**	**-**	**147,245**

Evotec AG and Subsidiaries – Consolidated fixed asset movement schedule for the year ended 31 December 2011

	Acquisition and manufacturing costs							
in T€	1 Jan '11	Foreign exchange	Additions	Business combination	Disposals	Reclass	31 Dec '11	
I. Intangible assets								
1. Patents and licences	5,780	-	-	-	-	-	5,780	
2. Goodwill	25,979	750	-	15,694	221	-	42,202	
3. Developed technology	117,299	940	-	7,070	-	-	125,309	
4. Customer list	31,678	820	-	4,547	-	-	37,045	
	180,736	**2,510**	**-**	**27,311**	**221**	**-**	**210,336**	
II. Property, plant and equipment								
1. Buildings & leasehold improvements	10,639	190	878	60	-	-	11,767	
2. Plant, machinery and equipment	29,402	9	4,493	3,508	595	236	37,053	
3. Furniture and fixtures	7,140	80	1,585	179	830	160	8,314	
4. Purchased software	1,176	-	119	18	-	-	1,313	
5. Finance leases	485	1	-	-	-	(276)	210	
6. Assets under construction	222	20	1,236	-	-	(120)	1,358	
	49,064	**300**	**8,311**	**3,765**	**1,425**	**-**	**60,015**	

Evotec AG and Subsidiaries – Consolidated fixed asset movement schedule for the year ended 31 December 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**	

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 '11	Foreign exchange	Additions	Disposals	Impairment	Reversal of impairment	Reclass	31 Dec '11	31 Dec '11	31 Dec '10
	4,788	-	220	-	-	-	-	5,008	772	992
	-	-	-	-	-	-	-	-	42,202	25,979
	62,106	684	297	-	2,058	1,501	-	63,644	61,665	55,193
	30,248	399	1,183	-	-	-	-	31,830	5,215	1,430
	97,142	**1,083**	**1,700**	**-**	**2,058**	**1,501**	**-**	**100,482**	**109,854**	**83,594**
	6,081	141	850	-	-	-	-	7,072	4,695	4,558
	17,504	131	3,209	78	-	-	171	20,937	16,116	11,898
	5,664	65	929	849	-	-	33	5,842	2,472	1,476
	947	-	92	-	-	-	-	1,039	274	229
	381	2	-	-	-	-	(204)	179	31	104
	-	-	-	-	-	-	-	-	1,358	222
	30,577	**339**	**5,080**	**927**	**-**	**-**	**-**	**35,069**	**24,946**	**18,487**

	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**

Evotec AG and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2011

(1) *Business description and basis of presentation*

Evotec AG, Essener Bogen 7, Hamburg, Germany and subsidiaries ("Evotec" or the "Company") is a drug discovery alliance and development partnership company focused on progressing innovative product approaches with leading pharmaceutical and biotechnology companies. In addition, Evotec has existing development partnerships and product candidates both in clinical and preclinical development. Evotec provides innovative and integrated solutions to the pharmaceutical and biotechnology industry from target to clinical development through a range of capabilities and capacities. Its capabilities include early-stage assay development and screening, compound management, fragment-based drug discovery, medicinal chemistry, *in vivo* pharmacology, *in vitro* ADMET as well as an unparalleled chemical proteomics platform. 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. End of March 2011, the deregistration from the NASDAQ Global Market was effective.

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

On 24 February 2012, 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 derivatives 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 "Recently issued accounting pronouncements" which addresses changes in accounting policies.

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 11 and 12), provisions (Note 16), measurement of compensation expenses (Note 19) and the recognition of deferred tax assets (Note 18). 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.

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.

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised.

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.

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 the exchange rates at the end of the reporting period, while the income statements of such subsidiaries are translated using monthly average exchange rates during the period. Gains or losses resulting from translating foreign functional currency financial statements are reported as a separate component of stockholders' equity.
Transactions in foreign currencies are translated into Euro using the foreign exchange rate ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Euro using the exchange rates at the end of the period. Gains or losses resulting from foreign currency denominated transactions are included in other non-operating income and expense.
The transaction in foreign currency included in the consolidated statement of cash flows are translated at average exchange rates during the period.

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 and financial liabilities 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.
Financials assets and liabilities are offset and the net amount presented in the financial position when, and only when, Evotec has the legal right to offset the amounts and either to settle on a net basis or to realise the asset and settle the liability simultaneously.
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 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

Derivative financial instruments, such as foreign currency exchange contracts and interest rate swap contracts, are measured 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. Derivatives embedded in host contracts are accounted for separately if the economic characteristics and risk of the host contract and the embedded derivative are not closely related. The Company uses foreign currency derivative financial instruments as well as interest swaps to hedge its exposure to foreign exchange risks and interest rate fluctuations. In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading purposes.
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.
The fair value of interest rate swaps is determined by reference to broker quote.
The fair value of contingent considerations arising in a business combination is calculated on the basis of discounted expected payment amounts and related probabilities.
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 at the lower fair value or present value of the minimum lease payments. Depreciation of property, plant and equipment, which also 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:

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:

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

Developed technologies acquired in business combinations 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 the acquisition date as
— the fair value of the consideration transferred; plus
— the recognised amount of any non-controlling interest in the acquiree; plus
— if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
— the net recognised amount of the identifiably assets acquired and liabilities assumed.

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 and the revenue can be reliably measured regardless of when the payment is being made. 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€ 1,645 in 2011 and T€ 1,615 in 2010 is included in revenue. Additionally the Company might receive income from sales milestones, which are also incremental to the other company's respective product sales. Such income was not received in 2011 and 2010.

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 including the unwind of the discount on contingent considerations are also recognised in the income statement using the effective interest rate 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 to the extent it relates to a business combination, or for those items recorded directly in stockholders' equity.
Current taxes are the expected tax payables or receivables on the taxable income or loss for the year, using the tax rates enacted or substantially enacted at the balance sheet date. Additionally, any adjustment to taxes in respect of previous years are also included.
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.
In determining the amount of current and deferred tax Evotec takes into account the impact of uncertain tax positions and whether additional taxes and interest maybe due. The Company believes that the accruals for tax liabilities are adequate for all open tax years based on assessment of multiple factors including interpretations of tax laws and experience. This assessment relies on estimates and assumptions and may involve a series of judgement about future events. New information maybe become available that forces the Company to change its judgement regarding the adequacy of existing tax liabilities. Such changes to tax liabilities will impact tax expense in the period that such determination is made.

RESEARCH AND DEVELOPMENT

Research and development costs that are generated for internal projects are expensed or capitalised 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 development costs in 2011 and 2010.
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 mainly 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€ 911 in 2011 and T€ 667 in 2010.
Under the terms of the grants, governmental agencies generally have the right to audit qualifying expenses submitted by the Company.

IMPAIRMENT OF NON-FINANCIAL LONG-LIVED ASSETS AND GOODWILL

The Company reviews non-financial 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 2011 and 2010 (see Note 11 and 12).
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.

SHARE CAPITAL

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares are recognised as a deduction from equity.
The Company applies the provisions of IAS 32 in accounting for treasury shares. When share capital recognised as equity is reacquired, the amount of the consideration paid for those treasury shares are recognised as a deduction from equity.

STOCK COMPENSATION

The Company applies the provisions of IFRS 2 in accounting for options granted under its stock option plans. 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 expense 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 in the income statement using the 10% corridor.
Service 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. Provisions are recognised at present value by discounting the expected future cash flows. 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.
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 expenses of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected expenses of terminating the contract and the expected net expense of continuing with the contract. Before a provision is established Evotec recognises 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 PER SHARE

Basic net income 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:

shares in thousands €	**2011**	2010
Issued ordinary shares 1 January	**115,596**	108,839
Shares in trust (SIC-12) 1 January	**(1,329)**	(1,652)
Effect of share options exercised	**83**	235
Effect of shares issued related to a business combination	**1,672**	1,591
Weighted average number of ordinary shares 31 December	**116,022**	**109,013**

Diluted net income per share is computed by dividing the net income 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 per share when their effect is dilutive. In 2011, dilutive shares amounted to 1,219,158 stock options, (2010: 40,000).

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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.

In October 2010, the IASB issued Amendment to IFRS 7 "Financial Instruments: Disclosures transfer of Financial Assets" which has been endorsed on 22 November 2011 by the EU. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets, including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The amendments are effective for annual periods beginning on or after 1 July 2011. Earlier application is permitted. This interpretation will have no impact on the Company's consolidated financial statements.

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. The adoption has no 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 has no 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 for annual periods beginning on 1 January 2011, have not been applied in the preparation of the consolidated financial statements as of 31 December 2011.

In June 2011, the IASB issued amendments to IAS 19 "Employee Benefits". The amended IAS 19 eliminates the corridor approach and requires recognition of actuarial gains and losses in Other Comprehensive Income. This amendment has an effective date of 1 January 2013. The Company is still assessing the impact on the consolidated financial statements.

In May 2011, the IASB published its improvements to the accounting and disclosure requirements for consolidation, off balance sheet activities and joint arrangements by issuing IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", IFRS 12 "Disclosure of Interests in Other Entities" and consequential amendments to IAS 27 "Separate Financial Statements" (amended 2011) and IAS 28 "Investments in Associates and Joint Ventures" (amended 2011). IFRS 10 supersedes the requirements relating consolidated financial statements in IAS 27 "Consolidated and Separate Financial Statements" (amended 2008) and also supersedes SIC-12 "Consolidation – Special Purpose Entities". IFRS 11 supersedes IAS 31 "Interests in Joint Ventures" (amended 2008) and SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". IFRS 12 replaces disclosure requirements in IAS 27 "Consolidated and Separate Financial Statements" (amended 2008), IAS 28 "Investments in Associates" and IAS 31 "Interests in Joint Ventures" (amended 2008).

IFRS 10 builds on existing principles by identifying a comprehensive concept of control as the determining factor in whether an entity should be included within the Consolidated Financial Statements. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Major changes in relation to current guidance might relate to the assessment of control in situations when an investor holds less than a majority of voting rights, however, has the practical ability to direct the relevant activities of the investee unilaterally by other means.

IFRS 11 provides guidance for the accounting of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. IFRS 11 classifies joint arrangements into two types – joint operations and joint ventures: A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. IFRS 11 requires a joint operator to recognize and measure the assets and liabilities (and recognise the related revenues and expenses) in relation to its interest in the arrangement applicable to the particular assets, liabilities, revenues and expenses. A joint venturer is required to recognize an investment and to account for that investment using the equity method.

IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and off balance sheet vehicles. The standard requires an entity to disclose information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

IAS 27 (amended 2011) now only contains requirements relating to separate financial statements as a result of the issuance of the new standard IFRS 10.

According to the amendment of IAS 28 an entity shall account for an investment, or a portion of an investment, in an associate or a joint venture as held for sale if it meets the relevant criteria. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale shall be accounted for using the equity method until disposal of the portion that is classified as held for sale takes

place. IFRS 10, 11, 12 and the consequential amendments to IAS 27 and IAS 28 are effective for annual periods beginning on or after 1 January, 2013. These new or amended standards may be adopted early, but must be adopted as a package, that is, all as of the same date, except that an entity may early adopt the disclosure provisions for IFRS 12 (without adopting the other new standards). The standards are to be applied on a retrospective basis. IFRS 10, 11, 12, and the consequential amendments to IAS 27 and IAS 28 are not endorsed by the EU yet. The Company is currently assessing the impact of the adoption on the Company 's consolidated financial statements.
In 2009 and 2010, respectively, the IASB issued IFRS 9 "Financial Instruments" as the first step in its project to replace IAS 39 "Financial Instruments: Recognition and Measurement". The EU has not yet endorsed this. IFRS 9 introduces new requirements for classifying and measuring financial assets. It uses a single approach to determine whether a financial asset is measured at amortised cost or at fair value, replacing the different rules in IAS 39. With respect to financial liabilities, the provisions of IAS 39 were substantially transferred to IFRS 9. The new standard also requires a single impairment method to be used replacing the different impairment methods in IAS 39. The new standard is applicable for annual reporting periods beginning on or after 1 January 2015; early adoption is permitted. The delay is owed to the still outstanding publication of step 2 (impairment) and 3 (hedge accounting). The Company is currently 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*

Effective 5 October 2011, Evotec acquired the remaining 30% interest in Evotec (India) Private Limited from DIL, Limited, India for T€ 1,700. Evotec (India) was already fully consolidated before this transaction therefore the acquisition of the remaining 30% interest is not a business combination and will only have an impact on equity.
Effective 1 June 2011, the Company acquired 100% of the shares in Compound Focus, Inc., South San Francisco, US (Evotec San Francisco) a compound management business. This acquisition allows Evotec to augment its early drug discovery offering substantially and provides critical mass to its existing compound management offering. The purchase price of T€ 11,625 in cash includes a potential earn out. The earn out in the amount of T€ 2,146 as contingent consideration was calculated based on estimated achievement of defined future milestones as of the date of acquisition with a discount rate of 2.734%. The estimated maximum potential earn out payment amounts to T€ 2,250 before discounting.
The fair values of the acquired assets and liabilities were estimated based on the recognised amounts as of the date of the acquisition. A fair value adjustment has been recorded for a customer list in the amount of T€ 4,547 which has been estimated based on net present value modelling. Related deferred tax liabilities in the net amount of T€ 1,853 were also recorded. The resulting goodwill from the acquisition amounts to T€ 7,711. The factors which make up this goodwill are the expected synergies resulting from the combination of Evotec´s and Evotec San Francisco's product offering.

The net income of Evotec for the twelve months ended 31 December 2011 included a net loss of T€ 193 from Evotec San Francisco as well as revenues of T€ 6,357. Acquisition related costs in the amount of T€ 22 are included in the income statement.
The following is the breakdown of the carrying amount and the fair value of Evotec San Francisco at the date of acquisition:

in T€	1 June 2011 carrying amount	**1 June 2011 fair value**
Cash and cash equivalents	58	**58**
Inventories	154	**154**
Current assets	1,121	**1,121**
Property, plant and equipment	1,000	**1,000**
Customer list	-	**4,547**
Current liabilities	(216)	**(216)**
Provisions	(205)	**(205)**
Deferred revenues	(692)	**(692)**
Deferred tax liabilities	-	**(1,853)**
Net assets acquired	**1,220**	**3,914**
Goodwill	-	**7,711**
Cost of acquisition	-	**11,625**
Less cash and cash equivalents acquired	-	**(58)**
Less earn out	-	**(2,146)**
Cash outflow from acquisition	-	**9,421**

The following pro forma information is based on the assumption that the investment in Evotec San Francisco occurred as of 1 January 2010:

in T€	**Year ended Dec. 2011**	Year ended Dec. 2010
Pro-forma revenues	**82,682**	62,778
Pro-forma net income	**6,541**	4,880
Pro-forma basic income per share	**0.06**	0.04
Pro-forma diluted income per share	**0.06**	0.04

Evotec acquired 100% of the shares of Kinaxo Biotechnologies GmbH, Munich (Evotec Munich), a drug discovery alliance company supporting the development of targeted drugs. Evotec Munich adds proprietary technologies to Evotec for response prediction and Drug efficacy and safety assessment, especially in the key indication area oncology. The acquisition was effective as of 18 April 2011 and included a share as well as a cash component. The purchase price of T€ 14,746 comprises the fair value of the shares issued from authorised capital (2,597,403 shares) of € 3.05 per share which was based on the stock price of Evotec at the date of acquisition as well as a cash component of T€ 3,000 and the fair values determined for the potential earn out. The earn out in the amount of T€ 3,824 as contingent consideration was calculated based on estimated achievement of defined future milestones as of the date of acquisition with a discount rate of 8.0%. The estimated maximum potential earn out payment amounts to T€ 4,000 before discounting.
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€ 7,070 which have been estimated based on net present value modelling. Related deferred tax liabilities (netted with deferred tax assets on the tax loss carry forwards) in the net amount of T€ 1,335 were also recorded. The resulting goodwill from the acquisition amounts to T€ 7,983. The factors which make up this goodwill are the expected synergies resulting from the combination of Evotec's and Evotec Munich's expertise.
The net income of Evotec for the twelve months ended 31 December 2011 included a net loss of T€ 955 from Evotec Munich as well as revenues of T€ 1,601. Acquisition related costs in the amount of T€ 145 are included in the income statement.
The following is the breakdown of the carrying amount and the fair value of Evotec Munich at the date of acquisition:

in T€	18 April 2011 carrying amount	**18 April 2011 fair value**
Cash and cash equivalents	225	**225**
Current assets	589	**589**
Property, plant and equipment	2,226	**2,226**
Developed technologies	-	**7,070**
Other intangible assets	18	**18**
Loans	(685)	**(685)**
Provisions	(146)	**(146)**
Current liabilities	(859)	**(859)**
Deferred revenues	(340)	**(340)**
Deferred tax liabilities	-	**(1,335)**
Net assets acquired	**1,028**	**6,763**
Goodwill	-	**7,983**
Cost of acquisition	-	**14,746**
Less fair values of shares issued	-	**(7,922)**
Less cash and cash equivalents acquired	-	**(225)**
Less earn out	-	**(3,824)**
Cash outflow from acquisition	-	**2,775**

The following pro forma information is based on the assumption that the investment in Evotec Munich occurred as of 1 January 2010:

in T€	**Year ended Dec. 2011**	Year ended Dec. 2010
Pro-forma revenues	**80,702**	56,897
Pro-forma net income	**6,129**	2,340
Pro-forma basic income per share	**0.05**	0.02
Pro-forma diluted income per share	**0.05**	0.02

Effective as of 3 September 2010, the Company acquired 99.4% of the shares in DeveloGen AG, Göttingen (Evotec Göttingen). In October 2010, Evotec issued 6,750,014 shares to acquire the underlying shares of Evotec Göttingen. 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 were released in April 2011 from this escrow to the sellers, following the signing of the beta cell agreement by Evotec Göttingen. The remaining 1,374,998 shares held in escrow are subject to certain representations. The maximum earn out payments as contingent consideration cannot be estimated, because the earn out calculation is based on the fair values of the acquired developed technologies and might vary significantly in the future.
The net income of Evotec for the twelve months ended 31 December 2011 included a net income of T€ 2,574 from Evotec Göttingen as well as revenues of T€ 7,298.
The following unaudited pro forma information is based on the assumption that the acquisition of Evotec Göttingen occurred as of 1 January 2010:

in T€	**Year ended Dec. 2010**
Pro-forma revenues	**56,739**
Pro-forma net loss	**(671)**
Pro-forma basic loss per share	**(0.01)**
Pro-forma diluted loss per share	**(0.01)**

(4) *Cash and cash equivalents and investments*

As of 31 December 2011 and 2010, an amount of T€ 434 and T€ 13,629, 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 approximate 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€ 54 and T€ 0 in 2011 and 2010, respectively. There are no use restrictions on trade accounts receivable. The ageing of trade receivables at the year end was:

in T€	**31 Dec. '11**	31 Dec. '10
Not past due	**9,273**	11,216
Past due 0-30 days	**252**	234
Past due 31-120 days	**82**	311
More than 120 days	**786**	108
Total trade accounts receivables	**10,393**	**11,869**

(6) *Inventories*

Inventories consist of the following:

in T€	31 Dec.'11	31 Dec.'10
Raw materials	1,743	1,912
Work-in-progress	1,813	907
Total inventories	**3,556**	**2,819**

vRaw materials consist mainly of compound libraries. Additionally, biological materials and substances as well as chemicals are included. Work-in-progress as of 31 December 2011 and 2010 consists of costs incurred on customer projects, which were not completed at year end. The increase in work-in-progress as of 31 December 2011 compared to last year mainly results from the acquisition of Evotec San Francisco. The Company carries an allowance on raw materials of T€ 1,113, included in the amounts above, as of 31 December 2011 and 2010. An allowance on work-in-progress in the amount of T€ 0 and T€ 33 as of 31 December 2011 and 2010, respectively is included in the amounts above.

(7) *Other current financial assets*

As of 31 December 2011 the other current financial assets mainly consist of deposits in the amount of T€ 634 and accrued revenue in the amount T€ 396. As of 31 December 2010 this position mainly consisted of accrued income in the amount of T€ 849.

(8) *Assets classified as held for sale*

The assets classified as held for sale as of 31 December 2011 are related to property, plant and equipment.

(9) *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 2011 and 2010 the carrying amount of the investment is T€ 10. This investment is classified as available-for-sale financial asset.
The long-term investment of Evotec do not have undistributed profits.
In 2011 and 2010, the Company recorded revenues in the amount of T€ 591 and T€ 381 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 is drawn as of 31 December 2011 and 2010. In 2010 and 2009, the drawn portion of the loan was fully written down, respectively. No further material transactions with investments of the Company were recorded.

(10) *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 2011, relate to capital expenditures in the new facility of Evotec in Hamburg as well as investments in new areas of instrumentation including screening, protein production and chemical proteomics. In 2010, additions related 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€ 5,080 and T€ 4,082 in 2011 and 2010, 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 (2010: T€ 0). 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€ 11 and T€ 17 as of 31 December 2011 and T€ 73 and T€ 23 as of 31 December 2010, respectively. The related depreciation amounts to T€ 66 and T€ 12 in 2011, T€ 154 and T€ 8 in 2010, respectively.

(11) *Intangible assets, excluding 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 2011 relate to the acquired developed technologies amounting to T€ 7,070 from the acquisition of Kinaxo Biotechnologies GmbH effective 18 April 2011 and the acquired customer list amounting to T€ 4,547 in the business combination with Compound Focus, Inc. with an effective date of 1 June 2011. In 2010, the main additions related to intangible assets acquired in the business combination with Evotec Göttingen with effective date 3 September 2010, amounting to T€ 27,468 and T€ 1,466 for the acquired developed technologies and customer list, respectively.
Amortisation expense of intangible assets amounted to T€ 1,700 in 2011 and T€ 672 in 2010. The developed technologies acquired in a business combination are not amortised until they are likely to generate benefits. For some developed technologies the estimated patent life was extended during the annual impairment test in 2011. This extension of patent lives was incorporated because the assumed time in the market before the extension was relatively short. The effect in the current period from this change in estimate amounts to T€ 7,360 less impairment of intangible assets.
The developed technologies acquired in the business combination with Kinaxo Biotechnologies GmbH with a carrying amount as of 31 December 2011 of T€ 7,070 were tested for impairment on the annual designated test date October 2011. The impairment test is based on a discounted cash flow model by using the assumptions of a Long Range Plan (LRP) for 8 to 10 years including no growth rate 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 7.75% in 2011. As a result of that test in 2011 the Company concluded that no impairment is deemed necessary.

Part of the developed technologies acquired in the business combination with Evotec Göttingen with historical acquisition costs of T€ 6,774 started to be amortised due to revenues generated with this technology. The carrying amount at 31 December 2011 amounted to T€ 6,382 (31 December 2010: T€ 6,633). The developed technologies from the acquisition of Evotec Göttingen which are not yet amortised with a carrying amount of T€ 20,694 at 31 December 2011 (31 December 2010: T€ 20,694) were tested for impairment on the annual designated test date October 2011. The impairment test is based on a discounted cash flow model by using the assumptions of a Long Range Plan (LRP) for 17 to 22 years, which represents the patent lives, to determine a value for the cash generating projects. No value is attached to the time after patent expiration. The discount rate considering the risks and rewards of the activities used in the impairment test was 10.27% and 10.48% in 2011 and 2010, respectively. As a result of that test in 2011 and 2010, 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 2011 and 2010. 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, which represents the patent lives, to determine a value for the cash generating projects. No value is attached to the time after patent expiration. The discount rate considering the risks and rewards of the activities used in the impairment test was 10.27% and 10.48% in 2011 and 2010, respectively. As a result of that test the Company concluded that no impairment was deemed necessary as of that date in 2011 and 2010. In the third quarter 2011, Evotec entered into an agreement with a top tier animal health company regarding the Evotec compound EVT401. This event made the Company review the related developed technologies for a reversal of impairment. The impairment test was based on a discounted cash flow model using the assumptions of a Long Range Plan (LRP) for 17 years to determine a value for the cash generating project. The discount rate was 10.48%. As a result, the Company concluded that a reversal of impairment in the amount of T€ 1,501 was deemed necessary. The carrying amount at 31 December 2011 and 2010 amounted to T€ 5,947 and T€ 4,190 respectively.

The developed technologies from the acquisition of ENS Holdings, Inc. with a carrying amount of T€ 21,573 at 31 December 2011 (31 December 2010: T€ 23,631), were tested for impairment on the annual designated test date October 2011. The impairment test is based on a discounted cash flow model by using the assumptions of a Long Range Plan (LRP) for 14 to 17 years, which represents the patent lives, to determine a value for the cash generating projects. No value is attached to the time after patent expiration. The discount rate considering the risks and rewards of the activities used in the impairment test was 10.27% and 10.48% in 2011 and 2010, respectively. As a result of that test in 2011 an impairment of T€ 2,058 was recorded due to the difficult partnering situation in the US market for EVT201. In 2010, the Company concluded that no impairment was deemed necessary.

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 Comny'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 taken from the out-licensing agreements (partnered assets) or estimated based on comparable deal structures in the market and in the Company (unpartnered assets).

In addition to these key assumptions used in all models, commercialisation success rates are only used in some models. They are estimated based on the current knowledge of management.

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 tables show 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 2011 and 2010.

in %	Discount rate 2011	Commercialisation success rate 2011
Developed technologies Evotec Götttingen	3.0 to 3.3	not applicable
Developed technologies Renovis	0.1 to 1.0	(4.2) to (0.2)
Developed technologies ENS Holdings	0.9	(3.5)

in %	Discount rate 2010	Commercialisation success rate 2010
Developed technologies Evotec Göttingen	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.

(12) *Goodwill*

With respect to the development of goodwill please refer to the consolidated fixed asset movement schedule and the following detailed schedule.

in T€	OAI	ENS	Evotec India	Evotec Göttingen	Evotec Munich	Evotec San Francisco	Total
31 December 2010	14,524	461	2,534	8,460	-	-	25,979
Additions	-	-	-	-	7,983	7,711	15,694
Disposals	-	-	-	(221)	-	-	(221)
FX revaluation	325	-	(368)	-	-	793	750
31 December 2011	**14,849**	**461**	**2,166**	**8,239**	**7,983**	**8,504**	**42,202**

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 June 2011, Evotec acquired Compound Focus, Inc., South San Francisco, US (Evotec San Francisco) which resulted in a goodwill denominated in USD in the amount of T€ 7,711 and a carrying amount of T€ 8,504 at 31 December 2011. The Company has tested the cash generating unit for impairment on the annual designated test date October 2011. The impairment test is based on a discounted cash flow model by using the assumptions of the Mid Range Plan for 2012 to 2016. The discount rate considering the risks and rewards of the activities used in the impairment test was 9.25% in 2011. In 2011, the growth rate for determining the terminal value was 0.0%. As a result of this test, the Company concluded that no impairment has to be recorded in 2011.

In April 2011, Evotec acquired Kinaxo Biotechnologies GmbH, Munich (Evotec Munich) which resulted in a goodwill in the amount of T€ 7,983 which is also the carrying amount at 31 December 2011. The Company has tested the cash generating unit for impairment on the annual designated test date October 2011. The impairment test is based on a discounted cash flow model by using the assumptions of the Mid Range Plan for 2012 to 2016 and the Long Range Plan for 8 to 10 years. The discount rate considering the risks and rewards of the activities used in the impairment test was 7.75% in 2011. In 2011, the growth rate for determining the terminal value was 0.0%. As a result of this test, the Company concluded that no impairment has to be recorded in 2011.

In September 2010, the Company acquired DeveloGen AG (Evotec Göttingen) which resulted in a goodwill of T€ 8,460 which was also the carrying amount at 31 December 2010. The carrying amount at 31 December 2011 amounts to T€ 8,239. In 2011, the goodwill decreased due to a decrease in the earn out as contingent consideration existing at the acquisition date. The Company has tested the cash generating unit for impairment on the annual designated test date October 2011. The impairment test is based on a discounted cash flow model by using the assumptions of the Long Range Plan for 13 to 22 years, which represents the patent lives. No value is attached to the time after patent expiration. The discount rate considering the risks and rewards of the activities used in the impairment test was 10.27% and 10.48% in 2011 and 2010, respectively. As a result of this test, the Company concluded that no impairment has to be recorded in 2011.

In August 2009, the Company acquired Research Support International Private Ltd. (now Evotec (India)) which resulted in goodwill denominated in INR in the amount of T€ 2,204 and a carrying amount at 31 December 2011 and 2010 of T€ 2,166 and T€ 2,534, respectively. The Company has tested the cash generating unit for impairment on the annual designated test date October 2011. The impairment test is based on a discounted cash flow model by using the assumptions of the Mid Range Plan for 2012 to 2016. The discount rate considering the risks and rewards of the activities used in the impairment test was 10.75% in 2011 and 10.9% in 2010. In 2011 and 2010, the growth rate for determining the terminal value was 0.0%. As a result of this test, the Company concluded that no impairment has to be recorded in 2011 and 2010.

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 2011 and 2010. The Company has tested the cash generating unit for impairment on the annual designated test date October 2011. The impairment test is based on a discounted cash flow model by using the assumptions of the Long Range Plan (LRP) for 14 to 17 years, which represents the patent lives. No value is attached to the time after patent expiration. The discount rate considering the risks and rewards of the activities used in the impairment test was 10.27% and 10.48% in 2011 and 2010, respectively. As a result of this test, the Company concluded that no impairment has to be recorded in 2011 and 2010.

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 2011. The impairment test is based on a discounted cash flow model by using the assumptions of the Mid Range Plan for 2012 to 2016. The discount rate considering the risks and rewards of the activities used in the impairment test was 9.24% and 9.40% in 2011 and 2010, respectively. In 2011 and 2010, the growth rate for determining the terminal value was 0.0%. As a result of that test, the Company concluded that no impairment was due for the goodwill in 2011 and 2010 carried as of that date. The carrying amount at 31 December 2011 and 2010 amounted to T€ 14,849 and T€ 14,524, respectively.

The total amount of foreign exchange differences related to goodwill denominated in a foreign currency amounted to T€ 750 and T€ 962 in 2011 and 2010, respectively and are recorded directly in equity.

The estimated cash flows for the impairment test of the goodwill in Evotec Göttingen 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 Evotec (India) 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 2012 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 tables show 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 2011 and 2010.

in %	Discount rate 2011
Goodwill Evotec San Francisco	3.9
Goodwill Evotec Munich	14.8
Goodwill Evotec Göttingen	2.9
Goodwill Evotec (India)	3.3
Goodwill ENS Holdings	7.7
Goodwill Oxford Asymmetry	12.0

in %	Discount rate 2010
Goodwill Evotec Göttingen	7.8
Goodwill Evotec (India)	0.1
Goodwill ENS Holdings	25.0
Goodwill Oxford Asymmetry	20.0

(13) *Other non-current financial assets*

Other non-current financial assets as of 31 December 2010 mainly consisted of coupon bonds in the amount of T€ 3,008 which were classified as held to maturity investments and were 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 hence are they shown in investments as of 31 December 2011. On 30 June 2010, Evotec exercised put options related to the ARSs. Due to the exercise of the put option, the Company realised expenses in the amount of T€ 632 in 2010.

(14) *Loans*

Throughout the year 2011 and 2010, Evotec met all covenants with regard to liquidity of Evotec under the various loan agreements shown below. All debts are unsecured.

Country of lendor	Currency	Nominal interest rate (%)	Maturity until	2011 Fair Value (T€)	2011 carrying amount (T€)	2010 Fair Value (T€)	2010 carrying amount (T€)
Germany	EUR	Euribor +0.9	2011	-	-	3,500	3,500
Germany	EUR	Euribor +0.9	2011	-	-	3,000	3,000
Germany	EUR	5.4	2011	-	-	625	625
Germany	EUR	Euribor +1.3	2012	6,500	6,500	-	-
Germany	EUR	Euribor +1.3	2012	6,500	6,500	-	-
Germany	EUR	Euribor +1.2	2012	-	-	2,909	3,000
India	INR	10.0	2012	-	-	1,231	1,231
India	INR	12.0	2012	-	-	484	500
Germany	EUR	2.04	2014	273	274	-	-
Germany	EUR	Euribor +1.05	2014	2,000	2,000	-	-
Germany	EUR	2.45	2015	259	259	-	-
				15,532	15,533	11,749	11,856

Total amount of loans and borrowings:

in T€	31 Dec. '11	31 Dec. '10
Unsecured bank loans	15,533	0
Secured bank loans	-	11,856
Total	15,533	11,856

Current loans and borrowings:

in T€	31 Dec. '11	31 Dec. '10
Current unsecured bank loans	13,174	-
Current secured bank loans	-	8,356
Total	13,147	8,356

The Company maintains lines of credit totalling T€ 2,313 and T€ 374 to finance its short-term capital requirements, of which the entire balance is available as of 31 December 2011 and 31 December 2010, respectively.

(15) *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€ 33 and T€ 141 as of 31 December 2011 and 2010, respectively that expire at various dates, latest 2013.
Those finance leases relate to property, plant and equipment. The future minimum lease payments under finance leases are as follows:

in T€	Capital	Interest	**Total**
2012	32	1	**33**
2013	1	-	**1**
Thereafter	-	-	**-**
Total principal payable on finance leases	**33**	**1**	**34**

The fair value of the long-term finance lease obligation is equal to the notional amounts as of 31 December 2011 and as of 31 December 2010, respectively.

(16) *Provisions*

The provisions consist of the following:

in T€	**31 Dec. 2011**	31 Dec. 2010
Earn out	**19,578**	15,233
Bonus accruals	**2,952**	1,978
Accrued lease expenses	**1,355**	650
Other provisions	**1,022**	894
Accrued vacation	**605**	623
Severance payments	**151**	-
Total provisions	**25,663**	**19,378**

The following table summarises the provisions recorded during 2011:

in T€	1 January '11	Business combination	Consumption	Release	Foreign exchange	Additions	31 Dec. '11
Earn out	15,233	5,970	2,668	221	-	1,264	19,578
Personnel expenses	2,609	255	2,201	163	60	2,997	3,557
Accrued lease expenses	650	-	54	-	12	747	1,355
Other provisions	886	37	564	28	3	688	1,022
Severance payments	-	-	-	-	2	149	151
Total	**19,378**	**6,262**	**5,487**	**412**	**77**	**5,845**	**25,663**

The earn out provision as of 31 December 2011 consist of earn outs relating to the three following acquisitions:
- Evotec Göttingen in the amount of T€ 14,952 (31 December 2010 T€ 15,233), including an unwind of discount in the amount of T€ 1,108 and a consumption of T€ 1,168,
- Evotec Munich in the amount of T€ 2,446 including an unwind of discount since the acquisition in the amount of T€ 122 as well as a consumption of T€ 1,500 and
- Evotec San Francisco in the amount of T€ 2,180 including an unwind of discount in the amount of T€ 34.

The unwind of the discount on the earn out is shown as addition in the provision table.
The provision for personnel expenses consist mainly of bonus accruals and accrued vacation. Other provisions as of 31 December 2011 mainly consist of a provision for the Supervisory Board remuneration in the amount of T€ 268 (2010: T€ 248) and other provisions with an individual amount under T€ 268. 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 or the underlying estimated milestones do not occur. The actual consumption of the accrued lease expenses may vary from the estimated if the lease period changes.
An amount of T€ 14,618 as per 31 December 2011 (2010: T€ 12,722) is expected to be paid after one year and therefore is shown under non-current provisions. As of 31 December 2011 and 2010, this amount mainly derives from the earn out.

(17) *Deferred revenues*

As of 31 December 2011, deferred revenues mainly relate to the license and collaboration agreement with MedImmune Limited amounting to T€ 2,697 (31 December 2010 T€ 4,890). As of 31 December 2010, the deferred revenues also consisted of agreements with Roche amounting to T€ 3,426.

(18) *Income taxes*

Income taxes comprise the current taxes (paid or owed) on income in the individual countries as well as the deferred taxes. For the calculation of current taxes, tax rates are used which are applicable 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 before income taxes is attributable to the following geographic regions for the years ended 31 December 2011 and 2010:

in T€	Years ended 31 Dec.'11	31 Dec.'10
Germany	694	1,669
Foreign	4,562	2,198
Total	**5,256**	**3,867**

Income tax benefit and expense for the years ended 31 December 2011 and 2010 is as follows:

in T€	Years ended 31 Dec.'11	31 Dec.'10
Current taxes:		
Germany	(798)	(654)
Foreign	(355)	(22)
Total current taxes	(1,153)	(676)
Deferred taxes:		
Germany	2,209	-
Foreign	339	(206)
Total deferred taxes	2,548	(206)
Total income tax benefit (expense)	**1,395**	**(882)**

In 2011, current tax income for prior periods in the amount of T€ 124 have been recorded (2010: T€ 21 tax expense). In 2011 income from deferred taxes for prior periods in the amount of T€ 17 was recognised (2010: T€ 82). Current taxes in 2011 were reduced by T€ 2,150 because of tax losses carried forward for which no deferred tax assets have been recorded in prior years (2010: T€ 1,294). Deferred tax benefit in the amount of T€ 2,373 due to tax loss carry forwards released from the valuation allowance was recorded in 2011 (2010: T€ 0).
The tax rate in the UK for the year ended 31 December 2011 and 2010 amounted to 25% and 28%, respectively. In the US the tax rate for the year ended 31 December 2011 and 2010 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 2011 and 2010, 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% (2010: 32.28%) as follows:

in T€	Years ended 31 Dec.'11	31 Dec.'10
Expected income tax expense	(1,897)	(1,248)
R&D tax credits	852	843
Other permanent differences	(1,413)	(725)
Foreign tax differential	948	212
Change in tax rates	250	-
Change in recognition of deferred tax assets	2,450	37
Non-periodic taxes	141	-
Other	64	(1)
Actual income tax benefit (expense)	**1,395**	**(882)**

Deferred income tax assets and liabilities calculated with the enacted tax rate of 32.28% as of 31 December 2011 and 2010 relate to the following:

in T€	31 Dec.'11	31 Dec.'10
Deferred tax assets		
Loss carry forward	96,686	90,817
Interest carry forward	2,572	2,889
Tax credits	927	906
Intangible assets	6,904	8,810
Non-current financial assets	731	24
Other	3,239	2,059
Total	111,059	105,505
Non-recognition of deferred tax assets	(96,497)	(92,077)
Total deferred tax assets	14,562	13,428
Deferred tax liabilities		
Property, plant and equipment	2,485	2,623
Intangible assets	19,210	16,565
Non-current financial assets	69	220
Current financial assets	328	677
Other	1	3
Total deferred tax liabilities	22,093	20,088
Deferred tax liabilities, net	**7,531**	**6,660**

Net deferred tax liabilities are recognised in the balance sheets as of 31 December 2011 and 2010, in the amount of T€ 7,531 and T€ 6,660, respectively. The difference of T€ 871 is caused by T€ 3,187 as a result of the Evotec San Francisco and Evotec Munich acquisitions, T€ 175 through equity (foreign currency translation), decreased by T€ 57 through other foreign currency exchange differences between 31 December 2011 and 2010. The remaining amount of T€ 2,548 was recorded as income in the income statement.
For outside basis differences for undistributed foreign subsidiaries earnings, deferred tax liabilities in the amount of T€ 296 (temporary differences: T€ 916) were not recorded according to IAS 12.39

(2010: T€ 194 and T€ 717, respectively). Deferred taxes in the amount of T€ 6,925 (2010: T€ 6,503) are expected to be recovered after more than 12 months.
For the years ended 31 December 2011 and 2010, Evotec recorded additional valuation allowances with respect to tax benefits of tax losses carried forward and temporary differences of T€ 4,420 and T€ 4,506, 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. According to the changed mid range plan one entity in Germany has released an amount of T€ 7,352 from the valuation allowance since it is expected that this entity will be profitable in the future. The taxable income in 2011 in Germany resulted from extraordinary high income in one entity as in 2010. 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€ 227,958 for corporate income tax and T€ 224,675 for trade tax do not expire. The interest carry forward in the amount of T€ 9,132 relates only to Germany and does not expire. Tax losses carried forward for US of T€ 56,206 for corporate tax expire from 2020 onwards and of T€ 40,773 for state tax expire from 2014 onwards. The tax credits in the amount of T€ 927 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€ 178,538 corporate income tax losses carry forward and T€ 181,245 of trade tax losses carry forward. No deferred tax assets were set up for a net asset position of T€ 28,338.
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.

(19) *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.
The shareholders' meeting on 16 June 2011 established a new stock option plan ("Option Plan 2011") and authorised the granting of stock options for up to 1,200,000 shares in 2011. The plan is subject to certain recommendations regarding the number of stock awards that may be granted in a year. All options under the Option Plan 2011 are destined for grant to members of the Executive Board. 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 four years after the date of their grant but no later than eight years after the respective grant. The Option Plan 2011 stipulates an exercise hurdle of a 20% 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 one relevant day

during the waiting period. The "relevant day" is respectively the day prior to the annual financial report, the quarterly report, an interim report or the half-year financial report is made available to the public.
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 vested 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 vested 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 2011 and 2010, 0 and 167,068 new shares held in trust, respectively, were exercised, which resulted in 2011 in a cash inflow in the amount of T€ 0 (2010: T€ 193).
Stock options in the amount of 11,000 held by employees of the Company continue to be valid after termination of the relating employment in 2011. In 2010, stock options in the amount of 116,667 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 2011 and 2010, and the changes during the years then ended is presented as follows:

	31 Dec. 2011 **Options**	**31 Dec. 2011 Weighted average exercise price € per share**	31 Dec. 2010 Options	31 Dec. 2010 Weighted average exercise price € per share
Outstanding at beginning of the year	**5,334,780**	**2.37**	4,552,606	3.66
Options granted	**2,731,050**	**2.56**	1,319,250	2.06
Options exercised	**(122,732)**	**2.43**	(7,000)	2.21
Options expired	**(602,965)**	**4.39**	(244,310)	24.30
Options forfeited	**(6,300)**	**2.47**	-	-
Options waived (re-issueable)	**(180,833)**	**2.44**	(285,766)	2.67
Outstanding at end of the year	**7,153,000**	**2.27**	**5,334,780**	**2.37**
Thereof exercisable	**2,149,446**	**2.83**	**2,306,830**	**3.71**

A summary of the stock options outstanding as of 31 December 2011 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	1,496,600	600,000	3.10 years	1.27
1.66 – 3.68	5,431,900	1,323,746	8.24 years	2.52
5.97 – 6.29	224,500	225,700	1.90 years	6.23

The Company recognised compensation expense in 2011 and 2010 for all options totalling T€ 929 and T€ 478, 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	**16 March 2011**	**14 September 2011**
Risk-free interest rate in %	1.81	2.22	**2.66**	**1.23**
Volatility in %	50.0	35.0	**33.0**	**44.0**
Fluctuation in %	0.0–10.0	0.0–10.0	**0.0–10.0**	**0.0**
Price range in Euro	1.93	2.69–2.73	**2.65–2.79**	**2.23**
Fair value per option	0.87–0.90	0.90–1.02	**0.75–0.94**	**0.96**

The expected dividend yield is zero, the expected remaining life is 6 years in all models.

(20) *Stockholders' equity*

On 31 December 2011, there are 118,315,864 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. Management is not aware of any restriction of the voting rights or the right to transfer with the following exceptions: (i) A soft lock-up agreement entered into with regard to 6,750,014 Evotec shares issued in the context of the acquisition of DeveloGen AG which expired on 16 February 2011, and (ii) a lock-up agreement entered into with regard to a total of 2,597,403 Evotec shares issued in the context of the acquisition of Kinaxo Biotechnologies GmbH, out of which 991,619 shares were not to be sold before 18 October 2011, while 991,619 shares are locked until 18 April 2012. With this exception, 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. Furthermore, authorised but unissued shares as of 31 December 2011 consist of a conditional capital (bedingtes Kapital) of 11,669,648 shares available with respect to the stock option plans and a remaining authorised capital (genehmigtes Kapital) of 23,637,226 shares.

As of 31 December 2011, Evotec recorded treasury shares according to section 71 paragraph 1 number 8 of the German Stock Corporation Act (Aktiengesetz) for the remuneration of the Supervisory Board.

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 authorised 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.

Effective 18 April 2011, the Company increased its stockholders' equity by issuing 2,597,403 new shares against contributions in kind out of the authorised capital (genehmigtes Kapital) to be used as consideration for the acquisition of Kinaxo Biotechnologies GmbH. The price per share amounted to € 3.05.

Following those capital increases, the authorised capital from the annual shareholders' meeting in 2008 amounted to € 12,386,461.00.

At the annual shareholders' meeting on 16 June 2011, the Management Board was authorised to increase the authorised capital from € 12,386,461.00 by € 11,250,765.00 to € 23,637,226.00 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 authorised capital (genehmigtes Kapital). The authorisation expires on 27 August 2013. From an economic perspective, Evotec's subsidiary Renovis, Inc. owns 1,328,624 of Evotec's shares as of 31 December 2011 and 31 December 2010, representing 1.12% and 1.15%, 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).

(21) *Revenues*

Revenues include in 2011 milestone payments amounting to T€ 10,543 (2010: T€ 11,245). Also included are royalty and license income in the amount of T€ 14,326 in 2011 (2010: T€ 1,721). For the revenues by region, see "Revenues" on page 38 of the Management Report.

(22) *Research and Development*

In 2011, research and development expense mainly relate to clinical projects amounting to T€ 2,512 (2010: T€ 1,033), discovery projects amounting to T€ 1,897 (2010: T€ 2,700) as well as overhead expenses in the amount of T€ 2,869 (2010: T€ 2,409). The overhead expenses consist mainly of patent costs and overhead personnel expenses.

(23) *Other operating income and expense*

Other operating expense in 2011 mainly relate to parallel usage of the old facility in Hamburg and the new "Manfred Eigen Campus" in Hamburg and the resulting planned underutilisation of parts of those buildings during the transition period amounting to T€ 3,098.
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 EVT100 series and amounted to T€ 3,215 each.

(24) *Other income from financial assets*

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

(25) *Other expense from financial assets*

In 2010 other expense from financial assets mainly consisted of expenses from the valuation of the put option related to auction rate securities in the amount of T€ 591 (2011: T€ 0).

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

In accordance with IAS 21, the Company recognised a foreign exchange gain of T€ 1,052 (2010: foreign exchange gain of T€ 3,501) as a result of the reduction in the capital reserve of a subsidiary, paid to Evotec AG in 2011 and 2010, 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 2011 and 2010, 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*

FINANCIAL RISK MANAGEMENT

Evotec is exposed to the following risks arising from financial instruments:
— currency risks
— interest rate risks
— liquidity risks (see note (29))
— capital management (see note (29))
— credit risks (see note (29))
— market risks (see note (29))

The Management Board has overall responsibility for the establishment and oversight of the Company's management framework. The Management Board has installed a Group Risk Manager, who is responsible for developing and monitoring the risk management policies. The Group Risk Manager reports regularly to the Management Board on its activities. The Audit committee oversees how management monitors compliance with the Company's risk management policies and procedures.

CURRENCY RISKS

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in currency other than the functional currency of Evotec. The currencies in which these transactions are primarily denominated are US Dollar, UK Sterling, the Indian Rupee and the Euro. A strengthening (weakening) of the Euro as indicated below against the US Dollar and UK Sterling at 31 December would have increased (decreased) equity and profit and loss by the amounts shown below. This analysis relates to financial instruments classified as held for sale and assumes that all other variables remain constant and ignores any impact of sales and purchases.

T€	Variance 2011 Equity	Variance 2011 Profit & loss	Variance 2010 Equity	Variance 2010 Profit & loss
USD (10% movement)	**27**	**27**	193	193
GBP (10% movement)	**16**	**16**	87	87

€	Average rate 2011	Average rate 2010	31 December 2011	31 December 2010
USD	**0.71897**	0.75488	**0.77230**	0.75460
GBP	**1.15275**	1.16605	**1.19360**	1.16750
INR	**0.01538**	0.01651	**0.01423**	0.01665

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 2011 and 2010, the Company held US Dollar forward contracts with Euro equivalent notional amounts of T€ 4,486 and a fair value of T€ 148 (2010: T€ 9,057 and T€ 117, 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 2011 and 2010. Gains and losses from the fair value accounting related to foreign currency derivatives are included in non-operating income and expense and amounted to T€ 17 and T€ 108 for the years ended 31 December 2011 and 2010, respectively.
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.

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 or those covered by an interest rate swap 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 2011 and 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 2011 the effect on net income would have been T€ 186 higher (lower) (31 December 2010: T€ 508 higher (lower)). Shareholders' equity is impacted in the same amount.
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 fair values of the long-term loans and finance leases with variable interest rates as of 31 December 2011 and 2010 would vary by the following amounts:

T€	31 Dec. 2011	31 Dec. 2010
Variable interest rate +1%-point	**57**	33
Variable interest rate -1%-point	**(57)**	(33)

A three year interest rate swap was signed in August 2011 with a German Bank to exchange Euribor against a fixed rate at 1.75% for a notional of T€ 6,500. This results in a combined fixed interest rate for the T€ 6,500 credit line of 3.05% for one year as the current credit line is maturing in August 2012. In addition, a similar three year interest swap transaction was agreed with another German Bank to hedge the interest rate risk on the T€ 6,500 one year loan. This resulted in a combined fixed interest rate for the year of 2.875%.
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.

OTHER PRICE RISKS

The Company is not exposed to any price risks associated to their financial instruments.

(29) *Risks*

LIQUIDITY RISKS

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 has defined minimum liquidity levels and prepared a scenario planning to safeguard its cash position. Evotec believes that existing liquidity reserves are sufficient to cope with the cumulative impact of all identified risks. Evotec is currently well financed and has no plans or necessity to raise capital in the near- to mid-term. The Company does not intend to engage in projects unless adequate funding is allocated or secured. Evotec assesses the financial associated risks to be low/medium, remaining unchanged in comparison to the previous year.
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. Therefore, Evotec assesses the current default risks to be low, remaining unchanged in comparison to the previous year.
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.

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. The hedging instruments used do not expose the Company to any material additional risk. 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.
At 31 December 2011, the Company had a guarantee outstanding of T€ 190 (31 December 2010: T€ 190) related to securing certain payment obligations of the European ScreeningPort GmbH. As of 31 December 2010, 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 2011 amounted to T€ 307 (31 December 2010: T€ 362).

The contractual maturities of financial liabilities, including estimated interest payments are included in the following table:

T€	Carrying amount	Contractual cash flow	31 December Due in 1 year	Due in 2–5 years	More than 5 years
Non-derivative financial liabilities					
Loans	(15,533)	(15,842)	(13,404)	(2,438)	-
Long-term finance lease obligations	(33)	(34)	(33)	(1)	-
Trade accounts payable	(10,134)	(10,134)	(10,134)	-	-
Contingent consideration	(19,578)	(34,479)	(5,845)	(5,128)	(23,506)
Current income tax payables	(492)	(492)	(492)	-	-
Other current financial liabilities	(1,147)	(1,147)	(1,147)	-	-
Total non-derivative financial liabilities	(46,917)	(62,128)	(31,055)	(7,567)	(23,506)
Derivative financial liabilities					
Interest rate swap	(202)	(202)	-	(202)	-
Total derivative financial liabilities	(202)	(202)	-	(202)	-

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€	31 Dec.'11	31 Dec.'10
Total assets	218,213	191,859
Equity	147,245	132,637
Equity ratio (in %)	67.5	69.1
Net cash	2,211	9,094

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 bank loans and asset financing, the latter primarily for equipment used to maintain and further develop its discovery platform. As of 31 December 2011, the debts are unsecured. However, Evotec has to hold a minimum level of cash in the amount of T€ 35,000. The minimum level of cash as collateral for bank loans and asset financing as of 31 December 2010 was T€ 12,866. The sum of these debt instruments – including both long-term and current portions – at the end of 2011 is T€ 15,566 (2009: T€ 11,997).
Evotec remains well financed with an equity ratio of 67.5% (31 December 2010: 69.1%) 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 20.

CREDIT RISKS

Credit risk is the risk of financial loss to the Company if a customer fails to meet its contractual obligations, and arises primarily from the receivables from customers and investment securities. The Company assesses the credit risk in connection with failures by counterparties to discharge their obligations to be immaterial. The maximum exposure to credit risk for trade receivables including related parties at the reporting date by geographic region was:

in T€	31 Dec.'11	31 Dec.'10
Germany	3,873	2,641
United States	3,737	1,288
Rest of Europe	1,684	1,991
United Kingdom	633	5,612
Rest of the world	466	337
	10,393	11,869

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 2011, one customer accounted for 29% of trade receivables due to a milestone invoiced in December (31 December 2010: 42%). 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.

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.

In 2011, the Company further expanded its customer base. However, the three (2010: four) largest customers of Evotec, each having a share of more than 10% of the group revenues in 2011, represented in total more than 47% of the group revenues in 2011 and more than 63% in 2010. A termination of these business relations could have adverse impacts on the Company's financial results.

MARKET RISKS

The global economic downturn and the changing regulatory environment are the dominant factors influencing the Company's macro environment. 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. In the US and Europe regulatory controls have become increasingly demanding. Evotec expects this trend to continue. Increasing regulatory requirements, such as those governing clinical or toxicological studies, may increase product development costs.

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€	31 December 2011 Carrying amount	31 December 2011 Fair value	31 December 2010 Carrying amount	31 December 2010 Fair value
Cash and cash equivalents	17,777	17,777	21,091	21,091
Available-for-sale-financial assets				
— Investments	44,651	44,651	46,303	46,303
— Long-term investments	10	10	10	10
Total available-for-sale-financial assets	44,661	44,661	46,313	46,313
Financial assets measured at fair value				
— Other non-current financial assets	70	70	68	68
Held-to-maturity financial assets				
— Other non-current financial assets	–	–	3,008	3,008
Loans and receivables				
— Trade accounts receivables	10,393	10,393	11,869	11,869
— Current tax receivables	201	201	569	569
— Other current financial assets	1,355	1,355	1,142	1,142
Total loans and receivables	11,949	11,949	13,580	13,580
Financial liabilities measured at cost				
— Current loan liabilities	(13,174)	(13,174)	(8,356)	(8,466)
— Non-current loan liabilities	(2,359)	(2,358)	(3,500)	(3,547)
— Current portion of finance lease obligations	(32)	(32)	(109)	(109)
— Long-term finance lease obligations	(1)	(1)	(32)	(32)
— Trade accounts payable	(10,134)	(10,134)	(6,980)	(6,980)
— Current income tax payables	(492)	(492)	(773)	(773)
— Other current financial liabilities	(1,147)	(1,147)	(225)	(225)
Total financial liabilities measured at cost	(27,339)	(27,338)	(19,975)	(20,132)
Financial liabilities measured at fair value				
— Derivative financial instruments	(202)	(202)	-	-
— Contingent consideration	(19,578)	(19,578)	(15,233)	(15,233)
Total financial liabilities measured at fair value	(19,780)	(19,780)	(15,233)	(15,233)
	27,338	27,339	48,852	48,695
Unrecognised (gain)/loss		(1)		157

The following table allocates financial assets and financial liabilities to the three levels of the fair value hierarchy as defined in IFRS 7:

in T€	31 December 2011 Level 1	Level 2	Level 3	**Total**
Available-for-sale financial assets	44,651	-	10	44,661
Financial assets measured at fair value	-	70	-	70
Financial liabilities measured at fair value	-	(202)	(19,578)	(19,780)

in T€	31 December 2010 Level 1	Level 2	Level 3	**Total**
Available-for-sale financial assets	46,303	-	10	46,313
Financial assets measured at fair value	-	68	-	68
Financial liabilities measured at fair value	-	-	(15,233)	(15,233)

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

Level1: quoted prices in active markets for identical assets or liabilities; Evotec shows in this level investments;

Level 2: inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); Evotec shows in this level other non-current financial assets as well as derivative financial instruments and

Level 3: inputs for the asset or liability that are not based on observable market data; in this level Evotec shows long-term investments as well as contingent considerations.

(31) *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€ 510 (2010: T€ 473). Contributions amounting to T€ 79 (2010: T€ 78) 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. 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 2011 and 2010 for this purpose. The calculations are based on assumed pension increases of 2.0% and a discount rate of 4.60% in 2011 and 5.00% in 2010. The discount rate reflects market conditions. Actuarial gains and losses are recorded using the 10% corridor method. The provision amounted to T€ 116 and T€ 111 as of 31 December 2011 and 2010, respectively.

Total expense for the period for the defined benefit plan amounted to T€ 5 (2010: T€ 6) and consist of the following:

	Years ended	
in T€	**31 Dec.'11**	31 Dec.'10
Pension liability beginning of the year	**111**	105
Interest cost	**5**	6
Amortisation of actuarial losses	**-**	-
Pension payments	**-**	-
Pension liability year end	**116**	**111**

(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€
2012	4,526
2013	3,486
2014	3,076
2015	3,076
2016	3,046
Thereafter	20,524
Total	**37,734**

The majority of operating lease obligations are related to rent expenses for facilities. The rent expense for such leases amounted to T€ 5,074 and T€ 3,673 for the years ended 31 December 2011 and 2010, respectively.

(b) OTHER COMMITMENTS AND CONTINGENCIES

The Company has entered into consultancy contracts. During 2011 and 2010, expenses under consultancy contracts totalled T€ 194 and T€ 109, respectively. The future minimum payments associated with long-term consultant and other miscellaneous long-term commitments total approximately T€ 2,040 and T€ 402 at 31 December 2011 and 2010, respectively.

As of 31 December 2011, the Company has entered into purchase commitments in the amount of T€ 1,683.

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 2011.

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 2011.

(33) *Related party transactions*

According to IAS 24 the Company discloses related party transactions where Supervisory Board members and Management Team members of the Company hold positions in other entities that result in them having significant influence over the financial or operating policies of these entities (the figures reflect the total group).
In 2010, the Company acquired part of the DeveloGen AG 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 2011 and 2010.
Dr Flemming Ørnskov is Head General Medicine of Bayer Health Care AG. The Company recognised revenues with the Bayer Group in the ordinary course of business in the amount of T€ 26 and T€ 24 in 2011 and 2010 respectively. The accounts receivables amounted to T€ 0 and T€ 28 as of 31 December 2011 and 2010, respectively.
Dr Peter Fellner was member of the Supervisory Board of Evotec until 16 June 2011. He is Non-Executive Member of the Board of Directors of UCB SA Brussels. Evotec recognised no revenues until 16 June 2011 with UCB SA Brussels.
Evotec AG recorded revenues in the amount of T€ 22 and T€ 24 with related parties in 2011 and 2010, respectively. Subsidiaries of Evotec AG recorded revenues with related parties in the amount of T€ 38 and T€ 0 in 2011 and 2010, respectively.
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€ 31,194 of which T€ 15,029 relate to personnel expenses outside Germany mainly in India, the UK and US (2010: T€ 24,236 and T€ 13,657, respectively). Thereof expenses for the statutory retirement insurance amounted to T€ 2,028 of which T€ 1,126 relate to expenses outside Germany mainly in India, the UK and US (2010: T€ 1,676 and T€ 1,033, respectively).
Cost of materials amounted to T€ 18,877, thereof T€ 8,048 are cost of materials outside Germany mainly in India, the UK and US (2010: T€ 12,742 and T€ 1,908, 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.

(a) NUMBER OF EMPLOYEES

The average number of persons employed by the Company in 2011 was 590 (2010: 492).

(b) REMUNERATION OF THE AUDITOR

In 2011, remunerations, shown as expenses, to KPMG AG Wirtschaftsprüfungsgesellschaft and other KPMG companies totalled T€ 283 (2010: T€ 248) broken down into auditing of financial statements (T€ 264; 2010: T€ 185), tax consultancy (T€ 0; 2010: T€ 4), other attestation services (T€ 17; 2010: T€ 58) as well as other services (T€ 1; 2010: T€ 1). The amount for auditing the financial statements include in 2011 T€ 42 relating to the prior year financial statements.

(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 %	2011 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
DeveloGen AG, Goettingen (unaudited)	100.0*
Evotec (India) Private Limited, Thane, India	100.0
Renovis, Inc., South San Francisco, California, US (unaudited)	100.0
Evotec Inc., Wilmington, Delaware, US (unaudited)	100.0
Compound Focus, Inc., South San Francisco, California, US (unaudited)	100.0
Kinaxo Biotechnologies GmbH, Munich (unaudited)	100.0
Evotec (Asia) Pte. Ltd. Singapore (unaudited)	100.0
Other Investments	
European ScreeningPort GmbH, Hamburg (unaudited)	19.9

* *Increase due to the DeveloGen AG shareholders vote in favour of the squeeze out at 8 November 2011*

The subsidiaries listed in this table are included in the consolidated financial statements. The European Screening Port is included in the consolidated financial statements at cost.
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.
Evotec NeuroSciences AG, Zurich, CH was liquidated during 2011.
Evotec had acquired 99.4% of the shares in DeveloGen AG in 2010. Following this, Evotec initiated a squeeze-out process regarding the remaining 0.6% of shares, which were held by about 250 minority shareholders. A General Meeting of the DeveloGen AG shareholders on 8 November 2011 voted in favour of the squeeze-out. The former minority shareholders of DeveloGen AG will receive a payment of € 12.75 per share, summing up to T€ 176.

(e) MANAGEMENT BOARD

— Dr Werner Lanthaler, Business Executive, Hamburg (CEO),
— Colin Bond, Chartered Accountant, Hamburg (CFO),
— Dr Cord Dohrmann, Biologist, Göttingen (CSO) and,
— Dr Mario Polywka, Chemist, Oxfordshire, UK (COO).

The remuneration paid to the members of the Management Board in the financial year totalled T€ 1,740 (2010: T€ 1,501) of which T€ 511 (2010: T€ 433) was variable remuneration. The Management Board received also stock options as components with a long-term incentive effect with a fair value in 2011 of T€ 1,525 (2010: 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 2011, the variable pay in 2012 is based on the achievement of five sets of corporate milestones (strategic targets) and personal objectives.

in %	Achievement of corporate milestones	Achievement of corporate financial targets	Personal objectives
Dr Werner Lanthaler	64	16	20
Colin Bond	48	12	40
Dr Cord Dohrmann	48	12	40
Dr Mario Polywka	48	12	40

For the business year 2010, the variable pay in 2011 was based on the achieve-ment of four defined milestones (strategic objectives) 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

Under the Company's stock option plans, 1,660,000 options were granted to the members of the Management Board in 2011 (2010: 625,000). The options granted in 2011 and 2010 are subject to the stipulation of various Option Plans and may be exercised at the earliest after three and four years if the success targets of these plans are met. The fair values of the options are described in Note 19 and are recognised over their respective vesting periods. The fair values of options as of the grant dates amounted to a total of T€ 1,525.

	2011 Fixed remuneration in T€	2011 Variable remuneration in T€	2011 Stock options in pcs	2011 Fair values options granted in T€	2011 Total remuneration in T€
Dr Werner Lanthaler	376	294	640,000	597	1,267
Colin Bond	276	52	290,000	261	589
Dr Cord Dohrmann	266	42	290,000	261	569
Dr Mario Polywka	311	123	440,000	406	840
Total	**1,229**	**511**	**1,660,000**	**1,525**	**3,265**

	2010 Fixed remuneration in T€	2010 Variable remuneration in T€	2010 Stock options in pcs	2010 Fair values 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**

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€ 124 in total in 2011 (2010: T€ 214), and was paid by the Company.

In 2011, a variable remuneration for the business year 2010 in the amount of T€ 63 was paid to Dr Klaus Maleck relating to his time as former Management Board member. In early 2010, the Company paid a remaining amount of T€ 322 to Jörn Aldag according to his exit agreement. He resigned from the Company's Management Board effective 31 December 2008. Apart from those payments, no payments were made to any former Management Board member.

Dr Werner Lanthaler is Member of the Verwaltungsrat of Pantec Biosolutions AG, Ruggell, LI. Dr Mario Polywka is Non-Executive Chairman of the Board of Directors of Pharminox Ltd, Oxfordshire, UK.

(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;
— Dr Hubert Birner, Gräfelfing, DE, General Partner, TVM Capital GmbH;
— Roland Oetker, Düsseldorf, DE, Managing Partner ROI Verwaltungsgesellschaft mbH (from 16 June 2011);
— Prof Dr Andreas Pinkwart, Leipzig, DE, Principal and Managing director of HHL – Leipzig Graduate School of Management (from 16 June 2011);
— Mary Tanner, New York, NY, US, Managing Director, Peter J. Solomon LLC;
— Dr Peter Fellner, Winnersh, UK, Non-Executive Chairman Vernalis plc. (until 16 June 2011).

The remuneration accrued for the members of the Supervisory Board in the financial year 2011 was as follows:

in T€	**2011 Cash remuneration**	**2011 Value of share based remuneration**	**2011 Total**
Dr Flemming Ørnskov	**48.8**	**30.0**	**78.8**
Dr Walter Wenninger	**41.7**	**30.0**	**71.7**
Dr Hubert Birner	**25.0**	**20.0**	**45.0**
Roland Oetker	**10.2**	**5.4**	**15.6**
Prof Dr Andreas Pinkwart	**10.2**	**5.4**	**15.6**
Mary Tanner	**18.8**	**10.0**	**28.8**
Dr Peter Fellner	**8.5**	**4.6**	**13.1**
Total	**163.2**	**105.4**	**268.6**

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**

In 2011 and 2010, 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. 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.

The total remuneration accrued for the Supervisory Board members in 2011 totalled T€ 269 (2010: T€ 248). 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€ 124 in total in 2011 (2010: T€ 214), and was paid by the Company.

The Supervisory Board and their 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 Scientific Advisory Board was dissolved during 2010. The relating remuneration paid in 2010 amounted to T€ 28.

(36) *Subsequent events*

No subsequent events occurred.

SUPERVISORY BOARD AND MANAGEMENT BOARD

Supervisory Board

Dr Flemming Ørnskov *Chairman of the Supervisory Board* Zurich/CH Head General Medicine, Bayer HealthCare AG	**Non-Executive Chairman of the Board of Directors:** Santaris Pharma A/S, Hoersholm/DK **Non-Executive Member of the Board of Directors:** PCI Biotech Holding ASA, Oslo/NO; Spepharm Holding BV, Amsterdam/NL
Dr Walter Wenninger *Vice Chairman of the Supervisory Board* Leverkusen/DE Former Member of the Management Board of Bayer AG	**Chairman of the Supervisory Board:** Noxxon Pharma AG, Berlin/DE; Paion AG, Aachen/DE *(until May 2011)* **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
Dr Hubert Birner *Vice Chairman of the Supervisory Board* Gräfelfing/DE General Partner, TVM Capital GmbH	**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; Proteon Therapeutics, Inc., Waltham, MA/US; Spepharm Holding BV, Amsterdam/NL; Transmolecular, Inc., Cambridge, MA/US
Roland Oetker *Member of the Supervisory Board (from 16 June 2011)* Düsseldorf/DE Managing Partner, ROI Verwaltungsgesellschaft mbH	**Non-Executive Member of the Board of Directors:** Deutsche Post AG, Bonn/DE; Rheinisch-Bergische Verlagsgesellschaft mbH, Düsseldorf/DE **Member of the Board of Trustees:** RAG-Stiftung, Essen/DE
Prof Dr Andeas Pinkwart *Member of the Supervisory Board (from 16 June 2011)* Leipzig/DE Principal and Managing Director, HHL – Leipzig Graduate School of Management	
Mary Tanner *Member of the Supervisory Board* New York, NY/US Managing Director, Peter J. Solomon LLC	**Non-Executive Member of the Board of Directors:** Lineage, Inc., Salt Lake City, UT/US *(from September 2011)*
Dr Peter Fellner *Member of the Supervisory Board (until 16 June 2011)* Winnersh/UK Non-Executive Chairman, Vernalis plc	**Non-Executive Chairman of the Board of Directors:** Astex Therapeutics Ltd., Cambridge/UK; Biotie Therapies Corp., Turku/FI; Consort Medical plc, Hemel Hempstead /UK; Optos plc, Dunfermline/UK **Non-Executive Member of the Board of Directors:** UCB SA, Brüssel/BE

Management Board

Dr Werner Lanthaler *Chief Executive Officer* Hamburg/DE, Business Executive	**Member of the Verwaltungsrat:** Pantec Biosolutions AG, Ruggell, LI
Colin Bond *Chief Financial Officer* Hamburg/DE, Chartered Accountant	
Dr Cord Dohrmann *Chief Scientific Officer* Göttingen/DE, Biologist	
Dr Mario Polywka *Chief Operating Officer* Oxfordshire/UK, Chemist	**Non-Executive Chairman of the Board of Directors:** Pharminox Ltd, Oxfordshire, UK

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 2011. 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, 24 February 2012
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, 24 February 2012

Dr Werner Lanthaler
Chief Executive Officer

Dr Mario Polywka
Chief Operating Officer

Colin Bond
Chief Financial Officer

Dr Cord Dohrmann
Chief Scientific Officer

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