evotec

‘RESEARCH NEVER STOPS’

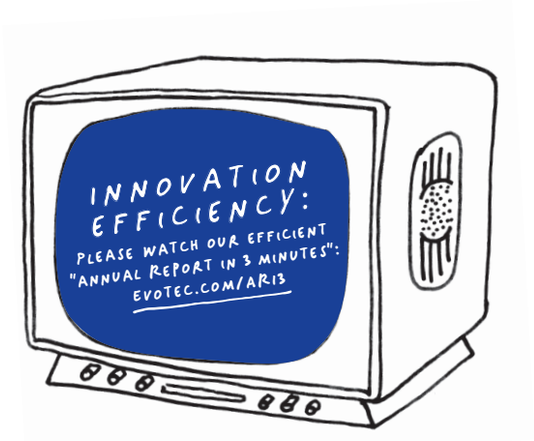
Time to celebrate
In 2013, Evotec counts 20 years of growth. Here is our timeline starting in 1993. **see page 03**

Cure *X* & Target *X* initiatives
Building a bridge between academia and the Pharma industry. **see page 09**

Facts and figures
Have a detailed look at Evotec’s 2013 performance. **see page 40**

ANNUAL REPORT 2013

Evotec AG, *Manfred Eigen Campus, Essener Bogen 7, 22419 Hamburg (Germany), www.evotec.com*



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DEAR SHARE-HOLDERS

CAUSES, NOT SYMPTOMS – RESEARCH NEVER STOPS

Dr Werner Lanthaler
Chief Executive Officer

'Causes, not symptoms' is one of the key underlying themes of our research and discovery work at Evotec. Our medical system often only addresses late-stage symptoms of many diseases. Unfortunately, we often get signals and little warnings that something isn't right too late in the course of the progression of a disease. Symptoms like fatigue, headaches, elevated cholesterol and blood sugar levels are some of the more common signals. However, it is a very long way to discover the link between the symptom and the true cause of a disease.

It is the job of biotech and research companies to address the underlying causes of our health problems. This is the true mission of the industry and Evotec's greatest strength. Evotec has the ability and willingness to take a new look at diseases and to develop novel classes of disease-modifying drug candidates in a systematic, comprehensive and unbiased way.

In the last few years, Evotec has evolved from being a pure service provider for its customers into a new role as a powerful drug discovery engine with partnered projects in all clinical phases as well as discovery and pre-clinical development. The latter largely consists of so-called Cure *X* and Target *X* initiatives. Each Cure *X* and Target *X* initiative is based on a powerful early observation made in academia that is ready for industrial validation and extension. With these initiatives, Evotec has found a new, more capital efficient way to drive innovation in drug discovery. We combine lower financial risk with potentially higher success rates.

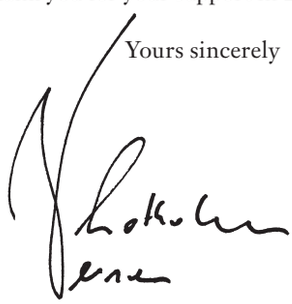
With our new segments EVT Execute and EVT Innovate, we can better leverage our core competencies and apply the best business model in all fields of biology and for all projects from January 2014 onwards.

With our recent initiatives, Evotec has shown that the pharmaceutical industry is eager to get access to early, but industrially validated, drug discovery programmes and that the industry will pay reasonably for high-quality programmes. With 20 years of history and dedication to first-in-class science, Evotec has reached a position where we do not follow trends, but where we set them. The position as the globally leading "quality intermediate" is right and will guide us through 2014.

Following our strategy, we see the opportunity to lead this industry and we want to deliver the potential of this strategy to you, our customers, shareholders and friends. Please be invited to read this annual report.

Thank you for your support in 2013!

Yours sincerely



Werner Lanthaler

RETROSPECT OF 20 YEARS OF EVOTEC 1993–2013

1993

▸ Evotec BioSystems GmbH is founded in Hamburg, Germany, based on the idea to develop and commercialise products based on the application of EVOlutionary TEChnology. Among the founders is Nobel laureate Professor Manfred Eigen, who gave his name to Evotec's new headquarters in Hamburg (Manfred Eigen Campus) where Evotec moved to in 2011.

1994

▸ The Company becomes operational in its new premises in Hamburg. It designs and develops ultra-high-throughput screening systems and offers products and services to increase the speed, accuracy and efficiency of drug discovery processes. The Company has a broad platform of proprietary technologies, including its unique single molecule detection technology FCS (Fluorescence Correlation Spectroscopy).

ACTION PLAN 2016

SUSTAINABLE VISION

STRATEGY AND BUSINESS MODEL OF EVOTEC

DRIVING INNOVATION AND CAPITAL EFFICIENCY – STATUS QUO

Evotec is a global high-quality provider in the drug discovery field and has a 20-year corporate history. Founded in 1993, the Company has built substantial drug discovery expertise and deep internal knowledge in the fields of metabolic diseases, neuroscience, pain, inflammation and oncology. By leveraging these skills and expertise, the Company intends to develop best-in-class differentiated therapeutics and deliver superior science-driven discovery alliances with pharmaceutical and biotechnology companies. Building on this expertise in the field of drug discovery services, the Company has evolved into a drug discovery engine in its own right. Today, Evotec drives research and development projects in numerous alliances and partnerships with academia as well as Pharma and biotech companies. Its strategy follows a clear goal: Providing best-in-class drug discovery solutions in the most innovative as well as efficient manner to its customers, while at the same time operating with the most capital efficient processes and on the basis of a sound liquidity position.

TWO BUSINESS SEGMENTS: EVT EXECUTE AND EVT INNOVATE

As stated before, Evotec has evolved from being a service provider and an early-stage drug development company into being a drug discovery engine in its own right, combining two separate businesses:

1. Offering of complete drug discovery solutions
2. Internal development programmes selected and positioned for partnering with Pharma customers

This development led to an organisational change within the Company, which forms the basis for current and future financial reporting and replaces the former single-track structure. Following this evolution, it was logical to implement a segmentation of the business into two parts from January 2014 onwards that represent the underlying business offerings and business model.

EVT Execute represents Evotec's core discovery alliance businesses build on systematic, unbiased and comprehensive

20 YEARS OF EVOTEC

1996

▸ Evotec enters into collaborations with Novartis and SmithKlineBeecham to develop EVOscreen® with the objective to develop and refine FCS detection technology into an advanced ultra-high-throughput screening system. EVOscreen® is a powerful drug discovery platform designed to provide solutions for the evolving ultra-high-throughput screening requirements at the various stages of the drug discovery value chain in the pharmaceutical industry.

1998

▸ The Company raises DM 46 m (approx. € 23.5 m), the largest private placement ever seen in the European biotech sector at this time.

1999

▸ Evotec NeuroSciences GmbH is established.
▸ During the third quarter of 1999, Evotec's drug discovery service business is launched. This business unit offers pharmaceutical and biotechnology companies the benefits of Evotec's cutting-edge technology and extensive expertise in the development of miniaturised biological assay systems.
▸ In November, Evotec BioSystems AG goes public.

innovation infrastructure. In this segment, the Company serves its partners with its innovative drug discovery tools and expertise. Based on this discovery platform and processes, Evotec invests along its core competences in first-in-class and best-in-class targets to build a product pipeline together with its partners without taking major financial risks within the EVT Innovate segment.

Evotec has long-term discovery alliances with partners including Bayer, Boehringer Ingelheim, CHDI, Genentech, Janssen Pharmaceuticals, MedImmune/AstraZeneca, Novartis or Ono Pharmaceutical. In addition, the Company has existing development partnerships and product candidates both in clinical and pre-clinical development. These include partnerships with Boehringer Ingelheim, MedImmune and Andromeda in the field of diabetes, with Janssen Pharmaceuticals in the field of depression and with Roche in the field of Alzheimer's disease.

Headquartered in Hamburg, Germany, the Evotec Group is operating worldwide with subsidiaries in Germany, UK and USA. As a profitable, fast-growing company, Evotec generated revenues of € 85.9 m and an EBITDA before changes in contingent considerations of € 10.4 m in 2013.

At year-end 2013, the Evotec Group employed 610 people and had a strong liquidity position at € 96.1 m. Shares are listed in the Prime Standard of the Frankfurt stock exchange and are part of the German technology stock index TecDAX.

THE CHALLENGE FOR THE PHARMACEUTICAL INDUSTRY IS TO FIND NEW WAYS TO CREATE VALUE

Over the past decade, the pharmaceutical industry faced major business challenges. Research and development ("R&D") costs escalated over the years, Pharma intends to have robust pipelines of new innovative medicines and many Pharma companies experienced the fact that their drug pipelines have started to run dry. Therefore, speed, quality and cost have become extremely important for all drug discovery and development activities. However, innovation has always been the backbone and underlying strength of the pharmaceutical industry.

Despite currently strong cash flows, the pharmaceutical industry is also facing significant financial pressure in case pipelines do not deliver future success. Thus, the need for improved capital efficiency will become predominant. This is largely due to the patent cliff which the industry faces as a result of the large number of drugs that were approved in the late 1990s. An analysis published by EvaluatePharma estimates that over $ 290 bn of sales are at risk from patent expirations until 2018. The biggest patent cliff the pharmaceutical industry has ever experienced resulted in an estimated $ 33 bn of sales forecasts to be lost in 2012 and predicts another peak in lost sales in 2015 (Source: Nature Reviews Drug Discovery, January 2013).

R&D spending also increased enormously and R&D efficiency has been declining dramatically. Nowadays, it can take about 15–20 years to develop a new drug from initial discovery and can result in costs exceeding $ 1–2 bn as well as a failure rate of approximately 95% (Source: Nature Reviews Drug Discovery, November 2013). Therefore, commercialised drugs need to reach an unlikely $ 1 bn in peak sales per annum to cover the about $ 1.5 bn risk adjusted invested capital cost. Given these statistics, many pharmaceutical companies have been forced to downsize their operations, especially in early drug discovery. The most important challenge for the pharmaceutical industry is to find new ways to create value.

Given the R&D cost and efficiency challenges facing the pharmaceutical industry as already described, biotech and Pharma companies will increasingly turn to outsourcing R&D activities as they are forced to seek greater cost savings and improvements in efficiency. The use of outsourcing partners allows fixed costs to be converted into variable costs and also provides expertise in selected areas; therefore outsourcing will become more prominent and is a growing market. According to a study from Visiongain, *Drug Discovery Outsourcing: World Market 2013–2023*, the global drug discovery outsourcing market will expand, reaching revenues of $ 21.3 bn by 2017, growing at a CAGR of more than 10% from 2011. However there will be a trend of reducing R&D spendings that is coupled with an increase in outsourcing spend as companies still need to strive to develop new drugs in a more efficient manner. Those new drugs will be addressing very difficult targets. The attrition rates on targets will continue to rise which means that innovation and efficiency of drug discovery will need to improve.

2000

► Evotec merges with Oxford Asymmetry International plc and forms Evotec OAI AG. Oxford Asymmetry International plc, based in Oxford, UK, provides the "complete chemical solution" – an integrated range of chemical services from discovery through development to production. This merger creates a "one-stop-shop".

2002

► Evotec spins off its technology development and instrumentation business into its subsidiary Evotec Technologies GmbH.

2005

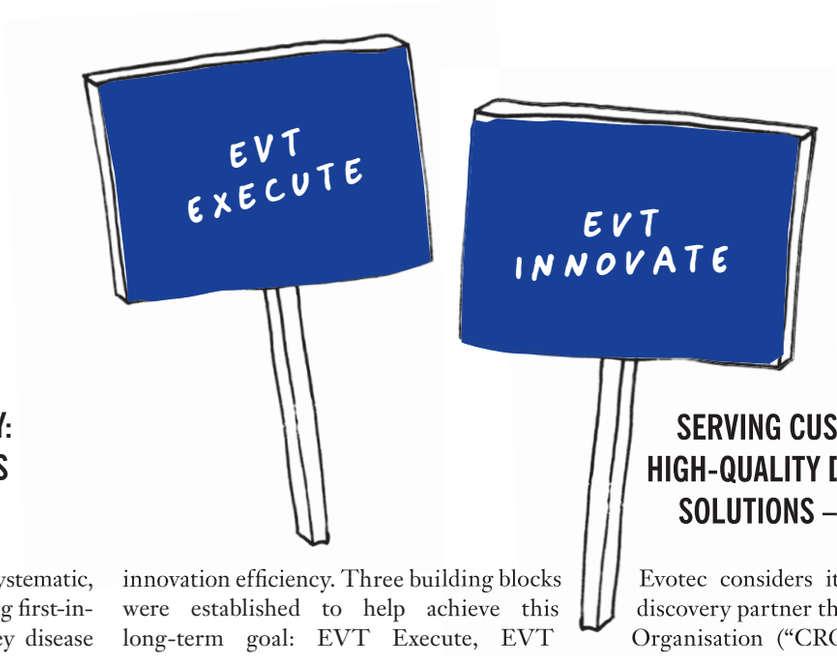
► Evotec OAI AG acquires Evotec NeuroSciences GmbH and secures € 47 m in cash to create a sustainable Central Nervous System ("CNS") business and pipeline (Pharmaceutical business).
► The Company changes its name to Evotec AG.

EVT EXECUTE Guiding principles

- **Strict fee for service, high capex investments in technology platforms and capacities**
- **Platform selling with low risk, only selectively milestone and royalty derived projects**

EVT INNOVATE Guiding principles

- **Focused first-in-class research investments along core competences**
- **High returns through early partnering, performance-based alliances with upfronts, milestones and product royalties**



INNOVATION EFFICIENCY: MISSION AND BUSINESS MODEL FOR EVOTEC

Evotec follows its strategy by being systematic, unbiased and comprehensive and being first-in-class and best-in-class in its four key disease areas to address the causes of diseases instead of their symptoms. Together with its partners, Evotec intends to build a product pipeline based on its discovery platform and processes without taking the downside risk of highly expensive clinical outcomes. Through this approach, Evotec follows its core competence and makes the drug discovery process truly capital efficient with more data and less capital needed.

Evotec has a track record of 20 years, has formed more than 200 partnerships and discovered 30 pre-clinical and 20 clinical candidates both in partnerships and within its own proprietary drug discovery efforts. With the strategic business model "Evotec 2012 – Action Plan to Focus and Grow", which was implemented in 2009, the Company was guided into a sustainable, fast growing, profitable and highly innovative biotech company. "Action Plan 2016 – Innovation Efficiency" was implemented in 2012 and designed to meet customers' needs for innovation efficiency. Three building blocks were established to help achieve this long-term goal: EVT Execute, EVT Integrate and EVT Innovate. EVT Execute aimed to deliver cost-efficient and industrialised services for drug discovery on a fee-for-service basis. EVT Integrate and EVT Innovate involved accelerating promising drug discovery ideas and assets to partnerships with potential upfront payments, premium research fees, milestone payments and royalties. As stated before, Evotec started to manage the Company alongside the segments EVT Execute and EVT Innovate in in January 2014 following an organisational change within the Company, thereby increasing transparency. The core area EVT Integrate will be divided up into EVT Execute and EVT Innovate. All long-term, integrated partnerships will be allocated to EVT Execute whereas all innovative, early-stage drug discovery projects, the so-called Cure *X* and Target *X* initiatives, will be allocated to EVT Innovate.

SERVING CUSTOMERS WITH HIGH-QUALITY DRUG DISCOVERY SOLUTIONS – EVT EXECUTE

Evotec considers itself more like a drug discovery partner than a Contract Research Organisation ("CRO"), sees the need for strategic outsourcing and can offer complete solutions on a high-quality level in the drug discovery space: This business segment is called *EVT Execute*.

EVT Execute contributes speed, creativity and new technologies to the drug discovery process. Over the last couple of years, the Company made a huge commitment to upgrade its platforms to build a systematic, unbiased and comprehensive discovery platform which is accessible to its customers, partners and academic institutions. The chart on page 7 provides an overview of Evotec's achievements in this upgrade.

In July 2010, Evotec acquired DeveloGen AG, a German biopharmaceutical company focused on novel therapies for metabolic and endocrine disorders. The acquisition was all about getting access to new targets for diseases with significant medical need, especially in the fast growing metabolic disease area. In 2011,

20 YEARS OF EVOTEC

2006

▸ Evotec sells its technology business Evotec Technologies to PerkinElmer in order to focus on its core business: drug discovery and development.

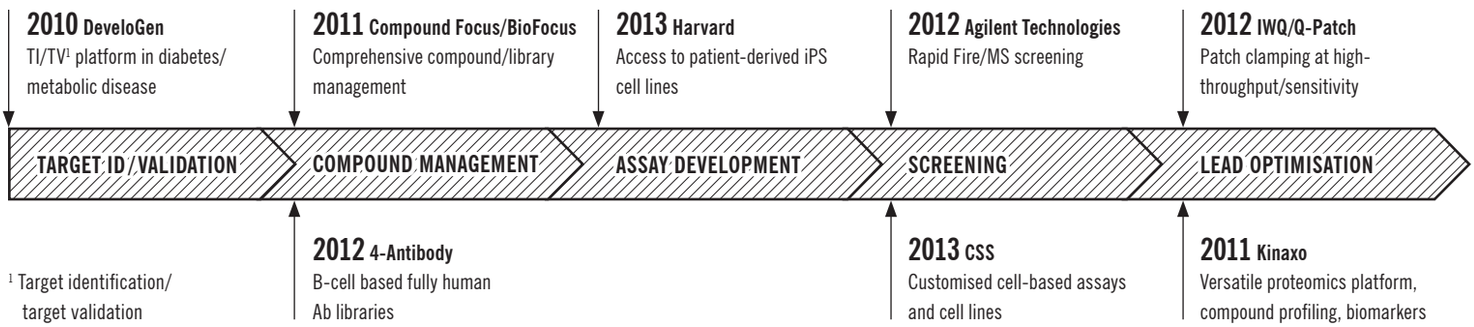
2007

▸ Evotec sells its chemical development business to Aptuit to further focus on its strategy of becoming an emerging pharmaceutical company providing high-value research results to its partners through discovery collaborations and partnering of pre-clinical and clinical programmes developed internally.

2008

▸ Evotec completes the acquisition of Renovis, Inc., a biopharmaceutical company focused on the discovery and development of drugs for major medical needs in the areas of pain and inflammatory diseases. The merger creates an emerging pharmaceutical company and a broad pipeline in neurological and inflammatory diseases. As a result, Evotec has six compounds in clinical trials.
▸ Evotec gets listed on the NASDAQ stock market.

EVT Execute – Consolidation to build integrated drug discovery platforms



Evotec acquired two excellent companies. Kinaxo Biotechnologies GmbH provided access to proprietary technologies for response prediction and drug efficacy and safety assessment, especially in the key indication area oncology. Compound Focus Inc. further strengthened Evotec's integrated innovation offering with world-class compound management. In 2013, Evotec expanded its compound management service offering to the East Coast of the USA. In 2011 and 2012, Evotec moved into a state-of-the-art 11,000 m² building in Hamburg, Germany, called Manfred Eigen Campus, and invested in the fitting-out of this new laboratory building e.g. with the offering of Agilent Technologies' RapidFire Mass Spectrometry (MS) analysis capabilities. Evotec also has the best-possible instrumentation for scientists engaged in the early phases of ion channel drug discovery. In addition, Evotec entered into a strategic collaboration agreement with 4-Antibody AG, which adds a fully integrated antibody discovery and development service to the Company's service offering. In 2012 and effective on 01 January 2013, Evotec acquired CCS Cell Culture Service GmbH ("CCS"), one of the leading suppliers of custom cells and cell-based reagents such as recombinant assay cell lines, assay-ready frozen instant cells, qualified membranes and proteins for high-throughput screening, which was fully integrated into Evotec's Hamburg operations in the course of 2013. In a strategic partnership with the Harvard Stem Cell Institute, Evotec gained access to iPS cell lines to identify compounds that will have therapeutic value against diseases in the field of motor neurons.

Evotec's drug discovery platform is designed to deliver an industrialised, cutting-edge, comprehensive and unbiased infrastructure to

Evotec's service offering

- **Molecular biology and cloning**
- **Bioinformatics**
- ***In vitro* target validation**
- ***In vivo* target validation**

- **Assay development & screening**
- **(u)HTS**
- **High-content screening**
- **Electrophysiology**
- ***In silico* screening technologies**
- **Fragment-based drug discovery**
- **Compound management**
- **Chemo-proteomic**
- **Phosphoproteomics**

- **Medicinal chemistry**
- **Hit expansion**
- **Library design**
- **High-throughput chemistry**
- **Target deconvolution**
- **Protein-ligand crystallography**
- ***In vitro* & *in vivo* biology**
- **Early ADMET**

- **Medicinal chemistry**
- ***In vitro* & *in vivo* biology**
  Disease biology and target class expertise
- **Cellular selectivity analysis**
- **Cellular MoA[1] analysis**
- **Translational assays**
- **Computational chemistry and structure-based drug design**
- ***In silico* ADMET**
- **Biomarker discovery**

[1] Mode of action

2009

▸ Evotec undergoes a change in management and strategy. Under the leadership of Dr Werner Lanthaler, Evotec implements Action Plan "Evotec 2012 – Action Plan to Focus and Grow". The overall goal is to ensure that all efforts are focused on core differentiated projects and activities capable of delivering the greatest value to shareholders and partners in the future. Key element of this strategy is to strengthen the discovery alliance business to generate the future central strategic vehicle for growth. The second goal is to build strategic alliances on selected development projects and to refocus the pipeline on the most valuable assets in order to de-risk the portfolio and reduce R&D cash burn, but to do so without giving away certain significant upsides for shareholders. The third goal is to significantly reduce operating expenses and minimise strategic business risks. During 2009, Evotec implements strict cost-cutting and restructuring measures. As a consequence, Evotec closes its US operations in South San Francisco (former facility of Renovis, Inc.).

Molecule	Indication	Partner	Discovery	Pre-clinical	Phase I	Phase II	Phase III	Market
Clinical								
DiaPep277®	Diabetes type 1	Andromeda						
EVT302[1]	Alzheimer's disease	Roche						
EVT201	Insomnia	JingXin						
Somatoprim	Acromegaly	Aspireo						
EVT103[2]	TRD	Janssen						
EVT401	Inflammation	CONBA						
ND[3]	Oncology	Boehringer Ingelheim						
Pre-clinical								
ND[3]	Pain	Novartis						
ND[3]	Oncology	Boehringer Ingelheim						
Various	Endometriosis	Bayer						
EVT770	Diabetes type 2/1	MedImmune/AstraZeneca						
ND[3]	Pain	Boehringer Ingelheim						
Discovery								
Various	Inflammation	UCB						
EVT070	Diabetes type 2	Boehringer Ingelheim						
Various	Diabetes type 2/1	MedImmune/AstraZeneca						
Various	Diabetes type 2/1	Janssen						
Various	Kidney disease	AstraZeneca						
Various	Alzheimer's disease	Johnson & Johnson Innovation						

[1] RO4602522 [2] Currently under evaluation [3] Not disclosed

meet the industry's need for innovation and drug discovery from target identification to pre-clinical candidates. The portfolio of capabilities includes target identification and validation, screening, hit-to-lead and lead optimisation, medicinal chemistry, *in vivo* and *in vitro* pharmacology, proteomics and biomarker science.

Evotec's systematic, unbiased and comprehensive infrastructure is the basis for an exceptional flexibility to meet its customers' demands. This flexibility is key for starting customer projects at any point along the value chain on a high-quality level. Evotec tries to be the partner with one project manager and integrated teams under one roof, constantly innovating the level of individual components in the drug discovery value chain and then transferring lead optimised targets into business opportunities. Being a purely fee-for-service business, EVT Execute represents one important pillar of Evotec's business model. However, Evotec's innovative mission is to build a pipeline together with its partners where Evotec always keeps the upside of the project it is working on.

GROWING A PRODUCT PIPELINE – EVT INNOVATE

To build a long-term pharmaceutical pipeline without taking the financial risk of clinical exposure requires new innovative business models. Together with pharmaceutical and biotech companies, academic institutions, healthcare players and regulatory bodies, EVT Innovate could be a new innovation norm to accelerate targets into the clinic. This means bundling all approaches towards fighting a single disease indication without the intention to compete against customers and

20 YEARS OF EVOTEC

2009

- Evotec partners the NMDA programme EVT101/103 with Roche for development in treatment-resistant depression.
- Evotec acquires Research Support International Private Limited ("RSIPL"), thereby establishing operations in India.
- Evotec acquires zebrafish screening operations of Summit Corporation plc and receives access to a portfolio of validated safety pharmacology and toxicology assays and disease models for target validation.

2010

- Evotec re-enters the German technology stock index TecDAX and delists from the NASDAQ in order to save costs.
- Evotec acquires DeveloGen and adds key metabolic disease know-how, complementary drug discovery expertise and two high-value alliances with Boehringer Ingelheim and Andromeda/Teva to its portfolio.

partners. Using this open source alliance model, Evotec will continue to pursue treatments for diseases that not only alleviate the symptoms but tackle the cause of the diseases. Evotec spends modest amounts of money on very early-stage but innovative target projects where the Company has significant expertise either in-house or through collaborations with e.g. academic institutions. In a next step, it leverages them into drug discovery collaborations at a very early stage to key partners, which drive the key programmes together with Evotec to the clinic for modest upfront fees, research fees and performance-based milestones and royalties.

Over time, Evotec built a pipeline which has now about 30 programmes including Phase III, Phase II, Phase I and unpartnered assets in research or pre-clinical stages. Evotec always tries to find the best-possible partner for the key disease who can further advance the programme.

For a more detailed description of Evotec's research and development projects, please see chapter "Research and development" on page 30 of the Management Report.

WHERE DO THE NEXT PIPELINE ENTRIES COME FROM?

Targeting innovation efficiency through Cure *X*/Target *X* strategy

In 2013, Evotec consequently made a serious effort to broaden its Cure *X* and Target *X* strategy, which had its starting point with Cure*Beta* in March 2011. More than ten such initiatives have been initiated up to now. Evotec's Cure *X* and Target *X* strategy is led by the aim of bridging the gap between academia and Pharma which means to translate research into drug development. In addition, Evotec is also pursuing active partnerships with small biotech companies, e.g. Apeiron Biologics AG ("Apeiron") or Haplogen GmbH ("Haplogen"). Within these collaborations, Evotec and its partners are working on best-in-class and especially first-in-class targets in a broad range of diseases. All of these collaborations aim at curing or significantly slowing down the progression of diseases. Evotec has the platforms, infrastructure and expertise needed to bring innovative science at academic institutions and small biotech companies forward and translate it into industry-scale drug development programmes. The primary aim is to make the early drug discovery stages more efficient and establish a system that seamlessly merges findings coming out of academia and small biotech companies with industry-scale drug discovery processes, thereby targeting innovation efficiency, which is the central theme of Evotec's Action Plan 2016.

Cure*Beta*

The Cure*Beta* initiative was established by Harvard University ("Harvard"), the Howard Hughes Medical Institute ("HHMI") and Evotec in 2011 to leverage the assets and expertise in industry and academia in order to identify and develop disease-modifying therapeutic targets. During the initial period of this collaboration, Evotec, HHMI and Harvard established new standards in beta cell regeneration in terms of assays and tools as well as novel high-potential targets. A portfolio of small molecules and biologics designed to trigger the regeneration of insulin-producing beta cells was licensed to Janssen Pharmaceuticals, Inc. in July 2012.

Cure*Nephron*

In January 2012, Evotec and Harvard entered into a second strategic alliance, named Cure*Nephron*, this time including Brigham and Women's Hospital and the University of Southern California. This programme is designed to deliver and exploit novel therapeutic targets as well as biomarkers that

2011

- Evotec and Roche decide to voluntarily terminate the first proof-of-concept study in treatment-resistant depression with their NR2B sub-type selective NMDA antagonist EVT101 due to difficulties to recruit patients.
- Evotec acquires the compound management business from Galapagos and further strengthens its innovation offering.
- Evotec acquires Kinaxo, thereby expanding its drug discovery platform with cutting-edge technologies.
- Evotec and Roche sign an agreement to develop a compound against Alzheimer's disease. Evotec's compound (EVT302), the so-called MAO-B inhibitor, is intended to slow down the progression of Alzheimer's disease.

allow more accurate diagnosis, monitoring and treatment of chronic and acute kidney disease.

A first, small proportion of Cure*Nephron* was licensed to AstraZeneca in October 2013 with the aim to explore a key mechanism in the field of chronic kidney disease. Under the agreement, AstraZeneca receives access to a selected series of molecules identified in a screening effort performed by Evotec.

Target*ASIC*

In November 2009, Evotec was granted up to € 2.5 m in research funds from the German Federal Ministry of Education and Research (Bundesministerium für Bildung und Forschung, "BMBF") within the Neu2 consortium to advance research and development activities on the target Serine Racemase for potential use in neuroprotection. Evotec will use its drug discovery platform and expertise in progressing this programme towards the clinic, particularly making use of its high-quality compound library and proprietary fragment-based drug discovery platform.

The Neu2 consortium, including Evotec, MerckSerono, European ScreeningPort GmbH, Bionamics GmbH and the University Medical Center Hamburg-Eppendorf among others, focuses on developing therapeutics aimed at Multiple sclerosis and other neurodegenerative diseases.

Target*T-cell*

Target*T-cell* is a research collaboration between Evotec and Apeiron entered in January 2013 with the objective of developing immunomodulatory lead compounds for the treatment of cancer. Apeiron contributes *in vitro* and *in vivo* pharmacology expertise to this collaboration while Evotec is responsible for medicinal chemistry as well as chemical proteomics. The collaboration is based on the successful outcome of a phenotypic high-throughput screen previously commissioned by Apeiron to Evotec.

Evotec's Cure *X*/Target *X* initiatives within EVT Innovate initiated since 2011

2011

Cure*Beta*
(Harvard Stem Cell Institute)

2012

Cure*Nephron*
(Harvard, BWH, USC)

Target*ASIC*
(BMBF)

Somatoprim
(Aspireo)

2013

Target*T-cell*
(Apeiron)

Innovation alliance & Target*DBR*
(Yale)

Target*PGB*
(Harvard)

Target*KDM*
(Dana-Farber, Belfer Institute)

Cure*MN*
(Harvard)

Target*EEM*
(Harvard)

Target*AD*
(J&J Innovation)

Innovation alliance and Target*DBR*

An open innovation alliance was formed with Yale University in January 2013, starting in the first quarter of 2013. Under the agreement, Evotec and Yale will leverage first-rate science performed at Yale University together with Evotec's drug discovery infrastructure and expertise into highly innovative discovery approaches in diseases of high unmet medical need and prepare these for partnering.

In December 2013, Evotec entered into first research collaboration within this innovation alliance with Yale University. This collaboration between Evotec and laboratories of Prof. Peter Glazer and Prof. Ranjit Bindra at Yale School of Medicine, called Target*DBR (DNA Break Repair)*, aims at identifying identify novel mechanisms, targets and compounds that have the potential to interfere with DNA repair.

Target*KDM*

In April 2013, the Belfer Institute for Applied Cancer Science at Dana-Farber Cancer Institute and Evotec announced Target*KDM (Lysine demethylase inhibitors)*, a research collaboration aimed at discovering and commercialising novel cancer treatments based on epigenetic drug mechanisms. The goal of the collaboration is to validate emerging epigenetic targets for oncology indications and to demonstrate the drugability of the selected target families. Evotec, Dana-Farber and the Belfer Institute invest in enabling technologies,

► Evotec initiates "Action Plan 2016 – Innovation Efficiency" which defines the next goals the Company wants to achieve in the years to come. Three key building blocks (EVT Execute, EVT Integrate, EVT Innovate) are designed to help Evotec to achieve long-term leadership in the drug discovery solutions market and continue to drive innovation efficiency.

► Cure*Beta,* a research collaboration between Evotec and Harvard University, enters into a strategic alliance with Janssen Pharmaceuticals, Inc.
► Evotec enters into a five-year multi-target collaboration with Bayer to develop three clinical candidates for the treatment of endometriosis.

► Evotec partners its NMDA programme EVT100 with Janssen for development in treatment-resistant depression.

experimental target validation and the generation of chemical matter by leveraging existing expertise and platforms.

Target*PGB*

In May 2013, Evotec and Harvard entered into their third collaboration, named Target*PGB (Peptidoglycan biosynthesis)*, aimed at discovering and developing novel anti-bacterial agents based on a highly validated target family involved in bacterial cell wall biosynthesis. Under the agreement, researchers at Harvard and Evotec collaboratively identify and optimise small molecule inhibitors of bacterial cell wall synthesis, based on enabling technologies and chemical starting points licensed from Harvard. Using its comprehensive drug discovery infrastructure and expertise in addressing anti-bacterial targets, Evotec specifically targets peptidoglycan biosynthesis.

Cure*MN*

In September 2013, Evotec announced a strategic partnership with the Harvard Stem Cell Institute to identify compounds that prevent or slow down the loss of motor neurons, which is characteristic of the human disease amyotrophic lateral sclerosis ("ALS"). The collaboration Cure*MN (Motor Neuron)* leverages human motor neuron assays based on ALS patient-derived induced pluripotent stem cells that were developed by Dr Lee Rubin and Dr Kevin Eggan, as well as Evotec's leading drug discovery infrastructure and expertise to identify compounds that will have therapeutic value against this life-threatening disease.

Target*EEM*

Target*EEM (Enteroendocrine Mechanisms)* represents the second alliance with the laboratory of Doug Melton at Harvard and has its starting point in October 2013. The objective of this collaboration is to identify novel enteroendocrine mechanisms, pathways and signals regulating key metabolic processes that have disease-modifying potential in diabetic patients. The basis of this effort are disease-relevant animal models as well as unbiased transcriptional and proteomic profiling platforms contributed by both collaboration partners.

Target*IDH*

Evotec initiated internal drug discovery efforts to target gain-of-function mutations in isocitrate dehydrogenase *("IDH")* as novel cancer therapies. Mutant IDH isoforms have been detected in a variety of types of cancer, including Acute myeloid leukemia ("AML") and glioblastoma, where they promote a DNA hypermethylator phenotype. With the goal to address unmet medical needs for cancer patients, Evotec aims to rapidly progress new chemical series by the application of structure-based drug design and cutting-edge mass spectrometry approaches. Moreover, application of proteomics approaches allows Evotec's scientists to gain deeper insights into IDH mutant mechanisms of action and putative resistance pathways. The central role of metabolism and epigenetics in cancer is introducing new families of drugable enzymes to pharmaceutical research, requiring the integrated application of cutting-edge technologies for drug and biomarker discovery. Evotec is in the unique position to apply these technologies towards the rapid and efficient development of pre-clinical development candidates.

Target*AD*

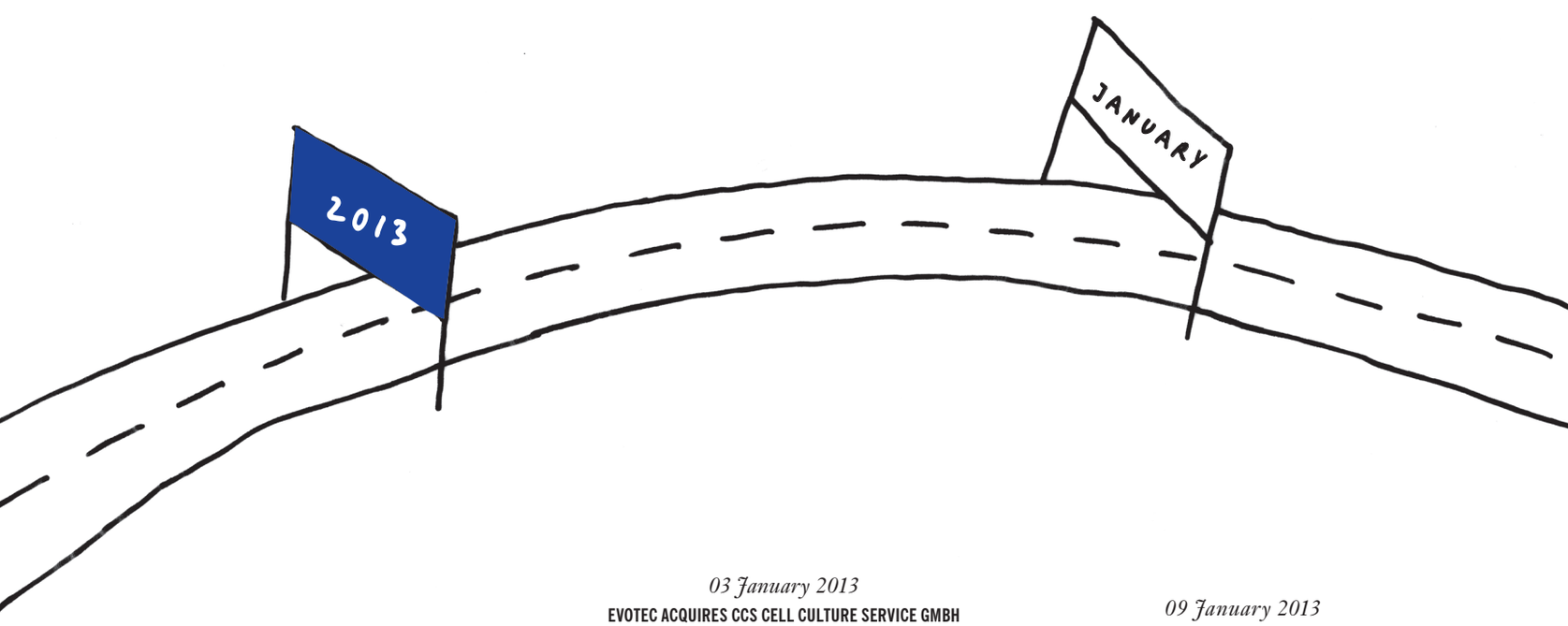
In November 2013, Evotec announced its Target*AD (Alzheimer's disease)* collaboration with the Johnson & Johnson Innovation Center in California to identify new targets for Alzheimer's disease drug discovery and development. Evotec's proprietary Target*AD* database provides a unique source of potentially novel Alzheimer's disease drug targets derived from the analysis of dysregulated genes in high-quality and well-characterised human brain tissues representing all stages of disease progression as well as control tissues from non-demented subjects. Identifying new targets for drug development based on disease pathology may have the potential to impact the disease at its earliest stages, resulting in greater therapeutic benefit to patients.

2013

- Evotec acquires CCS Cell Culture Service GmbH to strengthen its cell-based screening and reagent platform at its Hamburg site.
- Evotec enters into several alliances with leading academic institutions such as Harvard University, Yale University and Dana-Farber's Belfer Institute for Applied Cancer Science.
- Indian operations are closed and all projects are transferred to Evotec's UK site.
- In a direct placement capital increase, Biotechnology Value Fund, L.P. and other affiliates of the US biotech specialist investment firm BVF Partners L.P. invest € 30 m in Evotec AG.
- Evotec decides to re-organise its business structure and divides all existing activities, which were managed within the three building blocks EVT Execute, EVT Integrate and EVT Innovate, into two business segments named **EVT Execute** and **EVT Innovate** from January 2014 onwards.

2013: NEWS OF THE YEAR

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 2013.



02 January 2013

EVOTEC AND APEIRON BIOLOGICS ANNOUNCE COLLABORATION ON CANCER IMMUNOTHERAPY

Evotec and Apeiron enter into a research collaboration, Target*T-cell,* with the objective of developing immunomodulatory lead compounds for the treatment of cancer. Apeiron will contribute *in vitro* and *in vivo* pharmacology expertise to this collaboration while Evotec will be responsible for medicinal chemistry as well as chemical proteomics. The collaboration is based on the successful outcome of a phenotypic high-throughput screen previously commissioned by Apeiron to Evotec.

03 January 2013

EVOTEC ACQUIRES CCS CELL CULTURE SERVICE GMBH

Signed in December 2012 and effective 01 January 2013, Evotec acquired CCS Cell Culture Service GmbH ("CCS"), a Hamburg-based company which supports the cell culture needs of biotech and pharmaceutical companies on a worldwide basis. CCS' large-scale processes for cell production, freezing and storage, including the entire team of specialised cell culture scientists and technicians, will be fully integrated into Evotec's Hamburg operations to realise cost synergies and efficiency improvements. The purchase price consists of a cash consideration of € 1.15 m and an earn-out component which could reach up to € 1.3 m in cash. The earn-out component will become due one year after the acquisition and depends on the achievement of certain revenue targets. Through the acquisition of CCS, Evotec confirms its leading position as a fully integrated drug discovery and early development partner for pharmaceutical and biotechnology companies.

09 January 2013

EVOTEC AND YALE UNIVERSITY FORM OPEN INNOVATION ALLIANCE

Evotec and Yale University announce a strategic partnership, entered in January 2013, aimed at leveraging first rate science performed at Yale University together with Evotec's drug discovery infrastructure and expertise into highly innovative discovery approaches in diseases of high unmet medical need. Initially, Evotec and Yale defined a wide range of scientific fields including metabolic diseases, CNS, immunological diseases and cancer where they will jointly assess and potentially pursue novel assays, screens and models but in particular exploratory drug targets and compounds. The intention is to seamlessly integrate Evotec's drug discovery infrastructure with highly innovative biology at Yale to mature individual projects to a stage where they can be commercialised.

22 April 2013

EVOTEC EXTENDS DRUG DISCOVERY ALLIANCE WITH GENENTECH

Evotec and Genentech, a member of the Roche Group, extend their drug discovery alliance for three additional years. The collaboration was initiated in May 2010 and this extension further validates Evotec's technology platform and broad expertise in drug discovery.

26 April 2013

NEW HORMONE TO TREAT DIABETES PUBLISHED IN "CELL"

Evotec announces an auspicious step in research from Harvard University. The findings are published in a scientific article by Prof. Doug Melton, University professor at Harvard University and Howard Hughes Medical Institute investigator, and his post doc Peng Yi in the journal *Cell*. Doug Melton is the academic key collaborator of Cure*Beta,* a strategic alliance between Harvard University, Evotec and Janssen Pharmaceuticals in the field of beta cell regeneration. In the article, Doug Melton, who is also the co-director of the Harvard Stem Cell Institute, and his post doc Peng Yi release the discovery of the new hormone betatrophin that controls beta cell proliferation. All intellectual property associated with these findings has been licensed to Evotec in March 2011 and subsequently sublicensed to Janssen Pharmaceuticals within the Cure*Beta* collaboration announced in July 2012.

29 April 2013

EVOTEC EXPANDS COMPOUND MANAGEMENT CAPABILITY TO EAST COAST OF THE UNITED STATES

Evotec (US), Inc. has executed a multi-year lease on a facility specifically designed to expand the offering of its Compound Management Services on the East Coast of the United States. The facility, located in Branford Connecticut, is strategically positioned to support the strong presence of Evotec's drug discovery collaborators along the East Coast of the United States. The new facility will be modern, cost-effective and scalable for continued growth. The investment into industry leading technologies, specifically aimed at library management, and the access to incremental space will enable Evotec to better support the East Coast pharmaceutical and biopharmaceutical industry for the coming years.

30 April 2013

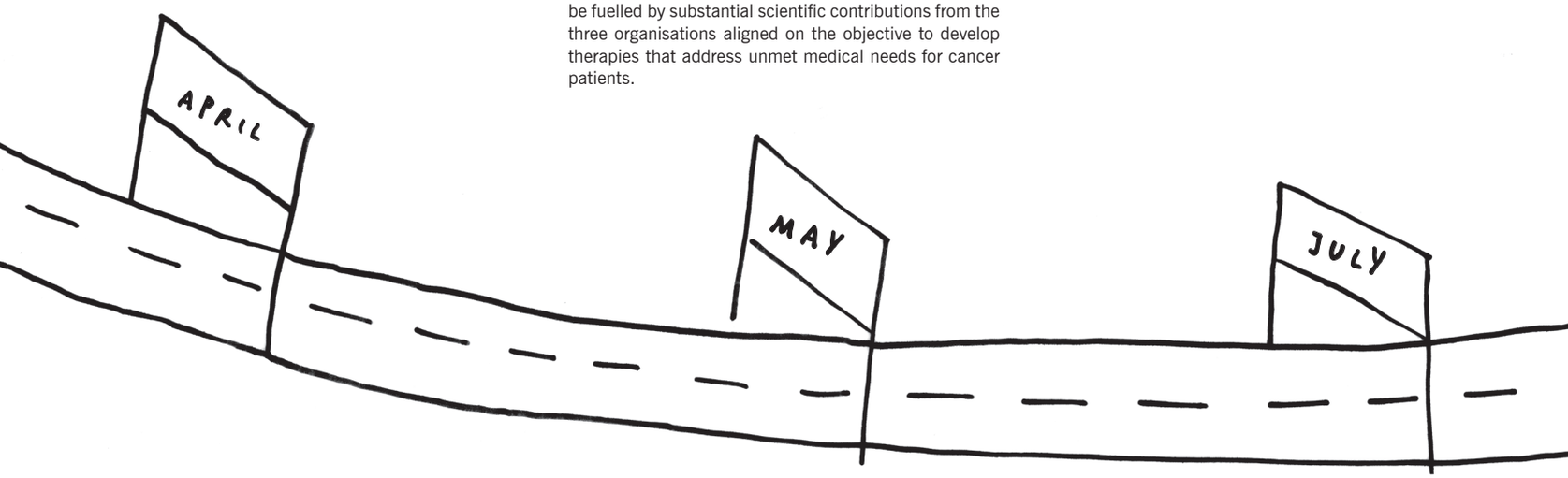
DANA-FARBER'S BELFER INSTITUTE FOR APPLIED CANCER SCIENCE AND EVOTEC ESTABLISH COLLABORATION IN ONCOLOGY

Evotec and Dana-Farber's Belfer Institute for Applied Cancer Science partner up to discover and commercialise novel cancer treatments based on epigenetic drug mechanisms. The goal of the collaboration is to validate emerging epigenetic targets for oncology indications and to demonstrate the drugability of the selected target families. Evotec, Dana-Farber and Dana-Farber's Belfer Institute for Applied Cancer Science will invest in enabling technologies, experimental target validation and the generation of chemical matter by leveraging existing expertise and platforms. The collaboration will be fuelled by substantial scientific contributions from the three organisations aligned on the objective to develop therapies that address unmet medical needs for cancer patients.

16 May 2013

EVOTEC AND HARVARD UNIVERSITY TO COLLABORATE ON DEVELOPMENT OF NEW CLASS OF ANTIBACTERIALS

Evotec and Harvard University enter into a research collaboration aimed at discovering and developing novel anti-bacterial agents based on a highly validated target family involved in bacterial cell wall biosynthesis. Under the agreement, researchers at Harvard and Evotec will collaboratively identify and optimise small molecule inhibitors of bacterial cell wall synthesis, based on enabling technologies and chemical starting points licensed from Harvard. Using its comprehensive drug discovery infrastructure and expertise in addressing anti-bacterial targets, Evotec will specifically target peptidoglycan biosynthesis ("PGB"). The approach leverages promising chemical starting points, biological and structure-guided techniques allied with extensive medicinal chemistry expertise. Evotec will be responsible for the commercialisation of the resulting assets.



08 July 2013

EVOTEC TO REALIGN DISCOVERY CHEMISTRY OPERATIONS

Evotec announces that it will close its Chemistry Operations in Thane, India. Evotec (India) Private Limited is a 100% subsidiary of Evotec AG. Its offering includes custom synthesis, process research and development, scale-up and analytical services. During the due diligence in finding a new facility and because of growing customer requirements for European-based activities, the Company came to the conclusion to exit its operations in India completely. Through this realignment, the Company will be able to most efficiently serve its customers, utilise its UK chemistry resources and capabilities and also realise some cost savings. As a consequence, 120 people will have to leave the Company and Evotec will take a one-time impairment charge of € 3 m in Q3 2013.

08 July 2013

EVOTEC RECEIVES PRE-CLINICAL MILESTONE AS PART OF ITS DISCOVERY ALLIANCE WITH BOEHRINGER INGELHEIM

Evotec's research alliance with Boehringer Ingelheim has reached a milestone in June triggering revenues of € 1.5 m to Evotec. The milestone was for the transition of a pain molecule into pre-clinical development. The partnership between Evotec and Boehringer Ingelheim has been in existence for nine years.

09 July 2013

EVOTEC AND DOW AGROSCIENCES ANNOUNCE COLLABORATION ON EVOTEC CELLULAR TARGET PROFILING™

The collaboration's objective is to leverage Evotec's advanced chemical proteomics services to support compounds in development at Dow AgroSciences. To this end, Evotec will perform quantitative chemical proteomics services (Evotec Cellular Target Profiling™) to de-convolute phenotypic screening results obtained by Dow. This collaboration highlights the broad applicability of Evotec's industry leading chemical proteomics platform to determine cellular target affinities and mechanisms of action on a proteome wide level and in a native context.

21 August 2013

EVOTEC AND THE JAIN FOUNDATION ANNOUNCE EXTENSION OF RESEARCH COLLABORATION IN SKELETAL MUSCULAR DYSTROPHY DISEASES

Evotec expands and extends its research collaboration with the Jain Foundation. The collaboration leverages Evotec's assay development and screening capabilities to support the Jain Foundation's goals of understanding and curing dysferlinopathy. In 2012, Evotec and the Jain Foundation initiated a research project to develop a cell-based high throughput screening assay using dysferlin deficient cells. Dysferlin is a protein made from the dysferlin gene that, when mutated or absent, causes both Limb-Girdle Muscular Dystrophy type 2B and Miyoshi Myopathy. The aim of this project is to develop a simple test for the well-being of a muscle cell in the absence of dysferlin so that compounds that improve the well-being of dysferlin deficient muscle cells can be identified.

31 August 2013

EVOTEC RAISES € 30 M FROM BIOTECHNOLOGY VALUE FUND

Evotec resolved on a capital increase from its authorised capital against cash contribution by issuing 11,818,613 new shares to the Biotechnology Value Fund, L.P. and other affiliates of the US biotech specialist investment firm BVF Partners L.P. Shareholders' subscription rights will be excluded. In a simultaneous transaction, BVF also purchased an option from TVM granting BVF the right to acquire an additional 11,818,612 shares of Evotec at € 4.00 per share within the next 30 months. Should this option be exercised in full, BVF will have a total shareholding in Evotec of over 18%.

12 September 2013

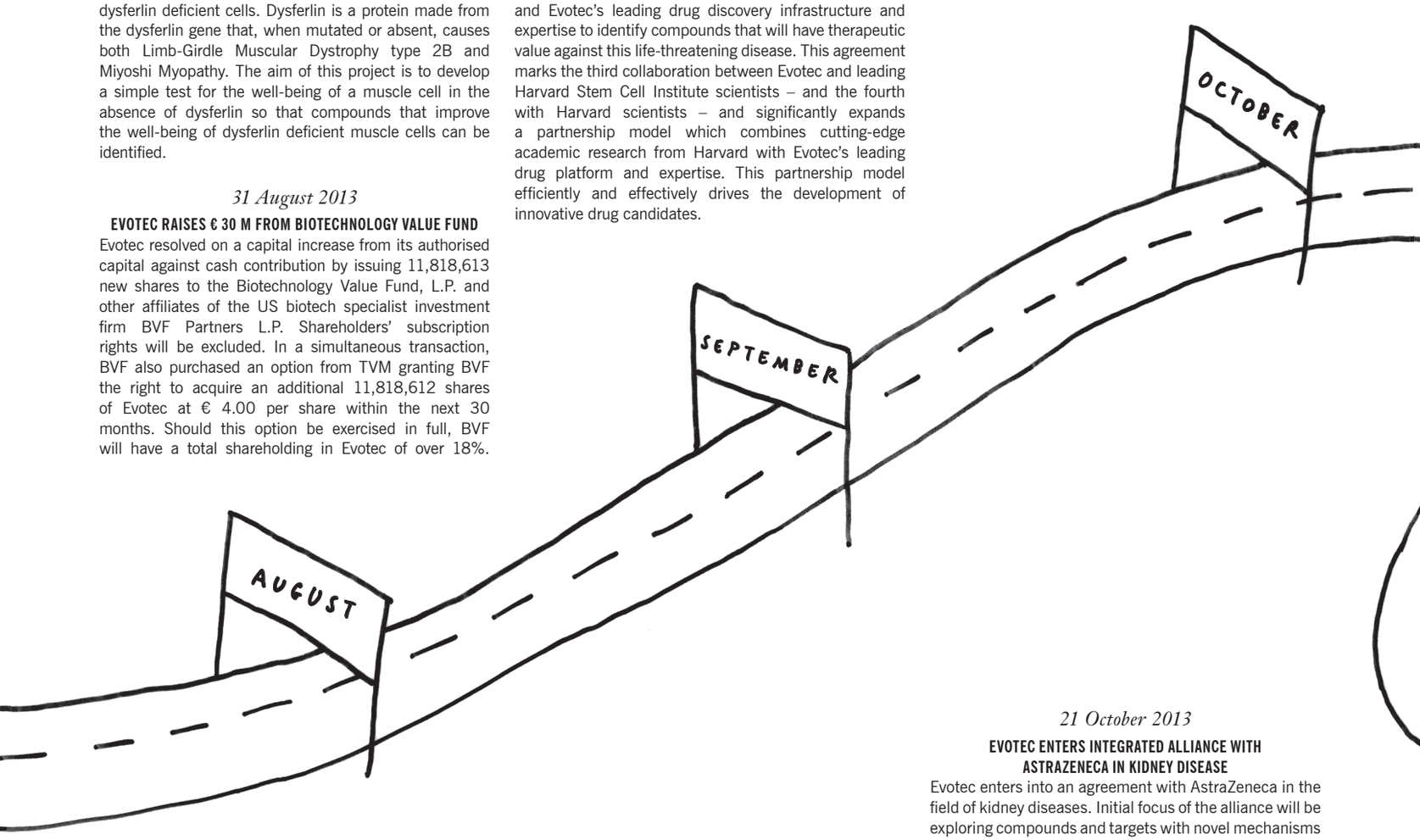
EVOTEC AND HARVARD STEM CELL INSTITUTE FORM CURE*MN* COLLABORATION TO ADVANCE ALS RESEARCH

Evotec and the Harvard Stem Cell Institute enter into a strategic partnership to identify compounds that prevent or slow down the loss of motor neurons, which is characteristic of the human disease amyotrophic lateral sclerosis ("ALS"). The collaboration Cure*MN (Motor Neuron)* will leverage human motor neuron assays based on ALS patient-derived induced pluripotent stem ("iPS") cells that were developed by leading Harvard scientists and Evotec's leading drug discovery infrastructure and expertise to identify compounds that will have therapeutic value against this life-threatening disease. This agreement marks the third collaboration between Evotec and leading Harvard Stem Cell Institute scientists – and the fourth with Harvard scientists – and significantly expands a partnership model which combines cutting-edge academic research from Harvard with Evotec's leading drug platform and expertise. This partnership model efficiently and effectively drives the development of innovative drug candidates.

30 September 2013

EVOTEC RECEIVES CLINICAL MILESTONE AS PART OF ITS DISCOVERY ALLIANCE WITH BOEHRINGER INGELHEIM

Evotec's research alliance with Boehringer Ingelheim has reached a milestone in September triggering revenues of € 2.0 m to Evotec. The milestone is for the transition of an oncology molecule into Phase I clinical trials and represents the first oncology compound to progress into FiM ("First-in-Man") studies.



10 October 2013

EVOTEC AND HARVARD UNIVERSITY TO COLLABORATE ON EXPLORATION OF ENTEROENDOCRINE SIGNALS AFFECTING KEY METABOLIC PATHWAYS

Evotec announces a second research collaboration, Target*EEM (Enteroendocrine Mechanisms),* with the laboratory of Doug Melton. The objective of this collaboration is to identify novel enteroendocrine mechanisms, pathways and signals regulating key metabolic processes that have disease-modifying potential in diabetic patients. Target*EEM* is comprehensive screening effort by Harvard and Evotec designed to systematically search for novel pathways and targets that have the potential to address key pathophysiological mechanisms involved in insulin resistance and energy handling. The basis of this effort will be disease-relevant animal models as well as unbiased transcriptional and proteomic profiling platforms contributed by both collaboration partners. Harvard and Evotec will collaborate in a highly integrated and fashion and share potential commercial rewards.

15 October 2013

EVOTEC RECEIVES PRE-CLINICAL MILESTONE AS PART OF ITS DISCOVERY ALLIANCE WITH BOEHRINGER INGELHEIM

Evotec announces that its research alliance with Boehringer Ingelheim has reached a milestone in September triggering revenues of € 4.0 m to Evotec. The milestone was for the transition of an oncology molecule into pre-clinical development.

21 October 2013

EVOTEC ENTERS INTEGRATED ALLIANCE WITH ASTRAZENECA IN KIDNEY DISEASE

Evotec enters into an agreement with AstraZeneca in the field of kidney diseases. Initial focus of the alliance will be exploring compounds and targets with novel mechanisms that have disease-modifying potential for the treatment of chronic kidney disease. Under the terms of this licence and collaboration agreement, AstraZeneca will receive access to a selected series of molecules identified in a screening effort, which is part of Evotec's systematic kidney disease initiative. This particular programme has been designed to explore a key mechanism in the field of chronic kidney disease. AstraZeneca will provide industrial scope and scale as well as pharmaceutical development expertise and marketing capabilities. The agreement between Evotec and AstraZeneca triggers an undisclosed upfront payment as well as pre-clinical, clinical and regulatory milestones. Evotec is also eligible for additional milestone and royalty payments related to commercialisation. Evotec will receive research funding for work that will be conducted in collaboration with AstraZeneca.

28 October 2013

EVOTEC ACHIEVES FIRST MILESTONES IN MULTI-TARGET DEAL WITH UCB

Evotec achieves first milestones in its multi-year, multi-target integrated drug discovery collaboration with UCB in the field of immunology. The milestones were achieved upon the progression of certain projects into hit-to-lead and into lead optimisation.

05 November 2013

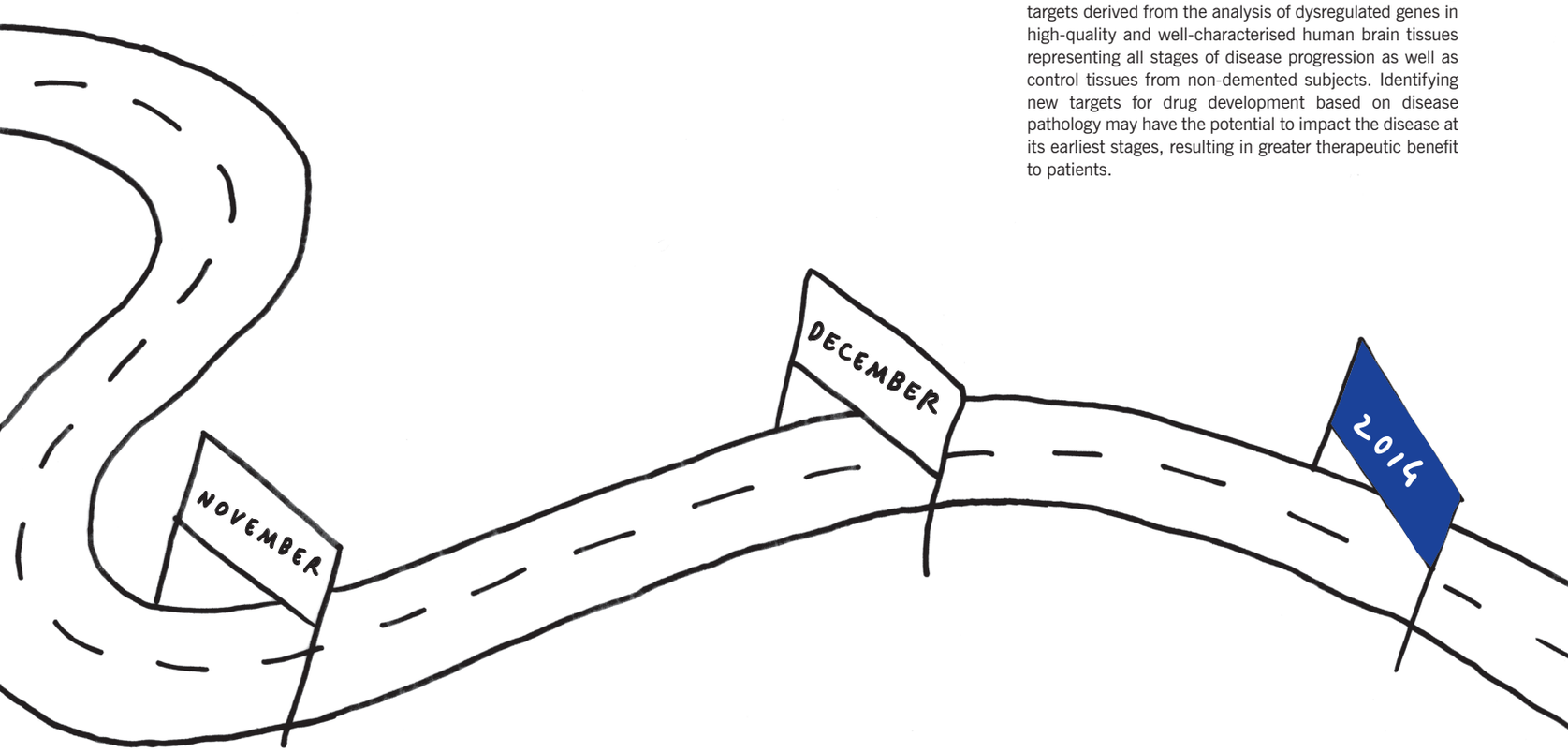
EVOTEC AND THE LEUKEMIA & LYMPHOMA SOCIETY ENTER INTO A STRATEGIC RESEARCH COLLABORATION

Evotec enters into an integrated research collaboration with The Leukemia & Lymphoma Society. Evotec will support one of LLS's Screen-to-Lead programmes. In this collaboration, Evotec partners with LLS to support selected programmes and principal investigators with resources for high-throughput screening and optimisation of small molecules into drug-like compounds. Evotec delivers an industrialised, cutting-edge, comprehensive and unbiased drug discovery infrastructure to support innovation efficiency as part of a fully integrated solution.

08 November 2013

EVOTEC ANNOUNCES TARGET*AD* COLLABORATION WITH JOHNSON & JOHNSON INNOVATION TO IDENTIFY AND DEVELOP NOVEL ALZHEIMER'S DISEASE THERAPIES

Evotec enters into a collaboration with the Johnson & Johnson Innovation Center in California to identify new targets for Alzheimer's disease drug discovery and development. Under the terms of the agreement Target*AD (Alzheimer's disease),* Janssen Pharmaceuticals, Inc., a member of the Johnson & Johnson family of companies, and Evotec will work together to discover and develop novel treatments for Alzheimer's disease. Janssen will fund target discovery research via a combination of defined research payments of up to $ 10 m and progress-related between $ 125-145 m over the next three years. Evotec's proprietary Target*AD* database provides a unique source of potentially novel Alzheimer's disease drug targets derived from the analysis of dysregulated genes in high-quality and well-characterised human brain tissues representing all stages of disease progression as well as control tissues from non-demented subjects. Identifying new targets for drug development based on disease pathology may have the potential to impact the disease at its earliest stages, resulting in greater therapeutic benefit to patients.



10 December 2013

EVOTEC RECEIVES PRE-CLINICAL MILESTONE AS PART OF ITS DISCOVERY ALLIANCE WITH BOEHRINGER INGELHEIM

Evotec announces that its research alliance with Boehringer Ingelheim has reached a milestone in November triggering revenues of € 4.0 m to Evotec. The milestone was for the transition of an oncology molecule into pre-clinical development.

13 December 2013

RESULTS OF PRE-CLINICAL STUDIES LEAD TO REDUCTION IN REVENUES, NEVERTHELESS PROFITABLE AND MORE THAN € 90 M CASH FOR 2013 CONFIRMED

Evotec announces that it is adjusting its guidance regarding Group revenues. Evotec now expects revenues to be between € 84–86 m for the fiscal year 2013. Original guidance for revenues was between € 90–100 m. Certain pre-clinical studies with the NR2B subtype selective NMDA antagonist performed by Evotec's licensee, Janssen Pharmaceuticals, Inc. did not confirm certain properties of the antagonist and did not justify the planned immediate development progress and therefore do not trigger a significant milestone payment to Evotec in 2013. The project is currently under evaluation at Janssen. Evotec was obliged to record an impairment of € 15.3 m of intangibles in respect of these assets on Evotec's balance sheet.

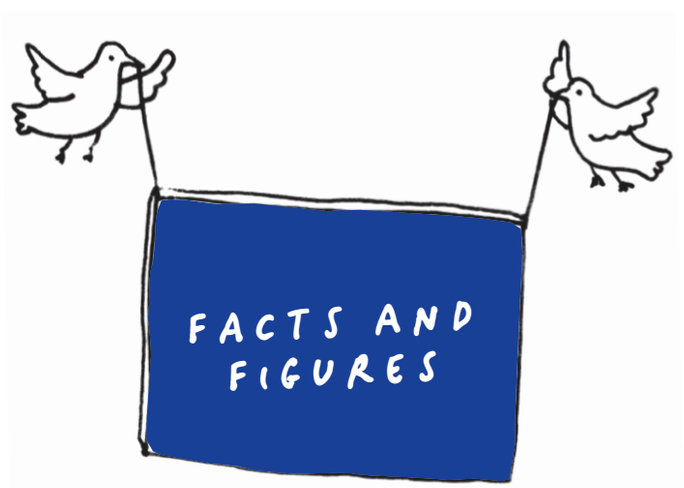
17 December 2013

EVOTEC AND YALE UNIVERSITY TO COLLABORATE ON CANCER THERAPY

Evotec and the laboratories of Prof. Peter Glazer and Prof. Ranjit Bindra at Yale School of Medicine enter into the Target*DBR (DNA Break Repair)* cooperation. The objective of this collaboration is to identify novel mechanisms, targets and compounds that have the potential to interfere with DNA repair. DNA repair mechanisms allow cancer cells to cope with extensive genome rearrangements as well as to escape conventional radio- and chemotherapy and thus have potential applications in many cancer indications. This is the first collaboration to be announced as part of Evotec's open innovation alliance with Yale University.

EVOTEC SHARE ON THE WAY UP

SHARE PRICE DEVELOPMENT REFLECTS INNOVATION PORTFOLIO STRATEGY



In 2013, Evotec further executed on Action Plan 2016. The Company initiated or extended important alliances and made good progress in existing partnerships. However, not all goals could be met as initially planned. In addition, the milestone-based business model of Evotec is exposed to significant fluctuations in the operating result between quarters as a result of the specific timing of performance-based milestones and partnering events. Consequently, and like in the previous years, the share price showed a rather high volatility throughout the year. However, positive stimuli prevailed: Evotec's share price ended 2013 at € 3.67, an increase of 39.6% compared to the closing price of the year before and an equal performance with regard to the share's major benchmark index TecDAX.

All-time highs in major international stock markets

The European sovereign debt crisis deteriorated again with the collapse of the Cypriot banking sector in the beginning of 2013. In addition, lower growth prospects, especially for the German economy, turned out to be a stress factor for the stock market in the first quarter. This resulted in the major European stock markets undergoing a very volatile development in the first quarter after a positive start into the year. Borne by signals and the policy of the European Central Bank and European governments to counter the European sovereign debt crisis, stock markets set out for a previously unknown rally throughout the rest of the year. The positive performance of the German leading stock market index DAX – as well as the performance of many of the major international stock market indices – was carried by an ongoing expansionary monetary policy as well as non-attractive yields in the fixed income sector. Against this background, investors again showed an increasing risk appetite. The upward trend of the German stock market, which especially continued in the fourth quarter of 2013 – climbing from record high to record high – is similar to the performance of many international stock markets. This trend was, in addition to the ongoing expansionary monetary policy, backed by the expectation that Europe and the US will overcome the current weakness in economic growth.

The DAX reached a new all-time-high of 9,594 points at the end of December 2013 and closed with a year-on-year increase of 25.5%. The main benchmark index for the Evotec share, TecDAX, gained about 40.9%. The EURO STOXX 50 and the Dow Jones Industrial were up 18.0% and 26.5%, respectively.

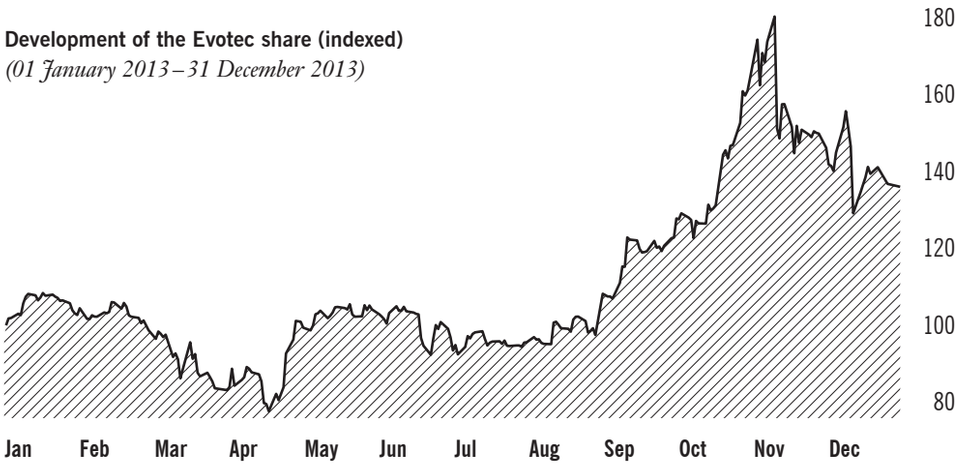
An ongoing rally for biotech investors

2013 turned out to be a good year for the biotech industry. There have been more than 30 initial public offerings of biotechnology companies in 2013 in the US which raised more than $ 2.5 bn – the best IPO result since 2000. Since 2010, biotech indices and in particular the NASDAQ Biotech Index have massively outperformed other investment sectors. This development is not least attributable to the fact that many of the new offerings from the years 2010 to 2012 delivered great returns. An increasing number of new product approvals, growth in R&D investments and a record number of products in clinical trials are mainly responsible for the excitement about the future of the biotech

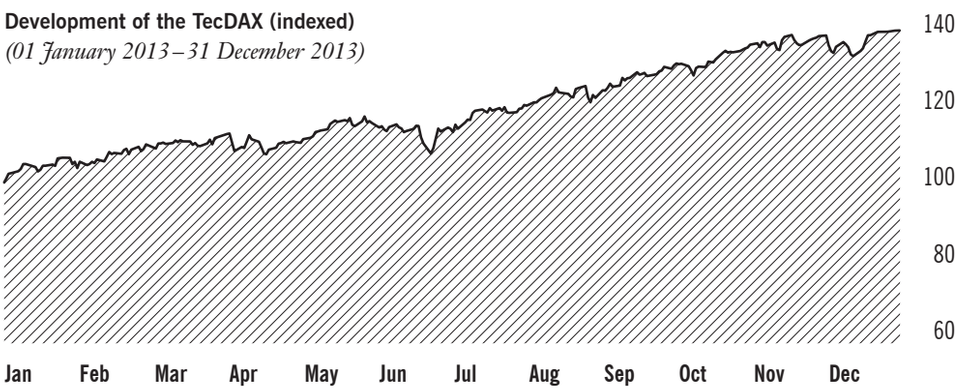
sector. This resulted in a positive sentiment in many of the large-cap biotech stocks and increased investor confidence also for biotech mid- and small-caps. Of the major biotech indices, the AMEX Biotech Index was up 50.6% while the NASDAQ Biotech Index gained an even stronger 65.6% during the year, heading for new record levels.

A combination of an upturn in M&A activity within the sector, returning positive sentiment in the global economy and an increase in drug approvals could provide a favourable investor environment in 2014.

Development of the Evotec share (indexed)
(01 January 2013 – 31 December 2013)



Development of the TecDAX (indexed)
(01 January 2013 – 31 December 2013)



Accelerated performance of the Evotec share in the second half 2013

In the first few months of 2013, Evotec's stock price was temporarily burdened. No major news from operations could be announced and weaker than anticipated results for the financial year 2012 had to be disclosed in March, followed by lower revenues and an operating loss in the first quarter of 2013. Consequently, the share underperformed. From the end of April onwards, the Evotec share benefitted from positive news regarding new research collaborations and an extension of a drug discovery alliance with Genentech. In the course of the third quarter, Evotec's share developed even more positively and climbed by 23.7% to € 3.30. Among other things, this share price development was driven by stock price expectations triggered by the US financial investor Biotechnology Value Fund. L.P. ("BVF) and other affiliates of the US biotech specialist investment firm BVF Partners L.P. acquiring Evotec shares issued in the capital increase in August 2013. In line with the general market sentiment and on the back of predominantly positive news regarding partnerships and research achievements, which triggered important milestone payments to Evotec, the Evotec share hit a more than nine-year high of € 5.08 at the beginning of November. Evotec tried to support this performance by raising attention among US investors via Evotec's first Capital Market Day in New York on 22 October 2013.

In mid December, Evotec announced that it will not receive a significant pre-clinical milestone payment from licensee Janssen Pharmaceuticals, Inc. As a consequence, Evotec was obliged to evaluate the impairment of this intangible asset and lowered its 2013 revenue guidance. At this point in time, the Company expected impairment of intangibles of up to € 22 m. Following these news, Evotec's shares dropped about 11.8% on that day. Evotec's share closed the year up 39.6% at € 3.67, showing an almost equal performance to the TecDAX which increased by 40.9% in 2013.

Evotec's average daily trading volume on all German stock exchanges more than doubled to 993,229 shares in 2013, compared to 420,411 shares in 2012.

US investor strengthens strategic shareholder base

In August 2013, Evotec resolved on a capital increase from its authorised capital against cash contribution by issuing 11,818,613 new shares to BVF and other affiliates of the US biotech specialist investment firm BVF Partners L.P. In a direct placement capital increase, BVF invested € 30 m to subscribe for 11,818,613 new shares of Evotec at a price of € 2.55 per share. In a simultaneous transaction, BVF also purchased an option from TVM V Life Science Ventures GmbH & Co. KG ("TVM") granting BVF the right to acquire an additional 11,818,612 shares of Evotec at € 4.00 per share within the next 30 months. 50% of the options provided by TVM to BVF are subject to an option granted by ROI Verwaltungsgesellschaft mbH ("ROI") to TVM with similar conditions as in the option agreement between BVF and TVM.

Due to this capital increase and the exercise of stock options totalling 1,094,741, Evotec's registered share capital increased to € 131,460,193 at year-end 2013 (year-end 2012: € 118,546,839), resulting in a total of 131,460,193 ordinary shares outstanding.

Furthermore, a total of 459,456 stock options were serviced out of treasury shares. As of 31 December 2013, a total of 338,815 treasury shares from the trust agreement terminated in 2012 were remaining.

At year-end 2013, three shareholders were known to have exceeded the 3% threshold: Roland Oetker with ROI Verwaltungsgesellschaft mbH held just below 15%. US financial investor BVF and other subsidiaries of BVF Partners L.P. held approximately 9%. TVM V Life Science Ventures GmbH & Co. KG held just below 10% of the Evotec shares. Free float according to Deutsche Börse AG, which is used to determine the weighting of the Evotec stock in stock indices, was approximately 68% of the capital stock.

Professional Investor Relations

Evotec's strategy to maintain a professional dialogue with capital market experts gave insight into the latest developments of the Company and attracted a strong new investor in the second half of the year. In 2013, the Company primarily focused on communicating Action Plan 2016 to increase innovation efficiency and on increasing the number of its Cure *X* and Target *X* collaborations. Progress was proven by positive news regarding milestones and partnerships, especially in the second half of the year. Management held presentations at eleven national and international investor conferences as well as at nine road shows in key financial centres, primarily in Germany, the Netherlands, France, Austria and Switzerland, complemented by activities in the UK and the United States. In October 2013, the Company invited investors and analysts to its first Capital Market Day held in New York. On this day, Evotec provided an overview of the Company's systematic, unbiased and comprehensive drug discovery infrastructures and its core disease areas focussing on the progress achieved in its discovery and Cure *X* strategic alliances as well as the upsides in its diabetes development partnerships with Harvard University.

The Company's Annual General Meeting in June attracted approximately 200 shareholders and guests, representing 40.45% of the Evotec share capital (2012: 42.4%).

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; OTC Markets, OTCBB*
Index	*TecDAX*
Designated Sponsor	*Close Brothers Seydler Bank*

KEY FIGURES PER SHARE	2012	2013
High (date)	*€ 3.00 (16 Oct)*	*€ 5.08 (05 Nov)*
Low (date)	*€ 1.97 (01 June)*	*€ 2.06 (19 April)*
Opening price	*€ 2.36*	*€ 2.68*
Closing price	*€ 2.63*	*€ 3.67*
Weighted average number of shares outstanding	*117,295,847*	*121,215,288*
Total number of shares outstanding as at 31 December	*118,546,839*	*131,460,193*
Average trading volume (all exchanges)	*420,411 shares*	*993,229 shares*
Market capitalisation as at 31 December	*€ 328.9 m*	*€ 480.9 m*
Earnings per share	*€ 0.02*	*€ (0.21)*

ANALYST COVERAGE	
Close Brothers Seydler Research AG	*Igor Kim*
Commerzbank AG	*Volker Braun*
Deutsche Bank AG	*Gunnar Romer*
DZ Bank AG	*Heinz Müller*
Edison Investment Research	*Mick Cooper*
getinsight Research GmbH	*Benjamin Ludacka, Thomas Schießle*
Highline Research Advisors	*Michael J. Higgins*
Berenberg	*Alistair Campbell*
Kempen & Co N.V.	*Mark Pospisilik*
Montega AG	*Stefan Schröder, Tim Kruse*

Financial Calendar – *Be invited to meet and gain insights into Evotec*

FINANCIAL CALENDAR	MEET EVOTEC
25 March 2014	*2013 Annual Report*
14 May 2014	*Q1 2014 Interim Report*
17 June 2014	*Annual General Meeting 2014*
12 August 2014	*Half-year 2014 Interim Report*
12 November 2014	*Nine-month 2014 Interim Report*

MANAGEMENT REPORT 2013

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THE EVOTEC GROUP

ORGANISATIONAL STRUCTURE AND BUSINESS ACTIVITIES

BUSINESS MODEL

Evotec is a drug discovery solutions company providing drug discovery expertise and capabilities to pharmaceutical and biotechnology companies as well as to academic institutions. Drug discovery solutions are provided in form of fee-for service work, integrated drug discovery alliances, development partnerships, licensing of innovative drug candidates and consulting arrangements. The Company operates worldwide and has leading scientific experts, state-of-the-art technologies as well as key therapeutic expertise in the areas of neuroscience, pain, metabolic diseases, oncology and inflammation. By leveraging this expertise, Evotec intends to develop best-in-class and first-in-class differentiated therapeutics on its systematic, unbiased and comprehensive infrastructure.

The core of Evotec's business is:

- high-quality drug discovery research in collaboration with Pharma and biotech partners
- in-licensing of early innovative assets developed in-house and in collaboration with selected academic partners

Evotec presents its drug discovery activities under the banners of EVT Execute, EVT Integrate and EVT Innovate, which represent business models that reach from straight fee-for-service, over risk-shared and success-based alliances to collaborations on proprietary projects.

Evotec spends modest amounts of money on very early-stage but innovative target projects, where the Company has significant expertise either in-house or through collaborations. These projects are called Cure *X* and Target *X* initiatives. In a next step, it leverages them into drug discovery collaborations at a very early-stage to key partners, who drive the programmes together with Evotec to the clinic for an upfront fee, research fees, milestones and royalties.

The approach of all of Evotec's collaborations with customers is identical: providing best-in-class drug discovery solutions in the most innovative as well as efficient manner and thereby maximising the customer's opportunities to progress candidates into the clinic and beyond.

GROUP STRUCTURE

Evotec AG is a publicly listed stock corporation operating under German law. Evotec AG is the parent company of the Evotec Group and is headquartered in Hamburg, Germany.

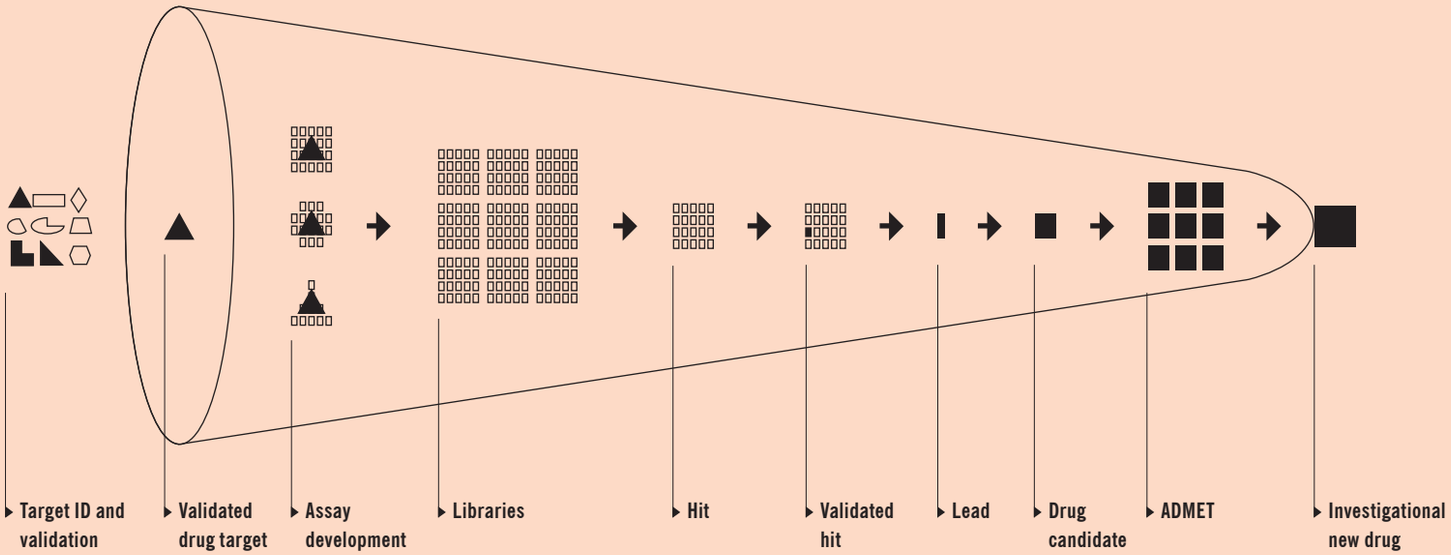
In addition to Evotec AG, major operating sites exist in Abingdon, UK; Göttingen and Munich, Germany and South San Francisco and Branford, USA. Further offices in Germany, the USA and the UK handle Evotec's international business development activities, which are closely integrated with the operations of the Group. In September 2013, Evotec closed its Indian operations in Thane and the legal entity Evotec (India) Private Limited is in the process of being dissolved.

The Evotec Group employed 610 people at the end of 2013. All consolidated subsidiaries and other equity investments are listed in Note (34d) to the Consolidated Financial Statements.

Major operating entities[1] *as of 31 December 2013*

Evotec AG, Hamburg, D			
Evotec (UK) Ltd. Abingdon, UK 100%	Evotec International GmbH Hamburg, D 100%	Evotec (München) GmbH Munich, D 100%	Evotec (US), Inc. South San Franciso, USA 100%

[1] *Indirect and direct holdings*



DRUG DISCOVERY PROCESS

Setting off with the target

The drug discovery process builds on research showing that certain genes or their corresponding proteins play a role in the manifestation of a disease *(target identification and validation)*. The approaches and technologies employed in this phase of research vary significantly and are highly sophisticated.

Primary screening

The search for new drugs begins with *screening of targets*. In an automated process, the selected target is brought together with numerous chemical compounds to test for biological interactions. For this process a tailored test system, an *assay*, has to be developed to identify an interaction of reference molecules with specific targets such as G protein-coupled receptors ("GPCRs"), ion channels or enzymes.

The collection of chemical compounds used for the screening of targets may contain tens or even hundreds of thousands of structurally diverse molecules and is referred to as a **compound library.** The compounds that biologically interact with the target are subsequently referred to as "hit compounds" or simply **"hits"**. The closer an assay reflects the natural biological processes within the human body the more meaningful these hits are as starting points for drug discovery projects.

In addition to standard screening methods, ultra-high throughput screening ("uHTS") systems can be used. A significant advantage of this technology is its simultaneous analyses of multiple read-out parameters and its high-quality and sensitive results which can be used especially for *fragment-based drug discovery*. Fragments are small organic molecules that are typically only one-third the size of typical screening compounds and tend to interact only weakly with target proteins. Nevertheless, they are very useful starting points for medicinal chemists to optimise into more active drug molecules. They provide the flexibility to add additional chemical groups, leaving chemists with more room to manoeuvre and increase the likelihood of developing a successful compound.

Complementary to identifying hits by chemical means, sophisticated computational methods that simulate how compounds bind to targets are increasingly employed in a process known as *virtual screening*. This helps to narrow down the number of chemical compounds for subsequent testing in the lab.

Focused screening and compound optimisation

Hit compounds must undergo considerable optimisation before they can be clinically tested in humans as new drug candidates. On the basis of hit structures that result from primary screening, Evotec designs and synthesises smaller, more **focused compound libraries** of similar molecules. These expanded hit structures are then screened against the original target to identify compounds with improved drug properties.

The biologically active molecules, or **lead structures**, that the above process yields are subsequently pharmacologically optimised. In *biological testing* and *optimisation*, selectivity tests are performed against similar targets, generating extensive side effect profiles. ADMET assays, which test for absorption, distribution, metabolism, excretion and toxicity properties of compounds, are also conducted. For the first time, the impact of the lead compounds is then tested in living organisms, resulting in primary *in vivo* data. In *chemical optimisation*, the knowledge gained in biological testing is used to optimise the molecular structure by means of computational chemistry and medicinal chemistry methods.

Pre-clinical drug research leads to IND filing

In drug development, pre-clinical development is a stage of research that begins before clinical trials are allowed to start and during which important feasibility, iterative testing and drug safety data are collected. This stage of development is also named pre-clinical studies or non-clinical studies. The main goals of pre-clinical studies are to determine a product's ultimate safety profile.

When a drug candidate is generated with the right pharmacological properties, it is ready to be tested in clinical trials for its safety and suitability as a therapeutic for humans. To enter into these clinical trials, an **IND** (**"investigational new drug"**) application must be filed.

Clinical development
After pre-clinical drug discovery, *clinical development* is the next significant stage towards bringing a new **drug** onto the market. Each drug candidate needs to go through three phases of clinical development successfully, testing for both safety and efficacy, before it can be registered for approval.

It can take about 15–20 years to develop a new drug from initial discovery and can result in costs exceeding $ 1–2 bn and a failure rate of approximately 95% (Source: Nature Reviews Drug Discovery, Nov 2013).

EVOTEC'S PRODUCTS AND SERVICES

Evotec works as a high-quality drug discovery solution provider for pharmaceutical and biotechnology companies that outsource drug discovery projects to manage their core functions and increase capital efficiency. Evotec has integrated all disciplines of drug discovery, optimised the entire process and consequently implemented a strategy of providing innovative drug discovery tools and expertise as the core of its partnering activities.

In addition, Evotec owns a selected number of proprietary drug candidates at various stages of development either partnered or available for partnering. Evotec's Cure *X* and Target *X* initiatives were expanded in 2013 to further develop Evotec's pre-clinical portfolio.

Alliances and partnerships
Evotec's partners include, among others, AstraZeneca AB ("AstraZeneca"), Bayer Pharma AG ("Bayer"), Boehringer Ingelheim Pharma GmbH & Co. KG ("Boehringer Ingelheim"), CHDI Foundation, Inc. ("CHDI"), MedImmune, LLC/AstraZeneca PLC ("MedImmune/AstraZeneca"), Genentech, Inc. ("Genentech"), the Jain Foundation, Janssen Pharmaceuticals, Inc. ("Janssen"), Johnson & Johnson Innovation, Ono Pharmaceutical Co., Ltd. ("Ono") and UCB Pharma ("UCB") (the core alliances are described in more detail in chapter "Research and Development" on page 30 of this Management Report). 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 achievements.

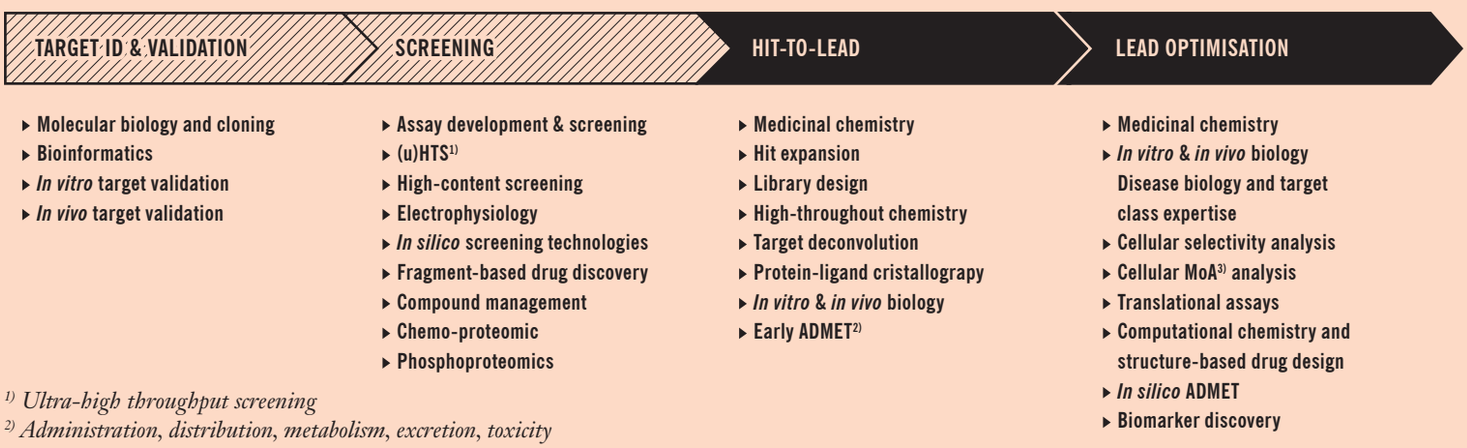
In accordance with its strategy, the Company will very likely enter into partnerships for clinical development programmes rather than developing programmes alone.

Drug discovery services
In its proprietary research programmes as well as in those for its partners, Evotec makes use of all the discovery capabilities summarised in the diagram below and described in the following sections. Evotec offers integrated services that cover the entire span of the R&D process starting from target identification to pre-clinical candidate. Evotec's drug discovery platform was established to deliver an industrialised, cutting-edge, comprehensive and unbiased infrastructure to meet the industry's need for innovation in drug discovery. Evotec does not conduct any clinical trials internally and the Company's joint clinical programmes are exclusively developed in partnerships with pharmaceutical companies which fund their development.

Target identification and validation
Evotec focuses its target identification and validation technologies on differential expression studies, followed by data-mining and hypothesis building, knock-down and over expression studies both *in vivo* and *in vitro* to access relevant disease models, phenotypic screening and proteomics-based target deconvolution. The targets that are used are usually provided to Evotec from their partners, but in a growing number of projects Evotec is accessing interesting target opportunities both internally and with academic collaborators.

Hit identification (Screening)
Evotec is able to offer screening services for biochemical, functional and/or cellular responses using its proprietary high-throughput screening ("HTS") technology and/or other commercial platforms. This can be through providing access to its own 350,000 compound screening library or using the client's library of compounds.

Overview of Evotec's drug discovery offering



[1)] *Ultra-high throughput screening*
[2)] *Administration, distribution, metabolism, excretion, toxicity*
[3)] *Mode of action*

Evotec's technology platform includes nuclear magnetic resonance spectrometry, surface plasmon resonance spectrometry, high-content screening ("HCS"), high-throughput mass-spectrometry based screening and a comprehensive structure-based drug design platform. Furthermore, Evotec has twenty years of experience in assay development, covering the major target classes, but also new target classes in the field of epigenetics and protein-protein interaction.

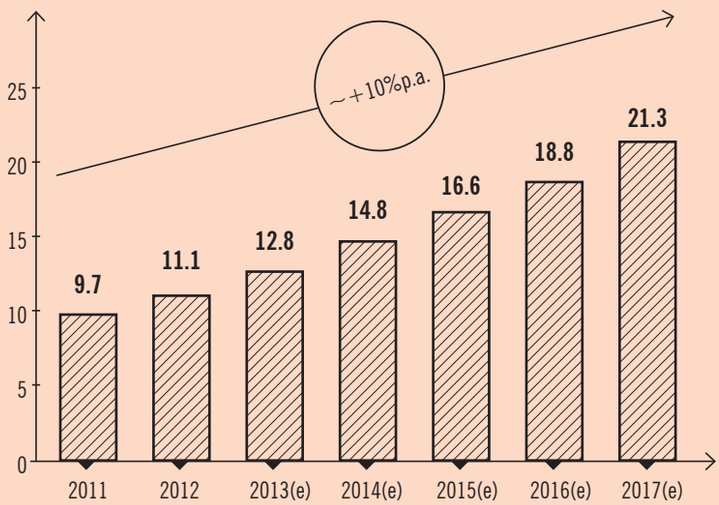
Evotec also supports its customers in the rapid and efficient design and synthesis of compound libraries and in the storage, reformatting and general logistics of compound libraries (compound management).

Hit-to-Lead and Lead optimisation

In compound optimisation Evotec has a breadth and depth of expertise across all major target classes and therapeutic areas. With more than 200 programmes completed for its partners to date, Evotec's *medicinal chemistry platform* consistently delivers results with more than 30 pre-clinical development candidates produced for its partners and 20 compounds approved for clinical trials. Evotec's range of services in pre-clinical drug discovery is supplemented by state-of-the-art *high-speed analytical methods* and highly specialised *information management systems*. These ensure the efficient capture, storage and easy retrieval of the significant volume of data that is generated throughout the process.

Global drug discovery outsourcing market

Revenues, in $ bn



(Source: Report "Drug Discovery Outsourcing: World Market 2013-2023", Visiongain)

MARKET AND COMPETITIVE POSITION

The drug discovery outsourcing market

The global pharmaceutical industry continues to face significant productivity challenges. Research and development costs have escalated over the years, yet product pipelines are not producing the returns experienced in earlier decades. Against this industry backdrop, biotech and Pharma companies are increasingly turning to outsourcing research and development activities to address and solve these issues. The use of external innovation 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. Based on research from Visiongain, the drug discovery outsourcing market generated $ 9.7 bn in global revenues in 2011 and this is expected to increase to $ 21.3 bn by 2017 and to $ 35.7 bn by 2023, reaching approximately 3.5 times today's market value within the next 10 years. Chemistry services are the largest segment in drug discovery outsourcing with a market share of 38.9%. However, going forward biological services are expected to increase from their 2011 level of 29.6%. This rise in market share is likely due to the growing complexity and importance of biological and targeted therapies, fast progressing molecular biology and also the emerging market for biosimilars (Source: Report "Drug Discovery Outsourcing: World Market 2013-2023", Visiongain).

Outsourcing has been used by the pharmaceutical industry for more than 20 years, mainly for supporting clinical trials or regulatory affairs in a particular country or region. In the current environment, companies are expected to continue to increase their outsourcing at earlier and earlier stages of the research and development process. In 2013, the reorganisation of the pharmaceutical industry continued in a similar way to 2012 with high-profile restructuring exercises undertaken by a number of global pharmaceutical companies. These actions by the pharmaceutical industry are intended to address the challenges presented by a high cost base, the possible decline of top level revenues and the search for new innovative ways to support its drug discovery pipeline going forward.

All stages of drug discovery can be outsourced as a stand-alone discipline (target identification, target validation, high-throughput screening 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.

Evotec's competitive position in drug discovery outsourcing

Evotec has tracked this changing trend in the market over the past few years and has strategically positioned itself 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, Evotec has established a unique competitive position to respond to these changes in the industry.

The Company provides high-quality scientific expertise and innovation in all disciplines in a process in which they perfectly interact with each other. Amongst its peers in the Western markets, Evotec is one of the largest and financially most stable drug discovery providers with a flexible product portfolio and a long-standing track record. Competition from companies in emerging markets like China and India is expected to further grow within the coming years, since they offer chemistry, research and manufacturing services at low costs. While those advantages have started to diminish in China due to a significantly strengthened local currency, the FTE rates in India are still the most competitive in the world. In addition, the vast majority of scientists in these regions are highly educated, but they still lack the experience and track record in industrialised drug discovery. An additional emerging issue is the fluctuation of the workforce, especially in India, which remains a problem for companies in building a highly experienced workforce. Furthermore,

there are still concerns regarding intellectual property rights protection in India. Evotec provides a detailed overview of all risks and opportunities on page 58 of chapter "Risk and opportunities management" of this Management Report.

In summary, Evotec is one of the few drug discovery companies in the world that can execute a comprehensive outsourcing strategy because:
- it is able to undertake and integrate all parts of the drug discovery process,
- it understands what it means for a customer to outsource its core early-stage intellectual property,
- it knows how to maximise the value that can be brought to it.

Additionally, Evotec is able to leverage early-stage innovation accessed through academic collaborations to feed into the pipelines of its customers.

The key indications of Evotec's development partnerships: markets, medical need and Evotec's position

In addition to its drug discovery activities, Evotec has out-licensed a number of clinical assets for development in partnerships with pharmaceutical companies. The therapeutic markets and Evotec's position for the most advanced compounds are detailed below.

Diabetes mellitus – DiaPep277®

Diabetes mellitus ("Diabetes") is a chronic incapacitating disease associated with severe lifelong conditions which require intensive monitoring and control, such as cardiovascular diseases, kidney diseases, nerve damage and eye diseases. Diabetes is caused by relative or complete decrease in insulin production and secretion by pancreatic beta cells. Furthermore, diabetes can be caused by the reduced effectiveness of secreted insulin in consequence of the gradual loss of insulin sensitivity of target cells, which is called insulin resistance.

At present, there is no cure for diabetes and only symptomatic treatment options are available. The most common diabetes types are type 1 and type 2 diabetes. Currently, about 90-95% of diabetes patients worldwide have type 2 diabetes. According to the International Diabetes Federation, 382 m people worldwide have diabetes (2012: 371 m). Thereof, about 175 m are not yet diagnosed and are at risk of costly and debilitating diabetes complications. Concerning the diabetes market volume, approx. $ 548 bn were spent on the treatment of diabetes in 2013 (2012: $ 471 bn).

Evotec has licensed DiaPep277® to Andromeda. DiaPep277® is a novel approach in diabetes treatment modulating natural pathways to slow insulin-producing beta cell destruction. The approach is expected to lead to maintained adequate diabetic control, reduced insulin requirements and reduced hypoglycaemic events in patients with type 1 diabetes. As the number of diabetes type 1 cases is increasing, particularly in young children, the prevention or even the delay in the progression of this disease would be of high clinical importance for those age groups.

Depression/treatment-resistant depression – EVT100 compound family

According to the National Institute for Mental Health, depression is a mental disorder with symptoms that include persistent sad, anxious or 'empty' mood, feelings of hopelessness or pessimism, feelings of guilt, worthlessness or helplessness or loss of interest or pleasure in hobbies and activities that were once enjoyed.

The market for depression is huge. It is estimated that over 350 m people suffer from depression globally. According to the World Health Organization, depression will be the "heaviest disease burden" after heart disease by 2020. Whereas global spending on antidepressants was $ 15 bn in 2003, it is expected that this figure will drop to $ 6 bn by 2016 (Thomson Reuters Pharma analysis). This is mainly due to the fact that currently available antidepressants are prescribed quite regularly, but patients seem to have major concerns to take them. Also, expensive drugs in this indication are increasingly being replaced by generics, since many drugs have lost their patents. Furthermore, as European Neuropsychopharmacology states (D. Souery, 1999), it has been recognised that about one-third of patients treated for major depression disorder do not respond satisfactorily to the first antidepressant pharmacotherapy. To describe cases of major depressive disorder that do not respond to adequate courses of at least two antidepressants, the term treatment-resistant depression is used in clinical psychiatry. There is currently no specific therapy approved for treatment-resistant depression. The need for more effective and well-accepted therapies is high but there are few new mechanisms in clinical development for depression.

In December 2012, Evotec entered into a licence agreement with Janssen regarding its orally active NR2B subtype selective NMDA antagonist portfolio. The project is currently under evaluation at Janssen. NR2B subtype selective NMDA antagonists represent one of the few new approaches in clinical development for depression. Extensive studies over the past 20 years have shown that NMDA receptors are involved in the pathology of depression and other diseases of the central nervous system ("CNS"). Clinical studies of non-selective modulators, however, have been hampered by significant side effects such as hallucinations. Compounds selectively targeting the NR2B subunit containing receptors, such as Evotec's, have proven in pre-clinical studies to retain many of the beneficial effects of non-selective compounds but with improved side effect profiles. The non-selective NMDA receptor blocker ketamine and an NR2B-selective NMDA antagonist have been proven to provide substantial and instant clinical benefit for depressed patients in clinical trials. However, both molecules, for which proof-of-concept has been shown before, require parenteral administration and are not suited for chronic indications. Hence, an orally active therapeutic option is urgently needed.

Alzheimer's disease – EVT302

Alzheimer's disease ("AD") is a progressive, degenerative, irreversible disease of the brain that affects both cognition and behaviour. It is the most common form of dementia in older people. AD is characterised by a loss of short-term memory and deterioration in behaviour and intellectual performance. The exact pathophysiology of the disease is still being debated.

The AD market is one of the fastest-growing CNS markets. Prevalence rates increase sharply with age, roughly doubling every five years at least until the age of 85. As a result, around 5% of individuals over 65 years of age are affected with AD. According to Alzheimer's Disease International, there were 44 million people diagnosed with dementia in 2013 worldwide. It is estimated that this number is going to increase to more than 135 million people in 2050. The global market of AD is estimated to reach $ 19 bn by 2015. However, the market also faces patent expiries of leading brands, which will result in new generics and thus lower revenues with drugs for these indications.

AD patients are growing in number, but treatment options remain limited in both quantity and quality. Today, only four drugs are marketed for the treatment of AD and there is still no treatment available that can actively slow the progression or cure AD. Cholinesterase inhibitors and the NMDA receptor antagonist memantine (not subtype selective) provide only moderate and temporary symptomatic benefit and the drugs are typically only effective for up to three years before losing their therapeutic benefit. In addition, around 60% of AD patients do not respond to first-line therapy and all current treatments are associated with significant side effects. In summary, current treatments are far from perfect and clear opportunities exist for novel alternatives.

Evotec and Roche entered into an exclusive worldwide agreement for the development and commercialisation of EVT302 in AD patients. EVT302 is an orally active, potent, selective and reversible inhibitor of monoamine oxidase type B (MAO-B) that could slow the progression of AD. 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. Earlier unpublished data from one-year multinational Phase III trials of a first-generation MAO-B inhibitor demonstrated clinical proof-of-concept by slowing symptom progression. Development was, however, subsequently stopped due to isolated reports of safety issues. EVT302 is from a chemically distinct series and was developed as a follow-up based on the positive clinical findings above. The drug would be used in combination with, rather than in competition with, the currently available symptomatic treatments. At the end of 2012, Roche started a substantial Phase IIb trial with EVT302 that aimed to recruit 495 patients in more than 140 centres worldwide to assess the efficacy and safety of this compound in patients with moderate-severity Alzheimer's disease. This clinical trial is one of very few late-stage trials in this AD patient population. Results are expected early 2015.

CORPORATE OBJECTIVES AND STRATEGY

Evotec's key measure of success is the overall return that the Company delivers to its shareholders. To achieve this objective, Evotec pursues a clear vision supported by a strategic plan entitled "Action Plan 2016 – Innovation Efficiency". Three core areas are defined within which the Company's key objectives and goals are set: EVT Execute, EVT Integrate and EVT Innovate.

The overall objective of Action Plan 2016 is for Evotec to become the global leader in high-quality drug discovery solutions. The execution of this strategy focuses on first-class innovation generated in partnerships with Pharma and biotech companies as well as with academia. In addition, the aim is to scale the business, develop optimal cost structures and achieve maximal operational efficiency.

More specific objectives of Action Plan 2016 include the following:

- Deliver innovation efficiency for Evotec's customers either through outlicensing of internally developed assets or through execution of specific drug discovery projects of its customers
- Double 2011 revenues by 2016, mainly through organic growth augmented by mergers and acquisitons.
- Improve the quality of revenue mix through royalty, milestone and service income
- Achieve an operating margin in the range of 15% and accelerate cash generation
- Build an even more mature pipeline with limited financial risk

The Company's medium-term objectives of Action Plan 2016 in its three core areas as well as major achievements in 2013 are described in the following table.

	Medium-term objectives of Action Plan 2016	Major achievements 2013
EVT Execute	▸ 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	▸ Increasing gross margin ▸ Expansion success of existing alliances (e.g. Genentech) ▸ Significant long-term deals with big and mid-sized Pharma and biotech (e.g. Active Biotech)
EVT Integrate	▸ 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	▸ Several milestone payments received (e.g. Boehringer Ingelheim or UCB) ▸ At least one significant new integrated technology/ disease alliance (e.g. Johnson & Johnson Innovation)
EVT Innovate	▸ Deliver unique target-driven drug discovery initiatives (Cure *X*, Target *X*) for first-in-class novel drugs ▸ Focused investments in research to drive higher returns ▸ Achieve significant upfront, milestone and royalty payments associated with projects	▸ Expansion of network of academic alliances (Harvard University, Belfer Institute, Yale University) ▸ Partnering of one pre-clinical asset/development programme (AstraZeneca)

Evotec has evolved from being a service provider and an early-stage drug development company into being a drug discovery engine in its own right, combining two separate businesses:
1. Offering of complete drug discovery solutions
2. Internal development programmes selected and positioned for partnering with Pharma customers

This development led to an organisational change within the Company, which replaces the former single-track structure and provides the basis for managing the Company in two segments from January 2014 onwards. Two members of the Management Board were designated to separately lead the newly formed business segments named EVT Execute and EVT Innovate. Following this evolution, a segmentation of the business into two parts including the associated financial reporting that represents the underlying business offerings and business model is implemented from January 2014 onwards. The core area EVT Integrate will be divided up into EVT Execute and EVT Innovate. All long-term, integrated partnerships will be allocated to EVT Execute whereas all innovative, early-stage drug discovery projects, the so-called Cure *X* and Target *X* initiatives, will be allocated to EVT Innovate.

▸ **EVT Execute:** Evotec has evolved into one of the global leaders in providing complete drug discovery solutions on a stand-alone basis or through holistic, fully integrated drug discovery solutions. In EVT Execute, these services are provided on a typical fee-for-service basis only or through a variety of commercial structures including research fees, milestones and/or royalties, but with Evotec never taking development risks.

▸ **EVT Innovate:** The segment EVT Innovate includes the advanced drug candidates and the early-stage internal discovery programmes. Evotec's internal programmes focus on first-in-class and best-in-class projects based on innovative biology. These so called "Cure *X*" or "Target *X*" initiatives largely follow indication areas that are firmly established at Evotec: metabolic and inflammatory disease, neurology, oncology and pain as well as infectious diseases. Projects are selected to match Evotec's expertise and technology and positioned for partnering with Pharma customers, usually at pre-clinical stages. Ensuing partnerships usually involve upfront and research payments as well as milestones and product royalties. In the future, Evotec prepares to take unfunded development risks in this business segment, but only in very carefully selected projects and in early stage phases of drug discovery (pre-clinic).

Over the past years, more than a dozen pharmaceutical companies and more than a hundred biotech companies have engaged Evotec on a repeated basis. Following its innovation partnership model, Evotec has begun, especially in the last year, to build a pipeline of early-stage drug candidates that already has attracted significant interest from the pharmaceutical industry.

Going forward, as stated above, Evotec intends to take unfunded risk only at the early stage, an area from which traditional venture capital firms have retreated. Evotec's Cure *X* and Target *X* initiatives exemplify this approach and the benefit derived from Evotec's drug discovery expertise. Evotec is well-positioned at this early risk-taking with the advantage of three key success factors:
- A deep understanding of basic science
- Deep familiarity with the demands and interests of the pharmaceutical industry
- Access to highest-quality resources and ensured capital efficiency

With its recent Cure *X* and Target *X* initiatives, Evotec has proven that the pharmaceutical industry is eager to get access to early but industrially validated drug discovery programmes and that the industry will pay appropriately for high-quality programmes.

The goals defined for 2014 in the context of Action Plan 2016 can be found in the "Business direction and strategy" section of the "Outlook" chapter on page 67 of this Management Report.

STRATEGIC GROUP STRUCTURE AND FINANCIAL INTEREST

Evotec's strategic Group structure reflects the international direction of the Company and its strategy to develop and acquire businesses with assets that complement Evotec's offering. With affiliates in Germany, the UK and the US, Evotec has proven that it is capable of integrating acquisitions and achieved both operational and technological synergies irrespective of geography. Going forward, Evotec will continue to expand its technology and capabilities in areas that complement its current drug discovery platform in order to further accelerate future growth. To this end, Evotec may continue to acquire or buy shares in other companies provided that there is a good strategic fit and a compelling rationale for its shareholders. Therefore the Group structure may change as a result of M&A activity.

STRATEGIC FINANCING MEASURES

Evotec is pursuing the goals of ensuring a balanced capital structure and of limiting refinancing risks through diversification of its financing sources and instruments. The Company increased its access to equity and debt financing during 2013 and further improved the terms and conditions on which these funds are made available. Evotec has defined the minimum level of liquidity necessary in order to ensure that sufficient cash is available at all times to execute Action Plan 2016. In addition, a Treasury Committee meets on a monthly basis to consider all aspects of the Company's funding, liquidity and cash management. Currently, Evotec has a liquidity of € 96.1 m and drew € 17.2 m of bank loans as per 31 December 2013. Furthermore, Evotec had unused lines of credit of T€ 128 and $ 7.5 m at the balance sheet date. In order to diversify risk, the Company works with four strategic banking partners. On this basis, Evotec is confident that adequate funding is in place to support its medium-term objectives and especially all goals of Action Plan 2016.

PERFORMANCE MEASUREMENT

FINANCIAL PERFORMANCE MEASURES

Evotec's Management Board employs various financial indicators to manage the Company.

Evotec's financial goals are continued top line growth, increased operating profitability and improved cash generation.

In 2012, the Company implemented Action Plan 2016 and this included a long-term target of 15% operating profitability by 2016.

Evotec's key long-term financial performance indicators are designed in support of the above financial goals.

Management performs monthly financial reviews with a strong emphasis on financial performance drivers such as revenues, order book status and margins. In addition, management reviews comprehensive cost data and analysis focused on R&D and selling, general and administrative expenditure. Performance is measured against budgeted financial targets and versus prior year. Liquidity levels are monitored versus forecast and versus defined minimum cash levels. Operating cash flows are reviewed on a daily basis with emphasis on receipt of contract research revenues and milestones and management of Capex expenditure. Treasury management is undertaken on an ongoing basis with a 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.

DEVELOPMENT OF FINANCIAL KEY PERFORMANCE INDICATORS

in T€	2009	2010	2011	2012	**2013**
Revenues	42,683	55,262	80,128	87,265	**85,938**
Operating result adjusted*	(24,461)	1,715	5,764	1,401	**1,229**
Liquidity**	70,594	70,401	62,428	64,159	**96,143**

* *Operating result excl. impairments and reversal of impairments and changes in contingent considerations*
** *Cash and cash equivalents and investments*

The 2013 performance compared to plan is shown and discussed in chapter "Comparison of 2013 financial results with forecast" on page 40 of this Management Report.

NON-FINANCIAL PERFORMANCE MEASURES

Biotechnology is a research-driven and employee-based industry. Thus, financial information alone provides an incomplete picture of a company's value creation potential. Therefore, key non-financial performance indicators are also used to manage the Company.

Quality of drug discovery solutions and performance in discovery alliances (Sustainable development – Key performance indicator 1 (SD KPI1))
Evotec generates the vast majority of its revenues in alliances with Pharma and biotech companies. Consequently, the most important non-financial performance indicators for Evotec are the quality of its drug discovery solutions, performance within its alliances and overall customer satisfaction.

The total number, growth and size of alliances, the percentage of repeat business, average contract duration, new customer acquisition and the status of the Company's sales and order book are key indicators at Evotec. During its 20-year history, Evotec has continued to deliver excellent results in existing programmes and has expanded its customer base and its global network of partnerships. The Company is now working with approximately one hundred Pharma and biotech companies on a global basis. This growth and progression is summarised in the tables below.

Development of Evotec's alliances

(To the Company's knowledge benchmark data not available)

	2009	2010	2011	2012	**2013**
Number of alliances**	76	72	97	96	**106**
Number of alliances** > € 1 m revenues	8	7	15	16	**15**
Repeat business	92%	95%	85%	86%	**93%**
New business during the year***	29	22	45	29*	**39**

* *thereof 22 related to acquisitions (Kinaxo and Compound Focus)*
** *number of alliances equal number of customers*
*** *number of new customers vs. previous year*

Development of TOP 10 collaborations (sorted by years under review)

(To the Company's knowledge benchmark data not available)

in T€	2009	2010	2011	2012	**2013**
TOP 1: Boehringer Ingelheim	7,988	13,754	17,022	13,546	**18,262**
TOP 2: CHDI	9,090	9,211	8,915	9,905	**10,423**
TOP 3: UCB Pharma	-	-	1,120	9,792	**8,873**
TOP 4 – 10	17,608	23,665	35,937	31,957	**26,650**
Total TOP 10 revenues	**34,686**	**46,630**	**62,994**	**65,200**	**64,208**
Growth in %	7%	34%	35%	4%	(2%)

Notably, several collaborations significantly increased in size in recent years. This is seen as a clear indicator of customer satisfaction. The number of alliances in which Evotec generates more than € 1 m revenues per year increased from eight in 2009 to fifteen in 2013. Revenues generated in the Company's TOP 10 collaborations amounted to € 64.2 m, down 1.5% compared to the previous year. Revenues from Evotec's TOP 1 customer Boehringer Ingelheim increased by 35% because of significant milestone achievements.

Evotec's repeat business, as defined by the percentage of 2013 revenues coming from customers that the Company already had in 2012, continued to be high at 93%. New collaborations were announced with Apeiron Biologics, AstraZeneca, Dana-Farber's Belfer Institute for Applied Cancer Science, Dow AgroSciences, Harvard Stem Cell Institute, Harvard University, Johnson & Johnson Innovation, The Leukemia & Lymphoma Society and Yale University (School of Medicine) during the year 2013. Substantial contract extensions were signed with Genentech, Jain Foundation and MedImmune.

Research and development performance in development partnerships (Sustainable development – Key performance indicator 2 (SD KPI2))

Evotec is a company developing novel, innovative pharmaceutical drug compounds. Therefore the progression of drug candidates within Evotec's partnerships is a second key non-financial performance indicator. Unlike for most biotech companies, success of clinical programmes progressed by its partners represents pure upside for Evotec as all clinical development activities are funded by the Company´s Pharma partners. Evotec participates in the progress and success of those programmes through milestone payments and royalties.

During 2013, the majority of Evotec's most advanced programmes progressed positively. For a more detailed description of Evotec's advanced drug candidates and its research programmes, please see chapter "Research and development" on page 30 of this Management Report.

Furthermore, Evotec received several significant milestones in its partnership with Boehringer Ingelheim following the transition of molecules in pre-clinical development as well as in Phase I.

Most of Evotec's early-stage discovery projects were developed according to plan in 2013. The focus was primarily on delivering compounds to the clinical pipeline in future years and preparing selected programmes for partnering. In 2013, Evotec entered into six additional academic and biotech partnerships within its Cure *X* and Target *X* framework which nurtured Evotec's early-stage portfolio.

Quality and safety performance of products (Sustainable development – Key performance indicator 3 (SD KPI3))

Since Evotec is a high-quality provider of drug discovery services, the quality and safety performance of products is another important key non-financial performance indicator for Evotec. High quality and best practice safety features generate trust and satisfaction among its customers and secure future business. It is important to note that, during the past five years, no services were recalled and neither fines nor settlement payments related to litigation in Evotec's drug discovery alliances were due.

Progress of advanced drug candidates *, **

Drug candidate	Partner (Start of partnership)	PDC	Phase I	Phase II	Phase III	Progress in 2013
DiaPep277®	Andromeda (2007)					On track to complete DIA-AID 2 end of 2014
EVT302	Roche (2011)					Phase II ongoing – estimated completion in June 2015
EVT100	Janssen (2012)					Further development under review
EVT201	JingXin (2010)					Phase II ongoing
Somatoprim	Aspireo (2012)					Received orphan drug status by FDA
EVT401	Conba (2012)					Phase I completed
Oncology (Undisclosed)	Boehringer Ingelheim (2009)					Entered PhI
Pain (Undisclosed)	Novartis (2008)					Not disclosed
Oncology (Undisclosed)	Boehringer Ingelheim (2009)					2 Compounds in Pre-clinical
Endometriosis (Undisclosed)	Bayer (2012)					Not disclosed
EVT770	MedImmune (2010)					Extension of collaboration until end 2014
Pain (Undisclosed)	Boehringer Ingelheim (2004)					Entered Pre-Clinical

* *To the Company's knowledge benchmark data not available*

** *Starting with pre-clinical development stage*

Status 31 Dec 2012 *Status 31 Dec 2013*

EARLY INDICATORS

Several factors are used to early on evaluate the degree to which the Company's goals will be fulfilled in the medium to long term. Early indicators used at Evotec include:

▸ Current and expected developments of the market for drug discovery alliances and general trends in research and development: Developments and trends are monitored on an ongoing basis in order to identify major developments and triggering events that can have a significant impact on the Company's product portfolio or financial position. When such developments are identified, the Company carefully evaluates the extent to which Evotec's strategy and current decisions should be altered. If necessary, actions are taken to reduce the impact of negative developments or to improve the probability of success.

▸ The development of Evotec's IP position: In order to protect intellectual property, Evotec reviews its patent portfolio on a regular basis (see more details in chapter "Research and development – Intellectual property" on page 36 of this Management Report).

▸ Sales and order book: The sales and order book provides a high degree of visibility of revenues for the coming months and is updated on a monthly basis.

▸ Monthly/quarterly results: Financial results are regularly used for measuring the current performance of the Company but also to extrapolate the development of the business in future periods. By analysing trends and figures, management is able to adjust elements of its business plan and specific cost components appropriately.

▸ Achievement of milestones in discovery alliances and development partnerships: Milestone achievements are a key revenue and cash flow driver for Evotec. Accordingly, the development of milestone payments is an indicator of the success of Evotec's programmes and the performance of Evotec in its risk-shared alliances. Milestone payments can vary between quarters and years. However, if the number of achieved milestone payments was to significantly deviate from Evotec's plans, the Company would need to consider adjusting its strategy.

RESEARCH & DEVELOPMENT

The core of Evotec's business is conducting research and development ("R&D") activities to support Pharma and biotech companies, academic institutions and non-for profit organisations in achieving their R&D goals by effectively utilising a best-in-class discovery infrastructure with maximum efficiency. Evotec offers access to a highly comprehensive pre-clinical discovery and development value chain via project-driven technology solutions and customised business arrangements. Evotec's partners are able to select either individual components of the value chain or access partially or fully integrated solutions for their projects. Research collaborations range from strict fee-for-service arrangements and success-based collaborations to risk-sharing and/or to fully funded R&D plus upside type arrangements. Internal R&D investments target the support of all areas.

RESEARCH AND DEVELOPMENT – FACTS AND FIGURES

Development of R&D expenses

in T€	2009	2010	2011	2012	**2013**
Clinical	6,074	1,033	2,512	516	**106**
Discovery	10,895	1,804	1,897	2,972	**5,246**
Platform R&D	1,562	868	1,101	1,942	**1,754**
Overhead R&D	2,416	2,411	2,927	2,910	**2,558**
Total R&D	**20,947**	**6,116**	**8,437**	**8,340**	**9,664**
Funded R&D	2,846	3,878	1,648	554	425

In 2013, Evotec continued to focus its R&D expenditure in line with the previous three years. In 2013, R&D expenditure amounted to € 9.7 m, primarily reflecting increased investments in the Company's strategic Cure *X* and Target *X* initiatives. Going forward, Evotec will continue to carefully invest in areas that can potentially deliver a significant return in the near term via upfront and research collaboration payments, while at the same time generating a strategic pharmaceutical pipeline of product candidates with milestone and royalty-bearing potential.

Key R&D partnerships

Evotec has a broad and deep pipeline of projects in clinical, pre-clinical and discovery stages in partnerships with Pharma and biotech companies. All of these projects are financed by Evotec's partners but Evotec retains a stake in the projects in terms of milestones and royalties. An overview of this pipeline is given in the table "Progress of advanced drug candidates" on page 29 of this Management Report.

The Company is committed to increasing this pipeline of partnered R&D projects using internally funded R&D. These additional new projects are generated via the Company's Cure *X* and Target *X* initiatives that are carried out either in partnership with leading academic labs and institutions/biotech companies, or by Evotec alone. Cure *X* and Target *X* initiatives are carefully selected to fit to Evotec's key disease areas and technical capabilities. They are also requiring having a high degree of innovation and the potential to lead to the development of disease-modifying drugs.

Key academic and biotech collaborators currently include the Harvard Stem Cell Institute (Cure*Beta*, Cure*MN*, Target*EEM*), Yale University (Target*DBR*), Dana Farber's Belfer Institute for Applied Cancer Research (Target*KDM*), Harvard University (Target*PGB*) and Brigham and Women's Hospital (Cure*Nephron*), Apeiron (Target*T-cell*) and Haplogen (Target*PicV*).

Evotec is planning to further invest in internal R&D projects which are intended to drive future R&D partnerships with pharmaceutical companies. These projects are selected highly innovative drug discovery initiatives in key Evotec disease areas.

Molecule	Partner	Indication	Status	Next milestone	Commercials
Diabetes and diabetic complications pipeline overview					
DiaPep277®	Andromeda	Diabetes	2nd Phase III recruitment closed	Final Phase III data	Up to € 40 m milestones, royalties
EVT770	MedImmune/ AstraZeneca	Type 1 and 2 diabetes (beta cell regeneration)	Lead	Phase I	€ 5 m upfront, up to € 254 m milestones/product, significant royalties
ALM	MedImmune/ AstraZeneca	Type 1 and 2 diabetes (beta cell regeneration)	Discovery	Phase I	€ 1 m upfront, high margin research payments up to € 183 m milestones/product, significant royalties
Cure*Beta*	Janssen	Type 1 and 2 diabetes (beta cell regeneration)	Target ID/validation	Validated target	$ 8 m upfront, high margin research payments, up to $ 300 m milestones/product, royalties
EVT070	Boehringer Ingelheim	Type 2 diabetes (insulin resistence)	Lead	Pre-clinical candidate	€ 7 m upfront, high margin research payment, up to € 237 m milestones, significant royalties
Cure*Nephron*	Harvard Stem Cell Institute	Chronic kidney disease	Discovery	Pharma partnership	-
Target*EEM*	Harvard	Type 1 and 2 diabetes (enteroendocrine mechanisms)	Discovery	Pharma partnership	-
Various	AstraZeneca	Kidney disease	ND[1)]	ND[1)]	Undisclosed upfront, high margin research payments, milestones/product, royalties
Neurology pipeline overview					
EVT302 (MAO-B)	Roche	Alzheimer's disease	Phase II	Completion of Phase II, Phase III start	$ 10 m upfront, up to $ 820 m milestones, significant royalties
EVT100 series	Janssen	Treatment-resistant depression	Pre-clinical	Confirmation of pre-clinical study/ Phase II start[2)]	$ 2 m upfront, up to $ 173 m milestones, significant royalties
EVT201	JingXin	Insomnia	Phase II	Start clinical trials	Milestones, royalties
Various	CHDI	Huntington's disease	Target validation	ND[1)]	Research payments
ND[1)]	Genentech	Neurodegeneration	Pre-clinical	ND[1)]	Research payments
Target*AD*	Johnson & Johnson Innovation	Alzheimer's disease (novel MoA[3)])	Discovery	ND[1)]	Up to $ 10 m research payments, approx. $ 125-145 m milestones, royalties
Target*ASIC*	BMBF, undisclosed Pharma	Multiple sclerosis	Lead generation	Lead status	Co-funded
Cure*MN*	Harvard	Amyotrophic lateral sclerosis	ND[1)]	Pharma partnership	-

Molecule	Partner	Indication	Status	Next milestone	Commercials
Pain and inflammation pipeline overview					
EVT401	CONBA	Inflammation	Phase I/II	Phase II start	Up to € 60 m milestones, royalties
Various	Bayer	Endometriosis	Pre-clinical	Pre-clinical candidate	€ 12 m upfront, total value up to € 580 m, royalties
Various	Boehringer Ingelheim	Various/Pain	Pre-clinical	Phase I start	Undisclosed upfront, research payments, milestones, royalties
Various	UCB	Inflammation	Lead	Pre-clinical	Milestones and royalties
ND[1)]	Novartis	Various/Pain	Pre-clinical	Successful PoC[4)]	Research payments, milestones, royalties
Oncology pipeline overview					
Somatoprim	Aspireo	Acromegaly/NET	Phase IIa	Pharma partnership	Consulting fees, royalties
ND[1)]	Boehringer Ingelheim	Oncology	Phase I	ND[1)]	Research payments, milestones, royalties
ND[1)]	Boehringer Ingelheim	Oncology	Pre-clinical	ND[1)]	Research payments, milestones, royalties
Target*T-cell*	Apeiron	Various (Immunotherapy)	Pre-clinical	Pharma partnership	Shared research costs, milestones, royalties
Target*KDM*	Belfer Institute	Various (Epigenetic targets)	Pre-clinical	Pharma partnership	-
Target*FGFR3*	Internal project	Bladder cancer	Hit to Lead	ND[1)]	-
Target*IDH*	Internal project	Various (Epigenetic targets)	Hit to Lead	ND[1)]	-

[1)] Not disclosed
[2)] Currently under evaluation
[3)] Mode of Action
[4)] Proof of Concept

Overview of R&D results
Evotec provides a detailed overview of achievements in research and development in section "Research and development performance" in chapter "Performance measurement" on page 28 of this Management Report.

RESEARCH AND DEVELOPMENT – ACTIVITIES AND PARTNERSHIPS

Systematic, unbiased and comprehensive approach in Evotec's core areas
The nature and scope of Evotec's discovery alliances and development partnerships is extremely diverse, but they are united by the aim of supporting Evotec's partners in discovering and developing novel drug candidates. Evotec's activities in its key alliances and partnerships are detailed below.

Strong partnerships with Pharma customers

AstraZeneca AB:
As part of its Cure*Nephron* initiative, Evotec announced an alliance with AstraZeneca in October 2013. The initial focus of the alliance is to explore compounds and targets with novel mechanisms that have disease-modifying potential for the treatment of chronic kidney disease. Under the terms of this licence and collaboration agreement, AstraZeneca receives access to a selected series of molecules identified in a screening effort, which is part of Evotec's systematic kidney disease initiative. This particular programme has been designed to explore a key mechanism in the field of chronic kidney disease. AstraZeneca provides industrial scope and scale as well as pharmaceutical development expertise and marketing capabilities.

Bayer Pharma AG:
In October 2012, Evotec entered into a five-year multi-target collaboration with Bayer with the goal of developing three clinical candidates for the treatment of endometriosis and associated pain. Endometriosis affects women in childbearing age, therefore there is a considerable need for new

non-surgical treatments that will alleviate pain whilst preserving fertility. Bayer and Evotec both contribute drug targets and technology infrastructure as well as resources to drive the programmes and share the responsibility for early research and pre-clinical characterisation of potential clinical candidates. Bayer is responsible for any subsequent clinical development and commercialisation.

Boehringer Ingelheim Pharma GmbH & Co. KG:
In 2004, Evotec entered into a multi-year multi-target drug discovery alliance with Boehringer Ingelheim. Under the terms of the agreement, Boehringer Ingelheim has full ownership and global responsibility for clinical development, manufacturing and commercialisation of the compounds identified. To date, 22 milestones have been achieved in this collaboration. In 2013, Evotec achieved five milestones: the transition of two oncology molecules and one pain molecule into pre-clinical development one oncology molecule into Phase I clinical trials and one respiratory compound into extended profiling.

CHDI Foundation, Inc.:
Evotec and CHDI, a privately funded not-for-profit research organisation dedicated to developing therapies for Huntington's disease ("HD"), entered into a multi-year discovery alliance in March 2006, which has since grown significantly. It was extended again in 2012 for a further three years. The collaboration takes full advantage of Evotec's very broad and highly integrated drug discovery platform and its proficiency in neurological research, including its expertise in medicinal chemistry, *in vitro* and *in vivo* pharmacology as well as compound management. It is an excellent example of how foundations or other institutions without internal R&D facilities can access Evotec's platform suite of technologies, capabilities and strong disease biology expertise to drive their drug discovery efforts.

Janssen Pharmaceuticals, Inc.:
In July 2012, Evotec announced a licence and collaboration agreement with Janssen based on a portfolio of small molecules and biologics designed to trigger the regeneration of insulin-producing beta cells for the treatment of diabetes. The small molecules and biologics were originally identified by Professor Douglas Melton's laboratory at Harvard University and further developed in collaboration with scientists from Evotec as part of the Cure*Beta* research and development programme. Further discovery and early development work is conducted in collaboration with Janssen, who provides industrial scope and scale as well as pharmaceutical development expertise and marketing capabilities to the joint programme. This collaboration is an excellent example of successfully joining forces across traditional academic and industrial boundaries to rapidly advance groundbreaking science into medicines.

Johnson & Johnson Innovation Center:
In November 2013, Evotec announced a partnership with the Johnson & Johnson Innovation Center in California to identify new targets for Alzheimer's disease drug discovery and development. Termed Target*AD (Alzheimer's disease)*, the collaboration seeks to identify new drug targets for discovery of novel treatment approaches to Alzheimer's disease. Janssen funds target discovery research via a combination of defined research payments and progress-related milestones over the next three years. Evotec's proprietary Target*AD* database provides a unique source of potentially novel Alzheimer's disease drug targets derived from the analysis of dysregulated genes in high-quality and well-characterised human brain tissues representing all stages of disease progression as well as control tissues from non-demented subjects. Identifying new targets for drug development based on disease pathology may have the potential to impact the disease at its earliest stages, resulting in greater therapeutic benefit to patients.

MedImmune, LLC:
In December 2010, Evotec entered into a licence and collaboration agreement in the diabetes therapeutic area with MedImmune, the global biologics arm of AstraZeneca. As part of the agreement, MedImmune has exclusive access to a defined set of biologic targets that have the potential to prevent or reverse disease progression in diabetic patients. To date, the collaboration has been very productive in driving forward the development of EVT770 as well as additional molecules in the portfolio. In December 2012, the scope of the agreement was expanded after reaching an important milestone. The size of the combined research team has been increased and Evotec receives additional research payments to support *in vitro* and *in vivo* pharmacology efforts. In December 2013, the research collaboration was extended for another year to the end of 2014.

UCB Pharma SA:
In 2011, Evotec entered into a multi-year multi-target integrated drug discovery collaboration with UCB in the field of immunology. The collaboration has progressed well over the last year. In 2013, Evotec achieved the first two milestones upon the progression of certain projects into hit-to-lead and lead optimisation, respectively.

Cure *X* and Target *X* initiatives fuel Evotec's pipeline

Evotec invests in highly innovative approaches to address key therapeutic areas and major pharmaceutical markets. As a result, the Company is developing technologies that will lead to an improved understanding in the areas diabetes, complications of diabetes (as e.g. kidney disease), metabolic diseases as well as neurology, oncology, pain and inflammation.

In 2011, Evotec established a second alliance with Harvard University in the field of kidney diseases (Cure*Nephron*). Similar to Cure*Beta*, the initial goal of the collaboration was to pursue a comprehensive and systematic approach towards the identification and development of physiological mechanisms and targets which are involved in the development of chronic kidney disease and acute kidney injury. Evotec continues to focus on developing additional "Cure *X* and Target *X*" initiatives, i.e. early assets in innovative areas of drug discovery, such as regenerative medicine, and is currently in the process of establishing further academic alliances. These aim at accessing highly innovative biology and early-stage assets that have the potential to be developed into disease-modifying therapies. A first partnership based on a specific screening approach within the Cure*Nephron* initiative was signed in 2013 with AstraZeneca, as mentioned above.

In 2013, Evotec entered into six additional academic and biotech partnerships within its Cure *X* and Target *X* framework.

Target*T-cell* (Apeiron Biologics AG)
Target*T-cell* is a research and development collaboration between

Evotec and Apeiron Biologics AG ("Apeiron") entered in January 2013 with the objective of developing immunomodulatory lead compounds for the treatment of cancer. Apeiron contributes *in vitro* and *in vivo* pharmacology expertise to this collaboration while Evotec is responsible for medicinal chemistry as well as chemical proteomics. The collaboration is based on the successful outcome of a phenotypic high-throughput screen previously commissioned by Apeiron to Evotec.

Target*DBR* (Yale University)
An open innovation alliance was formed with Yale University in January 2013, starting in the first quarter of 2013. Under the agreement, Evotec and Yale leverage first-rate science performed at Yale University together with Evotec's drug discovery infrastructure and expertise into highly innovative discovery approaches in diseases of high unmet medical need and prepare these for partnering. In December 2013, Evotec announced the first collaboration within this alliance with the laboratories of Prof. Peter Glazer and Prof. Ranjit Bindra at Yale School of Medicine. The objective of this collaboration called Target*DBR (DNA Break Repair)* is to identify novel mechanisms, targets and compounds that have the potential to interfere with DNA repair.

Target*KDM* (Dana-Farber's Belfer Institute)
In April 2013, The Belfer Institute for Applied Cancer Science at Dana-Farber Cancer Institute and Evotec announced Target*KDM (Lysine demethylase inhibitors)*, a research collaboration aimed at discovering and commercialising novel cancer treatments based on epigenetic drug mechanisms. The goal of the collaboration is to validate emerging epigenetic targets for oncology indications and to demonstrate the drugability of the selected target families. Evotec, Dana-Farber and the Belfer Institute invest in enabling technologies, experimental target validation and the generation of chemical matter by leveraging existing expertise and platforms.

Target*PGB* (Harvard University)
In May 2013, Evotec and Harvard entered into their third collaboration, named Target*PGB (Peptidoglycan biosynthesis)*, aimed at discovering and developing novel anti-bacterial agents based on a highly validated target family involved in bacterial cell wall biosynthesis. Under the agreement, researchers at Harvard and Evotec collaboratively identify and optimise small molecule inhibitors of bacterial cell wall synthesis, based on enabling technologies and chemical starting points licensed from Harvard. Using its comprehensive drug discovery infrastructure and expertise in addressing anti-bacterial targets, Evotec specifically targets peptidoglycan biosynthesis.

Cure*MN* (Harvard Stem Cell Institute)
In September 2013, Evotec announced a strategic partnership with the Harvard Stem Cell Institute ("HSCI") to identify compounds that prevent or slow down the loss of motor neurons, which is characteristic of the human disease amyotrophic lateral sclerosis ("ALS"). The collaboration Cure*MN (Motor Neuron)* leverages human motor neuron assays based on ALS patient-derived induced pluripotent stem cells, which were developed by Dr Lee Rubin and Dr Kevin Eggan, as well as Evotec's leading drug discovery infrastructure and expertise to identify compounds that will have therapeutic value against this life-threatening disease.

Target*EEM* (Harvard Stem Cell Institute)
Target*EEM (Enteroendocrine Mechanisms)* represents the second alliance with the laboratory of Doug Melton at Harvard and has its starting point in October 2013. The objective of this collaboration is to identify novel enteroendocrine mechanisms, pathways and signals regulating key metabolic processes that have disease-modifying potential in diabetic patients. The basis of this effort are disease-relevant animal models as well as unbiased transcriptional and proteomic profiling platforms contributed by both collaboration partners.

Clinical-stage pipeline

In its development partnerships, Evotec has licensed selected later-stage clinical assets to Pharma partners for further development and hopefully commercialisation. In all these partnerships, the projects are fully funded and progressed by its Pharma partners; consequently, Evotec carries no financial risks in these projects but will benefit from any future success. The most significant partnerships are listed below.

Andromeda – DiaPep277®

▸ *Background:* DiaPep277® is an HSP 60 derived peptide, a novel approach in diabetes treatment modulating natural pathways to slow autoimmune mediated destruction of insulin-producing beta cells. The compound was developed by DeveloGen before rights were transferred to Andromeda in 2007.

▸ *Status:* The first Phase III clinical trial on DiaPep277® demonstrated the achievement of both its primary and secondary endpoints. Moreover, results from an extension study to its Phase III clinical trial in type 1 diabetes patients demonstrating that DiaPep277® was well-tolerated and had a good safety profile were announced by Andromeda in June 2013. Results of a second pivotal trial are expected towards the end of 2014.

▸ *Commercials:* Under the terms of the agreement, Evotec could receive milestone payments of up to € 40 m as well as royalties on sales.

Roche – EVT302/RO4602522

▸ *Background:* EVT302 is a novel potent and selective inhibitor of monoamine oxidase type B (MAO-B), an enzyme that breaks down the chemical messenger dopamine. Alzheimer's disease is characterised by a loss of specific neurons in the brain including those producing dopamine. The resulting deficit in dopamine levels is thought to underlie typical behavioural changes of AD patients such as apathy and subsequent reduction in activities of daily living. In 2006, Evotec in-licensed EVT302 from Roche and developed the compound through Phase I and Phase II studies in a different indication. In 2011, Evotec and Roche entered into an exclusive worldwide agreement for the development and commercialisation of EVT302 in AD.

▸ *Status:* Roche is currently recruiting for a Phase IIb clinical trial with RO4602522 (EVT302). This trial aims to recruit 495 patients in more than 140 centres worldwide to assess the efficacy and safety of this compound in patients with moderate AD. As a primary outcome

measure, changes in cognitive behaviour will be evaluated by means of the AD Assessment Scale – Cognitive Behaviour Subscale. This clinical trial is one of very few late-stage trials in this AD patient population. Results are expected early 2015.

▸ *Commercials:* Under the terms of Evotec's agreement with Roche, Evotec received $ 10 m upfront and could receive development and commercial milestone payments of up to $ 820 m as well as tiered double-digit percentage of royalties on sales.

EVT100 series – Janssen

▸ *Background:* EVT101 and EVT103 are orally active NR2B subtype selective NMDA-antagonists and represent one of the few new approaches in clinical development for depression. Extensive studies over the past 20 years have shown that NMDA receptors are involved in the pathology of depression and other diseases of the central nervous system. The EVT100 series was originally in-licensed from Roche in 2004. Evotec completed pre-clinical development of the compounds and pursued multiple Phase I studies with EVT101 and EVT103. A development partnership with Roche, initiated in 2009, was dissolved in 2011. The decision to terminate a Phase II study in treatment-resistant patients was triggered by difficulties to recruit patients meeting inclusion criteria defined by the former study protocol. In the fourth quarter of 2012, Evotec successfully partnered its EVT100 series with Janssen. Janssen received an exclusive worldwide licence regarding its NR2B subtype selective NMDA-antagonist portfolio for development against diseases in the field of depression.

▸ *Status*: In December 2013, Evotec was informed by Janssen that certain pre-clinical studies did not meet expected properties of the antagonist and did not justify the planned immediate development progress. The project is currently under evaluation at Janssen.

▸ *Commercials:* Under the terms of Evotec's agreement with Janssen, Evotec received an upfront payment of $ 2 m in 2013. Evotec is eligible to receive further milestone payments from Janssen upon the successful completion of certain clinical, regulatory and launch events for a first product, which may total up to $ 73 m. In addition, reduced milestone payments upon successful completion of certain events for additional indications and/or compounds are part of the agreement. Evotec is entitled to receive an additional $ 100 m in commercial milestones depending upon certain sales thresholds and royalties. Evotec will share portions of the payments with Roche, who originally discovered the molecules.

JingXin – EVT201

▸ *Background:* EVT201 is a $GABA_A$ receptor partial positive allosteric modulator developed for the treatment of insomnia. Evotec successfully concluded two Phase II studies, providing excellent safety and efficacy results, but was nevertheless not successful in partnering the compound in the Western market. In October 2010, Evotec entered into a licence and collaboration agreement with JingXin for EVT201. The agreement grants JingXin exclusive rights to develop and market the drug candidate in China.

▸ *Status:* In April 2013, JingXin received approval from the Chinese Center of Drug Evaluation ("CDE") to commence clinical trials with EVT201 and the company initiated the first clinical study.

▸ *Commercials:* Under the terms of the agreement, Evotec will receive commercial milestones and royalties.

CONBA - EVT401

▸ *Background:* EVT401, Evotec's P2X7 receptor, is an ATP-gated ion channel and may provide a novel approach for the treatment of inflammatory conditions. The compound was completely developed in-house. Phase I results in 2009 showed a very good safety profile and confirmed "on-target activity". In May 2012, Evotec started an alliance with CONBA, one of the largest pharmaceutical companies in China. The agreement grants CONBA exclusive rights to develop and commercialise the compound for the Chinese market for human indications with the exception of ophthalmological, chronic obstructive pulmonary disease ("COPD") and endometriosis.

▸ *Status:* CONBA is expected to initiate further clinical trials with EVT401 in inflammatory diseases in 2014.

▸ *Commercials:* Under the terms of the agreement, Evotec is entitled to receive development and commercial milestone payments in excess of € 60 m and tiered double-digit royalties on net sales.

Aspireo – Somatoprim

▸ *Background:* Somatoprim (DG3173) is a new molecular entity somatostatin analogue with a unique, potentially best-in-class, pharmacological profile currently in Phase II clinical development. Somatoprim was originally developed by DeveloGen. DeveloGen investigated the safety, tolerability and pharmacokinetic profile of DG3173 in a double-blind, placebo-controlled single dose escalating Phase I study. In this study, DG3173 was generally well-tolerated and safe. Evotec acquired DeveloGen in July 2010, but this asset was not included in the acquisition. In 2012, Evotec and Aspireo entered into a strategic advisory agreement for support in the development and partnering of Aspireo's Somatoprim.

▸ *Status:* In June 2013, Aspireo started a further Phase I study in healthy volunteers, results are expected for 2014. In September 2013, the FDA granted Orphan Drug Designation for Aspireo's Somatoprim for the treatment of acromegaly.

▸ *Commercials:* Under the terms of the agreement, Evotec will consult Aspireo on matters of clinical and pre-clinical development. In return for such services, Evotec will retain advisory fees as well as participate in the economic success of Somatoprim.

The associated costs for R&D conducted under service agreements and R&D alliances with Pharma or biotech companies are not accounted for as R&D expenses in the Company's P&L but shown under "Cost of

goods sold". However, Evotec invests in building, maintaining and upgrading its in-house discovery platforms and the development of early assets in key therapeutic areas as part of its Cure *X* and Target *X* initiatives. These activities are the basis for Evotec's reported R&D expenses (a multi-year overview of Evotec's key R&D figures is reported in chapter "Research and development – Facts and figures" on page 30 of this Management Report).

RESEARCH AND DEVELOPMENT – INTELLECTUAL PROPERTY

Evotec actively manages a significant patent portfolio. The Company seeks, where 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 to maintain its competitive position and deliver on its strategy. As of 31 December 2013, Evotec has more than 95 patent 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 molecular 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 discovery projects internally. The Company monitors the research activities and results of this in-house research in order to identify patentable drug candidate series which have the potential for partnering. Numerous patent applications have been generated and filed as a result of such activities. In addition, pursuant to agreements with Roche, intellectual property concerning drug candidates of the EVT100 compound family and EVT201 has been assigned or exclusively licensed to Evotec. These drug candidates are protected by diverse composition-of-matter patent families, covering also their therapeutic use in major countries worldwide.

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.

Furthermore, Evotec has established key metabolic disease know-how and complementary drug discovery expertise. The Company has patent-protected biological factors relevant for the regeneration of insulin-producing beta cells and their corresponding use for the treatment of diabetes.

FINANCIAL REPORT

GENERAL MARKET AND HEALTHCARE ENVIRONMENT

GLOBAL ECONOMIC DEVELOPMENT

Global economic development remained subdued in 2013. As calculated by the International Monetary Fund ("IMF") for the whole year 2013, there has been worldwide economic growth of 3.0% – a slight decrease compared to worldwide growth in 2012 (3.1%). Since late 2012, several new policy initiatives in major developed economies have reduced systemic risks and helped stabilise consumer, business and investor confidence. However, these have only had a limited impact on growth. At the end of 2013, China and a growing number of emerging countries were facing decreasing growth rates caused by both cyclical and structural factors.

The US economy grew faster than expected in the second quarter of 2013 and reached an overall Gross Domestic Product ("GDP") growth rate of 1.9% in 2013. Americans ended the year more optimistic about the economy, with consumer confidence improving in December after falling significantly during the previous two months because of the partial government shutdown. Economic output in the Eurozone declined by 0.5% in 2013.

According to the German Institute for Economic Research ("DIW"), the German economy continued its moderate upward trend. Economic growth reached 0.4% in 2013.

RECENT TRENDS IN THE PHARMACEUTICAL AND BIOTECHNOLOGY SECTOR

Biotechnology is one of the most important industries of the 21st century and also one of the fastest-growing at the revenue level at approximately 11% p.a. Worldwide sector revenues amounted to $ 91 bn in 2010 and are forecast to exceed $ 150 bn in 2015. Headwinds to growth remain and drugs with annual revenues of more than $ 100 bn will lose their patent protection by 2018 with generic entrants, poised to produce considerable savings for healthcare systems, driving additional financial capacity for new and innovative drugs from the biotech industry.

Drug development remains a high-reward but high-risk process and of late the pharmaceutical industry has struggled with a decline in R&D productivity and increasing demands from regulatory authorities, who demand first-in-class and best-in-class therapies rather than "me-too" solutions. This shift has driven an increase in both M&A activity and partnership arrangements over the past decade, as larger companies seek innovation externally. Therefore small biotech companies with innovative technologies that lack the resources to commercialise their products can enter into favourable deals with larger companies with established sales forces and market presence. This leaves small biotech companies with more capacity for further innovation.

Furthermore, the pharmaceutical industry faces the challenge of creating more value for patients, providers and payers – and thus for shareholders. In order to gain access to the leading science, pharmaceutical companies will have to collaborate with academia, governmental and non-governmental organisations, biotech companies, fellow life sciences companies, regulators and patients groups while entering into open innovation agreements. Improvement in scientific productivity and efficiency will require larger investments in genetics and genomics and a revision of research and development processes within the industry, with the aim to significantly speed up the development process of new life science products.

2013 saw these trends continue and the sector enjoyed a strong stock market performance. On the M&A side, the value of transactions completed in 2013 was $ 51.9 bn, up from $ 43.5 bn in 2012 and well above the average since 2000 of $ 31 bn. In capital markets, healthcare funds saw a reported net inflow of funds totalling some $ 16 bn, the largest net annual inflow for more than decade with the Q4 2013 inflow alone exceeding the total inflow for the whole of 2012. Investors are taking a more positive view to the long-term prospects of the industry, buoyed by the pick-up in drug approvals by the Food and Drug Administration ("FDA") and signs of improving innovation in drug discovery.

Biotech companies like Evotec can secure a valuable share of associated value chains and benefit from its attractive business model. Alliances, co-operations, licensing and service agreements as well as asset deals underline the Company's role both as a strategic partner and as a development and service company to the industry.

DEVELOPMENT OF LEGAL FACTORS

Companies involved in drug discovery and development operate in highly regulated markets. The majority of legal factors that could significantly affect Evotec's business are those that would directly impact the Company's partners and customers. For example, changes in government funding of research and development work would have a direct impact on the funds available to pharmaceutical and biotech companies and hence their ability to afford Evotec's drug discovery solutions. This could ultimately affect Evotec's business in a positive or negative manner. Similarly, changes in legal conditions regarding the treatment of tax credits for research and development work conducted by Evotec's partners and customers could also impact Evotec's business.

New drugs for human use are subject to approval by the European Medicine Agency ("EMA") in the European Union, the FDA in the USA and by other national regulatory and supervisory authorities. Evotec is focused on the early stages of drug discovery with development and commercialisation conducted by the Company's Pharma partners, who fund those activities. Consequently, any changes in the regulatory environment would also only indirectly impact Evotec's business, e.g.

by reducing or increasing the upside Evotec may generate from the successful development and commercialisation of its licensed products.

Factors that might directly impact Evotec's business include any tightening of the Welfare of Animals Act relating to pre-clinical animal studies or any changes in the regulation of pre-clinical research in general. In addition, any easing of policy relating to the conduct of stem cell research in Europe, for example, could have a positive impact on Evotec's business.

In 2013, legal factors affecting Evotec were largely unchanged and the Group's operating business was not materially affected.

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. Changes in raw material prices do not materially affect Evotec.

The biggest impact from currency movements on Evotec's financial position in 2013 resulted from the Euro (€) to US dollar ($) exchange rate. The exchange rate fluctuated between 1.28 and 1.38 US dollar/Euro. In 2013, the US economy and the labour market improved only slightly so that the Fed continued its programme of purchasing US bonds. Although the economic recovery in the US was stronger than in the Eurozone, the Euro strengthened against the US dollar in the course of the year 2013, as the monetary policy of the Fed was much more expansive than of the European Central Bank ("ECB"). Starting at 1.32 US dollar/Euro, the Euro then weakened against the US dollar in the first half of the year to levels between 1.28 and 1.30. In the second half of 2013, the Euro strengthened and ended the year close to its 12-month peak of 1.38 US dollar/Euro. On average, the Euro was 3% stronger against the US dollar in 2013 compared to 2012, with an average exchange rate of 1.33 US dollar/Euro compared to 1.29 in the prior year.

For Evotec, a weakening US dollar leads to a decrease in reported revenues and expenses in Euro as well as to a decrease in liquidity in Euro terms. This had a negative impact on 2013 revenues of approximately € 1.6 m in comparison to 2012 and a positive effect on costs of revenue of € 0.3 m. At year-end, the US dollar weakened against the Euro from 1.32 Euro/US dollar (2012) to 1.38 Euro/US dollar (2013), which reduced the year-end liquidity position by approximately € 0.6 m.

The second most important currency for Evotec is the Pound Sterling (£). The Pound Sterling to Euro exchange rate fluctuated between 1.14 and 1.23 Pound Sterling/Euro in 2013. The average exchange rate was 1.18 Pound Sterling/Euro compared to 1.23 in the prior year. A weakening Pound Sterling leads to a decrease in reported revenues and expenses in Euros as well as to a decrease in liquidity in Euro terms. With relatively small GBP-denominated revenues and high expenses in Pound Sterling due to Evotec's site in Abingdon (UK) expenses significantly exceed revenues in this currency. Whereas currency movements had a negative impact on 2013 revenues of approximately € 0.1 m, the impact on gross profit was positive with € 0.8 m in comparison to 2012. In terms of liquidity at the end of the year, the Pound Sterling weakened from 1.22 to 1.20 Pound Sterling/Euro, which reduced the year-end liquidity position by € 0.1 m.

Overall, the Company is long in US dollars and Euros and short in Pound Sterling. This is due to the fact that the Company generates approximately 50% of its revenues in US dollar and approximately 40% of its total cost base is denominated in Pound Sterling. Evotec's policy is not to speculate on foreign exchange movements. The strategy of the Company is to sell surplus US dollar in both the forward and spot markets to cover ongoing Pound Sterling expenses.

Historically low interest rates continued throughout 2013. In Europe, the ECB inter-banking interest rate (3-month Euribor) remained around its historic low of 0.20% in the first half of 2013. Signs that the Fed might tighten monetary policy sent interest rates slightly higher and the Euribor increased to 0.22% in June. With the start of the tapering mid-December, the 3-month Euribor increased to 0.29%. However, the US signalled that the target range for the US federal funds rate will be kept between 0 and 0.25% until the unemployment rate goes below 6.5%. 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.

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. As a result of the capital inflow to Evotec of € 30.1 m from the increase of its share capital against cash contribution from Biotechnology Value Fund, L.P. in September 2013, cash increased to € 96.1 m at the end of the year.

Evotec will continue:
- to operate as capital-efficiently as possible,
- to assess the funding of its R&D activities and capital investments carefully,
- to balance this against cash flow from revenue-bearing business.

This will ensure that Evotec's cash will be sufficient to maintain and grow the Company sustainably.

SIGNIFICANT CORPORATE DEVELOPMENT EVENTS 2013

Integration of CCS

Evotec acquired CCS Cell Culture Service GmbH ("CCS"), a Hamburg-based company which supports the cell culture needs of a worldwide customer base of biotech and pharmaceutical companies, effective 01 January 2013. The Hamburg-based operations of CCS were relocated and fully integrated into the Manfred Eigen Campus during the third quarter of 2013, resulting in cost synergies and efficiency improvements. The purchase price consisted of a cash consideration of € 1.15 m and an earn-out component which could reach up to € 1.3 m in cash. The earn-out component is due one year after the acquisition and depends on the achievement of certain revenue targets. Through the acquisition of CCS, Evotec confirms its leading position as a fully integrated drug discovery and early development partner for Pharma and biotechnology companies.

Integration of CCS' unique capabilities, such as frozen cell preparations and bulk cell transfection for cell-based screening will enable Evotec's partners to access the latest science and the best-in-class technology infrastructure to increase efficiency in the drug discovery process.

New facility for Compound Management Services in the US

In April 2013, Evotec (US), Inc. executed a multi-year lease on a facility specifically designed to expand the offering of its Compound Management Services on the East Coast of the United States. The facility, located in Branford, Connecticut, is strategically positioned to support the strong presence of Evotec's drug discovery collaborators along the East Coast. Through the investment into industry leading technologies, specifically aimed at library management, and the access to incremental space, the new facility will be modern, cost-effective and scalable to support continued growth. This new site became operational in the third quarter of 2013 and has begun servicing a three-year contract with a client.

Closing of Indian operations

In July 2013, Evotec announced the closure of its Operations in Thane, India with Evotec (India) Private Limited being a 100% subsidiary of Evotec AG. Its chemistry-based offering included custom synthesis, process research and development, scale-up and analytical services. The decision was the result of customer demand for European-based activities and the realisation that Evotec could most effectively serve its customers by utilising its UK chemistry resources and capabilities. Thus, Evotec now offers these services through its site in Abingdon (UK). In addition, the realignment results in cost savings. As a consequence, 109 Thane-based employees left the Company as of 31 December 2013 and Evotec took an impairment charge of approximately € 3.0 m in the third quarter of 2013.

Successful capital increase

In August 2013, the Company resolved on a capital increase against cash contribution from its authorised capital by issuing 11,818,613 new shares to the Biotechnology Value Fund, L.P. and other affiliates of the US biotech specialist investment firm BVF Partners L.P. Shareholders' subscription rights were excluded. In a direct placement capital increase, which was arranged between the Company and BVF, BVF invested € 30 m to subscribe for 11,818,613 new shares of Evotec at a price of € 2.55 per share. In a simultaneous transaction, BVF also purchased an option from TVM granting BVF the right to acquire an additional 11,818,612 shares of Evotec at € 4.00 per share within the next 30 months.

AstraZeneca licence agreement

In October 2013, one of several Cure*Nephron* projects was licensed to AstraZeneca with the aim to explore compounds and targets with novel mechanisms that have disease-modifying potential for the treatment of chronic kidney diseases. Under the agreement, AstraZeneca will receive access to a selected series of molecules identified in a screening effort performed by Evotec.

Research collaboration with Johnson & Johnson

In November 2013, Evotec and Johnson & Johnson Innovation Center in California entered into a research collaboration to identify new targets for Alzheimer's disease drug discovery and development. Under the terms of the agreement Target*AD (Alzheimer's disease)*, Janssen Pharmaceuticals, Inc., a member of the Johnson & Johnson family of companies, and Evotec will work together to discover and develop novel treatments for Alzheimer's disease from Evotec's proprietary Target*AD* database. Janssen could pay up to $ 10 m in FTE-based research costs and make pre-clinical, clinical, regulatory and commercial payments up to a maximum of $ 145 m per programme upon achieving agreed-upon milestones. In addition, Evotec will receive royalties on future sales of any products that may result from the alliance.

Reduction of revenue guidance for 2013

In December 2013, Evotec was informed by its licensee, Janssen Pharmaceuticals, Inc., that certain pre-clinical studies with the NR2B subtype selective NMDA antagonist did not confirm certain properties of the antagonist and therefore did not justify immediate development progress as planned. As a result, a significant milestone payment to Evotec was not triggered in 2013, which caused the Company to recognise an impairment of € 15 m of intangibles in respect of these assets on Evotec's balance sheet and to reduce its revenue guidance for the fiscal year 2013. The project is currently under evaluation at Janssen. Evotec and Janssen entered into this licence agreement regarding Evotec's NR2B subtype selective NMDA antagonist portfolio for development against diseases in the field of depression in December 2012.

Alliances with leading academic institutions

In the course of 2013, Evotec successfully pursued its innovation efficiency strategy by entering several alliances with leading academic institutions such as Harvard University, Yale University and Dana-Farber's Belfer Institute for Applied Cancer Science. These alliances aim at leveraging first-in-class science performed at these institutions with Evotec's comprehensive, systematic and unbiased drug discovery infrastructure into highly innovative discovery approaches. The list of these new approaches includes the open innovation alliance with Yale University (announced in January 2013), a research collaboration based on this open innovation alliance with Yale University called, Target*DBR* (DNA Break Repair), with the laboratories of Prof. Peter Glazer and Prof. Ranjit Bindra at Yale School of Medicine on cancer therapies (announced December 2013), the collaboration with Dana-Farber's Belfer Institute for Applied Cancer Science in oncology (April 2013), the research collaboration with Harvard University on the development of a new class of antibacterials (May 2013), the Cure*MN* collaboration with Harvard Stem Cell Institute to advance ALS research (September 2013) and the Target*EEM* collaboration with the laboratory of Doug Melton at Harvard University, which focuses on exploration of enteroendocrine signals affecting key metabolic pathways (announced in October 2013). Furthermore, Evotec entered into a research collaboration with the Jain Foundation in skeletal muscular dystrophy diseases (August 2013) and into a strategic research collaboration with The Leukemia & Lymphoma Society (November 2013).

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

Evotec operates within an industry that has experienced a period of significant transition and adjustment in recent years as a result of increasing regulatory pressure, falling sales and the general global economic uncertainty. In addition, there is a continued cost focus within the pharmaceutical industry due to the patent cliff situation that many Pharma companies are currently experiencing. This has led to significant restructuring and consolidation in the industry. In the short term this has lead to new strategies being developed but also a hiatus in decision making as the new emerging organisations "find their feet". On the other hand, ageing populations in developed countries continue to demand better drugs and improved diagnostics that are clearly differentiated from existing treatments. Against these overall market trends the drug discovery outsourcing market remains highly fragmented, often with little differentiation between companies, and the emerging economies of India and China with their highly educated workforces and competitive cost structures offer significant competition to Western outsourcing. The result of this is that the pharmaceutical industry requires innovation in drug discovery in a capital efficient manner. Evotec believes that the short term market dynamics will ultimately lead toward greater outsourcing opportunities, but only to those organisations with highly experienced drug discovery experts, operating in key therapeutic areas using best-in-class drug discovery platforms, with access to first-in-class biology from leading academic and specialist institutions. In this respect, Evotec is ideally positioned through Action Plan 2016 to provide innovation and drug discovery solutions as the core of a comprehensive outsourcing strategy. The Management Board believes that Evotec is adequately financed to master the challenges of 2014 and beyond. Information on possible future developments of this industry can be found in chapter "Outlook" on page 67 of this Management Report.

COMPARISON OF 2013 FINANCIAL RESULTS WITH FORECAST

RESULTS OF PRE-CLINICAL STUDIES LEAD TO REDUCED REVENUES

In Evotec's financial guidance for the full year 2013, as stated in the "Outlook" chapter of the 2012 annual report, total Group revenues were expected to be between € 90 m and € 100 m. Total R&D expenditure was expected to be around € 10 m, an increase compared to the levels of 2012. The operating result before impairment and changes in contingent consideration was expected to improve from its 2012 level. At constant year-end 2012 currencies, liquidity (cash and investments) was forecast to remain above € 60 m at the end of 2013, excluding any potential cash outflow for M&A or similar transactions.

On 31 August 2013, Evotec increased its cash guidance. Given the cash inflow of € 30 m from the increase of its share capital against cash contribution from Biotechnology Value Fund, L.P. in September 2013, the new guidance set the liquidity target for the end of 2013 to be above € 90 m.

On 13 December 2013, Evotec adjusted its original guidance for revenues and operating result. Due to results of pre-clinical studies, which did not confirm certain properties of the antagonist and did not justify the planned immediate development progress, a significant milestone payment of $ 6 m from licensee Janssen Pharmaceuticals, Inc. to Evotec was not triggered. The new revenues target was set to between € 84–86 m for the financial year 2013. The operating result before impairment and changes in contingent consideration for the financial year 2013 was still forecast to be positive, but might no longer be improved from its 2012 level. The liquidity target for 2013 remained unchanged in being above € 90 m at the end of 2013.

Evotec ended the year 2013 with € 85.9 m in revenues, € 9.7 m in R&D expenses and the operating result before impairment and contingent consideration amounted to € 1.2 m compared to the prior-year amount of € 1.4 m. Liquidity at year-end 2013 amounted to € 96.1 m.

Performance against Forecasts

	Forecast March 2013*	Forecast September 2013	Forecast December 2013	**Final results**
Revenues	€ 90–100 m	€ 90–100 m	€ 84–86 m	**€ 85.9 m**
R&D expenses	~ € 10 m	~ € 10 m	~ € 10 m	**€ 9.7 m**
Operating result before impairment	Improved over 2012	Improved over 2012	Profitable	**Profitable € 1.2 m**
Liquidity	> € 60 m	> € 90 m	> € 90 m	**€ 96.1 m**

** as per Annual Report 2012*

RESULTS OF OPERATIONS

The 2012 and 2013 results are not fully comparable. This results from the acquisition of CCS Cell Culture Service GmbH ("CCS") effective 01 January 2013. While the results of CCS are fully included in the accompanying Consolidated Income Statement for 2013, they were not included in the comparable period of the previous year.

For further discussion on CCS acquisition and selected pro forma financial results, see Note 3 to the Consolidated Financial Statements.

Condensed Income Statement

		2012	2013
Revenues	T€	87,265	**85,938**
Gross margin	%	35.6%	**36.3%**
— R&D expenses	T€	8,340	**9,664**
— SG&A expenses	T€	16,301	**16,597**
— Amortisation	T€	2,768	**3,222**
— Impairment result (net)	T€	3,505	**25,047**
— Restructuring expenses	T€	-	**474**
— Other operating expenses (income)	T€	3,311	**(2,430)**
Operating income (loss)	T€	(3,202)	**(21,351)**
*Operating income (loss) adjusted**	*T€*	*1,401*	***1,229***
Net income (loss) total	**T€**	**2,478**	**(25,433)**

** Operating result excl. impairments and reversals of impairments and changes in contingent considerations*

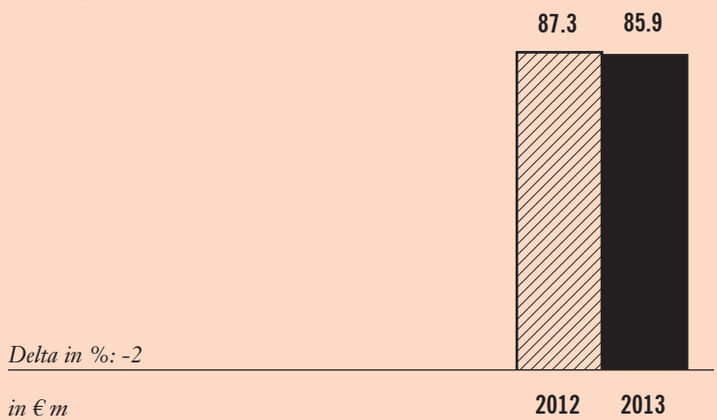
REVENUES
SLIGHT INCREASE IN UNDERLYING REVENUES AT CONSTANT FOREIGN EXCHANGE RATES

Evotec Group revenues amounted to € 85.9 m, a slight decrease of 2% compared to the same period of the previous year (2012: € 87.3 m). This decrease primarily resulted from lower revenues from milestone and upfront payments in the financial year 2013. At constant 2012 foreign exchange rates, 2013 revenues would have amounted to € 87.7 m, primarily due to the Euro being significantly stronger versus the US dollar in 2013.

The total amount of milestone, upfront and licence revenues recognised in Evotec's partnerships was € 16.5 m and decreased in comparison with prior year (€ 20.7 m). This was mainly due to higher revenues from upfront payments in 2012 from Janssen for the EVT100 series as part of the licence agreement for the treatment of depression and upfront payments from MedImmune for EVT770 for the treatment of diabetes. Excluding milestones, upfronts and licences, Evotec's revenues for the year 2013 slightly increased by 4% to € 69.4 m (2012: € 66.6 m). Adjusted for currency effects, revenues increased by 7%. Revenue contributions from the newly acquired business of CCS amounted to € 1.8 m for the year 2013.

New alliances and projects announced in 2013 with AstraZeneca, Apeiron, Belfer Institute, Harvard University, Johnson & Johnson Innovation and Yale University accelerated the implementation of the Company's innovation strategy. Important extensions of alliances with Active Biotech, Genentech or the Jain Foundation strengthened its customer and revenue base and improved the foundation for future growth. In addition, the Company received five milestones through its long-standing collaboration with Boehringer Ingelheim and also received first milestones in its integrated drug discovery collaboration with UCB.

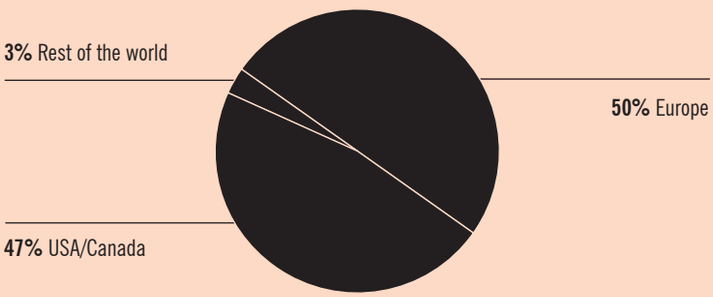
Revenue



Geographically, 50% of Evotec's revenues were generated with customers in Europe, 47% in the USA/Canada and 3% in Japan and the rest of the world. This compares to 39%, 46% and 15%, respectively, in the same period of the previous year.

Revenues grew from the USA and from Europe whereas Japan and the rest of the world reported a decrease in revenues. The increased contribution of the European region to Group revenues mainly reflects the milestone payments from Boehringer Ingelheim and UCB, revenues from the alliance with Bayer and the acquisition of CCS. The higher contributions from customers in the USA to Group revenues primarily reflect revenues and upfront revenues from Janssen as part of the Cure*Beta* collaboration as well as revenues from the alliance with CHDI. The decrease in revenue contributions from Japan and the rest of the world mainly resulted from the DiaPep277® milestone from Andromeda in 2012 and lower revenues in Japan.

Revenues by region

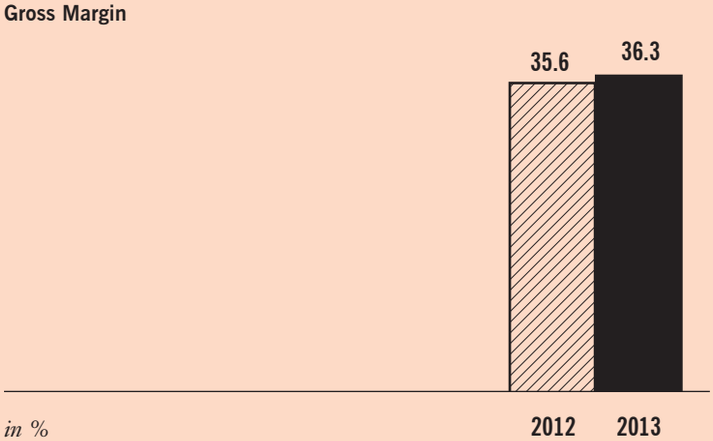


COSTS OF REVENUE/GROSS MARGIN
HIGHER MARGIN DUE TO EFFICIENCY INITIATIVES

Costs associated with Group revenues include the cost of personnel directly associated with revenue-generating projects, facilities and overhead used to support those projects as well as 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 decreased by 3% to € 54.7 m (2012: € 56.2 m), yielding a gross margin of 36.3% (2012: 35.6%). Despite the decrease of milestones, upfronts and licences, which have a very high margin contribution as a percentage of total gross profits, and a write-off of a receivable in the amount of € 0.7 m, the gross margin increased by 0.7 percentage points in comparison with the previous year. This mainly resulted from efficiency improvements and an optimised capacity utilisation and productivity. Gross margins in the future may continue to be volatile due to the recognition of potential milestone or out-licensing revenues.

Gross Margin



RESEARCH AND DEVELOPMENT EXPENSES
BUILD-UP OF CURE *X* AND TARGET *X* INITIATIVES

R&D expenditure amounted to € 9.7 m (2012: € 8.3 m). Evotec's unfunded research focused on selected discovery projects within its Cure *X* and Target *X* initiatives in the key areas of CNS, oncology, inflammation, metabolic and kidney disease such as the Cure*Nephron* alliance with Harvard University. 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.

R&D expenditure for clinical projects declined to 1% (2012: 6%) of total R&D expenditure. These costs were due to the archiving and storage costs of unpartnered clinical assets.

Internal discovery projects accounted for 54% (2012: 36%) of total R&D expenditure, while R&D to support specific platform technologies accounted for 18% (2012: 23%). Discovery projects include the R&D expenses for the Cure *X* and Target *X* initiatives like the projects with the universities of Harvard and Yale and the Belfer institute, as well as several R&D collaborations will small biotech companies. Platform R&D was primarily focused on expanding Evotec's already broad discovery and biomarker platforms, including antibody screening following the strategic partnership with 4-Antibody and the development of methylomics capabilities to strengthen its epigenomics platform.

Finally, 27% (2012: 35%) of total R&D expenditure categorised as overhead expenses consisted of patent costs as well as expenses for managing early discovery programmes and platform technologies (see table below).

R&D Expenses by Categories

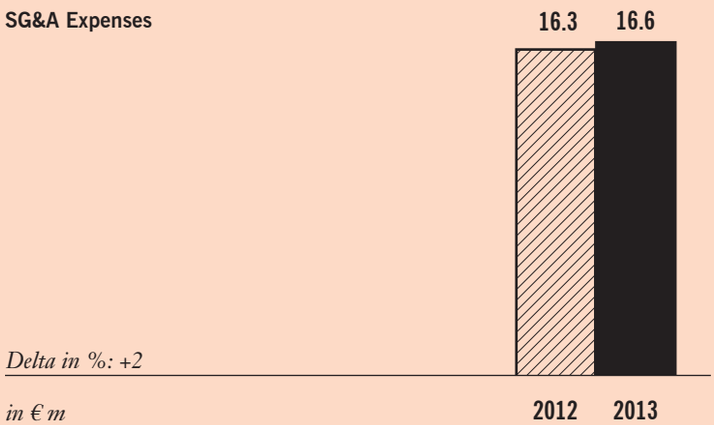
in T€	2012	2013
Clinical projects	516	**106**
Discovery projects*	2,972	**5,246**
Platform R&D	1,942	**1,754**
Overhead expenses	2,910	**2,558**
Total	**8,340**	**9,664**

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

For a more detailed description of Evotec's R&D activities and key R&D facts and figures, including a five-year overview of the R&D key financials, see "Research and development – Facts and figures" on page 30 of this Management Report).

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES
MODERATE INCREASE OVER 2012 FIGURES

In 2013, selling, general and administrative ("SG&A") expenses of the Group slightly increased by 2% to € 16.6 m (2012: € 16.3 m). This was primarily due to the higher cost base following the acquisition of CCS and a slight increase in personnel-related costs.



RESTRUCTURING EXPENSES
ONE-TIME IMPACT FOLLOWING THE CLOSURE OF EVOTEC (INDIA)

Restructuring expenses amounted to € 0.5 m (2012: € 0.0 m) and mainly relate to retention and severance expenses resulting from the decision to wind down Evotec (India) Private Ltd.

IMPAIRMENTS
SIGNIFICANT IMPAIRMENTS IN 2013

In 2013, amortisation of intangible assets increased to € 3.2 m, compared to € 2.8 m in the previous year. This was primarily due to the amortisation of the customer list of CCS and the full-year effect of the 4-Antibody licence that was signed in the second quarter of 2012.

In 2013, impairment of tangible assets in the amount of € 1.1 m (2012: € 0.0 m) and impairment of goodwill in the amount of € 1.9 m (2012: € 0.0 m) were recognised. Both impairments are a consequence of the wind-down decision regarding Evotec (India) Private Ltd.

An impairment of intangible assets in the amount of € 15.3 m was taken against the EVT100 series. For EVT100, the future phases of development are delayed and the probability of a market entry has been risk-adjusted. An impairment of intangible assets in the amount of € 4.0 m was booked for the DG070 programme. Due to the long-lasting and challenging development of this asset an additional attrition rate was assumed to reflect the risk associated in progressing DG070. Furthermore, an impairment of intangible assets in the amount of € 2.7 m was recorded for the developed biomarker technology. The Biomarker impairment was required due to a delay in the ramp-up in revenues versus those anticipated in the financial model on which the acquisition of Kinaxo was based.

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

Other operating income and expenses, net resulted in an income of € 2.4 m in 2013 (2012: expense of € 3.3 m). In 2013, the adjustment in the context of the contingent consideration (earn-out) due to the sellers of Evotec (Göttingen) and CCS Cell Culture Service GmbH, net resulted in an income of € 2.5 m (2012: € 1.1 m). The prior-year period included € 2.3 m in other operating expenses for the parallel rental for the old facility and the new Manfred Eigen Campus in Hamburg and the resulting planned underutilisation of parts of those buildings.

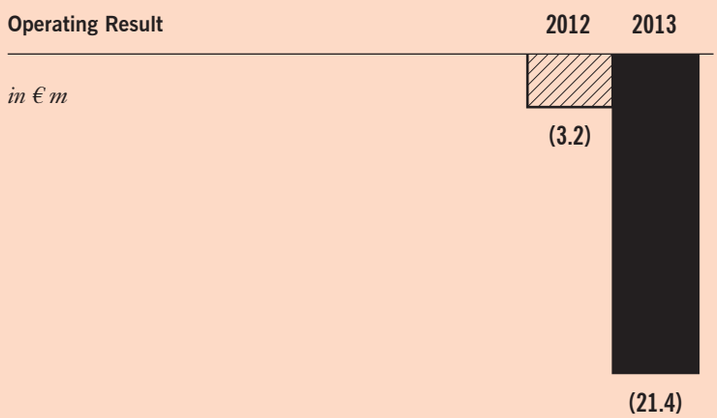
OPERATING RESULT
AFTER ADJUSTMENTS POSITIVE AND ON A SIMILAR LEVEL TO 2012

Evotec's operating loss for 2013 amounted to € 21.4 m (2012: € 3.2 m), mainly resulting from the impairment of tangible assets (€ 1.1 m), intangible assets (€ 22.0 m) and goodwill (€ 1.9 m).

In line with the latest guidance, the operating result before impairment and changes in contingent consideration was positive at € 1.2 m, but slightly decreased compared to last year (2012: € 1.4 m).

The Group EBITDA amounted to € 12.9 m in 2013 and improved by 37% over last year (2012: € 9.4 m).

The calculation of the key performance indicator EBITDA was adjusted compared to the Annual report 2012. Whereas last year only interest was deducted from the non-operating result, this year the whole non-operating result was eliminated.



NET RESULT
NEGATIVE IMPACT DUE TO DEFERRED TAX EXPENSE IN 2013

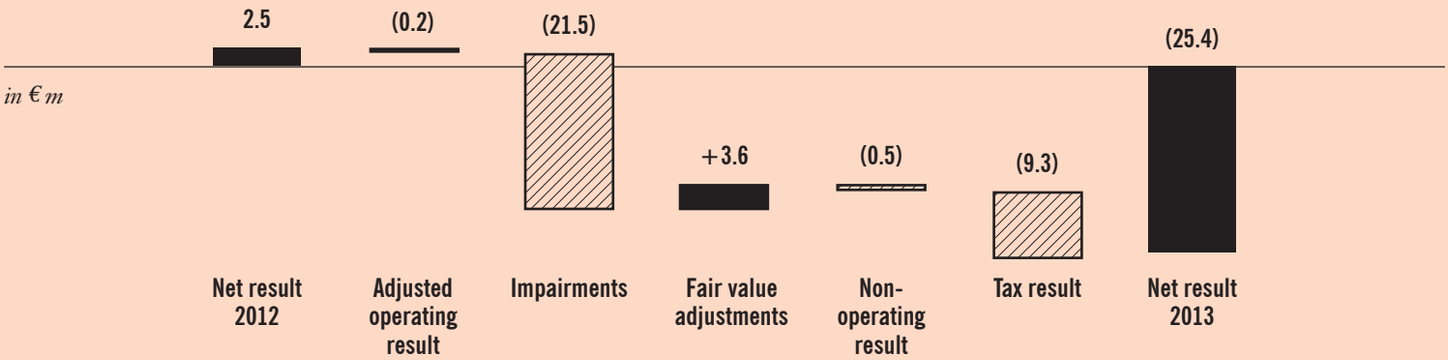
Net loss amounted to € 25.4 m in 2013 (2012: net income of € 2.5 m).

The total non-operating result amounted to € (2.3) m (2012: € (1.8) m). This loss resulted mainly from interest expenses of € 1.7 m due to the unwind of the discount relating to the earn-outs as well as from FX-losses of € 0.6 m partly related to the goodwill impairment for Evotec (India) and partly due to the strengthening of Pound Sterling against Euro and US dollar.

The current tax expense amounted to € 1.8 m in 2013 (2012: current tax income of € 7.5 m). This expense mainly results from the impairment of deferred tax assets recognised in the previous year (€ 1.5 m). In 2012, Evotec incurred a deferred tax income of € 8.3 m; thereof € 4.8 m was due to the merger of Evotec (Göttingen) AG with Evotec NeuroSciences GmbH to Evotec International GmbH, which had a positive effect on the net result in 2012.

The total net income per share for Evotec of € (0.21) (2012: € 0.02) is based on a weighted average number of shares of 121,215,288 (2012: 117,295,847).

Net Result 2013 vs 2012



Multiple-year overview results of operations

in T€	2009	2010	2011	2012	**2013**
Revenues	**42,683**	**55,262**	**80,128**	**87,265**	**85,938**
Cost of revenues	24,262	30,916	45,143	56,242	**54,715**
Gross profit	**18,421**	**24,346**	**34,985**	**31,023**	**31,223**
Research and development expenses	20,947	6,116	8,437	8,340	**9,664**
Selling, general and administrative expenses	16,695	15,956	15,760	16,301	**16,597**
Amortisation of intangible assets	455	672	1,703	2,768	**3,222**
Impairment of goodwill (net)	48	-	-	-	**1,948**
Impairment of intangible assets (net)	18,185	-	557	3,505	**22,023**
Impairment of tangible assets (net)	(395)	-	-	-	**1,076**
Restructuring expenses	4,849	-	-	-	**474**
Other operating income and expenses (net)	(64)	(113)	3,321	3,311	**(2,430)**
Operating result	**(42,299)**	**1,715**	**5,207**	**(3,202)**	**(21,351)**
Operating result adjusted*	**(24,461)**	**1,715**	**5,764**	**1,401**	**1,229**
Non-operating income and expense (net)	(2,520)	2,152	49	(1,812)	**(2,297)**
Profit (loss) before taxes	**(44,819)**	**3,867**	**5,256**	**(5,014)**	**(23,648)**
Tax income (expense)	(678)	(882)	1,395	7,492	**(1,785)**
Net result	**(45,497)**	**2,985**	**6,651**	**2,478**	**(25,433)**
Gross margin	43.2%	44.1%	43.7%	35.6%	**36.3%**
Operating margin	(99.1)%	3.1%	6.5%	(3.7)%	**(24.8)%**
Operating margin adjusted	*(57.3)%*	*3.1%*	*7.2%*	*1.6%*	***1.4%***
EBITDA margin	(47.5)%	12.4%	15.4%	10.8%	**15.1%**
R&D cost ratio	49.1%	11.1%	10.5%	9.6%	**11.2%**
SG&A cost ratio	39.1%	28.9%	19.7%	18.7%	**19.3%**
Personnel costs to total costs	41.1%	45.8%	42.9%	42.2%	**43.9%**

** Operating result excl. impairments and reversals of impairments and changes in contingent considerations*

FINANCING AND FINANCIAL POSITION

FINANCIAL MANAGEMENT PRINCIPLES

Evotec manages its financial resources to support its strategy of providing innovative drug discovery solutions and alliances to the pharmaceutical and biotechnology industry. When appropriate, the Company utilises selected debt financing and raises capital through the issuance of new shares. In August 2013, Evotec concluded a € 30.1 m capital increase. This financing strengthens Evotec's flexibility and allows the Company to invest in additional Cure *X* and Target *X* initiatives together with top academic partners and biotech companies. 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 are consistent with the business strategy, by either maintaining or enhancing the Company's technology platforms and its proprietary research. In addition, each capital investment is assessed in terms of expected financial return. 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 to support its ongoing business and operations. However, the option of increasing capital may always be considered. This might be the case if new opportunities arise in terms of M&A, in-licensing or R&D investments requiring additional financing. The Company does not intend to engage in projects unless adequate funding is either allocated or secured.

CASH FLOW

SOLID OPERATING CASH FLOW

Group *cash flow provided by operating activities* continued to be positive at € 6.7 m in 2013 (2012: € 12.0 m) and reflects the operating income adjusted for non-cash items like depreciation, amortisation and impairments and an increase in working capital. With the € 12.0 m upfront payment received from Bayer in the fourth quarter of 2012, the previous year included a significant one-off amount.

Cash flow used in investing activities was € 31.5 m (2012: cash flow provided by investing activities € 8.8 m). Purchases of current investments (€ 45.6 m) significantly exceeded proceeds from the sale of current investments (€ 19.7 m). The reason is that purchases included a significant portion of the € 30.1 m cash inflow from the capital increase which was predominantly invested in short-term deposits, money market funds and commercial papers. Capital expenditure in 2013 were reduced to a more sustainable long-term level and amounted to € 5.2 m (2012: € 8.2 m). The acquisition costs for CCS Cell Culture Service GmbH amounted to € 1.2 m. The sale of assets following the closure of operations in Thane, India, resulted in a cash inflow of € 0.6 m.

Net cash flow provided by financing activities amounted to € 31.9 m (2012: cash flow used in financing activities € 0.4 m) and mainly related to the above-mentioned capital increase through the new strategic shareholder Biotechnology Value Fund, L.P. (€ 30.1 m) and to proceeds from stock options exercise (€ 2.4 m). The Company slightly reduced its debt financing by € 0.2 m during 2013 whilst further improving the terms and conditions on which this financing is or will be made available.

The impact of exchange-rate movements on the net increase in cash and cash equivalents in 2013 was € (0.5) m (2012: € 1.0 m). This was primarily due to the US dollar weakening against the Euro.

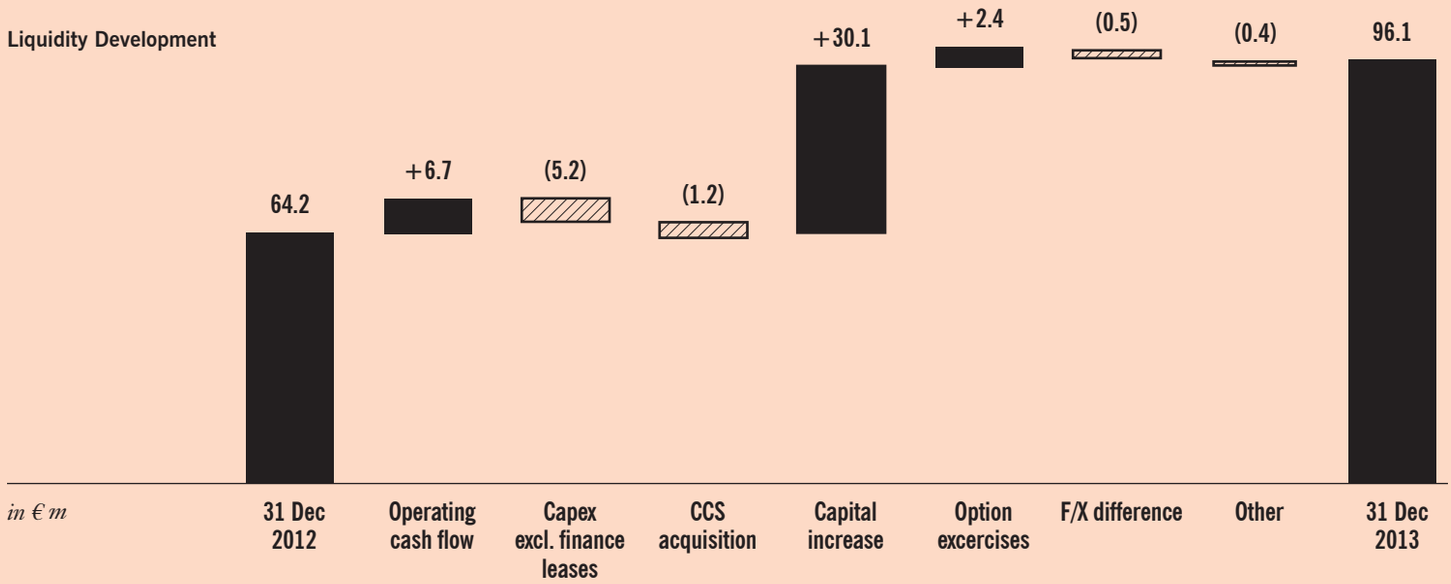
Condensed Statement of Cash Flows

in T€	2012	2013
Net cash provided by (used in)		
— Operating activities	11,957	**6,657**
— Investing activities*	8,775	**(31,513)**
— Financing activities*	(397)	**31,936**
Net increase/decrease in cash and cash equivalents	**20,335**	**7,080**
Exchange rate difference	953	**(501)**
Cash and cash equivalents		
— At beginning of year	17,777	**39,065**
— At end of year	**39,065**	**45,644**
— Investments	25,094	**50,499**
Liquidity at end of year	**64,159**	**96,143**

** Presentation 2012 adjusted for payments of subsequent earn outs*

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

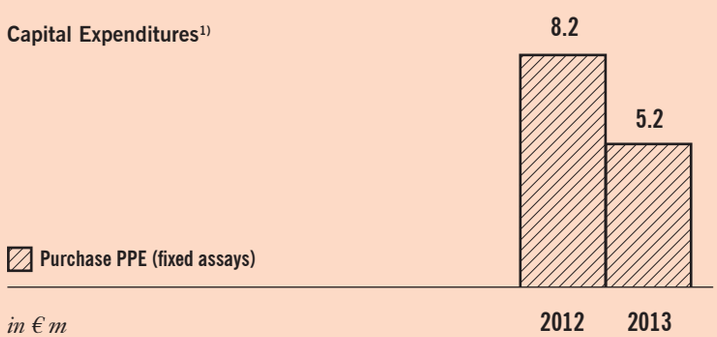
Liquidity Development



CAPITAL EXPENDITURE
CONTINUOUS INVESTMENT TO UPGRADE AND EXPAND EVOTEC'S CAPACITIES

Capital expenditures in 2013 amounted to € 5.2 m (2012: € 8.2 m, 2011: € 8.1 m) and were significantly down compared to the two previous years. This reflects the substantial investment in new equipment and upgrades of aging equipment in the two previous years. In 2013, most capital expenditure was again on instrumentation to support the Company's platform offering including high-content screening, protein production, biophysical screening and DMPK (Drug Metabolism and Pharmacokinetics) as well as the fit out of the new compound management facility in Branford, USA.

Capital Expenditures[1)]



[1)] Without finance leases

COST OF CAPITAL
WEIGHTED AVERAGE COST OF CAPITAL SIMILAR TO 2012

Evotec calculates the cost of capital according to the debt/equity ratio at the end of the year using the weighted average cost of capital ("WACC") formula. The cost of equity capital is the return expected by stockholders, computed from capital market information. Evotec's peer group is predominantly equity-financed and as a result the WACC of these peer group companies is purely based on the cost of equity capital. The Evotec model uses the yield on long-term risk-free bonds, increased by the risk premium typical for investments in the equity market as well as the beta factors of Evotec's peer group. The risk premium comprises a general market risk and a specific business risk. The analysis period for the beta factor calculation is five years, with annual beta figures determined on a weekly basis and an average subsequently being calculated.

To take into account the different risk and return profiles, Evotec calculates individual post-tax capital cost factors for its different product categories. In 2013, these ranged from 10.6% for the Company's drug discovery and development programmes (2012: 10.5%) to between 8.1% and 9.6% (2012: 8.3% to 10.5%) for the Company's service entities, also taking into account the location and the country-specific risk.

LIQUIDITY AND HEDGING
LIQUIDITY AT € 96 M; STRENGTHENED FLEXIBILITY FOR INVESTMENTS

Evotec ended 2013 with a liquidity of € 96.1 m (2012: € 64.2 m), which is composed of cash and cash equivalents (€ 45.6 m) and of investments (€ 50.5 m). Cash and cash equivalents as well as current investments can all be accessed within a period of less than three months. Due to the € 30.1 m capital increase and € 6.7 m cash provided by operating activities, liquidity in 2013 improved by € 31.9 m despite capital expenditure as well as acquisition costs and earn-out payments.

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

Liquidity as of 31 December

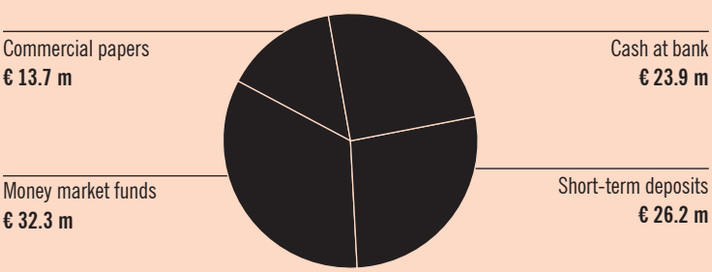
in T€	2009	2010	2011	2012	**2013**
Cash and cash equivalents	32,926	21,091	17,777	39,065	**45,644**
Current investments	25,432	46,303	44,651	25,094	**50,499**
Non-current financial investments	12,236[1)]	3,007	-	-	**-**
Total liquidity	**70,594**	**70,401**	**62,428**	**64,159**	**96,143**

[1)] incl. auction rate securities

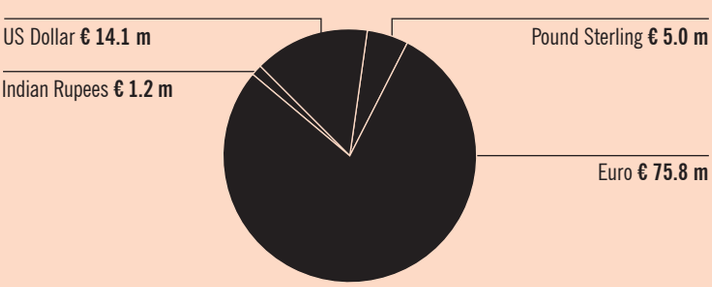
Deposits are primarily held in the three major currencies in which the Group trades – Euro, Pound Sterling and US dollar (see pie chart below). In 2013, approximately 50% of the Company's revenues were generated in US dollars and approximately 40% of its cost of goods sold was in Pound Sterling. The primary risk exposure of the Group relates to these two currencies. Evotec uses forward contracts and spot transactions to convert US dollars to Pound Sterling to address this risk. At 31 December 2013, the Company held forward contracts until mid 2014 in the amount of $ 6 m. During 2013, the currency holdings in US dollars decreased from € 18.3 m at the end of 2012 to € 14.1 m at the end of 2013. The currency holdings in Pound Sterling and Indian Rupees were kept at low levels with the objective of having sufficient cash available to meet short-term local operating needs.

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 banks. Financial investments are made only in liquid instruments and low-risk products with financial institutions rated A- or better (Standard & Poor's ratings or equivalent).

Liquidity by investment type



Functional currency holdings



A CONTINUED CHALLENGING CASH MANAGEMENT ENVIRONMENT

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

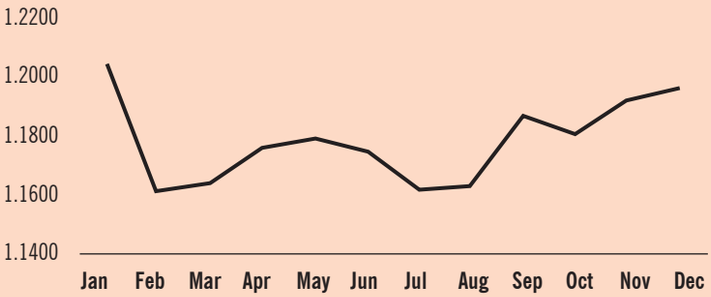
The translational foreign currency risk is the exchange rate risk associated with companies that deal in foreign currencies or list foreign assets on their balance sheets. Evotec's translation exposure primarily relates to the conversion of the income statements and balance sheets of its UK and US subsidiaries into the reporting currency, the Euro. The Company does not use financial instruments to hedge its translation exposures.

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.

Throughout the year 2013, the US dollar was weaker against the Euro in comparison with the 2012 exchange rates. This had a negative impact of € 1.6 m on 2013 revenues and € 1.3 m on gross profit. Pound Sterling weakened against the Euro in comparison with 2012 exchange rates as well. However, this positively affected the cost base of the UK operations in Euro terms and had a positive impact on 2013 gross profit of € 0.8 m. Overall, gross margin decreased by 0.4 percentage points because of FX movements in 2013. To protect itself against adverse currency movements, the Company entered into forward contracts, selling US dollars against Pound Sterling or Euro. This resulted in a realised loss of T€ 288 and an unrealised gain of T€ 473 in 2013.

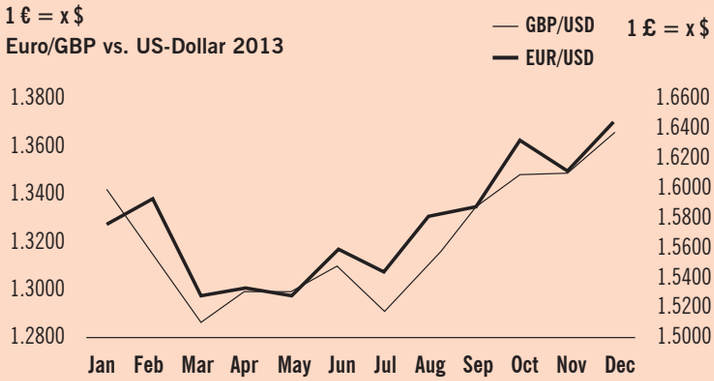
AVERAGE MONTHLY EXCHANGE RATES OF THE COMPANY'S THREE MAJOR CURRENCIES

1 £ = x €
GBP vs. Euro 2013



Average monthly foreign exchange; source: www.oanda.com

1 € = x $
Euro/GBP vs. US-Dollar 2013



Average monthly foreign exchange; source: www.oanda.com

The notional amounts of currency-related derivative financial instruments held at 31 December 2013 were $ 6.0 m (2012: $ 24.0 m). These were exclusively forward contracts selling US dollars for Pound 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 bank loans. During 2013, the sum of debt instruments was slightly reduced by € 0.2 m to € 17.2 m at 31 December 2013 (2012: € 17.4 m). All bank loans are denominated in Euro. Furthermore, Evotec had unused lines of credit of T€ 128 and $ 7.5 m at the balance sheet date.

Multiple-year overview of financial position

in T€	31 Dec 2009	31 Dec 2010	31 Dec 2011	31 Dec 2012	**31 Dec 2013**
Liquidity*	70,594	70,401	62,428	64,159	**96,143**
Debt	13,205	11,997	15,566	17,402	**17,241**
Net liquidity	**57,389**	**58,404**	**46,862**	**46,757**	**78,902**
Current liabilities	26,445	32,802	42,833	33,882	**38,953**
Non-current liabilities	8,667	26,420	28,135	38,998	**29,460**
Stockholders' equity	111,487	132,637	147,245	152,547	**158,967**
Total liabilities and stockholders' equity	**146,599**	**191,859**	**218,213**	**225,427**	**227,380**
Cash flow from operating activities	(21,853)	899	10,146	11,957	**6,657**
Cash flow from investing activities**	(2,077)	(9,877)	(15,068)	8,775	**(31,513)**
Cash flow from financing activities**	1,520	(3,367)	2,139	(397)	**31,936**
Movements in investments and fx-differences	603	12,152	(5,190)	(18,604)	**24,904**
Net increase/decrease in liquidity	**(21,807)**	**(193)**	**(7,973)**	**1,731**	**31,984**
Capital expenditures	2,087	2,433	8,139	8,175	**5,160**
Investment rate	11.3%	12.7%	44.0%	32.8%	**21.3%**
Capex to write-downs	57.8%	59.4%	180.7%	135.2%	**86.8%**

* *Cash and cash equivalents and investments; 2009 including auction rate securities*
** *Presentation 2012 adjusted for payments of subsequent earn outs*

ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY

ACQUISITIONS

With effect from 01 January 2013, Evotec AG acquired CCS Cell Culture Service GmbH (CCS), a Hamburg-based company which supports the cell culture needs of a worldwide customer base of biotech and pharmaceutical companies. The purchase price consists of a cash consideration of € 1.15 m and an estimated earn-out component of € 1.3 m in cash. The revenue target which was defined as trigger for the earn-out payment was achieved and becomes due in the first quarter of 2014.

CAPITAL STRUCTURE

CAPITAL INCREASE OF € 30 M THROUGH NEW STRATEGIC INVESTOR BIOTECHNOLOGY VALUE FUND, L.P.

In August 2013, Evotec announced a 9.9% increase of its share capital. Evotec resolved on this capital increase from its authorised capital against cash contribution by issuing 11,818,613 new shares to the Biotechnology Value Fund, L.P. As a result, Evotec's share capital increased by 11% to € 131.5 m (31 December 2012: € 118.5 m) and additional paid-in capital by 3% to € 686.8 m (31 December 2012: € 665.9 m). In total, the direct capital placement led to a capital inflow of € 30.1 m. Furthermore, exercises of stock options added € 2.4 m to the stockholders' equity. In consequence, total equity increased to € 159.0 m as of the end of 2013 despite the net loss (31 December 2012: € 152.5 m).

In 2013, a total of 1,554,197 stock options (2012: 761,328 options) were exercised. No stock options were granted to Evotec employees in 2013 and 2012. As of 31 December 2013, the total number of options available for future exercise amounted to 3,542,128 (approximately 3% of issued shares). Options have been accounted for under IFRS 2 using the fair value at the grant date.

In 2012, a Share Performance Plan (SPP 2012) was implemented to replace the stock option programme as the Company's long-term incentive compensation scheme for executives. At the Annual General Meeting in June 2012, the contingent capital necessary to support the SPP 2012 was approved. During the third quarter of 2013, a total of 773,757 awards (2012: 909,693 awards) were granted to the Management Board and key employees under SPP 2012. These awards could result in a maximum of 1,547,514 bearer shares (2012: 1,818,386) being issued at maturity. Stock-based compensation is described in detail in chapter "Employees" on page 54 of this Management Report.

Evotec's equity ratio continued to be strong, amounting to 69.9% at the end of 2013 (2012: 67.7%).

ASSETS AND LIABILITIES

CLOSURE OF EVOTEC INDIA AND CAPITAL INCREASE HAD MAJOR IMPACT ON EVOTEC'S BALANCE SHEET IN 2013

The Company's total assets increased by € 2.0 m to € 227.4 m as of 31 December 2013 (31 December 2012: € 225.4 m).

Current assets as of 31 December 2013 increased by € 34.4 m to € 122.5 m (31 December 2012: € 88.1 m). This was primarily due to the € 30.1 m cash contribution from the capital increase and an increase in trade accounts receivable from € 15.1 m as of 31 December 2012 to € 17.8 m at the end of December 2013 resulting from a significant 11% increase in revenues in the fourth quarter of 2013 compared to the prior-year period. Inventories remained unchanged at € 2.4 m at the balance sheet date (31 December 2012: € 2.4 m).

Property, plant and equipment decreased by € 3.0 m to € 24.2 m in 2013 (31 December 2012: € 27.2 m), mainly due to the impairment (€ 1.1 m) and sale of the Indian fixed assets (€ 0.6 m) following the decision to close the operation in Thane.

Goodwill and intangible assets decreased by € 25.6 m to € 80.0 m (31 December 2012: € 105.6 m) as a result of impairments and due to different foreign exchange rates at the balance sheet dates. The impairments included the write-off of goodwill for Evotec India of € 1.9 m and the impairment of tangible assets of € 1.1 m following the closure of the Indian operations in the third quarter of 2013 and the impairment of intangible assets amounting to € 22.0 m (for more details see section "Goodwill and intangible assets" on page 50 of this Management Report).

In 2013, current liabilities increased by € 5.1 m to € 39.0 m (31 December 2012: € 33.9 m), mainly as a result of a non-current loan being reclassified as current loan. Trade accounts payable increased slightly by € 0.3 m from € 6.4 m to € 6.7 m. Current provisions decreased from € 6.9 m to € 5.8 m, largely due to lower bonus accruals partially offset by the earn-out provision related to the acquisition of CCS. Deferred revenues increased by € 0.6 m to € 6.1 m. Other current liabilities increased by € 1.0 m to € 1.9 m, mainly due to liabilities related to stock option exercises. The short-term portion of loans amounted to € 17.2 m as of 31 December 2013 (2012: € 13.2 m).

Total non-current liabilities decreased by € 9.5 m to € 29.5 m as of 31 December 2013 (31 December 2012: € 39.0 m). The non-current portions of the upfront payments from Bayer and Janssen are shown as deferred revenues and decreased by € 4.1 m to € 8.4 m (31 December 2012: € 12.5 m). Non-current provisions decreased from € 18.8 m to € 18.6 m and relate mainly to potential earn-out payments. The long-term portion of loans decreased by € 4.2 m to € 0.0 m as of 31 December 2013 (31 December 2012: € 4.2 m). Overall, loans were slightly reduced by € 0.2 m.

Condensed Balance Sheet

in T€	2012	2013
Cash, cash equivalents and investments	64,159	**96,143**
Trade accounts receivable	15,053	**17,777**
Inventories	2,445	**2,358**
Other current assets	6,447	**6,248**
Deferred tax assets	2,815	**-**
Property, plant and equipment	27,181	**24,239**
Intangible assets and goodwill	105,608	**79,962**
Other non-current assets	1,719	**653**
Total assets	**225,427**	**227,380**
Current maturities of loans and finance leases	13,224	**17,227**
Trade accounts payable	6,363	**6,653**
Current provisions	6,914	**5,788**
Other current liabilities	7,381	**9,285**
Long-term loans and finance leases	4,178	**14**
Deferred tax liabilities	2,099	**1,245**
Other long-term liabilities	32,721	**28,201**
Total stockholders' equity	152,547	**158,967**
Total liabilities and stockholders' equity	**225,427**	**227,380**

Working Capital Calculation

= *Current assets excl cash, cash equivalents and investments*
- current liabilities excl bank loans

in T€	2012	2013
Trade account receivables	15,053	**17,777**
Inventories	2,445	**2,358**
Other current assets	6,447	**6,248**
Assets	**23,945**	**26,383**
Trade account payable	6,363	**6,653**
Current provisions	6,914	**5,788**
Other current liabilities	7,381	**9,285**
Liabilities	**20,658**	**21,726**
Working Capital	**3,287**	**4,657**
Δ Working Capital		**1,370**

TANGIBLE ASSETS

As a result of the decision to close the Indian operations, Evotec adjusted the value of the Indian property, plant and equipment down to its net realisable value. Although all movable and saleable equipment were sold to a third party an impairment charge of € 1.1 m was required in the third quarter of 2013 to eliminate the residual book value of the assets.

GOODWILL AND INTANGIBLE ASSETS

Goodwill accounted for

In a business combination, goodwill is capitalised at the acquisition date. It is measured at its cost of acquisition, which is the excess of the acquisition price for the acquiree over the proportionate share of the acquired net assets. The net assets are the balance of the fair values of the acquired identifiable assets and the assumed liabilities and contingent liabilities.

Goodwill is not amortised, but tested annually for impairment. Once an impairment loss has been recognised on goodwill, it is not reversed in subsequent periods. 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 the third quarter of 2013, Evotec decided to close its Chemistry Operations in Thane, India. All project work in Thane was finished at the end of September or was taken on by the Abingdon (UK) site and Evotec (India) Private Ltd. was wound down.

As a consequence, Evotec impaired the entire goodwill for Evotec India which resulted in an expense of € 1.9 m in the third quarter of 2013.

Intangible assets accounted for

An intangible asset is an identifiable non-monetary asset without physical substance, other than goodwill (such as a patent, a trademark or a marketing right). Intangible assets include developed technologies, customer lists, patents and licences which were acquired in business combinations and also purchased licences and patents. It is capitalised if the future economic benefits attributable to the asset will probably flow to the Company and the cost of acquisition or generation of the asset can be reliably measured.

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 2013.

During this annual regular review, Evotec also performed an impairment review of the intangible assets acquired in the acquisition of Kinaxo Biotechnologies GmbH (now: Evotec (München) GmbH) in 2011. As a result, an impairment charge of € 2.7 m was taken against the Biomarker technology. The Biomarker impairment was required due to a delay in the ramp-up in revenues versus those anticipated in the financial model on which the acquisition of Kinaxo was based. However, the belief of Management in the potential of the acquired technology is unaltered.

Also, an impairment review was performed of the intangible assets acquired in the acquisition of DeveloGen AG (now: Evotec International GmbH). As a result, an impairment charge of € 4.0 m was booked for the DG070 programme. Due to the long-lasting and challenging development of this asset an additional attrition rate was assumed to reflect the risk associated in progressing DG070.

In December 2013, pre-clinical studies with the NR2B subtype selective NMDA antagonist (EVT100 series) performed by Janssen Pharmaceuticals did not confirm certain properties of the antagonist and did not justify the planned immediate development progress and therefore did not trigger a significant milestone payment to Evotec in 2013. As a consequence, the future phases of development are delayed and the probability of a market entry has been risk-adjusted. Evotec therefore reviewed its valuation of the EVT100 asset which resulted in an impairment of € 15.3 m.

No impairment was deemed necessary for any of the other intangible assets.

Assets/liabilities not accounted for

The assets of a company not only consist of quantifiable components, but also of elements that can only be described in qualitative terms. The employees of the Company are the most important asset in ensuring the continued operation and success of Evotec (this topic is covered in more detail in chapter "Employees" on page 53 of this Management Report).

Excellent customer relationships are also critical to the success of Evotec. Respectability, reliability and continuity are key determinants of the quality of customer relationships. The Company not only has an increased customer base, but is also able to use its long-standing experience to quickly establish a successful business relationship with new customers (the most important customer relationships are described in more detail in chapter "Research and development" on page 30 and the five-year trend analysis of Evotec's performance in such alliances is shown in the description of the Company Sustainable Development Key Performance Indicator 1 in chapter "Performance measurement" on page 27 of this Management Report.

In addition, the quality and continuity of Evotec's supplier relationships are highly significant to the Company's success. Evotec collaborates with more than 1,300 vendors throughout the world.

With its broad market acceptance and the high market penetration, the Evotec brand represents an intangible asset for the Company. The positive image of the brand among customers, vendors and employees, which has been built up over many years, is very important for the Group's business success.

OFF-BALANCE-SHEET FINANCING INSTRUMENTS AND FINANCIAL OBLIGATIONS

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 finance leases for company vehicles. These instruments have no material impact on the economic position of the Company.

As of 31 December 2013, the Company had minimum operating lease obligations in the amount of € 37.1 m (31 December 2012: € 37.7 m). The majority of the operating lease obligations are related to rent expenses for facilities.

Other commitments and contingencies consist of consultancy agreements, purchase commitments and guarantees. The future payment obligations resulting from those long-term commitments and contingencies total € 4.5 m (31 December 2012: € 5.5 m) (see note 31 a and b of the Notes to the Consolidated Financial Statements).

The Company has licensed or acquired certain third-party intellectual property for use in its business. Under these agreements, the Company has a commitment to pay milestones, dependent on development progress and/or royalties and milestones dependent on present and future net income or on sub-licensing fees received from third parties.

The Company is obliged under an agreement with a third party to provide consulting service free of charge upon request of the third party.

Multiple-year overview balance sheet structure

in T€	31 Dec 2009	31 Dec 2010	31 Dec 2011	31 Dec 2012	**31 Dec 2013**
Cash, cash equivalents and short-term investments	58,358	67,394	62,428	64,159	**96,143**
Trade accounts receivable	4,510	11,869	10,393	15,053	**17,777**
Other current assets	6,089	7,429	8,139	8,892	**8,606**
Property, plant and equipment	19,162	18,487	24,946	27,181	**24,239**
Intangible assets, excluding goodwill	29,010	57,615	67,652	63,266	**39,826**
Goodwill	16,557	25,979	42,202	42,342	**40,136**
Other non-current assets *	12,913	3,086	2,453	4,534	**653**
Total assets	**146,599**	**191,859**	**218,213**	**225,427**	**227,380**
Loans and finance leases	13,205	11,997	15,566	17,402	**17,241**
Trade accounts payable	4,398	6,980	10,134	6,363	**6,653**
Provisions	5,690	19,378	25,663	25,731	**24,374**
Deferred revenues	7,452	11,181	5,884	18,064	**14,433**
Other financial liabilities	4,367	9,686	13,721	5,320	**5,712**
Stockholder's equity	111,487	132,637	147,245	152,547	**158,967**
Total liabilities and stockholder's equity	**146,599**	**191,859**	**218,213**	**225,427**	**227,380**
Working capital	(6,530)	(5,039)	(8,784)	3,287	**4,657**
Current ratio	2.61	2.64	1.95	2.60	**3.15**
Receivables turnover	9.46	4.66	7.71	5.80	**4.83**
Intangibles and goodwill to total assets	31.1%	43.6%	50.3%	46.8%	**35.2%**
Provisions to total liabilities and stockholder's equity	3.9%	10.1%	11.8%	11.4%	**10.7%**
Equity ratio	76.0%	69.1%	67.5%	67.7%	**69.9%**

** 2009 including auction rate securities*

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

In 2013, base revenues excluding milestones, upfronts and licences increased by 4% and thereby continued the growth trend of previous years. Adjusted for the adverse impact of foreign currency movements, the underlying increase in these base revenues was 7%. This increase was due to growth in the underlying business from drug discovery alliances and the acquisition of CCS Cell Culture Service GmbH.

In 2013, revenues from upfronts, milestones and licences decreased by € 4.2 m versus the previous year. This decrease is mainly due to lower revenues from upfronts and milestones in 2013 which result also from the missing milestone for the EVT100 series. Despite this reduction in high-margin success-based revenues, the overall gross margin for the Group increased to 36.3% compared to 35.6% in 2012. This reflects better capacity utilisation, strict cost containment and the deployment of process improvement initiatives. Management will continue to focus on these areas in 2014.

The second half of 2013 was characterised by a significant increase in the number of potential business opportunities, with some of the uncertainty that had affected decision making within the pharmaceutical earlier in the year receding. In addition, many pharmaceutical companies are currently cash rich but P&L constrained. At the same time demand for innovation by the pharmaceutical industry has never been greater. These dynamics give Evotec the opportunity to generate additional business by offering innovative assets and technologies within innovative deal structures. Therefore Management expects the growth of the service business to continue into 2014 and beyond.

Evotec also saw a strong increase in interest in the Company's Cure *X* and Target *X* initiatives during 2013. Management believes that this will translate into a significant deal flow in the second half of 2014 and beyond.

R&D investment was kept in line with the guidance, with an increased focus on Cure *X* and Target *X* initiatives.

SG&A expenses increased slightly compared to the previous year, partially due to the acquisition of Cell Culture Service GmbH.

In 2013, Evotec's operating result before impairment and changes in contingent considerations was positive for the fourth successive year and profitability is expected to continue in 2014.

Evotec's liquidity improved significantly in 2013 due to the capital increase of 9.9% that occurred in September. As at 31 December 2013, liquidity amounted to € 96.1 m and the equity ratio improved to 69.9%.

Despite the slight revenue decrease and the need for selected impairments, the management regarded 2013 as a good year for Evotec. The successful capital increase improved Evotec's flexibility to invest in the future and a significant number of Cure *X* and Target *X* initiatives were either initiated, partnered or progressed well.

EMPLOYEES

In order to be a leader in the provision of drug discovery solutions to the Pharma and biotech industry it is imperative for Evotec to recruit and retain the most talented employees in the industry. The core values of the Company are innovation, industrialisation, entrepreneurship and customer focus. Evotec therefore seeks to employ exceptional individuals whose profiles are consistent with these key values coupled with the experience, commitment and dedication necessary for the Company to succeed.

HEADCOUNT

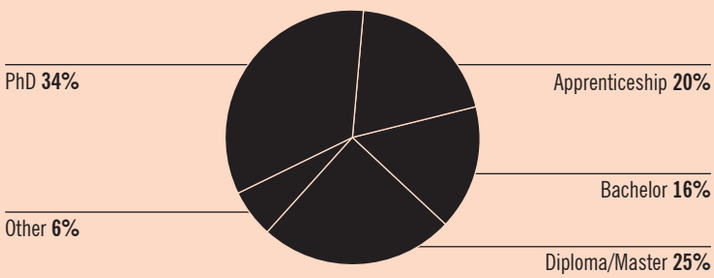
As of 31 December 2013, the Evotec Group employed a total of 610 people worldwide. 132 new employees joined Evotec in Europe and the US during 2013. Thereof, 82 were hired into new positions. However, global headcount slightly declined compared to the end of 2012 (31 December 2012: 637), due to the closure of Evotec's Chemistry Operations in Thane, India, which resulted in 109 people leaving the Company.

Headcount as of 31 December

	2012	2013
Research in Germany	232	**264**
Research in UK	176	**206**
Research in India	96	**0**
Compound Management	25	**28**
Sales & Administration	108	**112**
Total Evotec Group	**637**	**610**
Total Germany	275	**321**
Total UK	212	**243**
Total India	119	**10**
Total US	31	**36**
Total Evotec Group	**637**	**610**

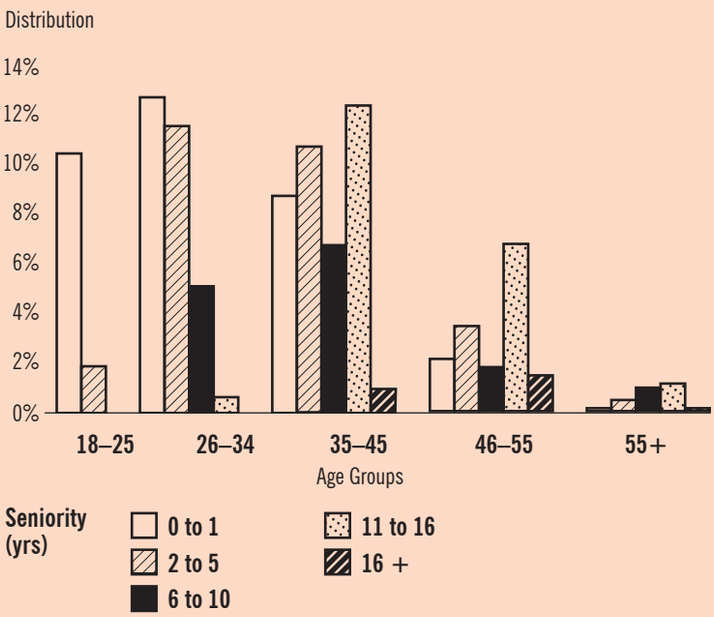
The workforce at Evotec is highly skilled with almost 75% of all employees having an academic education. A total of 205 employees, approximately one-third of the Company's total workforce, hold a PhD degree.

Employees according to level of education as of 31 December 2013



Approximately 40% of Evotec's employees have worked for the Company for more than five years. The average age of Evotec's employees at the end of 2013 was approximately 38 years.

Employees according to age groups and seniority

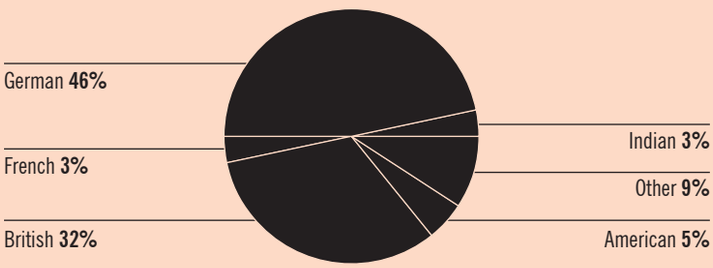


DIVERSITY

Evotec operates in a global industry with an international customer base. Therefore, the Company is looking for the most suitably qualified talent regardless of gender, nationality or age. At the end of 2013, Evotec employed individuals of 32 nationalities possessing a rich diversity of skills, capabilities, backgrounds and experiences. This diversity brings a range of perspectives and ideas to the workplace.

At its headquarters in Hamburg, Evotec held regular "Culture Café" meetings to capture the benefits of diversity, foster integration and create an inclusive environment. In a very informal and open setting, employees of different backgrounds and cultures were able to build deeper relationships and share individual experiences and views with colleagues. These events were well perceived by employees and will be continued in 2014.

Employees according to nationality as of 31 December 2013



Women account for nearly 50% of employees globally. At the junior entry level for newly qualified graduates, approximately half of the individuals Evotec hired in 2013 were females.

WORK-LIFE BALANCE

As an employer, Evotec is fully aware that a good balance between work and private life is important in achieving both corporate success and job satisfaction. Therefore, Evotec offers, where appropriate, the possibility of part-time employment arrangements as well as work-at-home options. The Company's flexible site-specific working hours also help to balance family and working life. In addition, employees are encouraged to take their annual vacation entitlement.

SUCCESSION PLANNING AND DEVELOPMENT

Launched in 2012, Evotec continued to roll-out its formal succession planning and development programme in 2013. This is part of the Company's commitment to develop its employees and ensures that individuals are ready to assume key or critical roles in the Company as they become vacant. Succession planning is proactive in nature and results in the creation of a talent pool of candidates with the required potential, competencies and understanding of the existing business to fill high-level leadership positions in the future. Identifying and developing this pool of employees is vital to an organisation if it needs to respond quickly to fill immediate capability requirements. However, succession planning also provides Evotec a mechanism to give highly skilled employees an indication of future advancement, a key factor in the retention of individuals identified as having exceptional potential.

EDUCATION AND TRAINING

The targeted succession planning and development programme described above operates alongside more broad-based development linked to further education and professional training programmes that enable Evotec employees to fulfil their potential. In 2013, the Company established in-house trainings in the area of lean processes, finance for non-financial managers, project management and data analysis. In 2014, Evotec intends to further increase the range and number of courses available. Through its training and development initiatives, the Company ensures that employees are given every opportunity to effectively perform their jobs, gain competitive advantage and seek self-growth for future and increased work responsibilities.

Apart from hiring university graduates, Evotec also provided internships to talented young students to give them insight into the variety of career opportunities while they are still studying. A number of these individuals completed their bachelor or master thesis with Evotec and then later returned to Evotec as an employee. In addition, three trainees started vocational training in Germany. Evotec plans to offer more apprenticeships in the future.

PERFORMANCE MANAGEMENT

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 are incentivised to add value and to share in the success of the Company.

Consequently, compensation includes, in addition to a fixed base salary and benefits, a bonus which is based on Company results and on individual performance against a written set of objectives.

At the beginning of 2013, the Human Resources department continued to align remuneration policies and processes. These included the further development and standardisation of the performance management process.

In 2012, Evotec designed and implemented a new global long-term incentive programme ("LTIP") to promote and ultimately reward the values of innovation, industrialisation, entrepreneurship and customer focus that underpin the Company's Action Plan 2016. The LTIP is a Share Performance Plan in which participants are allocated shares, the vesting of which is subject to the actual performance versus four equally weighted key performance indicators ("KPI"). These KPI were carefully selected on the basis of being the indicators that will drive shareholder value and ensure the future success of Evotec.

Under the new LTIP programme, Evotec made awards in both 2012 and 2013 to the members of the Management Board, to Senior Management and some other employees who are in key positions and have a significant impact on the long-term success of the Company.

ENGAGEMENT

The Company places great importance on fostering a good working environment with its employees in order to ensure that colleagues feel informed, motivated and valued. All sites have company meetings with open question sessions so that the Company's strategy, performance and policies are transparent.

LOOKING TO THE FUTURE

In 2014, Evotec will continue to position itself as a truly inspiring place to work, by providing an environment where people can grow and develop and make their mark. As the business is expected to grow, attracting and retaining highly skilled, motivated and dedicated people as well as helping them perform at consistently high levels, will be vital to best serve the Company's partners and partnerships. Therefore, recruitment, succession planning and professional development continue to be key priorities on the Company's talent management agenda in the coming year.

PROCUREMENT AND FACILITY MANAGEMENT IN 2013

In 2013, the procurement function of Evotec continued to build on the successes of 2012. For example, the procurement of all significant capital expenditure items was centralised. This resulted in financial savings due to synergies and economies of scale.

The function focussed on two specific targets in 2013:

i) Achieving an additional 5% saving on all capital spend on top of those assumed savings already incorporated into the 2013 capital budget.
ii) Achieving 7% savings on consumable spend forecast in the 2013 operational budget.

These targets were defined in order to ensure that Evotec is able to provide best-in-class discovery research while remaining price competitive.

The purchasing team was able to deliver successfully on both targets by a range of initiatives that included improved negotiation, supplier chain management and product substitution. In addition, the procurement function within Evotec was consolidated into a single functional unit.

The development of the procurement function was strengthened by the appointment of a global Head of Purchasing in October 2013. The newly created position is intended to ensure that the function continues to implement best practice and progress towards being world class.

2013 saw the continued development and fit-out of the Manfred Eigen Campus in Hamburg. Specifically this related to the move of CCS Cell Culture Service GmbH into the building following the acquisition that became effective on 01 January 2013.

In 2013, Evotec implemented improvements in the efficiency of air chillers both in Abingdon and Hamburg sites as part of its ongoing efforts to improve the eco-sustainability of the business. In addition, the implementation of LED technologies for lighting and other specific energy reducing initiatives at the Manfred Eigen Campus resulted in an estimated 6% reduction of energy consumption.

In April 2013, Evotec (US), Inc. signed a lease on a second site in Branford, Connecticut. The following months saw the conversion of the site into a functioning Compound Management facility, in order to enable the business to expand the offering of its Compound Management Services to the East Coast of the United States. The new facility is modular in approach meaning it has the advantage that it can be scalable to accommodate future business growth.

The wind down of the site in Thane, India, in Q4 2013, meant that the process of closing the site and liquidating the assets became the key focus for the procurement and facility staff in India in the final months of 2013.

SUSTAINABILITY REPORT

ECONOMIC, ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

For Evotec, sustainability means combining economic success with environmentally and socially responsible activities. Thus, the balance between economic growth, environmental and social responsibility is important and is reflected in Evotec's strategy. Furthermore, sustainability is firmly established in all business processes within the Company. Taking responsibility for the Company's employees and business partners as well as maintaining its commitment to society and a healthy environment are two of Evotec's guiding principles. By doing this, Evotec 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 as well as the policies and responsibilities within the Company. Information on Evotec's management structure and Corporate Governance practices are disclosed in the Corporate Governance Report.

SUSTAINABLE CORPORATE MANAGEMENT AT EVOTEC

Life science – A major contributor to the well-being of society
Today, there is still no cure available for a large number of serious diseases. Consequently, indirect healthcare costs for treating patients are enormous, especially when considering the impact of ageing populations in many countries of the developed world. Hence, the life science industry contributes immensely to the well-being of our society.

Evotec's strategy is to address the causes of diseases as well as their symptoms by using a systematic, unbiased and comprehensive technology platform in its approach to drug discovery. In addition, the Company aims to develop first-in-class and best-in-class treatments in its key disease areas. At the same time, Evotec tries to find new

innovative cooperation models with pharmaceutical, biotech and healthcare players, academic institutions and regulatory bodies in order to find ways to accelerate assets into clinical development. Finally, Evotec's objective as a business is to find new, efficacious therapies in an efficient way that may improve the lives of millions of patients suffering from diseases.

Evotec's business model: Innovation efficiency

The business model of Evotec is designed to achieve sustainable growth, while at the same time protecting the interests of its shareholders and creating value for all stakeholders. These objectives are reflected in the Company's business strategy Action Plan 2016 – Innovation Efficiency (see "Corporate objectives and strategy" on page 25 of this Management Report). Its success is measured by both financial and non-financial performance indicators. Evotec uses a number of Sustainable Development Key Performance Indicators ("SD KPI") recommended by the SD KPI Standard. These include "Quality of drug discovery solutions and performance in discovery alliances", which measures the commercialisation rate in alliances (SD KPI 1), and "Research and development performance" (SD KPI 2) (see "Performance measurement" on page 27 of this Management Report

A comprehensive risk management system has been implemented within the Company in order to ensure that factors potentially endangering the sustainable performance of the Company are recognised at an early stage and adequate countermeasures are taken (see chapter "Risk and opportunities management" on page 58 of this Management Report). It is important to note that during the past five years no services were recalled and neither fines nor settlement payments related to litigation in Evotec's drug discovery alliances were due.

The Management Board does not consider Evotec's business model to contain any aspects that contradict the interests of shareholders focusing on sustainable investments.

Corporate Social Responsibility (CSR) and Code of Conduct

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. This strategy is integrated into Evotec's planning and affects the business operations at each Company site. The Company's Ethical Business Conduct Policy, the so-called Code of Conduct, includes a description of how this strategy translates into the daily business of every employee at Evotec. The Code of Conduct is published on Evotec's website (www.evotec.com > Corporate Governance > Policies and Charters > Code of Conduct). It comprises topics such as the use of corporate funds and proper record keeping, behaviour with regards to personal conflicts of interest and insider trading, compliance with antitrust laws, the employee work environment, health and safety protection and minimising 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 responsible and correct behaviour towards business partners. Like all processes in research and development, Evotec's Code of Conduct is based on Company and industry standards and regulations, too.

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. Furthermore, 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 position and results of operations, as unlikely. No breach has been reported so far.

Research and development ethics

Evotec's core business focus is to apply its scientific expertise and know-how together with its partners, to develop potential medicines for many different indications that could ultimately improve treatment options to the benefit millions of people. Several examples of Evotec's efforts in different areas are given in the "Research and development" chapter on page 30.

In its R&D activities Evotec adheres to the highest scientific and ethical principles of human care and treatment of laboratory animals. As an indispensable part of biomedical research, the discovery and development of new medications for humans requires animal studies. In common with the overwhelming majority of research-based life science companies, Evotec conducts and commissions in-house animal studies. These studies are undertaken in Europe.

Prior to their execution, all animal studies conducted at Evotec are approved by Evotec's Institutional Animal Care and Use Committee ("IACUC") and by the local authorities. All studies are fully compliant with the current German Animal Welfare Act and the European Communities Council new Directive 2010/63/EU. Studies that cannot be accomplished in-house are subcontracted to dedicated, carefully selected and audited contract research organisations ("CRO") which apply the same principles.

Evotec is committed to the *3Rs principles* which are the guiding principles for the use of animals in research in many countries. Whenever possible, Evotec strives to *Replace* animal studies. The Company is constantly applying and developing alternative methods, e.g. cell culture systems, to predict a drug candidate's characteristics early on *in vitro* and performs extensive profiling tests prior to animal testing. Evotec is also constantly improving existing methods to *Reduce* the number of laboratory animals required in an experiment and *Refines* these methods so that animals experience as little discomfort and distress as possible.

Evotec no longer manages or sponsors human clinical trials.

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 issues concerning stakeholder safety are treated with the appropriate level of importance.

Many of the chemicals used in Group operations and their use require specific licences or are controlled by statutory regulation. Evotec

follows strict protocols to ensure that these chemicals and their use are controlled and monitored in such a way as to minimise the risk to health and safety as set out in the appropriate guidelines and licences. Evotec complies with national and local regulations, reporting requirements, permits and licences in all areas of health, 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.

In 2013, the working times of the Company's medical officer as well as of the safety engineer were doubled at all German sites. This measure encourages a proactive approach to health and safety issues of employees in the workplace.

Considering and addressing the environmental impact of Group operations is seen as an important and vital part of the Group's global responsibilities and is also a part of the Group's continuous objective to manage and control costs. Reducing energy consumption, waste production and increasing recycling are all areas that have a positive effect on both Evotec's global cost base and the environment. As stated above, in 2013, Evotec implemented improvements in the efficiency of air chillers both in Abingdon and Hamburg sites as part of its ongoing efforts to improve the eco-sustainability of the business. This measure resulted in an estimated 6% reduction of energy consumption at the Manfred Eigen Campus in Hamburg. Furthermore, the Company is certified to use green electricity at its headquarters in Hamburg.

Social responsibility

Evotec encourages social responsibility by supporting charities and other good causes. For example, in 2013, Evotec (UK) Ltd's chosen charity was Helen and Douglas House, a charity set up to provide support to children and young adults suffering from life shortening conditions. Employees held various fundraising events to raise money for the charity and helped in the hospice or in the fundraising shops around the region.

Evotec also assists students in choosing a career in the pharmaceutical industry by hosting them for periods of work experience. In 2013, 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 has also continued to sponsor PhD researchers at academic institutions and host their industrial work experience periods.

POST-BALANCE SHEET EVENTS

There are no material events to be reported.

RISK AND OPPORTUNITIES MANAGEMENT

Entrepreneurial success cannot be achieved without consciously taking quantified risks. Owing to its worldwide activities, Evotec is naturally exposed to a variety of risks directly related to the Company's business. An effective system of risk management helps to control the risks and opportunities associated with the execution of the business. Regular strategy reviews and a quarterly risk management process ensure that opportunities and risks are appropriately balanced.

RISK AND OPPORTUNITIES MANAGEMENT PRINCIPLES

Evotec is regularly confronted with risks and opportunities which have the potential to negatively or positively impact the financial position and profit and loss of the Group. Within the Group, risks are defined as a potential developments or occurrences that may lead to a deviation from the guidance and goals and are thus negative for the Company. Conversely, Evotec defines opportunities as potential developments or occurrences that may lead to a deviation from the guidance and goals and are thus positive for the Company.

The risk management system of Evotec comprises the entirety of controls that ensure a structured management of opportunities and risks throughout the Evotec Group. Evotec considers risk and opportunities management as the ongoing task of determining, analysing and evaluating actual and potential developments in the Company and the Company's environment. Evotec identifies opportunities based on comprehensive quantitative and qualitative analyses of market data, commercial initiatives, research projects and general trends in the biotechnological environment. The close coordination between the Company's strategic, commercial and operating functions allows Evotec to recognise risk and opportunities worldwide at an early stage. Where possible, Evotec's Management Board responds to these risks and opportunities by implementing corrective or supportive measures. The Company's risk and opportunities 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.

In the following section, Evotec summarises the most important individual risks and opportunities.

RISK AND OPPORTUNITIES MANAGEMENT SYSTEM

The Management Board is supported by the Group Risk Manager who is the owner of the centrally managed risk and opportunities management process on behalf of the Management Board. The Supervisory Board has the responsibility to monitor the effectiveness of the Group's risk management system. These duties are undertaken by the Supervisory Board's Audit Committee.

Evotec's risk and opportunities management process is a Group-wide activity, which utilises critical day-to-day insight from both global and local business units and functions.

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. Management engages in monthly financial reviews with a strong emphasis on cash and cash forecasts and key financial performance drivers such as revenues, order book status and gross margins as well as careful cost analysis. 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 products that have a low risk profile. The Management Board is directly involved in all key decisions concerning financial assets and manages all businesses and transactions considered to be material for the Company.

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 reviews and signing authorities are also standardised procedures. In addition, the Company emphasises its information technology 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 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 of the German Stock Corporation Act (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 Code is accessible to the shareholders on Evotec's website.

Evotec's *risk and opportunities 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 and opportunities management system comprises the following elements:
(i) a **Risk and opportunities 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 immediately to management in order to allow management to deal with them in a timely manner. The Risk Owners have primary responsibility for the identification of risks and opportunities. Through *Prompt Notifications* and *Quarterly Risk Reports*, 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 by the Risk Owners to the Group Risk Manager together with a summary and assessment of the specific risk and the countermeasures to be taken. The Group Risk Manager, together with the Chief Financial Officer, evaluates and summarises these risk reports into a 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 pursuant to 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.

(ii) a **Risk prevention system** to monitor the risks incurred and/or the development of measures and systems to prevent potential risks from occurring. Therefore, all internal reports are formally included in the Company's risk management system and will be provided to the responsible managers regularly. 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 91 paragraph 2 of the German Stock Corporation Act (AktG) in conjunction with section 289 paragraph 5 of the 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 the Sarbanes-Oxley Act, despite the formal deregistration of the Company from the SEC in March 2011. These controls are tested on an ongoing basis and are once a year subject to testing by an expert and independent third party. These assessments identified no material weaknesses in

2013 and detected deficiencies were remediated immediately. The effectiveness of Evotec's internal controls over the processes relating to the preparation of the consolidated financial statements is also audited during the year-end audit 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 Company'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
- 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 information technology (IT) accounting systems are mitigated by a well-defined set of IT controls, such as restricted authorisation 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 Organizations of the Treadway Commission ("COSO"), were effective in both their design and operation.

Evotec routinely engages external specialists in order to minimise the risk related 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 but 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 which 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 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 2012.

Evotec has summarised the most important of these risks in the following categories: Business environment and industry risks, performance-related risks, commercial risks, strategic risks, financial risks, intellectual property risks, legal risks, HR risks and IT risks.

MANAGEMENT BOARD'S ASSESSMENT OF RISK SITUATION

The Management Board provides an overview of the probability of occurrence and the potential financial impact of the key individual risks in the tables below. The risks are evaluated according to probability of occurrence and potential damages. This assessment of overall risk is based on the risk management system used by Evotec as outlined above. The Management Board will continue to monitor the effectiveness of Evotec's risk management in order to be able to identify, investigate and assess potential risks even more quickly and implement appropriate countermeasures.

Probability of occurrence

Category	Risk exposure
Low	< 5%
Medium	5–20%
High	> 20%

Potential financial impact

Risk class	Risk exposure
Low	< € 2 m
Medium	€ 2–5 m
High	> € 5 m

Corporate risks overview

	Probability of occurrence	Potential financial impact	Comparison to prior year
Business environment and industry risks			
a. Risk inherent to drug discovery alliances			
Pricing pressure	**medium**	**medium**	**unchanged**
b. Risk inherent to proprietary drug discovery and development			
Risk of failure	**high**	**medium/high**	**unchanged**
Risk of extensive regulation	**medium**	**low**	**unchanged**
Product liability claims	**low**	**high**	**unchanged**
Performance-related risks			
Fluctuating capacity and resource allocation	**medium**	**medium**	**unchanged**
Dependence on individual larger customer	**medium**	**high**	**unchanged**
Scientific or technical delivery risks	**medium**	**medium**	**unchanged**
Maintenance of customer recognition and branding	**low**	**medium**	**unchanged**
Commercial risks			
Changing market environment	**low**	**medium**	**unchanged**
Dependence on individual out-licensing events	**medium**	**medium**	**unchanged**
Outperformance by competitors	**low**	**medium**	**unchanged**
Strategic risks			
Implementation and achievement of strategic goals	**medium**	**high**	**unchanged**
Risk from M&A	**low**	**low**	**unchanged**
Financial risks			
Liquidity risks	**low/medium**	**medium/high**	**unchanged**
Default risks	**low**	**medium/high**	**unchanged**
Currency risks	**medium**	**medium**	**unchanged**
IP risks			
Dependence on technology patents and proprietary technology	**low/medium**	**medium/high**	**unchanged**
Dependence on licences granted for partnered assets	**low**	**medium/high**	**unchanged**
Legal risks	**low/medium**	**low**	**slightly increased**
HR risks			
Dependence on key personnel	**low**	**medium**	**unchanged**
IT risks			
Loss of data	**low**	**medium/high**	**unchanged**
Data integrity and protection	**low**	**medium**	**unchanged**
Other risks			
Environmental risks	**low**	**low**	**unchanged**
Compliance risks	**low**	**low**	**unchanged**
Risks involving production	**low**	**low**	**unchanged**
Risks involving procurement	**low**	**low**	**unchanged**

Based on the general principles for estimating risk factors described above the Management Board believes that, although the risks in any drug discovery and development business are significant, the Company has great opportunities to create long-term value that outweigh the foreseeable risks. At present, no risks have been identified that either individually or in combination could endanger the continued existence of Evotec AG and the Evotec Group. Furthermore, no material changes to risks were identified compared to 2012.

BUSINESS ENVIRONMENT AND INDUSTRY RISKS

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 past 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, 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, judicious cost management, continuous enhancement of capabilities and technologies, careful market positioning and sales from high-value results-based contracts are critical for Evotec's success.

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.

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 does not proceed as expected, an impairment of the intangible asset may be required. Such an event was experienced by Evotec in December of 2013 when certain pre-clinical studies with EVT100 series performed by Evotec's licensee did not confirm certain properties of the antagonist and did not justify the planned immediate development progress. As a result a significant milestone payment expected for this project in 2013 was not triggered. The project is currently under evaluation at Janssen. Evotec was obliged to evaluate the impairment in respect of these assets on Evotec's balance sheet.

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 are delayed or even need to be aborted due to unpredictable results. 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. Furthermore, pre-clinical 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-licenses or otherwise acquires promising projects or drug candidates, any resulting internal R&D project could experience delays or even fail and it could take several years before the Company could sell or license any drug candidates, if at all.

- Research and development activities 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. 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 or might later be withdrawn or significantly delayed. This 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 research and development activities 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 such exposure is diligently assessed for each trial. As of today, Evotec is not aware of any pending threats of product liability claims.

PERFORMANCE-RELATED RISKS

Alongside the Company's drug discovery alliances certain performance-related risks need to be managed:

- Even with a stable revenue stream, *fluctuating capacity utilisation and requirements as well as resource allocation* between different parts of the business can significantly impact profitability. Therefore, this needs to be carefully managed. In addition, *dependence on individual large customer contracts* needs to be closely monitored. In 2013, Evotec's largest customer accounted for 21% of total revenues (see table "TOP 10 Collaborations" on page 28).

- 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 in order to further reduce such risks.

- Evotec's past success was built 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 which could

lead to a loss of customers due to bad reputation. Evotec has protected its trade name in all countries with business operations and has increased its market awareness to strengthen and protect its global market position.

COMMERCIAL RISKS

Commercial risks include the following:

▸ 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.

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 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 licence partner, hospitals, physicians or patients may conclude that Evotec's products are less safe, 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 does not assume any product commercialisation and subsequent milestone or royalty payments. The business is sustainable even in the absence of such an event.

STRATEGIC RISKS

Implementation and achievement of strategic goals

The implementation of a company strategy bears the risk of misjudgements concerning future developments. Investments might be made in wrong products, wrong partnerships, inappropriate technologies or sub optimal acquisitions. In addition, commercialisation strategies might be unsuccessful or the lack of market acceptance for newly discovered products could impact Evotec's market position, which could lead to significant negative impact on business objectives and financial goals.

Action Plan 2016

In March 2012, Action Plan 2016 – Innovation Efficiency was initiated. This five-year mid-range plan defines the corporate strategy until 2016.

Evotec continued to focus its internal R&D activities on its most valuable and promising assets. At present, the Company continues to build an extensive pipeline, by concentrating its efforts on bringing proprietary products from its existing portfolio and from collaborations with scientific institutions to important value inflection points ready for partnering.

Risks from M&A

Evotec's market position is well established, and the Company is acknowledged by its customers for its first-class services. However, the Company is pursuing ambitious growth targets both organically and also via acquisitions of complementary service capacities and capabilities. However, such merger and acquisition activities contain specific risks that need to be managed.

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, the loss of personnel and invalidation of technologies and science.

Intangible assets and goodwill, resulting from past acquisitions, account for a significant portion of Evotec's assets. If management's expectations regarding the future potential of these acquisitions cannot be realised, there is an impairment risk for these assets.

FINANCIAL RISKS AND RISK MANAGEMENT IN RELATION TO FINANCIAL INSTRUMENTS (IFRS 7)

Evotec's financial risk management addresses liquidity, default and currency risks.

Liquidity risks

▸ Revenue fluctuations and expenditures on internal discovery and early development programmes 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 regularly undertakes scenario planning in order to safeguard its cash position. Evotec believes that existing liquidity reserves are sufficient to cope with the cumulative impact of all identified risks. These reserves were strengthened after Evotec executed a 9.9% capital increase from its authorised capital against € 30 m cash contribution by issuing 11,818,613 new shares to BVF in September 2013. Consequently, Evotec is currently well-financed and has no plans or necessity to raise capital in the near- to mid-term future. However, the possibility of further *increasing capital* is reviewed on an ongoing basis. This additional financing might be required if new opportunities arise

in terms of M&A or in-licensing. 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*, 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 appropriately financed in order to execute Action Plan 2016.

Default risks

▸ As a service provider, Evotec always faces the risk of bad debt losses. However, 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. The selected instruments are used exclusively to secure the underlying transactions, but not for trading or speculation.

Currency risks

▸ Evotec's business and reported profitability are affected by *fluctuations in foreign exchange rates* between the US dollar and Pound Sterling 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. Hedging transactions are entered directly in relation to existing underlying transactions and/or future reliably anticipated transactions. The purpose of this strategy is to manage the Company's current and upcoming currency requirements and is intended to reduce the exchange rate risks of future financial periods.

▸ Currency exchange movements also impact Evotec's reported liquidity primarily through the translation of liquid assets held in US dollars or Pound Sterling into Euros. A portion of the funds are held in currencies other than the Euro in order to meet local operating needs and due to different currencies defined in customer contracts.

INTELLECTUAL PROPERTY RISKS

The risks associated with intellectual property ("IP") include the following:

▸ Evotec is *dependent on patents and proprietary technology*, both its own and those licensed from others, and places great 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 and by other parties related to certain of its proprietary pre-clinical and clinical research projects. Any termination of these licences could result in the loss of significant rights and endanger existing partnering collaborations. However, Evotec maintains long-term and trusting relationships with its partners and is therefore confident that such licence agreements will remain unaffected.

LEGAL RISKS

▸ As reported in previous years, in a letter on 19 August 2010, the Federal Financial Supervisory Authority (BaFin) requested certain information with regard to an ad hoc release made by the Company on 12 August 2010. The Company provided such information 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 of the German Securities Trading Act ("WpHG") and that an administrative offence may have occurred. In a letter on 05 September 2012, BaFin requested additional information with regard to the circumstances in 2010. Again, the Company provided such information and explained in detail its refusal of any alleged infringement of section 15 WpHG. In Evotec's opinion, the timing and content of the respective ad hoc release in August 2010 was based on an in-depth and thorough legal examination and in line with acknowledged expert opinion in the legal literature. Nonetheless, in May 2013, Evotec received a fine notice amounting to € 0.17 m from the BaFin. The Company appealed against this ruling. No further information has been received from BaFin up to the date of this report.

▸ On 13 December 2013, Evotec received another letter from BaFin about three cases of alleged infringement of section 26a of the German Securities Trading Act (WpHG) resulting from delayed notifications concerning increases in issued share capital as a result of share options being exercised. The three cases occurred during the period 2010 to 2012. At the end of 2012, the process was improved and optimised. Therefore, Management is of the opinion that no additional actions need to be taken to further refine the notification process. Evotec replied to BaFin on 13 January 2014. BaFin will now either reach a judgement on the Company's submission or ask additional questions.

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 business objectives. However, Evotec has set up its organisation 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.

IT RISKS

▸ Business processes and the communications of Evotec are increasingly dependent on information technology systems. Major disruptions or failure of global or regional business systems may result in *loss of data and/or impairment of business processes*.

Evotec uses continually updated and newly developed hardware and software to prevent potential security risks in the area of IT. Business data is backed up regularly. Technical precautions such as data recovery and continuity plans have been established to address this risk.

▸ To minimise organisational risks such as manipulation and unauthorised access, access is protected by passwords that must be changed regularly. In addition, the Company uses encryption methods for its portable IT hardware. Guidelines relating to *data protection*, which also regulate the assignment of access rights, are required to be observed. Evotec regularly assesses its IT security and where weaknesses are identified, remediation measures are initiated immediately.

OTHER RISKS

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

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

OPPORTUNITIES

In addition to possible risks, the Company also regularly identifies, evaluates and responds to the opportunities arising from its business activities. Some of the Company's significant opportunities are described below.

BUSINESS ENVIRONMENT AND INDUSTRY OPPORTUNITIES

The pharmaceutical industry is in a state of restructuring and transition due to the well documented patent cliff that many Pharma companies currently face. This has lead to new strategies being developed and to an increase in the appetite to source innovation in a capital efficient manner. In addition, ageing populations in developed countries continue to demand better drugs that are clearly differentiated from existing treatments. As a result of these developments, Pharma companies are increasingly turning to outsourcing of their research and development activities. Such outsourcing enables Pharma companies to convert fixed costs into variable costs and allows them access expertise in selected areas and avoids the need to build internal capabilities and infrastructure. Evotec is acutely aware of this trend and consequently developed a business model to secure business and create commercial opportunities from this situation.

Evotec's drug discovery platform is well established within the industry and has generated a growing revenue stream over the past years. This has resulted in an established and satisfied customer base that Evotec can use as opportunity to generate additional business.

PERFORMANCE-RELATED OPPORTUNITIES

Evotec is a high-quality provider of drug discovery services and has an excellent reputation in the market. This is invaluable in securing new business opportunities. Furthermore Evotec is committed to continually upgrading and expanding its technological capabilities in order to be able to offer superior service and quality and thereby generate new business possibilities in the future.

COMMERCIAL OPPORTUNITIES

The total number, growth and size of alliances, the percentage of repeat business, average contract duration, new customer acquisition and the status of the Company's sales and order book are key indicators of Evotec's business. These key indicators have improved significantly during the last five years. During its 20-year history, Evotec has continued to deliver excellent results in its collaborations and has expanded its customer base and its global network of partnerships. The Company is now working with approximately one hundred Pharma and biotech companies on a global basis. The excellent track record and the Company's extensive network is an excellent basis for creating additional business opportunities that would have an impact on the performance and results of the Company.

Furthermore, the Company operates from a sound liquidity position. This financial stability enables Evotec to strengthen its technology platforms and to expand its drug discovery capacities. In addition, Evotec can invest in early-stage assets via Cure *X* and Target *X* initiatives to generate potential starting for higher value partnerships.

STRATEGIC OPPORTUNITIES

In its Action Plan 2016 implemented in March 2012, the Company defined the corporate strategy up to 2016. One major pillar of this strategic plan is the creation of an extensive, long-term pharmaceutical pipeline without taking the financial risk of clinical exposure. Evotec has out-licensed a number of clinical assets for development in partnerships with pharmaceutical companies. These development programmes do not carry any financial risks, but only significant upside

potential in case of clinical and commercial success for Evotec. In addition to these late-stage assets, Evotec continues to build this pipeline through partnering its proprietary products from its existing portfolio and from collaborations with scientific institutions. These efforts are called Cure *X* and Target *X* initiatives. To date, the Company has already initiated more than ten such initiatives. So far already three Pharma alliances were generated based on these programmes.

The Company's liquidity position enables Evotec to further expand its business, organically as well as inorganically by means of acquisition of companies that have unique technologies or capabilities which complement the Company's drug discovery offering. This could have a positive impact on the Company's business, results of operations and financial position.

HR OPPORTUNITIES

Since the biotechnology and pharmaceutical industry is very people dependent, employees are a critical asset for companies in this industry. As stated in chapter "Employees" on page 53 of this Management Report, approximately 40% of Evotec's employees have worked for the Company for more than five years. The Company believes that its success in alliances and partnerships is attributable to its key personnel to a large extent. Thus, retaining employees who have outstanding expertise and skills in the long term could have a positive impact on the Company's business, results of operations and financial position.

Furthermore, employees with new ideas, expertise in further key indication areas and knowledge of innovative technologies are essential in developing new branches or initiatives such as the Cure *X* and Target *X* initiatives the Company is pursuing, since they result in new business opportunities for the Company. Thus, attracting new employees could have a positive impact on the Company's business, results of operations and financial position.

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 year 2013 saw a significant increase in investor appetite for both the pharmaceutical and biotech sectors in the USA. However, on an operational basis the restructuring and reorganisation of recent years continued.

In the coming years, global economic development will again vary widely from region to region. Global gross domestic product ("GDP") will expand moderately in real terms with the forecast for economic growth in 2014 estimated to be 3.6% rising to 3.7% in 2015. In the USA, economic growth is expected to accelerate in 2014 to 2.8% compared to 1.9% in 2013. The Eurozone is expected to move from recession to recovery in 2014, with growth projected to strengthen to 1.0% in 2014 and 1.4% in 2015. For Asia growth forecasts are still higher than for the developed economies of the West, but no longer reaching double-digit growth from the years 2010 and 2011. These expectations, relating to the overall situation, are subject to considerable uncertainties. One key factor will be the timing and extent to which monetary policy accommodation is withdrawn by central banks. However, Evotec is confident that these factors will not have a major impact on the Company's expected corporate development or performance.

THE MARKET FOR DRUG DISCOVERY ALLIANCES

The global drug discovery market is expected to experience continued growth. According to studies from Kalorama Information (June 2010) and Visiongain (2012), the global drug discovery market including later-stage *in vivo* work is expected to reach $ 14 bn in 2014 compared to the total of $ 9.7 bn in 2011. Also, according to Visiongain, by 2023 total global revenues generated by drug discovery outsourcing could even reach $ 35.7 bn. The growth in outsourcing will be stimulated by Pharma and biotech companies focusing on more efficient drug discovery solutions and switching to a variable cost model. This will result in core capabilities and capacities being increasingly outsourced at a lower cost. Most importantly, expertise in required areas will be accessed externally, avoiding the need to build additional infrastructure and capabilities internally. This innovation efficiency demand will be increasingly met by companies such as Evotec.

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 outsourcing industry. However, Evotec is ideally positioned to take full advantage of these market developments. The Company is one of the few drug discovery businesses that can execute a comprehensive outsourcing strategy, because it is able to undertake integrated drug discovery projects. In addition, the Company has an outstanding track record in the industry and is financially stable.

TRENDS IN RESEARCH AND DEVELOPMENT

The significant increase in costs to take a drug to market has led to a number of key trends, including an increase in outsourcing and a focus by major Pharma companies concentrating on fewer core disease areas. In terms of proprietary research and development of novel drug compounds, experts believe that sufficient financial resources will remain a critical competitive advantage for biotechnology companies as funding availability will continue to be limited for the coming years. There has been a reduction in venture capital for new enterprises since 2009. However, this situation improved in 2013 as institutional investors again showed an increasing risk appetite concerning innovative ideas coming out of the pharmaceutical and biotechnology industry in the USA. The overall risk appetite in Europe, however, is still somewhat restrained.

BUSINESS DIRECTION AND STRATEGY

Evotec's strategy is to be the leading provider of drug discovery solutions. In 2012, Evotec implemented "Action Plan 2016 – Innovation Efficiency", which defined the next goals the Company wants to achieve in the medium term up to and including 2016.

Evotec will manage its drug discovery activities under the business segments EVT Execute and EVT Innovate from January 2014 onwards. EVT Execute represents all partnerships in which the partner brings the underlying target to the table. EVT Innovate comprises all partnerships derived from Evotec's internal research. Further information on Evotec's two new business segments can be found in chapter "Corporate objectives and strategy" on page 26 of this Management Report.

Based on Action Plan 2016, specific objectives for the segments EVT Execute and EVT Innovate for 2014 were defined at the end of 2013.

EVT EXECUTE

- Expansion of existing alliances
- Significant new long-term deals with big and mid-sized Pharma and biotech
- At least one significant new integrated technology/disease alliance

EVT INNOVATE

- Expansion of network of top-class academic alliances
- Increase in investments in Cure *X*/Target *X* initiatives
- Progress of clinical pipeline within partnerships
- Partnering of at least one Cure *X*/Target *X* initiative

Revenues and EBITDA before changes in contingent considerations will be key performance indicators for EVT Execute and EVT Innovate from 2014 onwards. Furthermore, another key performance indicator for EVT Innovate will be R&D expenses. A condensed income statement for 2013 based on segments, which was provisorily generated for future comparisons of periods, is shown below.

Segment Information 2013

		EVT Execute	EVT Innovate	Intersegment eliminations	Evotec Group
Revenues	**T€**	**86,060**	**9,749**	**(9,871)**	**85,938**
— Cost of goods sold	T€	55,385	8,284	(8,954)	54,715
Gross margin	%	35.6%	15.0%		**36.3%**
— R&D expenses	T€	2,162	8,419	(917)	9,664
— SG&A expenses	T€	12,587	4,010	-	16,597
— Amortisation	T€	2,419	803	-	3,222
— Impairment result (net)	T€	5,680	19,367	-	25,047
— Restructuring expenses	T€	474	-	-	474
— Other operating expenses (income)	T€	220	(2,650)	-	(2,430)
Operating income (loss)	**T€**	**7,133**	**(28,484)**	**-**	**(21,351)**
Operating income (loss) adjusted*	***T€***	***12,996***	***(11,767)***	**-**	***1,229***

* *Operating result excl. impairments and reversal of impairments and changes in contingent considerations*

EXPECTED RESEARCH AND 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 the acquisition of assets. Evotec is continually upgrading its capabilities to maintain the best infrastructure and skills to meet its partner's needs in drug discovery. This trend is expected to continue in 2014 and beyond.

In terms of in-house research, the Company will continue to invest into a selected number of highly innovative approaches to address key medical areas. The cornerstones of this are the Company's Cure *X* and Target *X* initiatives, whereby Evotec accesses and accelerates early academic or research initiatives in innovative areas of disease biology and develops and positions such assets for commercial partnering.

The Cure*Beta* and Cure*Nephron* initiatives were started with Harvard University in March 2011 and February 2012, respectively. In January 2013, Evotec expanded this strategy by signing an agreement with Yale University, whereby both institutions will accelerate targets to a suitable partnering position within this "open innovation alliance". In 2013, Evotec's pipeline of R&D partnerships underwent a significant expansion (further information regarding Evotec's partnerships can be found in chapter "Research and development – Activities and partnerships" on page 32 of this Management Report).

These projects and others that are currently under development are expected to lead to an increasing number of large strategic alliances with pharmaceutical companies in the future. Cure*Beta* is an excellent example of this as it entered an alliance with Janssen, a member of the Johnson & Johnson family of companies, in 2012 and has since then been externally funded. In November 2013, Evotec's business model of academic collaborations leading to alliances with major Pharma was further validated by a collaboration agreement termed Target*AD* with Johnson & Johnson Innovation, to identify and develop novel Alzheimer's disease therapies. Janssen will fund target discovery research via a combination of defined research payments and progress-related milestones for a three year period.

Evotec will maintain its strategy to only participate in clinical development programmes in partnerships with pharmaceutical partners who fund all the development costs.

FINANCIAL OUTLOOK FOR 2014

EXPECTED OPERATING RESULTS

Evotec pursues a business model in which revenues and operating profitability are highly dependent on the achievement and timing of milestones.

In 2014, total *Group revenues excluding milestones, upfronts and licences* are expected to see high single-digit percentage growth. This assumption is based on the current order book, expected new contracts and contract extensions.

Evotec expects *research and development (R&D) expenses* in 2014 to increase above the levels of 2013. This is primarily due to additional investments in the strategic Cure *X* and Target *X* initiatives. In total, R&D expenditure is expected to be in the range of € 10 m to € 14 m in 2014.

Evotec's Group *EBITDA before changes in contingent considerations* is expected to be positive and at a similar level to 2013.

EBITDA is defined as earnings before interest, taxes, depreciation, and amortisation of intangibles. EBITDA excludes impairments on intangible and tangible assets as well as the total non-operating result.

EBITDA is disclosed from 2014 onwards and replaces the adjusted operating result as the key performance indicator for productivity. The reason for this change is that EBITDA better facilitates comparisons between companies and industries by eliminating the effects of financing (i.e., interest) and capital investments (i.e., depreciation and amortisation).

EXPECTED FINANCING AND FINANCIAL POSITION

In 2014, Evotec will continue to invest in its technology platforms and capacities in order to drive its long-term growth strategy. It is therefore planned that € 5 m to € 7 m will be invested in further capacity increases and the upgrade of Evotec's technological capabilities.

In 2014, top-line growth is expected to generate a *positive operating cash flow* at a similar level to 2013 and liquidity is expected to exceed € 90 m at 31 December 2014. This forecast excludes any potential cash outflow for M&A or similar transactions.

The Company's mid-term financial plan does not envisage the need for any additional external financing 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 reinvest them in the Company. Nevertheless, given the very solid growth path, dividend payments will be carefully considered in the mid-term.

OPPORTUNITIES

The most important opportunities for the Company are summarised in section "Opportunities" in chapter "Risk and opportunities management" on page 65 of this Report.

GENERAL STATEMENT OF EXPECTED DEVELOPMENT BY THE MANAGEMENT BOARD

Evotec continues to strengthen its business and become a leader in the provision of drug discovery solutions. Evotec is therefore well-positioned to deliver value to the pharmaceutical and biotechnology industry, addressing the industry's growing demand for innovation.

The Management Board believes that Evotec will benefit from the outsourcing trend in the pharmaceutical industry and partner with an increasing number of customers.

On this basis, the Management Board expects Evotec to show strong revenue growth in 2014 and continued profitability. The Company's strong cash position will provide a firm foundation to consider potential M&A opportunities that might further strengthen the business and increase shareholder value.

Results 2013 and guidance for 2014

	Results 2013	Guidance 2014
Revenues	€ 85.9 m	High single-digit percentage growth excluding milestones, upfronts and licences
R&D expenses	€ 9.7 m	€ 10 m – € 14 m
EBITDA before changes in contingent considerations	€ 10.4 m	Positive EBITDA excluding changes in contingent considerations at a similar level to 2013
Liquidity	€ 96.1 m	Above € 90 m
Operating cash flow	€ 6.7 m	Positive operating cash flow at a similar level to 2013

INFORMATION PURSUANT TO SECTION 289 PARAGRAPH 4 AND 315 PARAGRAPH 4 OF THE GERMAN COMMERCIAL CODE AND EXPLANATORY REPORT

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

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

As of 31 December 2013, the share capital of Evotec AG amounted to € 131,460,193.00 and was divided into 131,460,193 non-par value shares. All shares are bearer shares and have equal voting rights. The Company's Management is not aware of any restriction of the voting rights or the right to transfer. No binding lock-up agreements have been made by the Company 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. In a simultaneous transaction to a capital increase against cash contribution conducted by Evotec from authorised capital by issuing 11,818,613 new shares to the Biotechnology Value Fund, L.P. and other affiliates of the US biotech specialist investment firm BVF Partners L.P. ("BVF"), BVF also purchased an option from TVM Capital to acquire an additional 11,818,612 Evotec shares from the Company's two major shareholders TVM Capital and ROI Verwaltungsgesellschaft mbH.

No shareholder holds the right to have representatives on the Company's Supervisory Board, or is restricted or bound to specific votes at the Annual General Meeting. 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 and after the capital increase from authorised capital against cash contribution by issuing 11,818,613 new shares as referred to above, the Management Board, with the approval of the Supervisory Board, is authorised to increase the Company's share capital by up to € 11,844,559.00 in one or more tranches until 13 June 2017 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 2013 the remaining conditional capital of the Company amounted to € 34,119,352.00. Conditional capital in the amount of € 10,456,180.00 shall be used only to the extent that holders of stock options and Share Performance Awards, awarded by Evotec on the basis of the shareholders' resolutions from 07 June 1999, 26 June 2000, 18 June 2001, 07 June 2005, 30 May 2007, 28 August 2008, 16 June 2011 and 14 June 2012, exercise their rights to subscribe for new shares of the Company. As of 31 December 2013, conditional capital in the total amount of € 1,094,741.00 was used for holders of stock options exercise their rights to subscribe for new shares of the Company. Additional conditional capital in the amount of € 23,663,172.00 exists to issue no-par-value bearer shares to owners or creditors of convertible bonds and/or warrant-linked bonds,

participation rights and/or income bonds (or a combination of such instruments) that may be issued by Evotec on the basis of the authorisation resolved by the Annual General Meeting on 14 June 2012. Such contingent capital increase shall only be used to the extent that option or conversion rights are utilised, or the owners or creditors are obligated to carry out their duty of conversion, and to the extent that no treasury shares or new shares from an exploitation of authorised capital are utilised for servicing.

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 last notified by its shareholder and member of the Supervisory Board Roland Oetker that he, via ROI Verwaltungsgesellschaft mbH, Königsallee 20, 40212 Düsseldorf, Germany, owned 14.74% of the shares of the Company. This proportion relates to the shares issued of the Company at this point in time. The Company is not aware of any other direct or indirect shareholdings in its share capital exceeding 10% of its capital.

In August 2013, Evotec resolved on a direct placement capital increase against cash contribution from its authorised capital by issuing 11,818,613 new shares to the Biotechnology Value Fund, L.P. and other affiliates of the US biotech specialist investment firm BVF Partners L.P., San Francisco. With the registration of the capital increase in the commercial register, BVF owns 9.9% of the shares in Evotec. In a simultaneous transaction, BVF also purchased an option from TVM Capital granting BVF the right to acquire further 9.9% of Evotec's shares. Should this option be exercised in full until the end of January 2016, BVF would possess a total shareholding in Evotec of over 18%.

BOARD STRUCTURE

The board structure of Evotec is explained in detail in the "Corporate Governance Report".

AUTHORISATION OF MANAGEMENT TO REPURCHASE STOCK

The Company is authorised by two resolutions of the 2011 Annual General 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 (Aktiengesetz, AktG), 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. As of 31 December 2013, Evotec used its authorisation to acquire own shares with a computed proportion of the share capital totalling up to € 1,000,000.00 in the amount of a computed proportion of the share capital of € 104,120.00 (€ 67,090.00 in 2012 and € 37,030.00 in 2013) for the remuneration of the Supervisory Board in the financial years 2011 and 2012 in accordance with the Articles of Association of the Company.

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 an Annual General 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. Further information regarding the respective severance payments is reported in Note 34e to the Consolidated Financial Statements and in the "Remuneration Report" on page 74 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'.

REMUNERATION REPORT

The Remuneration Report describes the Company's remuneration structure and provides information about 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 "Employees" on page 54 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 every individual Management Board member, is composed of fixed and variable compensation components. It is guided by Sec. 87 of the German Stock Corporation Act (AktG) and the German Corporate Governance Code. In line with those requirements, compensation is awarded based on an assessment of performance that is oriented towards the sustainable growth of Evotec. The criteria for determining the amount of compensation awarded 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 comparative level of compensation at peer companies and the compensation structure in place in other areas of the Company.

Following Sec. 4.2.3 of the Code, the amount of compensation is capped, both overall and for individual compensation components. For any new contracts of the Management Board the Supervisory Board will consider the relationship between the compensation of the Management Board and that of senior management as well as the staff overall, particularly in terms of its development over time. The Supervisory Board determines how senior managers and the relevant staff are differentiated.

The German Law on the Appropriateness of Management Board Compensation (VorstAG) of 31 July 2009 allows the Annual General Meeting ("AGM") to approve 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 in 2012. The shareholders and shareholder representatives voted in favour of this item of the agenda with a majority of 92.22% of the votes. Following Sec. 4.2.3 of the Code this item was not put to the AGM 2013 as the remuneration system for the Management Board has not changed since then.

In 2013, the fixed and variable remuneration of the active members of the Management Board totalled T€ 1,742, of which the variable part amounted to T€ 446. In addition, the expenses for the long-term incentive component amounted to T€ 610.

Fixed remuneration includes base salaries paid in 12 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 private use. In addition, to the aforementioned remuneration, business-related payments, expenditure and expenses are reimbursed.

Variable remuneration is determined by a bonus scheme. The respective objectives are specified every year by the Remuneration and Nomination Committee of the Supervisory Board and subsequently approved by the Supervisory Board.

The variable portion of the remuneration paid out in March 2013 was based on the achievement of certain strategic targets for the business year 2012. The variable portion of the remuneration for the achievement of strategic targets for the business year 2013 will be paid out in March 2014. In both years, 80% of the bonus of the Company's Chief Executive Officer, Dr Werner Lanthaler, was based on the achievement 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 respective bonus was based on the same corporate milestones, and the remaining 40% on the achievement of personal objectives. As per 31 December 2013, the Company accrued T€ 293 for the variable portion of the remuneration for the members of the Management Board, thereof T€ 119 for Dr Werner Lanthaler, T€ 48 for Colin Bond, T€ 68 for Dr Cord Dohrmann and T€ 58 for Dr Mario Polywka.

The 2012 and the 2013 corporate objectives referred to targets considered important for the positive development of the Company, such as the achievement of revenue and profitability targets, the execution of significant integrated collaboration agreements, the implementation of an innovation strategy and the preparation of the Company for sustainable future growth.

In addition to their fixed and variable remuneration, the members of the Management Board received 393,526 Share Performance Awards ("SPA") in 2013 under the Company's share performance plan. These Share Performance Awards vest after four years according to achievement versus defined key performance indicators over a three-year performance measurement period. The fair values of all Share Performance Awards granted as of the grant date amounted to a total of T€ 610.

Remuneration of the Management Board 2013

	Fixed remuneration in T€*	Variable remuneration in T€	Share Performance Awards in pcs	Fair values of SPA granted in T€	Total remuneration in T€
Dr Werner Lanthaler	414	187	179,538	287	879
Colin Bond	280	80	70,014	109	469
Dr Cord Dohrmann	285	87	76,379	118	490
Dr Mario Polywka	317	92	67,595	105	514
Total	1,296	446	393,526	610	2,352

** Includes annual base salary, car allowance, contributions made towards health insurance, pension, accident/life insurance and accommodation cost*

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 both Colin Bond and Dr Cord Dohrmann, the payment shall be equal to 18 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.

The Company has made a provision for pension for one former Management Board member amounting to T€ 164 (2012: T€ 122). 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 last amended by the Annual General Meeting (AGM) 2013 and also applies 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 appropriate 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 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, as last amended following the approval of the Annual General Meeting 2013, every Supervisory Board member receives T€ 25 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€ 20.

For their contributions in 2013, the individual members of the Evotec Supervisory Board receive the following compensation:

Remuneration of the Supervisory Board 2013

	Total remuneration in T€ [1)]
Dr Walter Wenninger	83.8
Roland Oetker	42.6
Dr Claus Braestrup[2)]	16.0
Bernd Hirsch[3)]	1.8
Prof. Dr Andreas Pinkwart	28.8
Mary Tanner	28.8
Dr Hubert Birner[4)]	42.3
Dr Flemming Ørnskov[5)]	35.0
Total	279.1

[1)] Cash remuneration
[2)] Relates to the period from 12 June 2013 onwards, when Dr Claus Braestrup was elected to the Supervisory Board by the Evotec Annual General Meeting.
[3)] Relates to the period from 16 December 2013 onwards following the appointment of Bernd Hirsch to the Supervisory Board by the trade register.
[4)] Relates to the period until 09 December 2013, when the resignation of Dr Hubert Birner from the Supervisory Board became effective.
[5)] Relates to the period until 12 June 2013, when Dr Flemming Ørnskov resigned as Chairman of the Supervisory Board at the Evotec Annual General Meeting.

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

DIRECTORS AND OFFICERS LIABILITY INSURANCE (D&O INSURANCE)

Evotec procured directors and officers liability insurance coverage for its Management and Supervisory Board members, its senior management and the directors of its subsidiaries at a cost to the Company of T€ 117 in 2013 (2012: T€ 117). 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 VorstAG, were agreed upon.

CONSOLIDATED FINANCIAL STATEMENTS (IFRS) 2013

Evotec AG and Subsidiaries – Consolidated statement of financial position as of 31 December 2013

in T€ except share data	footnote reference	as of 31 December 2013	as of 31 December 2012
ASSETS			
Current assets:			
Cash and cash equivalents	4	45,644	39,065
Investments	4	50,499	25,094
Trade accounts receivables	5	17,777	15,053
Inventories	6	2,358	2,445
Current tax receivables		433	480
Other current financial assets	7	1,995	1,478
Prepaid expenses and other current assets	8	3,820	4,489
Total current assets		**122,526**	**88,104**
Non-current assets:			
Long-term investments	9	10	10
Property, plant and equipment	10	24,239	27,181
Intangible assets, excluding goodwill	11	39,826	63,266
Goodwill	12	40,136	42,342
Deferred tax asset	17	-	2,815
Other non-current financial assets		77	75
Other non-current assets	13	566	1,634
Total non-current assets		**104,854**	**137,323**
Total assets		**227,380**	**225,427**

See accompanying notes to consolidated financial statements.

in T€ except share data	footnote reference	as of 31 December 2013	as of 31 December 2012
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Current loan liabilities	14	17,222	13,223
Current portion of finance lease obligations		5	1
Trade accounts payable		6,653	6,363
Advanced payments received		232	232
Provisions	15	5,788	6,914
Deferred revenues	16	6,051	5,548
Current income tax payables	17	741	502
Other current financial liabilities		342	234
Other current liabilities		1,919	865
Total current liabilities		**38,953**	**33,882**
Non-current liabilities:			
Non-current loan liabilities	14	-	4,178
Long-term finance lease obligations		14	-
Deferred tax liabilities	17	1,245	2,099
Provisions	15	18,586	18,817
Deferred revenues	16	8,382	12,516
Other non-current financial liabilities		1,233	1,388
Total non-current liabilities		**29,460**	**38,998**
Stockholders' equity:			
Share capital*	19	131,460	118,547
Additional paid-in capital		686,767	665,918
Accumulated other comprehensive income		(27,410)	(25,501)
Accumulated deficit		(631,850)	(606,417)
Total stockholders' equity		**158,967**	**152,547**
Total liabilities and stockholders' equity		**227,380**	**225,427**

** 131,460,193 and 118,546,839 shares issued and outstanding in 2013 and 2012, respectively*

See accompanying notes to consolidated financial statements.

Evotec AG and Subsidiaries
Consolidated income statement for the period from 1 January to 31 December 2013

in T€ except share and per share data	footnote reference	Year ended 31 December 2013	Year ended 31 December 2012
Revenues	20	85,938	87,265
Costs of revenue		(54,715)	(56,242)
Gross profit		**31,223**	**31,023**
Operating income and (expenses)			
Research and development expenses	21	(9,664)	(8,340)
Selling, general and administrative expenses	22	(16,597)	(16,301)
Amortisation of intangible assets	11	(3,222)	(2,768)
Restructuring costs		(474)	-
Impairment of property, plant and equipment	10	(1,076)	-
Impairment of intangible assets	11	(22,023)	(3,505)
Impairment of goodwill	12	(1,948)	-
Other operating income	23	4,410	2,202
Other operating expenses	23	(1,980)	(5,513)
Total operating expenses		**(52,574)**	**(34,225)**
Operating income		**(21,351)**	**(3,202)**
Other non-operating income (expense)			
Interest income		261	655
Interest expense	24	(1,870)	(1,859)
Other income from financial assets		26	406
Other expense from financial assets		(174)	-
Foreign currency exchange gain (loss), net	25	(556)	(1,185)
Other non-operating income		16	171
Total non-operating income (expense)		**(2,297)**	**(1,812)**
Income before taxes		**(23,648)**	**(5,014)**
Current tax income (expense)	17	(299)	(793)
Deferred tax income (expense)	17	(1,486)	8,285
Total taxes		**(1,785)**	**7,492**
Net income (loss)		**(25,433)**	**2,478**
Weighted average shares outstanding		**121,215,288**	**117,295,847**
Net income (loss) per share (basic)		**(0.21)**	**0.02**
Net income (loss) per share (diluted)		**(0.21)**	**0.02**

See accompanying notes to consolidated financial statements.

Evotec AG and Subsidiaries
Consolidated statement of comprehensive income for the period from 1 January to 31 December 2013

in T€	footnote reference	Year ended 31 December 2013	Year ended 31 December 2012
Net income (loss)		**(25,433)**	**2,478**
Accumulated other comprehensive income			
Items which are not re-classified to the income statement			
Remeasurement of defined benefit obligation		(37)	-
Taxes		-	-
Items which have to be re-classified to the income statement at a later date			
Foreign currency translation		(1,834)	808
Revaluation and disposal of available-for-sale securities		(38)	(314)
Taxes		-	-
Other comprehensive income		**(1,909)**	**494**
Total comprehensive income		**(27,342)**	**2,972**

See accompanying notes to consolidated financial statements.

Evotec AG and Subsidiaries
Consolidated statement of cash flows for the year ended 31 December 2013

in T€	footnote reference	Year ended 31 December 2013	Year ended 31 December 2012
Cash flows from operating activities:			
Net income		**(25,433)**	**2,478**
Adjustments to reconcile net income to net cash used in operating activities			
Depreciation of property, plant and equipment	10	5,943	6,048
Amortisation of intangible assets	11	3,222	2,768
Depreciation of current assets		84	291
Impairment of intangible assets	11	22,023	3,505
Impairment of property, plant and equipment		1,076	-
Impairment of goodwill		1,948	-
Stock compensation expense	18	1,255	1,514
Non-cash foreign exchange gain		267	503
Interest expense	24	1,692	1,093
Loss on sale of financial assets		174	-
Gain on sale of financial assets		(26)	(406)
Loss on sale of property, plant and equipment		83	130
Deferred tax expense (benefit)	17	1,486	(8,285)
Decrease (increase) in:			
Accounts receivable		(2,477)	(4,677)
Inventories		60	831
Other assets		327	(3,546)
Increase (decrease) in:			
Accounts payable		218	(3,854)
Advanced payments received		-	(550)
Deferred revenues		(3,646)	12,198
Provisions		(3,714)	1,848
Current income taxes payable		427	339
Other liabilities		2,095	(53)
Cash received during the year for:			
Interest		230	660
Cash paid during the year for:			
Interest		(467)	(549)
Taxes		(190)	(329)
Net cash provided by operating activities		**6,657**	**11,957**
Cash flows from investing activities:			
Purchase of current investments		(45,551)	(62,515)
Purchase of investments in affiliated companies	3	(1,150)	-
Purchase of property, plant and equipment	10	(5,160)	(8,175)
Purchase of intangible assets	11	(30)	(2,000)
Cash acquired in connection with acquisitions	3	119	-
Proceeds from sale of property, plant and equipment		583	46
Proceeds from sale of current investments		19,676	81,419
Net cash provided by (used in) investing activities		**(31,513)**	**8,775**

See accompanying notes to consolidated financial statements.

in T€	footnote reference	Year ended 31 December 2013	Year ended 31 December 2012
Cash flows from financing activities:			
Proceeds from capital increase	18	30,137	-
Proceeds from option exercise	18	2,370	814
Proceeds from issuance of loans		-	2,446
Payment of subsequent earn outs	15	(278)	(3,000)
Purchase of treasury stock		(109)	(113)
Repayment of loans		(184)	(544)
Net cash provided by financing activities		**31,936**	**(397)**
Net increase in cash and cash equivalents		**7,080**	**20,335**
Exchange rate difference		(501)	953
Cash and cash equivalents at beginning of year		39,065	17,777
Cash and cash equivalents at end of the period*		**45,644**	**39,065**
Supplemental schedule of non-cash activities:			
Acquisition of subsidiaries by issuance of shares		-	-
**thereof restricted cash*		*416*	*416*

See accompanying notes to consolidated financial statements.

Evotec AG and Subsidiaries
Consolidated statement of changes in stockholders' equity for the year ended 31 December 2013

		Share capital		
in T€ except share data	footnote reference	Shares	Amount	
Balance at 1 January 2012		**118,315,864**	**118,316**	
Exercised stock options	18	230,975	231	
Stock option plan	18	-	-	
Purchase of treasury shares		-	-	
Transfer of treasury shares		-	-	
Total comprehensive income				
Balance at 31 December 2012		**118,546,839**	**118,547**	
Capital increase	19	11,818,613	11,818	
Exercised stock options	18	1,094,741	1,095	
Stock option plan	18	-	-	
Purchase of treasury shares		-	-	
Transfer of treasury shares		-	-	
Total comprehensive income				
Balance at 31 December 2013		**131,460,193**	**131,460**	

See accompanying notes to consolidated financial statements.

			Income and expense recognised in other comprehensive income			
	Additional paid-in capital	Treasury shares purchased on stock exchange	Foreign currency translation	Revaluation reserve	Accumulated deficit	Total stockholders' equity
	663,820	**(1)**	**(33,350)**	**7,355**	**(608,895)**	**147,245**
	584	-	-	-	-	815
	1,514	-	-	-	-	1,514
	-	(113)	-	-	-	(113)
	-	114	-	-	-	114
			808	**(314)**	**2,478**	**2,972**
	665,918	**-**	**(32,542)**	**7,041**	**(606,417)**	**152,547**
	18,319	-	-	-	-	30,137
	1,275	-	-	-	-	2,370
	1,255	-	-	-	-	1,255
	-	109	-	-	-	109
	-	(109)	-	-	-	(109)
			(1,834)	**(75)**	**(25,433)**	**(27,342)**
	686,767	**-**	**(34,376)**	**6,966**	**(631,850)**	**158,967**

Evotec AG and Subsidiaries – Consolidated fixed asset movement schedule for the year ended 2012

	Acquisition and manufacturing costs						
in T€	1 January 2012	Foreign exchange	Additions	Disposals	Reclass	31 December 2012	
I. Intangible assets							
1. Patents and licences	5,780	-	2,000	-	-	7,780	
2. Goodwill	42,202	140	-	-	-	42,342	
3. Developed technology	125,309	(387)	-	-	-	124,922	
4. Customer list	37,045	(104)	-	213	-	36,728	
	210,336	**(351)**	**2,000**	**213**	**-**	**211,772**	
II. Property, plant and equipment							
1. Buildings and leasehold improvements	11,767	238	1,565	1,189	-	12,381	
2. Plant, machinery and equipment	37,053	213	4,653	972	1,393	42,340	
3. Furniture and fixtures	8,314	107	789	754	65	8,521	
4. Purchased software	1,313	-	72	22	-	1,363	
5. Finance leases	210	5	-	-	(197)	18	
6. Assets under construction	1,358	2	1,113	-	(1,261)	1,212	
	60,015	**565**	**8,192**	**2,937**	**-**	**65,835**	

Evotec AG and Subsidiaries – Consolidated fixed asset movement schedule for the year ended 2013

	Acquisition and manufacturing costs							
in T€	1 January 2013	Foreign exchange	Additions	Business combination	Disposals	Reclass	31 December 2013	
I. Intangible assets								
1. Patents and licences	7,780	-	30	-	30	3	7,783	
2. Goodwill	42,342	(809)	-	551	1,948	-	40,136	
3. Developed technology	124,922	(1,241)	-	-	-	-	123,681	
4. Customer list	36,728	(576)	-	1,979	-	-	38,131	
	211,772	**(2,626)**	**30**	**2,530**	**1,978**	**3**	**209,731**	
II. Property, plant and equipment								
1. Buildings and leasehold improvements	12,381	(255)	512	-	219	65	12,484	
2. Plant, machinery and equipment	42,340	(744)	3,099	128	3,214	285	41,894	
3. Furniture and fixtures	8,521	(196)	826	9	543	85	8,702	
4. Purchased software	1,363	-	63	-	15	22	1,433	
5. Finance leases	18	-	-	18	-	(4)	32	
6. Assets under construction	1,212	(10)	660	-	70	(456)	1,336	
	65,835	**(1,205)**	**5,160**	**155**	**4,061**	**(3)**	**65,881**	

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

	Depreciation, amortisation and writedowns							Net book value	
	1 January 2012	Foreign exchange	Additions	Disposals	Impairment	Reclass	31 December 2012	31 December 2012	31 December 2011
	5,008	-	892	-	391	-	6,291	1,489	772
	-	-	-	-	-	-	-	42,342	42,202
	63,644	(325)	376	-	3,114	-	66,809	58,113	61,665
	31,830	(53)	1,500	213	-	-	33,064	3,664	5,215
	100,482	**(378)**	**2,768**	**213**	**3,505**	**-**	**106,164**	**105,608**	**109,854**
	7,072	126	1,014	1,143	-	-	7,069	5,312	4,695
	20,937	74	3,753	824	-	157	24,097	18,243	16,116
	5,842	61	1,157	740	-	9	6,329	2,192	2,472
	1,039	-	124	21	-	-	1,142	221	274
	179	4	-	-	-	(166)	17	1	31
	-	-	-	-	-	-	-	1,212	1,358
	35,069	**265**	**6,048**	**2,728**	**-**	**-**	**38,654**	**27,181**	**24,946**

	Depreciation, amortisation and writedowns							Net book value	
	1 January 2013	Foreign exchange	Additions	Disposals	Impairment	Reclass	31 December 2013	31 December 2013	31 December 2012
	6,291	-	1,195	30	-	-	7,456	327	1,489
	-	-	-	-	-	-	-	40,136	42,342
	66,809	(1,130)	456	-	22,023	-	88,158	35,523	58,113
	33,064	(480)	1,571	-	-	-	34,155	3,976	3,664
	106,164	**(1,610)**	**3,222**	**30**	**22,023**	**-**	**129,769**	**79,962**	**105,608**
	7,069	(174)	942	217	81	-	7,701	4,783	5,312
	24,097	(398)	3,814	2,553	908	-	25,868	16,026	18,243
	6,329	(151)	1,084	523	87	4	6,830	1,872	2,192
	1,142	-	98	15	-	-	1,225	208	221
	17	-	5	-	-	(4)	18	14	1
	-	-	-	-	-	-	-	1,336	1,212
	38,654	**(723)**	**5,943**	**3,308**	**1,076**	**-**	**41,642**	**24,239**	**27,181**

Evotec AG and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2013

(1) *Business description and basis of presentation*

Evotec AG, Essener Bogen 7, Hamburg, Germany and subsidiaries ("Evotec" or the "Company") is a drug discovery and development company, driving innovative approaches to develop new pharmaceutical products through own research as well as discovery alliances and development partnerships with leading Pharma and biotechnology businesses. Evotec operates worldwide, offering high quality, independent and integrated solutions in its core competence drug discovery to its customers. Today, Evotec is positioned in key therapeutic areas such as neuroscience, pain, metabolic diseases, oncology and inflammation. Evotec provides best-in-class drug discovery solutions in the most efficient manner and thereby maximising the customer's opportunities to progress candidates into the clinic and beyond.
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".
All amounts in the notes are shown in thousands of Euro (T€), unless indicated otherwise. The Euro is the functional currency of the Company.
On 7 March 2014, the Management Board authorised the 2013 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 unless otherwise stated in the more detailed disclosures below.

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 balance sheet date of the financial year.
Main estimates and assumptions affect the following subjects:

- Acquisitions (Note 3),
- Impairment testing (Note 11 and 12),
- Provisions (Note 15),
- Measurement of the share option plans and the Share Performance Awards (Note 18) and
- the recoverability of deferred tax assets (Note 17).

Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are made prospectively in the period in which the estimates are revised.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Evotec and all companies which are under its control. Evotec controls an entity if it is exposed to, or has the right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are included in the consolidated financial statements from the date on which control is obtained until the date Evotecs control ceases.
If Evotec loses control over a subsidiary, all assets and liabilities of that subsidiary together with any related non-controlling interests and

other equity components are derecognised. Any resulting gain or loss is recognised in the income statement. Any retained interest in the former subsidiary is measured at fair value at the time of loss of control.
All intercompany transactions and balances have been eliminated in the consolidation.

TRANSLATION OF FOREIGN CURRENCY DENOMINATED TRANSACTIONS AND FOREIGN OPERATIONS

The assets and liabilities including goodwill 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 recognised directly in other comprehensive income.
Transactions in foreign currencies are translated into Euro using the monthly average foreign exchange rate. 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.

NON-DERIVATIVE FINANCIAL INSTRUMENTS

Evotec classifies non-derivative financial instruments into financial assets and liabilities at fair value through profit or loss, financial investments held to maturity, loans and receivables and available for sale assets and liabilities.
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 the date of contract conclusion with the settlement amount.
Financial assets are derecognised if either the payment rights arising from the instrument have expired or substantially all risks 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. 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:

Financial assets and financial liabilities at fair value through profit or loss

Evotec makes no use of the option to classify financial assets and financial liabilities as at fair value through profit or loss at initial recognition.

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 value plus any directly attributable transaction cost. Subsequent to the initial recognition 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.

CASH AND CASH EQUIVALENTS

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

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 is measured at cost less accumulated depreciation and impairment losses. 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 generally 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	3–6 years

The depreciation period 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 of property, plant and equipment 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 licences 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	18 years
Customer list	2–7 years
Patents and licences	15 years or shorter life

Developed technologies acquired in business combinations are amortised as soon as the intangible assets start to generate sustainable benefits and tested for impairment at least annually.
The amortisation period is reviewed at each balance sheet date.

GOODWILL

Goodwill recognised in a business combination according to the acquisition method is recognised as an asset. 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 at fair value.

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 reliably estimated. The amount recognised represents the best estimate of the settlement amount of the present obligation as of the balance sheet date. Provisions are discounted applying a risk adjusted market interest rate. Expected reimbursements of third parties are not offset, but recorded as a separate asset if it is highly probable that the reimbursements will be received.
A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from such 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 expense on the assets associated with that contract.
The Company accrues for estimated losses from legal actions or claims, including legal expenses, when such losses or expenses are more likely than not and they can be reliably estimated.
Evotec recognises a provision for restructuring costs if there is an approved, detailed restructuring plan and restructuring has been completed or announced.

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 other comprehensive income.
Service and interest costs for pensions and other postretirement obligations are recognised as an expense in the operating result.
The Company's obligations for contributions to defined contribution plans are recognised as expense in the income statement.

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 regulations of IAS 32 in accounting for treasury shares. When ordinary shares recognised as equity are reacquired, the amount of the consideration paid for those treasury shares is recognised as a deduction from equity. If treasury shares are subsequently sold or granted, the proceeds will be recognised as an increase in equity.

STOCK COMPENSATION

The Company applies the regulations of IFRS 2 with regard to the accounting for options granted under its stock option plans and under its share performance plan. All plans are settled in shares. Compensation cost from the issuance of employee and Management Board stock options is measured using the fair value method at the grant date and is charged straight-line to expense over the vesting period in which the employee or member of the Management Board renders services. This is also the case for the grant of share performance awards to employees. The share performance awards from the share performance plan granted to members of the Management Board are measured using the fair value method at the grant date and is charged to expense as graded vesting over the vesting period in which the members of the Management Board renders services.

REVENUE RECOGNITION

Revenue is recognised when the relevant risks and rewards of ownership associated with the goods and products sold are transferred to the customer and 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, the revenue can be reliably measured regardless of when the payment is being made 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.
The Company has entered into multiple-element contracts and thoroughly 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.
Evotec's revenues include service fees, FTE-based research payments revenue for delivered goods and deliverable kind of services, compound access fees as well as licences, royalties and milestone fees.

Service fees and FTE-based research payments

Revenues generated from service contracts or FTE-based research contracts are recognised as the services are rendered. Payments for contracted services are generally paid in advance and recorded as deferred revenue until earned.

Revenue for deliverable goods and deliverable kind of services

Deliverable kind of contracted services are recorded as revenue upon delivery. Revenue from delivered products are also recognised upon delivery. Payments for deliverable kind of contracted services are generally paid in advance and recorded as advanced payments received.

Compound access fees

Revenue from compound access fees is recognised pro rata over the related forecasted service period.

Milestone fees

Revenue contingent upon the achievement 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.

Licences

Revenue from the sale of licences is recognised at the date of the sale. Revenue from out-licensing in combination with a collaboration is realised pro rata over the collaboration period.

Royalties
Revenue from royalties, which are dependent on other company's respective product sales, is recognised in the period in which the royalty report or the payment is received.

RESEARCH AND DEVELOPMENT

Research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding are expensed as incurred.
Development activities relate to a plan or design for substantially improved products and processes. Development expenses are capitalised only if they can be measured reliably, the product or process is technically feasible, future economic benefits are probable and Evotec has the intention and resources to complete development and use or sell it. Cost capitalised comprise costs of material and employee services and other directly attributable expenses. Evotec did not capitalise any development costs in 2013 and 2012.
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 regularly amortised until they are sustainably generating benefits.
The Company receives grants from government authorities for the support of specific research and development projects. These grants are linked to projects. The grants are paid 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 expenses were T€ 348 in 2013 and T€ 240 in 2012. Furthermore, Evotec recognised grants of T€ 152 as a reduction of costs of revenue in the financial year 2013 (2012: T€ 280).
Under the terms of the grants, governmental agencies generally have the right to audit qualifying expenses submitted by the Company.

IMPAIRMENT OF NON-FINANCIAL NON-CURRENT ASSETS AND GOODWILL

The Company reviews non-financial non-current assets (property, plant and equipment and intangible assets including goodwill) for impairment, to determine the recoverable amount in accordance with IAS 36. An impairment review is performed at least 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 the Company's 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 2013 and 2012 (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. Management judgment is necessary to estimate discounted future cash flows.
Any impairment loss is reported as a separate component of operating expenses in the consolidated income statement. An impairment of property, plant and equipment 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 as one cash generating unit. 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.

INTEREST INCOME AND EXPENSE

Interest is recorded as expense or income in the period to which it relates. All interest income and expense including the unwind of the discount on contingent considerations are recognised in the income statement using the effective interest rate method.
Evotec has no qualifying assets according to 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 they relate to a business combination, or for those items recorded directly in equity.

Current income tax
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group generates taxable income. The tax rates for domestic companies are 26–32% and for foreign companies 23–34%.

Deferred tax
Deferred tax is recognised using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred taxes are recognised for all taxable temporary differences, except:
— temporary differences arising on the initial recognition of goodwill
— temporary differences on the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
— temporary differences relating to investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that

the temporary differences will not reverse in the foreseeable future.
Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.
The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.
Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Future tax rate changes are taken into account if, in the scope of a legislative procedure, substantial prerequisites for its future applicability are met.
Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the income taxes relate to the same taxable entity and the same taxation authority.
Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction to goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

Tax exposures

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. 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 expenses in the period in which such determination is made.

NET INCOME PER SHARE

Basic net income per share is calculated by dividing the net income (loss) by the weighted-average number of ordinary shares outstanding for the period, excluding common stock equivalents.
The weighted average number of ordinary shares are calculated as follows:

Shares in thousands	2013	2012
Issued ordinary shares 01 January	**118,547**	118,316
Treasury shares 01 January	**(798)**	(1,329)
Effect of weighted average share options exercised	**293**	309
Effect of weighted average capital increase	**3,173**	-
Weighted average number of ordinary shares 31 December	**121,215**	**117,296**

Diluted net income per share is computed by dividing the net income attributable to shareholders of Evotec by the weighted-average number of ordinary shares and share equivalents outstanding for the period determined using the treasury-stock method. For purposes of this calculation, stock options and share performance awards 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 2013, dilutive shares amounted to 1,297,117 stock options and share performance awards (2012: 1,054,051). As at 31 December 2013, no stock options existed which prevent a dilution.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In 2013, the Company adopted the following accounting pronouncement:
In May 2011, the IASB issued IFRS 13 "Fair Value Measurement", which was endorsed by the EU on 11 December 2012. This new standard defines fair value and provides a single set of disclosure rules for financial and non-financial items. This standard is effective for annual periods beginning on or after 01 January 2013. In line with the transition requirements of IFRS 13, the Company has applied the new requirements prospectively and does not provide comparative information for newly required disclosures. Regardless of this, the new requirements do not have a material effect on the measurement of assets and liabilities within the Group.
In June 2011, the IASB published amendments to IAS 1 "Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income", which were endorsed by the EU on 05 June 2012. These amendments change the presentation of other comprehensive income within the statement of comprehensive income and require subtotals to be shown in the presentation of other comprehensive income for items that are potentially reclassifiable into profit or loss. These amendments have to be applied for annual periods beginning on or after 01 July 2012. Evotec has complied with the amended presentation requirements (see statement of comprehensive income) and adjusted comparatives respectively.
In June 2011, the IASB issued amendments to IAS 19 "Employee Benefits", which were endorsed by the EU on 05 June 2012. The main change of the IAS 19 (revised 2011) amendments relates to the accounting of pension obligations under defined benefit plans. IAS 19 (revised) removes the corridor approach and requires actuarial gains and losses to be recorded directly in other comprehensive income. These amendments are effective 01 January 2013. As the Company has

previously applied the so-called corridor method, the retrospectively applied changes led to an increased pension provision. Furthermore, the operating result is no longer affected by the amortisation of the amount exceeding the corridor. However, other comprehensive income is affected.

In December 2011, the IASB published amendments to IFRS 7 "Financial Instruments: Disclosure – Offsetting Financial Assets and Financial Liabilities", which were endorsed by the EU on 13 December 2012. These additions to IFRS 7 extend the disclosure requirements for financial assets and financial liabilities netted in the balance sheet, including netting arrangements contingent on future events. These amendments have to be applied for annual periods beginning on or after 01 January 2013 and have no impact on the consolidated financial statements of Evotec.

In May 2012, as part of its annual improvement process the IASB issued "Annual Improvements to International Financial Reporting Standards, 2009–2011 Cycle", which were endorsed by the EU on 27 March 2013. In amending some of the wording in IFRSs a clarification of the requirements is envisaged. Furthermore, there are amendments affecting recognition, measurement and disclosure in the standards IAS 1, IAS 16, IAS 32, IAS 34 and IFRS 1. These amendments are effective 01 January 2013 and have no material effect on Evotec's consolidated financial statements.

In May 2013, the IASB published amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets", which was endorsed by the EU on 19 December 2013. With these amendments the required disclosure of the recoverable amount of cash generating units, regardless of whether an impairment was recognised, is removed as it was unintentionally introduced by IFRS 13. These amendments are effective 01 January 2014, with Evotec taking advantage of the early adoption permitted to avoid that unintentional disclosure in its consolidated financial statements for the year ended 31 December 2013.

RECENT ACCOUNTING PRONOUNCEMENTS, NOT YET ADOPTED

All of the following IFRS pronouncements that were issued by the IASB and the IFRIC and partially endorsed by the EU and were not effective and have not been applied yet by Evotec.

In December 2011, the IASB issued amendments to IAS 32 "Financial Instruments: Presentation". The amendment to IAS 32 clarifies the existing offsetting rules and is effective for reporting periods beginning on or after 01 January 2014. This change was endorsed by the EU on 13 December 2012 and has no impact on the consolidated financial statements of the Company.

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 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. 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 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. In June 2012, the IASB published "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interest in Other Entities: Transition Guidance (Amendments to International Financial Reporting Standards 10, 11, and 12)". The amended transition requirements contain clarifications and further transition relief when applying these new standards. IFRS 10, 11, 12, the transition guidance and the consequential amendments to IAS 27 and IAS 28 are effective for annual periods beginning on or after 01 January 2014. These new or amended standards may be adopted early, however all as of the same date, except that an entity may early adopt the disclosure provisions of IFRS 12. The standards are to be applied on a retrospective basis and were endorsed by the EU on 11 December 2012 and 04 April 2013, respectively. The initial application of these new requirements will have no material impacts on the consolidated financial statements of the Company.

In June 2013, the IASB published amendments to IAS 39 "Financial Instruments: Recognition and Measurement" entitled "Novation of Derivatives and Continuation of Hedge Accounting". The objective of the amendments is to provide relief in situations where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations. Such a relief means that hedge accounting can continue irrespective of the novation which, without the amendment, would not be permitted. The amendments are effective for reporting periods beginning on or after 01 January 2014 and were endorsed by the EU on 19 December 2013. The amendments will have no material impact on the consolidated financial statements of the Company.

In 2009, 2010 and 2013, the IASB issued IFRS 9 "Financial Instruments" and "Hedge Accounting: Amendments to IFRS 9, IFRS 7 and IAS 39". The EU has not yet endorsed this regulation. IFRS 9 is the first and third step in the project to replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 introduces new requirements for financial instruments accounting. 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 amendments to IFRS 9 published in 2013 comprise the third phase hedge accounting. The new hedge accounting model of IFRS 9 aims to achieve a closer link between risk management and accounting in the financial statements. It is currently unclear when the standard becomes effective. The delay is a result of to the outstanding publication of step 2 (impairment). The Company is currently evaluating the effect of those changes on the Company's consolidated financial statements.

The IASB issued various other pronouncements. These pronouncements, not yet endorsed by the EU, as well as other recently endorsed pronouncements do not have a material impact on Evotec's consolidated financial statements.

(3) *Acquisitions*

Effective 01 January 2013, the Company acquired 100% of the shares in CCS Cell Culture Service GmbH, Hamburg, (CCS), a leading supplier of custom cells and cell-based reagents. This acquisition strengthens Evotec's cell-based screening and reagent platform.
The purchase price of T€ 2,270 in cash includes a potential earn-out as contingent consideration. The earn-out was calculated based on estimated future revenues as of the date of acquisition with no discounting due to the short-term nature of this contingent consideration. The estimated maximum potential earn-out payment amounts to T€ 1,400.
The fair values of the acquired assets and liabilities were estimated based on the carrying amounts as of the date of the acquisition. A fair value has been recorded for a customer list in the amount of T€ 1,979, which has been calculated based on net present value modelling. Related deferred tax liabilities of T€ 493, net of any recognised deferred tax assets, were also recorded. The resulting goodwill from the acquisition amounts to T€ 551. The factors which make up this goodwill are the expected synergies resulting from the combination of Evotec's and CCS' product offering.
Due to the merger of CCS Cell Culture Service GmbH into Evotec AG, CCS's profit and revenue had to be determined approximately. These amounts were calculated on the basis of cost center and project costing. Evotec's result for the twelve months ended 31 December 2013 include net income of T€ 333 from CCS as well as revenues of T€ 1,848. Acquisition-related costs in the amount of T€ 13 are recognised through profit and loss.

The following is the breakdown of the carrying amount and the fair value of CCS at the date of acquisition:

T€	01 January 2013 Carrying amount	01 January 2013 Fair value
Cash and cash equivalents	119	119
Trade accounts receivables	158	158
Inventories	52	52
Other current assets	70	70
Property, plant and equipment	155	155
Customer list	0	1,979
Finance leases	(24)	(24)
Provisions	(268)	(268)
Trade accounts payables	(20)	(20)
Other current liabilities	(9)	(9)
Deferred tax liabilities	0	(493)
Net assets acquired	**233**	**1,719**
Goodwill		551
Cost of acquisition		**2,270**
Less cash and cash equivalents acquired		(119)
Less deferred earn-out component		(1,120)
Cash outflow from acquisition		**1,031**

As at 31 December 2013, an amount of T€ 183 has been recognised as an expense due to an increase in the earn-out component, because the expected CCS's revenue have increased accordingly.

(4) *Cash and cash equivalents and investments*

As of 31 December 2013 and 2012, an amount of T€ 416 and T€ 416, 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 initial maturity beyond three months, are reported as current investments and carried at cost that approximate their fair value. Included in investments are also corporate bonds. The investments are classified as available-for-sale financial assets. As of 31 December 2013, unrealised losses in the amount of T€ 35 (31 December 2012: gains of T€ 3) were recognised in other comprehensive income relating to those 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€ 40 and T€ 72 in 2013 and 2012, respectively. The allowance was recognised for the full amount of each relating trade accounts receivable. There are no use restrictions on trade accounts receivable.

The ageing of trade receivables at the year end was:

T€	**31 December 2013**	31 December 2012
Not past due	**13,486**	12,026
Bad debt not past due	**(656)**	-
Past due 0–30 days	**1,229**	2,292
Past due 31–120 days	**3,502**	516
Bad debt 31–120 days	**(4)**	(19)
More than 120 days	**256**	291
Bad debt more than 120 days	**(36)**	(53)
Total trade accounts receivables	**17,777**	**15,053**

The increase of the trade accounts receivables as of 31 December 2013 is primarily due to delayed incoming payments. Included in the trade accounts receivables not past due is an amount of T€ 3,380 (31 December 2012: T€ 3,630) for which a payment schedule exists. This trade accounts receivable was written off in the amount of T€ 656.

(6) *Inventories*

Inventories consist of the following:

T€	31 December 2013	31 December 2012
Raw materials	1,919	2,028
Work-in-progress	439	417
Total inventories	**2,358**	**2,445**

Raw materials consist mainly of compound libraries. Additionally, biological materials and substances as well as chemicals are included. Work-in-progress as of 31 December 2013 and 2012 consists of costs incurred on customer projects, which were not completed at year end.

The following allowances on inventories exist at the balance sheet date and are included in the table above:

T€	31 December 2013	31 December 2012
Raw materials	1,053	969
Work-in-progress	-	-
Total inventories	**1,053**	**969**

The allowances are included in the costs of goods sold.

(7) *Other current financial assets*

Other current financial assets mainly include deposits in the amount of T€ 673 (31 December 2012: T€ 701) and derivative financial instruments of T€ 473 (31 December 2012: T€ 0).

(8) *Prepaid expenses and other current assets*

Prepaid expenses as of 31 December 2013 mainly relate to payments regarding the collaboration with Harvard which are recognised over different time periods. From this collaboration, an amount of T€ 566 (31 December 2012: T€ 1,634) is included in the other non-current assets.

T€	31 December 2013	31 December 2012
Prepaid expenses	3,234	3,327
Other	586	1,162
Total prepaid expenses and other current assets	**3,820**	**4,489**

(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 2013 and 2012, 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 does not have undistributed profits.
In 2013, the Company recorded revenues from ordinary activities with ESP in the amount of T€ 11 (2012: T€ 0). 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.
In 2013, additions related to investments in new equipment as well as renewing older equipment. Capital expenditure was spent in instruments mainly to support the Company's platform offering, including high-content-screening, protein production, biophysical screening, DMPK as well as compound management equipment in Branford. The main additions in 2012 resulted from capital expenditures in instruments to support the drug discovery provided by Evotec as well as replacing and upgrading equipment. Further investments have been made to house the *In-Vivo* pharmacology in the new premises in Hamburg. Upon completion of the assets under construction, costs are transferred into their respective fixed assets classification. Depreciation expense amounted to T€ 5,943 and T€ 6,048 in 2013 and 2012, respectively.
Laboratory premises in Abingdon, United Kingdom were tested for impairment in 2013. 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 as of 31 December 2013 (2012: T€ 0).
The net book values included in fixed assets, which are held under finance leases, relate to plant and machinery (T€ 0), fixture and fittings (T€ 0) as well as company cars (T€ 14) as of 31 December 2013 (31 December 2012: T€ 0, T€ 1 and T€ 0, respectively). The related depreciation amounts to T€ 0, T€ 1 and T€ 5 in 2013, T€ 10, T€ 5 and T€ 0 in 2012, respectively.

The net book values of property, plant and equipment as of 31 December 2013 can be allocated to Germany in the amount of T€ 15,400, UK T€ 7,557, India T€ 0 and to the US T€ 1,282 (31 December 2012: Germany T€ 15,337, UK T€ 8,750, India T€ 2,024 and US T€ 1,070).

(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 licences.

The main addition to intangible assets in 2013 results from the acquisition of a customer list amounting to T€ 1,979 from the business combination with CCS Cell Culture Service GmbH, effective 01 January 2013. This customer list is amortised over 7 years. The main addition to the intangible assets in 2012 related to the licence from 4-Antibody in the amount of T€ 2,000 which is amortised over 2 years.

Amortisation expenses of intangible assets amounted to T€ 3,222 in 2013 and T€ 2,768 in 2012. In 2012, additionally, an extraordinary impairment in the amount of T€ 391 on acquired patents and licences was recognised, since they are not in use any longer.

The developed technologies acquired in a business combination are amortised as soon as the intangible assets start to generate sustainable benefits. Part of the developed technologies acquired in the business combination with DeveloGen (now: Evotec International GmbH) with historical acquisition costs of T€ 6,774 started to be amortised in 2011 due to revenues generated with this technology. The carrying amount at 31 December 2013 amounted to T€ 5,629 (31 December 2012: T€ 6,006). Furthermore, amortisation commenced in 2013 for parts of the developed technologies acquired at historical acquisition costs of T€ 1,283 as part of the business combination with Kinaxo (now: Evotec (München) GmbH) due to revenues generated from this technology.

The developed technologies were tested for impairment on the annual designated test date in October 2013. The annual impairment test in 2013 is based on discounted cash flow models by using the assumptions in the table below.

	2013 Developed technologies		
	Evotec International GmbH	Evotec (US), Inc.	Evotec (München) GmbH
Denominated in	EUR	USD	EUR
Basis for cash flow model	PP 11–20 years	PP 15–19 years	PP 9–15 years
Discount rate	10.6%	10.6%	8.11%

PP = Project planning

The discount rate is calculated with a risk free interest rate, a beta factor determined on the basis of peer groups and a risk premium.

These annual impairment tests resulted in 2013 in an impairment of

- developed technologies resulting from the acquisition of Kinaxo Biotechnologies GmbH (now: Evotec (München) GmbH). An impairment loss of T€ 2,656 was recognised for these developed technologies. This impairment stems from a delay in revenue growth compared to the original assumed time periods,
- developed technologies resulting from the acquisition of DeveloGen (now: Evotec International GmbH). An impairment loss of T€ 4,051 was recognised for these developed technologies. Due to the already long-lasting development period of the technology, continuing this development is considered to be higher risk bearing and therefore an additional default probability was added.

In December 2013, results of certain pre-clinical studies with the NR2B subtype selective NMDA-antagonist led to an extension of the development period of the intangible asset recorded within Evotec International. This results in delayed future milestones. Consequently, Evotec has reviewed the intangible asset for impairment and concluded that an impairment loss of T€ 15,316 had to be recognised. This impairment test is based on discounted cash flow models using the same assumptions as the annual impairment tests.

In the third quarter 2013, one phase of the research period of two intangible assets recorded within Evotec International was extended resulting in a postponement of future milestones. The Company reviewed these two intangible assets for impairment during the year and concluded that no impairment had to be recognised in 2013.

No further impairments were made in 2013.

In 2013, two discounted cash flow models for some developed technology were altered by extending the estimated life of these technologies. This extension is a result of changed assumptions regarding the marketed period. This change in estimate has an effect in the amount of T€ 2,672 and results in a lower impairment expense of T€ 2,672. Furthermore, the commercialisation success rate was newly introduced to two discounted cash flow models. The effect of this change in estimate amounts to T€ 14,162 and led to a corresponding higher impairment of T€ 14,162.

The annual impairment test in 2012 was based on a discounted cash flow model by using the assumptions in the table below.

	2012 Developed technologies		
	Evotec International GmbH	Evotec (US), Inc.	Evotec (München) GmbH
Denominated in	EUR	USD	EUR
Basis for cash flow model	PP 12–16 years	PP 15–16 years	PP 14–16 years
Discount rate	10.45%	10.45%	8.25%

PP = Project planning

These annual impairment tests resulted in 2012 in an impairment of the USD denominated developed technologies from the acquisition of Renovis, Inc. (now: Evotec (US), Inc.) in the amount of T€ 3,114.

No further impairments were made in 2012.

In 2012, the discounted cash flow model for some developed technology was altered by extending the estimated life of this technology. This extension is a result of changes assumptions regarding the marketed

period. This change in estimate has an effect in the amount of T€ 1,024 and results in a lower impairment expense of T€ 1,024. Furthermore, the assumption of one other discounted cash flow model was changed. The patient population changed from animal treatment to human patients. The effect of this change cannot be precisely quantified.
In the first quarter of 2012, the milestone for DiaPep277® was reached which was included in the net present value model of the developed technology from the acquisition of DeveloGen. Based on the payment now received and the related decreased future value in use, the Company reviewed the relating developed technologies for impairment and concluded that no impairment has to be recorded.
In the third quarter of 2012, the Company also reviewed one of the developed technologies from the acquisition of DeveloGen for impairment, because one phase of the research period was extended, which results in lower and later development milestones in the future. The Company concluded that no impairment of this developed technology has to be recorded.
The estimated cash flows for the above described cash generating projects used in the impairment tests are based on past experience. In addition, following key assumptions were used in the models:

- The possibilities of reaching each development phase were obtained from external publications of attrition rates, which were adjusted according to the individual circumstances where necessary.
- The estimated timing of the different development phases in each cash generating project was individually set based on the past experience and scientific knowledge of management.
- Market size was projected using market research databases. Management estimated the Company's market share based on experience in the specific market environment and by comparing with similar products.
- Milestone and royalty revenues for cash generating projects were 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 the discount rate and the commercialisation success rate as the two key assumptions that have the potential to vary and thereby may cause the decrease of the recoverable amount to be lower than the carrying 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 2013 and 2012.

in %-points	Discount rate 2013	Commercialisation success rate 2013
Developed technologies Evotec (München)	0.0	not applicable
Developed technologies Evotec International	0.0–12.9	0.0
Developed technologies Evotec (US)	0.0	0.0

The commercialisation success rate is not applicable once the developed technology is partnered.

in %-points	Discount rate 2012	Commercialisation success rate 2012
Developed technologies Evotec (München)	0.0–2.5	not applicable
Developed technologies Evotec International	0.5–11.3	not applicable
Developed technologies Evotec (US)	0.9	(1.0)

The categories listed above consist of several developed technologies.

(12) *Goodwill*

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. The Company has tested the cash generating units for impairment on the annual designated test date October 2013 based on the net book values as of 30 September 2013. The impairment tests are based on a discounted cash flow model.
In 2013, the goodwill acquired in the business combination with CCS Cell Culture Service GmbH (CCS) is merged with the OAI goodwill, as CCS was merged and hence the cash generating units were merged, too. In 2012, the goodwill acquired in the business combination with DeveloGen AG and ENS Holdings, Inc. is merged in Evotec International GmbH, because due to legal restructuring the cash generating units were merged. Additionally, the cash generating units of Renovis, Inc. and Compound Focus, Inc. were merged in 2012 to Evotec (US), Inc.
With respect to the development of goodwill please refer to the consolidated fixed asset movement schedule and the following detailed schedule.

T€	OAI	Evotec International	Evotec (India)	Evotec (München)	Evotec (US)	Total
31 December 2012	15,220	8,700	2,107	7,983	8,332	42,342
Additions	551	-	-	-	-	551
Disposal	-	-	(1,948)	-	-	(1,948)
FX revaluation	(317)	-	(159)	-	(333)	(809)
31 December 2013	**15,454**	**8,700**	**-**	**7,983**	**7,999**	**40,136**

In the tables below is specified the assumptions for the discounted cash flow models used in the annual impairment tests in October 2013, the discount rate considering the risks and rewards of the activities used in the impairment test and the growth rate for determining the terminal value.

Cash generating units 31 December 2013	**Evotec OAI**	**Evotec International**	**Evotec (München)**	**Evotec (US)**
Denominated in	GBP	EUR	EUR	USD
Basis for cash flow model	MRP	PP 11–20 years	PP 9–15 years	MRP/PP 19 years
Discount rate	9.11%	10.6%	8.11%	9.58%/10.6%
Growth Rate for Terminal Value	0.0%	0.0%	0.0%	0.0%

MRP = Mid range Plan 2014–2018 PP = Project planning

Cash generating units 31 December 2012	Evotec OAI	Evotec International	Evotec (India)	Evotec (München)	Evotec (US)
Denominated in	GBP	EUR	INR	EUR	USD
Basis for cash flow model	MRP	PP 12–16 years	MRP	PP 14–16 years	MRP/PP 15 years
Discount rate	9.00%	10.45%	10.5%	8.25%	8.25%/10.45%
Growth Rate for Terminal Value	0.0%	0.0%	0.0%	0,0%	0.0%

MRP = Mid range Plan 2013-2017 PP = Project planning

In 2013 and 2012, the Company recorded no impairment as a result of these annual impairment tests.

Following the decision taken on 08 July 2013 to close the chemistry operations in Thane, India, the goodwill of this cash-generating unit was fully impaired during the year. This goodwill impairment amounts to T€ 1,948.

In 2012, one of the defined earn outs relating to the Compound Focus acquisition that was included in the net present value model of the goodwill was not achieved. Based on this event the Company reviewed the relating goodwill for impairment during 2012 and concluded that no impairment has to be recorded.

The estimated cash flows for the impairment test of the goodwill in Evotec International GmbH are mainly based on the same key assumptions as the underlying developed technologies. The estimated cash flows for the goodwill of Evotec (München) GmbH are based on the key assumptions of the underlying developed technologies as well as on management expectations for the future.

The impairment tests of the goodwill in Evotec (India) Private Ltd. (financial year 2012) and Oxford Asymmetry International plc ("OAI") (financial years 2013 und 2012) and the relating estimated cash flows are based on past experience and expectations for the future. 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 2014 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 the discount rate as one key assumption that has the potential to vary and thereby cause the recoverable amount to decrease and to be lower than the carrying 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 2013 and 2012.

in %-points	**Discount rate 2013**
Goodwill Evotec (US)	0.3
Goodwill Evotec (München)	2.7
Goodwill Evotec International	12.5
Goodwill Oxford Asymmetry	13.2

in %-points	Discount rate 2012
Goodwill Evotec (US)	1.5
Goodwill Evotec (München)	0.0
Goodwill Evotec (India)	1.0
Goodwill Evotec International	13.1
Goodwill Oxford Asymmetry	10.4

Regarding the impairment test of the goodwill in Evotec (München), Management has identified the gross profit as additional key assumption. If the expected gross profits over a period of 15 years (2012: 16 years) from

today's point of view would decrease by 15%, the net book value of the goodwill in Evotec (München) would decrease by T€ 0 (previous year: T€ 1,868).

(13) *Other non-current assets*

Other non-current assets as of 31 December 2013 consist of prepaid expenses regarding the collaboration with Harvard University in the amount of T€ 566 (31 December 2012: T€ 1,634).

(14) *Loans*

Throughout the year 2013 and 2012, Evotec met all covenants under the various loan agreements shown below. All loans are unsecured. Evotec has to maintain in 2013 and 2012 a minimum liquidity of T€ 35,000.

Country of lendor	Currency	Nominal interest rate	Maturity until	31 December 2013 Fair Value (T€)	31 December 2013 Carrying amount (T€)	31 December 2012 Fair Value (T€)	31 December 2012 Carrying amount (T€)
Germany	EUR	Euribor+1.25%	2014	6,500	6,500	-	-
Germany	EUR	Euribor+1.25%	2014	6,500	6,500	-	-
Germany	EUR	Euribor+1.3%	2013	-	-	6,500	6,500
Germany	EUR	Euribor+1.25%	2013	-	-	6,500	6,500
Germany	EUR	Euribor+1.05%	2014	4,000	4,000	3,887	4,000
Germany	EUR	1.85%	2014	222	222	398	401
				17,222	17,222	17,285	17,401

Current loans and borrowings:

T€	31 December 2013	31 December 2012
Current unsecured bank loans	17,222	13,223
Current secured bank loans	-	-
	17,222	13,223

The Company maintains lines of credit totalling T€ 5,576 and T€ 415 to finance its short-term capital requirements, of which the entire balance is available as of 31 December 2013 and 31 December 2012, respectively.

(15) *Provisions*

The current provisions consist of the following:

T€	31 December 2013	31 December 2012
Earn out	2,088	2,147
Bonus accruals	1,574	2,106
Accrued vacation	778	766
Accrued lease expenses	236	48
Restructuring costs	91	-
Severance payments	-	18
Other provisions	1,021	1,829
Total current provisions	5,788	6,914

The non-current provisions consist of the following:

T€	31 December 2013	31 December 2012
Earn out	16,431	16,543
Accrued lease expenses	1,692	2,068
Other provisions	463	206
Total non-current provisions	18,586	18,817

The following table summarises the development of total provisions recorded during 2013:

T€	1 January 2013	Business combination	Consumption	Release	Foreign exchange	Additions	31 December 2013
Earn out	18,690	1,120	279	2,650	-	1,638	18,519
Personnel expenses	2,872	-	2,362	-	-	1,842	2,352
Accrued lease expenses	2,116	-	206	-	(12)	30	1,928
Restructuring costs	-	-	-	-	-	91	91
Severance payments	18	-	18	-	-	-	-
Other provisions	2,035	268	1,519	37	-	737	1,484
Total	**25,731**	**1,388**	**4,384**	**2,687**	**(12)**	**4,338**	**24,374**

The earn-out provision as of 31 December 2013 consists of three earn outs relating to the three following acquisitions:

- DeveloGen in the amount of T€ 16,716 (2012: T€ 18,190), including an unwind of discount in the amount of T€ 1,455 (2012: T€ 1,029), a fair value adjustment in the amount of T€ (2,650) (2012: T€ 2,348) and a consumption in the amount of T€ 279 (2012: T€ 139),
- CCS in 2013 in the amount of T€ 1,120 including a fair value adjustment in the amount of T€ 183, and
- Kinaxo in the amount of T€ 500 (2012: T€ 500) including an unwind of discount in the amount of T€ 0 (2012: T€ 54) as well as a consumption of T€ 0 (2012: T€ 2,000).

The unwind of the discount and the increase in the fair value of the earn outs is shown as addition in the provision table. A decrease in the fair value of the earn outs is shown as a release in the provision table.
The provision for personnel expenses consists mainly of bonus accruals and accrued vacation. 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.

Other current and non-current provisions consist of the following:

T€	**31 December 2013**	31 December 2012
Supervisory board fees	**279**	280
Licence fees	**250**	724
Accrual for pensions	**164**	122
Contractual liability	**160**	-
Interest SWAP	**137**	333
Other provisions	**494**	576
Total other current provisions	**1,484**	**2,035**

(16) *Deferred revenues*

As of 31 December 2013 and 2012, deferred revenues mainly relate to the collaboration and licence contract with Bayer Pharma AG amounting to T€ 8,390 (2012: T€ 11,512) as well as to the licence and collaboration agreement with Janssen amounting to T€ 3,230 (2012: T€ 5,418). In 2013, deferred revenues are also included in the amount of T€ 1,396 from a collaboration and licence agreement with AstraZeneca AB.

(17) *Income taxes*

a) AMOUNTS RECOGNISED IN CONSOLIDATED INCOME STATEMENT

Income tax benefit and expense for the years 2013 and 2012 comprise the following:

T€	**2013**	2012
Current taxes:		
Current tax expense	**(299)**	(770)
Adjustment for prior years	-	(23)
Total current taxes	**(299)**	(793)
Deferred taxes:		
Tax loss carry forwards	**(7,512)**	5,508
Temporary differences	**6,026**	2,777
Total deferred taxes	**(1,486)**	8,285
Total income tax expense (benefit)	**(1,785)**	**7,492**

b) AMOUNTS RECOGNISED DIRECTLY IN EQUITY

No amounts were recognised directly in equity in 2013 and 2012, respectively.

c) RECONCILIATION OF EFFECTIVE TAX RATE

The difference between the actual income tax expense and the product of the net income and the applicable Group tax rate in the reporting year and the previous year is made up as follows:

T€	2013	2012
Profit before tax	**(23,648)**	(5,014)
Expected German income tax rate	**32.28%**	32.28%
Expected income tax benefit (expense)	**7,634**	1,619
R&D tax credits	**877**	887
Non-deductible expenses and trade tax additions	**(105)**	(321)
Foreign tax differential	**628**	2,021
Change in tax rates	**(11)**	(513)
Change in recognition of deferred tax assets	**(10,726)**	3,839
Non-periodic taxes	**-**	36
Other	**(82)**	(76)
Effective income tax benefit (expense)	**(1,785)**	7,492
Effective income tax rate	**(7.55)%**	**149.42%**

Deferred income tax assets and liabilities calculated with the anticipated tax rates of each entity as of 31 December 2013 and 2012 relate to the following:

	1 Jan 2013					31 December 2013	
T€	**Net balance**	**Recognised in profit or loss**	**Foreign currency translation**	**Business combination**	**Net**	**Deferred tax assets**	**Deferred tax liabilities**
Property, plant and equipment	(1,275)	400	19	-	(856)	823	(1,679)
Intangible assets	(13,904)	5,718	-	(639)	(8,825)	2,500	(11,325)
Financial assets	52	1,359	-	-	1,411	2,026	(615)
Provisions and deferred revenues	1,057	(1,417)	-	-	(360)	1,064	(1,424)
Other	834	178	-	-	1,012	1,012	-
Tax credits	914	(37)	-	-	877	877	-
Interest carry forward	2,454	(82)	-	-	2,372	2,372	-
Loss carry forward	92,938	1,110	-	145	94,193	94,193	-
Total	**83,070**	**7,229**	**19**	**(494)**	**89,824**	**104,867**	**(15,043)**
Non-recognition of deferred tax assets	(82,354)	(8,715)	-	-	(91,069)	(91,069)	-
Set off of tax						(13,798)	13,798
Net	**716**	**(1,486)**	**19**	**(494)**	**(1,245)**	**-**	**(1,245)**

T€	1 Jan 2012 Net balance	Recognised in profit or loss	Foreign currency translation	Other	Net	31 December 2012 Deferred tax assets	Deferred tax liabilities
Property, plant and equipment	(1,776)	472	29	-	(1,275)	799	(2,074)
Intangible assets	(12,306)	(1,598)	-	-	(13,904)	4,121	(18,025)
Financial assets	334	(282)	-	-	52	836	(784)
Provisions and deferred revenues	1,091	(34)	-	-	1,057	3,242	(2,185)
Other	1,438	(537)	-	(67)	834	837	(3)
Tax credits	927	(13)	-	-	914	914	-
Interest carry forward	2,572	(118)	-	-	2,454	2,454	-
Loss carry forward	96,686	(3,748)	-	-	92,938	92,938	-
Total	**88,966**	**(5,858)**	**29**	**(67)**	**83,070**	**106,141**	**(23,071)**
Non-recognition of deferred tax assets	(96,497)	14,143	-	-	(82,354)	(82,354)	-
Set off of tax						(20,972)	20,972
Net	**(7,531)**	**8,285**	**29**	**(67)**	**716**	**2,815**	**(2,099)**

d) UNRECOGNISED DEFERRED TAX LIABILITIES

For outside basis differences for undistributed foreign subsidiaries earnings, temporary differences in the amount of T€ 1,305 were not recorded according to IAS 12.39 (2012: T€ 1,020).

e) UNRECOGNISED DEFERRED TAX ASSETS

The Company's deferred tax assets are recorded to the extent it is probable that such tax benefits would be realised in future years.

T€	2013	2012
Tax loss carryforwards (not expiring)	**402,877**	339,057
Time-limited tax losses		
expiring until 2020	**7,868**	22,349
expiring from 2020 to 2025	**17,703**	18,223
expiring from 2026 to 2030	**47,733**	47,976
expiring from 2030	**15,340**	11,446
Interest carry forward	**8,643**	9,052
Tax credits	**877**	914
Unrecognised deferred tax assets	**501,041**	**449,017**

As of 31 December 2012, one German entity recognised an amount of T€ 2,815 as deferred tax asset since it was expected that this entity will be profitable in the future. Due to a change in estimates as of 31 December 2013, it was no longer assumed that this German entity will generate sufficient profits in the foreseeable future. Therefore no deferred tax asset was recognised. Due to the continuing loss history of the other German entities, no additional deferred tax asset on tax loss carry forwards, exceeding the recognised deferred tax liabilities, was recognised.

A net asset position for temporary differences amounting to T€ 394 was not set up as of 31 December 2013 (31 December 2012: T€ 3,837).

(18) *Stock-based compensation*

a) SHARE PERFORMANCE AWARDS

To further incentivise executives via variable long-term incentive compensation, the Annual General Meeting in June 2012 approved the contingent capital necessary to support the share performance plan 2012 ("SPP 2012"). Under this plan, Share Performance Awards ("SPA") may be granted to a level that may result in up to 4,000,000 bearer shares of the Company being issued at maturity to members of the Management Board and other key employees. Each SPA grants up to two subscription rights to company shares, each of which in turn, entitle the holder to the subscription of one company share. SPAs can be exercised after a vesting period of four years after the date of their grant but no later than five years after the respective grant. The holder has to contribute € 1.00 per share at the date of issue. SPAs can only be exercised, if, when and to the extent that key performance indicators are achieved within a performance measurement period of three years. The Supervisory Board determines key performance indicators for each individual tranche of awards. If a member of the Management Board leaves the Company during the performance measurement period, he is entitled to receive proportionate Share Performance Awards. The selected key employees generally do not have this entitlement. The SPP 2012 is subject to certain restrictions regarding issuing periods and the allocation of the grants to members of the Management Board and other key employees.

Share Performance Awards and resulting subscription rights can always be exercised continuously within the exercise period. Lock-up periods are excluded. The following time periods are considered lock-up periods: (i) those three-week time periods that each end on the day of the annual press conference and on the day on which a quarterly report

or semi-annual report of the company is made available to the public; (ii) the time period from the beginning of the day, on which the Company publishes an offer for the purchase of new shares, or bonds with conversion and/or option right or conversion obligation, in the Company publications, until the expiration of the (extended, if need be) subscription period; and (iii) the time period from expiry of the 37th day before an Annual General Meeting until the beginning of the 21st day before an Annual General Meeting (not counting the day of the Annual General Meeting).

In 2013, 24,632 share performance awards held by employees continued to be valid after termination of the relating employment. This transaction has been treated as accelerated vesting. In this context, T€ 9 were recorded in operating expense in 2013.

A summary of the status of the share performance plan as of 31 December 2013 and 2012 and the changes during the year then ended is presented as follows:

	31 December 2013 Share Performance Awards (SPAs)	**31 December 2013 Weighted average price € per share**	31 December 2012 Share Performance Awards (SPAs)	31 December 2012 Weighted average price € per share
Outstanding at beginning of the year	**909,693**	**1.00**	-	-
SPAs granted	**773,757**	**1.00**	909,693	1.00
SPAs exercised	**-**	**-**	-	-
SPAs expired	**-**	**-**	-	-
SPAs forfeited	**-**	**-**	-	-
SPAs waived (re-issueable)	**-**	**-**	-	-
Outstanding at end of the year	**1,683,450**	**1.00**	**909,693**	**1.00**
Thereof exercisable	**-**	**-**	**-**	**-**

In 2013, 393,526 SPAs from the total granted SPAs were given to the members of the Management Board (2012: 445,293).

The fair value of the grant of share performance awards was estimated on the date of grant using a Monte-Carlo-Simulation model with the following assumptions:

T€	**4 September 2013**	7 September 2012
Risk-free interest rate in %	**0.67**	0.30
Volatility in %	**35.0**	40.0
Fluctuation in %	**0.0–5.0**	0.0–5.0
Exercise price in Euro	**1.00**	1.00
Share price at grant date in Euro	**2.90**	2.55
Fair value at grant date per SPA in Euro	**1.55**	1.35

The performance measurement period for this vesting in 2013 started on 01 January 2013 (previous year: 01 January 2012). The expected dividend yield is zero, the expected life is 4 years. In the second quarter of 2013, the estimated achievement of the key performance indicators for the 2012 grant changed, resulting in an income in the second quarter of 2013 in the amount of T€ 197.

In the financial year 2013, the assumption relating to the SPAs granted in 2012 changed several times with regards to the estimated achievement of the key performance indicators within the performance measurement period of three years. This lead to an adjustment of T€ 546 of the total amount to be recognised as compensation expense. Correspondingly, a T€ 397 lower than originally expected compensation expense was recorded in 2013.

b) SHARE OPTION PLANS

The Annual General Meeting on 07 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 General 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 weeks 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 General 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 Annual General Meetings on 07 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 Annual General Meeting on 04 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 General 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 Annual General 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.

In 2013, stock options in the amount of 227,000 held by employees of the Company continue to be valid after termination of the relating employment. This transaction was recognised as accelerated vesting. In this context, T€ 11 were recorded in 2013 as operating expense. In 2012, no stock options held by employees continued to be valid after termination of the relating employment.

A summary of the status of the stock option plans as of 31 December 2013 and 2012 and the changes during the years then ended is presented as follows:

	31 December 2013 Options	**31 December 2013 Weighted average price € per share**	31 December 2012 Options	31 December 2012 Weighted average price € per share
Outstanding at beginning of the year	**5,609,975**	**2.36**	7,153,000	2.27
Options granted	**-**	**-**	-	-
Options exercised	**(1,554,197)**	**1.52**	(761,328)	1.06
Options expired	**(506,150)**	**4.21**	(285,100)	3.12
Options forfeited	**(7,500)**	**1.77**	(496,597)	2.58
Options waived (re-issueable)	**-**	**-**	-	-
Outstanding at end of the year	**3,542,128**	**2.47**	**5,609,975**	**2.36**
Thereof exercisable	**1,075,497**	**2.32**	**1,956,175**	**2.30**

A summary of the stock options outstanding as of 31 December 2013 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	107,304	107,304	1.30 years	1.51
1.66 – 3.68	3,408,824	942,193	7.83 years	2.50
5.97 – 6.29	26,000	26,000	0.02 years	5.97

The fair value of each option grant was estimated on the date of grant using a binomial model with the following assumptions:

	6 March 2009	22 May 2009	3 December 2009	9 June 2010
Risk-free interest rate in %	2.61	2.89	2.67	1.81
Volatility in %	64.0	65.0	64.0	50.0
Fluctuation in %	0	10.0	0	0.0 – 10.0
Price range in Euro	0.61	0.71	2.17	1.93
Fair value per option	0.41	0.39	1.23	0.87 – 0.90

	2 December 2010	16 March 2011	14 September 2011
Risk-free interest rate in %	2.22	2.66	1.23
Volatility in %	35.0	33.0	44.0
Fluctuation in %	0.0 – 10.0	0.0 – 10.0	0.0
Price range in Euro	2.69 – 2.73	2.65 – 2.79	2.23
Fair value per option	0.90 – 1.02	0.75 – 0.94	0.96

The expected dividend yield is zero, the expected life is 6 years in all models.
The Company recognised compensation expense in 2013 and 2012 for all stock options and share performance awards totalling T€ 1,255 and T€ 1,514, respectively, which was reflected as operating expenses in the consolidated income statement. The compensation expenses relating to accelerated vesting as well as the adjustment of compensation expenses due to changes in estimates are included in the amount above.

(19) *Stockholders' equity*

The share capital is made up of:

Shares in thousands	**31 Dec 2013**	31 Dec 2012
Issued as of 01 January	118,547	118,316
Capital increase	11,818	-
Exercise of share purchase rights	1,095	231
Issued as of 31 December	**131,460**	**118,547**

On 31 December 2013, there are 131,460,193 shares issued and outstanding with a nominal amount of € 1.00 per share. Management is not aware of any restriction of the voting rights or the right to transfer. 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.
In the third quarter 2013, share capital was increased against cash contribution by issuing 11,818,163 newly issued shares from the authorised capital (genehmigtes Kapital). The price per share amounted to € 2.55. Share purchase rights exercised in 2013 show an average exercise price amounting to €1,84 per share. As of 31 December 2013, the remaining authorised capital (genehmigtes Kapital) amounts to 11,844,559 shares.
Furthermore, the conditional capital (bedingtes Kapital) as of 31 December 2013 consists of 10,456,180 shares available with respect to the share performance plan and the stock option plans and 23,663,172 shares available to issue no-par-value bearer shares to owners or creditors of convertible bonds and/or warrant-linked bonds, participation rights and/or income bonds (or a combination of such instruments). Consequently, the remaining conditional capital (bedingtes Kapital) as of 31 December 2013 amounts to 34,119,352 shares.
At the Annual General Meeting on 14 June 2012, the Management Board of the Company was authorised to issue up to 23,663,172 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 13 June 2017.
Evotec owns 338,815 of Evotec's shares as of 31 December 2013 (2012: 798,271), representing 0,3% (2012: 0.7%) of Evotec's share capital as of 31 December 2013. In the course of the acquisition of Renovis, Inc. by Evotec AG, certain options and deferred stock units ("DSU") held by Renovis employees were transformed into Evotec American Depository receipts ("ADR") delivered into an irrevocable Company Trust for the benefit of the Renovis employees. One ADR represented two Evotec shares.
In accordance with the Trust Agreement between Renovis, Inc. and the Trustee, on 12 March 2012 all remaining ADRs held by the Company Trust were delivered to Evotec AG, as all obligations of the Trust to deliver ADRs under the option agreements or the DSU agreements were satisfied or otherwise expired (e.g. due to an expiry of exercise periods or non-occurrence/discontinuance of exercise conditions). In 2013 and 2012, Evotec AG used some of the transferred ADRs to serve

exercised options under its stock option programmes rather than using contingent capital.

(20) *Revenues*

Revenues include in 2013 milestone payments amounting to T€ 12,689 (2012: T€ 12,339) royalty income in the amount of T€ 1,578 in 2013 (2012: T€ 1,615). Also included are licence revenues from discovery collaborations in the amount of T€ 2,258 (2012: T€ 6,742).
Regarding revenues by region, 47% of Evotecs revenues are generated with customers in the US, 31% with customers in Germany and 16% with customers in UK (2012: 46% US, 19% Germany and 11% Japan).

(21) *Research and Development*

In 2013, research and development expenses mainly relate to early discovery projects amounting to T€ 5,246 (2012: T€ 2,972), platform R&D in the amount of T€ 1,754 (2012: T€ 1,942), clinical projects amounting to T€ 106 (2012: T€ 516) as well as overhead expenses in the amount of T€ 2,558 (2012: T€ 2,910). The overhead expenses consist mainly of patent costs and overhead personnel expenses.

(22) *Selling, general and administrative expenses*

Included in selling, general and administrative expenses are expenses for sales and marketing in the amount of T€ 2,440 (2012: T€ 2,616). Other administrative expenses amount to T€ 14,157 in 2013 (2012: T€ 13,685).

(23) *Other operating income and expense*

In 2013, other operating income mainly relate to the fair value adjustment of the provision for the earn out relating to the acquisition of DeveloGen in the amount of T€ 2,917. In 2012, mainly the release of the provisions for the earn out relating to the acquisition of Compound Focus in the amount of T€ 1,250 was included in other operating income.
In 2013, other operating expense include the fair value adjustment of the provision for the earn out relating to the acquisition of DeveloGen in the amount of T€ 267 and CCS in the amount of T€ 183. In 2012, other operating expense mainly related to the fair value adjustment of the provision for the earn out relating to the acquisition of DeveloGen in the amount of T€ 2,348 as well as the parallel usage of the old facility and the new "Manfred Eigen Campus" both in Hamburg and the resulting planned underutilisation of parts of those buildings during the transition period amounting to T€ 2,078.

(24) *Interest expense*

Interest expense in 2013 include the unwind of discounts of earn-out provisions in the amount of T€ 1,455 (2012: T€ 1,153).

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

In 2013, the closure of the operating activities in India in the affiliate Evotec (India) resulted in a realisation of foreign currency exchange loss previously recorded in equity as unrealised in the amount of T€ 286.
During 2012, Evotec liquidated the subsidiaries Evotec (Asia) Pte. Ltd., ENS Holdings, Inc. and Evotec, Inc., which resulted in a realisation of foreign currency exchange gain previously recorded in equity as unrealised in the amount of T€ 503.

(26) *Segment information*

Pursuant to IFRS 8, reporting on the financial performance of the segments has to be prepared in accordance with the management approach. The internal organisation as well as the management reporting does not identify different segments. The allocation of resources as well as the internal evaluation of Evotec's performance by management in 2013 are for the entire Evotec Group. Accordingly, Evotec does not report segments.

(27) *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 (28))
- capital management (see note (28))
- credit risks (see note (28))
- market risks (see note (28))

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 all Evotec companies. The functional currencies of all Evotec companies consist mainly of Euro, US Dollar and UK Sterling. 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, US Dollar or UK Sterling as indicated below against the other currencies at 31 December would have increased (decreased) equity and net profit/(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.

	Variance 2013		Variance 2012	
T€	**Equity**	**Profit and loss**	Equity	Profit and loss
USD (10% movement)	**1,447**	**1,447**	542	542
GBP (10% movement)	**201**	**201**	4	4
EUR (10% movement)	**926**	**926**	478	478

	Average rate		31 December	
T€	**2013**	2012	**2013**	2012
USD	**0.73029**	0.76310	**0.72640**	0.75670
GBP	**1.19574**	1.23068	**1.19790**	1.22340
INR	**0.01184**	0.01399	**0.01176**	0.01384

The Company manages the foreign exchange exposure via natural hedges and selective hedging instruments such as forward currency contracts. The hedging instruments used do not expose the Company to any material additional risk. 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 2013 and 2012, the Company held US Dollar/GBP forward contracts with Euro equivalent notional amounts of T€ 4,358 and a fair value of T€ 473 (2012: T€ 18,161 and T€ (68), respectively). Foreign currency contracts are carried at fair value. 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 other current financial assets on 31 December 2013 (31 December 2012: other current financial liabilities). 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€ 311 and T€ 105 for the years ended 31 December 2013 and 2012, respectively.

Derived from the summary quantitative date about the Company's currency risks based on the report to the Management Board, the expected future USD cash flows are hedged with USD/GBP forward contracts with a nominal value of TUSD 6,000 (2012: TUSD 24,000).

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 cash flow risks and therefore are not included in the sensitivity analysis. Financial instruments with variable interest rates as of 31 December 2013 and 2012 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 2013 the effect on net loss would have been T€ 243 higher (lower) (31 December 2012: net income T€ 260 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 2013 and 2012 would vary by the following amounts:

T€	**31 December 2013**	31 December 2012
Variable interest rate +1%-point	**39**	74
Variable interest rate -1%-point	**(39)**	(74)

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 3.0%. 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. This resulted in a combined fixed interest rate for the year of 2.875%. The Company is not recording the fair value of financial assets and liabilities with fixed interest rates.

The Company is exposed to interest rate risk through predominantly variable interest-bearing loans. 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.

(28) *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. However, the option of increasing capital is

always considered. This additional financing might be required if new opportunities arise in terms of M&A or in-licensing. 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 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.
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 Euro in order to meet local operating needs.
Other guarantees outstanding at 31 December 2013 amounted to T€ 446 (31 December 2012: T€ 446).
The contractual maturities of financial liabilities, including estimated interest payments as of 31 December 2013 and 2012 are included in the following tables:

	31 December 2013				
T€	**Carrying amount**	**Contractual cash flow**	**Due in 1 year**	**Due in 2–5 years**	**More than 5 years**
Non-derivative financial liabilities					
Loans	(17,222)	(17,476)	(17,476)	-	-
Finance lease obligations	(19)	(19)	(5)	(14)	-
Trade accounts payable	(6,653)	(6,653)	(6,653)	-	-
Contingent consideration	(18,519)	(36,767)	(2,111)	(7,307)	(27,349)
Current income tax payables	(741)	(741)	(741)	-	-
Other current financial liabilities	(342)	(342)	(342)	-	-
Total non-derivative financial liabilities	**(43,496)**	**(61,998)**	**(27,328)**	**(7,321)**	**(27,349)**
Derivative financial liabilities					
Interest rate swap	(137)	(137)	(137)	-	-
Total derivative financial liabilities	**(137)**	**(137)**	**(137)**	**-**	**-**

	31 December 2012				
T€	Carrying amount	Contractual cash flow	Due in 1 year	Due in 2–5 years	More than 5 years
Non-derivative financial liabilities					
Loans	(17,401)	(17,831)	(13,565)	(4,266)	-
Finance lease obligations	(1)	(1)	(1)	-	-
Trade accounts payable	(6,363)	(6,363)	(6,363)	-	-
Contingent consideration	(18,689)	(38,691)	(2,265)	(6,029)	(30,397)
Current income tax payables	(502)	(502)	(502)	-	-
Other current financial liabilities	(234)	(234)	(234)	-	-
Total non-derivative financial liabilities	**(43,190)**	**(63,622)**	**(22,930)**	**(10,295)**	**(30,397)**
Derivative financial liabilities					
Interest rate swap	(333)	(333)	-	(333)	-
Total derivative financial liabilities	**(333)**	**(333)**	**-**	**(333)**	**-**

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 cash:

T€	Years ended 31 December 2013	31 December 2012
Total assets	**227,380**	225,427
Equity	**158,967**	152,547
Equity ratio (in %)	**69.9%**	67.7%
Net cash	**28,403**	21,663

The net cash, consisting of cash and cash equivalents less loans and finance leases increased in 2013 primarily due to larger amounts of cash in banks.

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 2013 and 2012, the debts are unsecured. However, Evotec has to hold a minimum level of cash in the amount of T€ 35,000 in 2013 and 2012, respectively. As at 31 December 2013, liquidity amounts to T€ 96,143 (31 December 2012: T€ 64,159). The sum of these debt instruments – including both long-term and current portions – at the end of 2013 is T€ 17,222 (2012: T€ 17,401).

In 2013, Evotec's equity base was further strengthened by the capital increase in the amount of T€ 30,137. Evotec remains well-financed with an equity ratio of 69.9% as of 31 December 2013 (31 December 2012: 67.7%) 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 should require additional financing.

No minimum 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 as well as share performance awards on the basis of a share performance plan. Please refer to Note 19.

Credit risks

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

T€	31 December 2013	31 December 2012
Germany	**1,729**	675
United States	**7,127**	5,346
Rest of Europe	**5,747**	3,899
United Kingdom	**260**	998
Rest of the world	**2,914**	4,135
	17,777	**15,053**

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 2013, one customer accounted for 24% of trade receivables (31 December 2012: 24%). 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 2013, the Company further expanded its customer base. However, the two (2012: three) largest customers of Evotec, each having a share of more than 10% of the group revenues in 2013 and 2012, represented in total more than 33% of the group revenues in 2013 and more than 38% in 2012. A termination of these business relations could have adverse impacts on the Company's financial results.

Market risks

The market environment and competitive landscape for licensing and licensed projects or individual drug candidates, in general or for individual treatments might change while engaging in individual projects.

Structured vehicles

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, established for the purpose of facilitating off-balance sheet arrangements or other contractual 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.

(29) *Fair values*

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

T€	31 December 2013 Carrying amount	31 December 2013 Fair value	31 December 2012 Carrying amount	31 December 2012 Fair value
Cash and cash equivalents	**45,644**	**45,644**	**39,065**	**39,065**
Available-for-sale financial assets				
— Investments	**50,499**	**50,499**	25,094	25,094
— Long-term investments	**10**	**10**	10	10
Total available-for-sale financial assets	**50,509**	**50,509**	**25,104**	**25,104**
Financial assets measured at fair value				
— Derivative financial instruments	**473**	**473**	-	-
— Other non-current financial assets	**77**	**77**	75	75
Total financial assets measured at fair value	**550**	**550**	**75**	**75**
Loans and receivables				
— Trade accounts receivables	**17,777**	**17,777**	15,053	15,053
— Other current financial assets	**1,522**	**1,522**	1,478	1,478
Total loans and receivables	**19,299**	**19,299**	**16,531**	**16,531**
Financial liabilities measured at amortised cost				
— Current loan liabilities	**(17,222)**	**(17,222)**	(13,223)	(13,223)
— Non-current loan liabilities	**-**	**-**	(4,178)	(4,062)
— Current portion of finance lease obligations	**(5)**	**(5)**	(1)	(1)
— Long-term finance lease obligations	**(14)**	**(14)**	-	-
— Trade accounts payable	**(6,653)**	**(6,653)**	(6,363)	(6,363)
— Other current financial liabilities	**(342)**	**(342)**	(234)	(234)
Total financial liabilities measured at amortised cost	**(24,236)**	**(24,236)**	**(23,999)**	**(23,883)**
Financial liabilities measured at fair value				
— Derivative financial instruments	**(137)**	**(137)**	(333)	(333)
— Contingent consideration	**(18,519)**	**(18,519)**	(18,689)	(18,689)
Total financial liabilities measured at fair value	**(18,656)**	**(18,656)**	**(19,022)**	**(19,022)**
	73,110	**73,110**	**37,754**	**37,870**
Unrecognised (gain)/loss		**-**		**(116)**

In determining the fair values on level 2 and 3 the following valuation techniques are used:

Financial instruments measured at fair value

Other non-current assets:

The asset value of the insurance cover for pension obligations is determined as the capital value of the premiums' saving components and is based on realised interest income so far.

The fair value of derivative financial instruments is determined by market-based methods. The valuation model is based upon quoted prices of similar instruments, whose characteristics are broadly similar to the instruments being measured.

The fair value of contingent considerations is determined by a discounted cash flow model. The cash flows used are based on the respective long-term project planning. We refer to note (11) for a more detailed description of the discounted cash flow models. The discount rate is calculated using a risk-free market base rate, a beta factor determined by reference to a peer group and a risk premium. Significant unobservable inputs used are the discount rate (2013: 10.6%) and to some extent also the commercialisation success rate (2013: 50%).

Financial instruments not measured at fair value

For cash and cash equivalents, trade accounts receivables, loan liabilities, finance lease obligations and other current financial assets and liabilities, fair value is determined through a simplified discounted cash flow model without the use of significant unobservable inputs, respectively the net book values represent an appropriate approximation of the fair value.

Hierarchy levels

The following table allocates financial assets and financial liabilities to the three levels of the fair value hierarchy as defined in IFRS 13:

T€	31 December 2013 Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	**50,499**	**-**	**10**	**50,509**
Financial assets measured at fair value	**-**	**550**	**-**	**550**
Financial liabilities measured at fair value	**-**	**(137)**	**(18,519)**	**(18,656)**

T€	31 December 2012 Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	25,094	-	10	25,104
Financial assets measured at fair value	-	75	-	75
Financial liabilities measured at fair value	-	(333)	(18,689)	(19,022)

The levels of the fair value hierarchy and its application to Evotec's financial assets and financial liabilities are described below:
Level 1: quoted prices in active markets for identical assets or liabilities;
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); and
Level 3: inputs for the asset or liability that are not based on observable market data.

The following table shows the movement of fair values at level 3 for the financial year 2013:

T€	Note	Investments	Contingent consideration
As of 01 January 2013		10	18,689
Acquisition of businesses	(3)	-	1,120
Consumption		-	(278)
Included in other operating expense			
Changes in fair value, unrealised		-	450
Included in other operating income			
Changes in fair value, unrealised		-	(2,917)
Included in interest expense			
Interest change in net present value, unrealised		-	1,455
As of 31 December 2013		**10**	**18,519**

For the fair value of the contingent consideration, reasonably possible alternative assumptions of significant unobservable inputs would have ceteris paribus the following effects as at 31 December 2013:

T€	Profit and loss Increase	Decrease
Contingent consideration		
Discount rate (movement of 0.15%-points)	200	(203)
Commercialisation success rate (movement of 10%-points)	685	(685)

In the financial years 2013 and 2012, no reclasses were made among the individual levels.

(30) *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€ 978 (2012: T€ 533). Contributions amounting to T€ 80 (2012: T€ 85) were payable to the fund at the year-end 2013 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.
Further the Company has a 401K in the US the contribution to this plan amounted to T€ 60 during 2013 (2012: T€ 69).
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 2013 and 2012 for this purpose. The calculations are based on assumed pension increases of 2.0% and a discount rate of 3.2% in 2013 and 3.0% in 2012. The discount rate reflects market conditions. The provision amounted to T€ 164 and T€ 122 as of 31 December 2013 and 2012, respectively. In calculating the provision as of 31 December 2012, the 10% corridor method was used concerning actuarial gains and losses. If the calculation method of 2013 were used, the provision at 31 December 2012 would amount to T€ 165.
No IAS 8.28 disclosures are presented due to immateriality.
The pension obligation developed as follows:

T€	Years ended 31 December 2013	31 December 2012
Pension liability at beginning of the year	**122**	116
Included in other comprehensive income:		
Previously not recognised actuarial gains and losses using the corridor method	**43**	-
Actuarial gains from:		
— Changes in financial assumptions	**(5)**	-
— Experience adjustments	**(1)**	-
Included in net income:		
Interest cost	**5**	6
Pension liability at year-end	**164**	**122**

(31) *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€	31 Dec 2013	31 Dec 2012
less than one year	**4,365**	4,190
between one and five years	**15,654**	14,197
more than five years	**17,097**	19,309
Total	**37,116**	**37,696**

The majority of operating lease obligations are related to rent expenses for facilities. The rent expense for such leases amounted to T€ 4,377 and T€ 6,018 for the years ended 31 December 2013 and 2012, respectively.

(b) OTHER COMMITMENTS AND CONTINGENCIES

The Company has entered into consultancy contracts. During 2013 and 2012, expenses under consultancy contracts totalled T€ 214 and T€ 240, respectively. The future minimum payments associated with long-term consultant and other miscellaneous long-term commitments total approximately T€ 3,874 and T€ 3,909 at 31 December 2013 and 2012, respectively. The significant portion thereof related to long-term commitments in connection with facility expenses.
As of 31 December 2013 and 2012, the Company has entered into purchase commitments in the amount of T€ 657 and T€ 1,552, respectively.
The Company has, in the sale and purchase agreement for all the shares in Evotec Technologies GmbH, provided certain guarantees customary for such agreements. No current liabilities from this guarantee exist as of 31 December 2013 and 2012, respectively.
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 also agreed with several third parties on getting access to their technology and know how for use in Evotecs business or within collaborations. Under those agreements, the Company is required to pay a revenue share to those 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 material litigations as of 31 December 2013, except for the BaFin appeal.

(32) *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 a simultaneous transaction to the direct placement capital increase on 31 August 2013, Biotechnology Value Fund, L.P. and other affiliates of the US biotech specialist investment firm, BVF Partners L.P. also purchased an option from the Company's shareholder TVM V Life Science Ventures GmbH & Co. KG granting BVF the right to acquire an additional 11,818,612 shares of Evotec at € 4.00 per share within the next 30 months. 50% of the options provided by TVM to BVF are subject to an option granted by ROI Verwaltungsgesellschaft mbH to TVM with similar conditions as in the option agreement between BVF and TVM. Roland Oetker and Hubert Birner abstained from the final consultation and vote of the Supervisory Board on the approval of the capital increase to avoid any potential conflict of interest or potential vulnerability of the decision taken, although Roland Oetker and Hubert Birner did not consider themselves as conflicted in regard to these transactions.
In 2012, the Company entered into a collaboration agreement with 4-Antibody AG. Roland Oetker considered himself as potentially conflicted regarding this transaction with with 4-Antibody. In his function as member of the Supervisory Board of Evotec AG, he elected not to participate in any related discussion. A Supervisory Board approval for this collaboration was not required.
Dr Walter Wenninger is chairman of the Supervisory Board of Noxxon Pharma AG. Evotec recognised no revenues with Noxxon Pharma AG in the ordinary course of business in the financial year 2013 (2012: T€ 57). The respective accounts receivables amounted to T€ 0 at 31 December 2013 and 2012.
Dr Flemming Ørnskov was Head General Medicine of Bayer HealthCare AG until 31 December 2012. The Company recognised revenues with the Bayer Group in the ordinary course of business in the amount of T€ 512 in 2012. The accounts receivables amounted to T€ 39 as of 31 December 2012.
Evotec AG recorded revenues in the amount of T€ 0 and T€ 0 with related parties in 2013 and 2012, respectively. Subsidiaries of Evotec AG recorded revenues with related parties in the amount of T€ 0 and T€ 57 in 2013 and 2012, 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.

(33) *Personnel expenses and cost of material*

The personnel expenses of the Company in 2013 amounted to T€ 35,744 of which T€ 16,296 relate to personnel expenses outside Germany mainly in India, the UK and US (2012: T€ 35,554 and T€ 17,386, respectively). Thereof, expenses for the statutory retirement insurance amounted to T€ 1,881 of which T€ 597 relate to expenses outside Germany mainly in India, the UK and US (2012: T€ 1,823 and T€ 654, respectively).
Cost of materials in 2013 amounted to T€ 14,481, thereof T€ 7,070 are cost of materials outside Germany mainly in India, the UK and US (2012: T€ 15,006 and T€ 6,110, respectively).

(34) *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 2013 was 635 (2012: 625).

(b) REMUNERATION OF THE AUDITOR

In 2013, remunerations, shown as expenses, to KPMG AG Wirtschaftsprüfungsgesellschaft and other KPMG companies totalled T€ 301 (2012: T€ 340) broken down into auditing of financial statements (T€ 270; 2012: T€ 323), other attestation services (T€ 30; 2012: T€ 16) as well as other services (T€ 1; 2012: T€ 1). The amount for auditing the financial statements includes T€ 32 in 2013 (2012: 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 (www.evotec.com) in the section 'Investors > Corporate Governance'.

(d) CONSOLIDATED SUBSIDIARIES AND EQUITY INVESTEES

Information below shows Evotec AG's direct and indirect voting interests in their subsidiaries and other investments.

%	2013 Company's voting interest
Subsidiaries	
Evotec (UK) Ltd., Abingdon, UK	100.0
Evotec International GmbH, Hamburg	100.0
Evotec (Hamburg) GmbH, Hamburg	100.0
Evotec (India) Private Limited, Thane, India	100.0
Evotec (US), Inc., South San Francisco, California, US	100.0
Evotec (München) GmbH, Munich	100.0
Other Investments	
European ScreeningPort GmbH, Hamburg	19.9

In 2013, being the year of its acquisition, CCS Cell Culture Service GmbH was merged with Evotec AG.

CCS Cell Culture Service, Inc. was merged into Evotec (US), Inc. as of 31 December 2013.
The subsidiaries listed in this table are included in the consolidated financial statements. The investment in European ScreeningPort GmbH 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.

(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 2013 totalled T€ 1,742 (2012: T€ 1,983) of which T€ 446 (2012: T€ 695) was variable remuneration. The Management Board received also share performance awards in 2013 and 2012 as components with a long-term incentive effect with a fair value in 2013 of T€ 610 (2012: T€ 601). 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. The respective objectives are specified every year by the Remuneration and Nomination Committee of the Supervisory Board, and subsequently approved by the Supervisory Board.
For 2013 and 2012, 80% of the bonus of the Company's Chief Executive Officer, Dr Werner Lanthaler, was based on the achievement of corporate targets, 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 was based on the same corporate targets, and the remaining 40% on the achievement of personal objectives.
For the financial year 2013, the variable pay in 2014 is based on the achievement of four sets of corporate milestones (strategic targets) and multiple personal objectives. As at 31 December 2013, the Company has accrued T€ 293 for this purpose, which is composed of T€ 119 for Dr Werner Lanthaler, T€ 48 for Colin Bond, T€ 68 for Dr Cord Dohrmann and T€ 58 for Dr Mario Polywka.

%	Achievement of corporate targets	Achievement of corporate financial targets	Personal objectives
Dr Werner Lanthaler	48	32	20
Colin Bond	36	24	40
Dr Cord Dohrmann	36	24	40
Dr Mario Polywka	36	24	40

For the financial year 2012, the variable pay in 2013 was based on the achievement of four sets of corporate milestones (strategic targets) and multiple personal objectives. The Company has accrued T€ 433 for this purpose, which is composed of T€ 184 for Dr Werner Lanthaler, T€ 75 for Colin Bond, T€ 87 for Dr Cord Dohrmann and T€ 87 for Dr Mario Polywka.

%	Achievement of corporate targets	Achievement of corporate financial targets	Personal objectives
Dr Werner Lanthaler	48	32	20
Colin Bond	36	24	40
Dr Cord Dohrmann	36	24	40
Dr Mario Polywka	36	24	40

In addition to their fixed and variable remuneration, the members of the Management Board received 393,526 (2012: 445,293) Share Performance Awards (SPA) in 2013 under the Company's share performance plan. These Share Performance Awards vest after four years according to achievement versus defined key performance indicators over a three-year performance measurement period. The fair values of all Share Performance Awards granted as of the grant date amounted to a total of T€ 610 (2012: T€ 601). Further information concerning SPAs is available in note (18).

	2013 Fixed remuneration in T€	2013 Variable remuneration in T€	2013 Share Performance Awards in pcs	2013 Fair values of SPAs granted in T€	2013 Total remuneration in T€
Dr Werner Lanthaler	414	187	179,538	278	879
Colin Bond	280	80	70,014	109	469
Dr Cord Dohrmann	285	87	76,379	118	490
Dr Mario Polywka	317	92	67,595	105	514
Total	**1,296**	**446**	**393,526**	**610**	**2,352**

	2012 Fixed remuneration in T€	2012 Variable remuneration in T€	2012 Share Performance Awards in pcs	2012 Fair values of SPAs granted in T€	2012 Total remuneration in T€
Dr Werner Lanthaler	407	307	209,877	283	997
Colin Bond	269	126	76,190	103	498
Dr Cord Dohrmann	270	126	76,190	103	499
Dr Mario Polywka	342	136	83,036	112	590
Total	**1,288**	**695**	**445,293**	**601**	**2,584**

The contracts of the Management Board members contain a change-of-control clause that would allow them to terminate their current contracts in the event of a change in control. Such a change-of-control occurs when a third party 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 (following new contracts effective July and September 2013, respectively, the payment shall be equal to 18 months base salary plus bonus). This is calculated as the sum of payments (including the bonus) made to them over the last twelve months before receipt of the declaration of termination. Dr Polywka is entitled to severance payments of 18 months base salary, while Dr Lanthaler is entitled to 24 months 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, its senior management and the directors of subsidiary companies. The insurance expense amounted to T€ 117 in total in 2013 (2012: T€ 117) and was paid by the Company. 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) was agreed.
In 2013 and 2012, no payments were made to any former Management Board member.
Until January 2013, Dr Werner Lanthaler was Member of the Verwaltungsrat of Pantec Biosolutions AG, Ruggell, LI. Until November 2013, Dr Mario Polywka was Non-Executive Chairman of the Board of Directors of Pharminox Ltd, Oxfordshire, UK. Colin Bond is Non-Executive Chairman of the Board of Directors of the European ScreeningPort GmbH and since April 2013 Member of the Verwaltungsrat of Siegfried Holding AG.

(f) SUPERVISORY BOARD

Dr Walter Wenninger, Leverkusen, DE, Former Member of the Management Board of Bayer AG (Chairman of the Supervisory Board since June 2013);
Roland Oetker, Duesseldorf, DE, Managing Partner ROI Verwaltungsgesellschaft mbH (Deputy Chairman of the Supervisory Board since June 2013);
Dr Claus Braestrup, Copenhagen, DK, Advisor (since June 2013);
Bernd Hirsch, Holzminden, DE, CFO of Symrise AG (since December 2013);
Prof. Dr Andreas Pinkwart, Alfter, Principal and Managing director of HHL gGmbH – Leipzig Graduate School of Management;
Mary Tanner, New York, NY, US, since 15 January 2013 Senior Managing Director, Burrill & Company;
Dr Hubert Birner, Gräfelfing, DE, Managing Director, TVM Life Science Management GmbH (until December 2013);
Dr Flemming Ørnskov, Zurich, CH, since 02 January 2013 CEO of Shire plc. (Chairman and member of the Supervisory Board until June 2013).

The remuneration accrued for the members of the Supervisory Board in the financial year 2013 was as follows:

T€	2013 Cash remuneration
Dr Walter Wenninger	83.8
Roland Oetker	42.6
Dr Claus Braestrup[1)]	16.0
Bernd Hirsch[2)]	1.8
Prof. Dr Andreas Pinkwart	28.8
Mary Tanner	28.8
Dr Hubert Birner[3)]	42.3
Dr Flemming Ørnskov[4)]	35.0
Total	**279.1**

[1)] relating to the period from 12 June 2013, when Dr Claus Braestrup was appointed to the Supervisory Board by the Annual General Meeting of Evotec AG.
[2)] relating to the period from 16 December 2013, when Bernd Hirsch was appointed to the Supervisory Board by the register court.
[3)] relating to the period til 09 December 2013, when Dr Hubert Birner's resignation as Member of the Supervisory Board became effective.
[4)] relating to the period til 12 June 2013, when Dr Flemming Ørnskov resigned as Chairman of the Supervisory Board during the Evotec AG's Annual General Meeting.

The remuneration accrued for the members of the Supervisory Board in the financial year 2012 was as follows:

T€	2012 Cash remuneration	2012 Value of share-based remuneration	2012 Total
Dr Flemming Ørnskov	48.8	30.0	78.8
Dr Walter Wenninger	40.0	30.0	70.0
Dr Hubert Birner	25.0	20.0	45.0
Roland Oetker	18.7	10.0	28.7
Prof Dr Andreas Pinkwart	18.7	10.0	28.7
Mary Tanner	18.8	10.0	28.8
Total	**170.0**	**110.0**	**280.0**

In 2013 and 2012, the remuneration of each Supervisory Board member amounted to T€ 25 per year and T€ 15 per year respectively, 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€ 20 (2012: T€ 10).
In 2012, 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 received an extra T€ 0.5 for every cent that the dividend per share exceeds € 0.15. In 2013, there was no share-based remuneration. The total remuneration accrued for the Supervisory Board members in 2013 totalled T€ 279 (2012: T€ 280). The Company has a Directors and Officers (D&O) insurance policy in place for the Management Board, the Supervisory Board, its senior management and the directors of subsidiary companies. The insurance expense amounted to T€ 117 in total in 2013 (2012: T€ 117) and was paid by the Company. For the members of Supervisory Board, an appropriately sized deductible was agreed.

The Supervisory Board and their additional memberships in supervisory boards and memberships in comparable governing bodies of enterprises according to §125 par. 1 fifth sentence of the AktG are listed at the end of this report.

(35) *Subsequent events*

No reportable subsequent events occurred after 31 December 2013.

SUPERVISORY BOARD AND MANAGEMENT BOARD

Supervisory Board

Dr Walter Wenninger	**Chairman of the Supervisory Board:** Noxxon Pharma AG, Berlin/DE **Non-Executive Chairman of the Board of Directors:** Santaris Pharma A/S, Hoersholm/DK **Non-Executive Member of the Board of Directors:** Recordati S.p.A., Milano/IT **Member of the Advisory Group:** Novo A/S, Hellerup/DK
Roland Oetker	**Non-Executive Member of the Board of Directors:** Deutsche Post AG, Bonn/DE Rheinisch-Bergische Verlagsgesellschaft mbH, Duesseldorf/DE
Dr Claus Braestrup	**Non-Executive Chairman of the Board of Directors:** Aniona ApS , Ballerup/DK **Non-Executive Member of the Board of Directors:** Bavarian Nordic A/S, Kvistgaard/DK; Santaris Pharma A/S, Hørsholm/DK; Evolva SA, Basel/CH; Gyros AB, Uppsala/SE
Prof. Dr Andreas Pinkwarth	**Member of the Board of Trustees:** RAG-Stiftung, Essen/DE
Mary Tanner	**Non-Executive Member of the Board of Directors:** Lineagen, Inc., Salt Lake City, UT, US; PanGenx, Inc. Newton, MA/US (since September 2013)
Dr Hubert Birner	**Non-Executive Chairman of the Board of Directors:** Argos Therapeutics Inc., Durham, NC/US **Non-Executive Member of the Board of Directors:** Proteon Therapeutics, Inc., Waltham, MA/US; Spepharm Holding BV, Amsterdam/NL
Dr Flemming Ørnskov	**Non-Executive Member of the Board of Directors:** PCI Biotech Holding ASA, Oslo/NO (until January 2013)

Management Board

Dr Werner Lanthaler	**Member of the Verwaltungsrat:** Pantec Biosolutions AG, Ruggell/ LILI (until January 2013)
Dr Mario Polywka	**Non-Executive Chairman of the Board of Directors:** Pharminox Ltd, Oxfordshire/UK (until November 2013)
Dr Cord Dohrmann	
Colin Bond	**Non-Executive Chairman of the Board of Directors:** European ScreeningPort GmbH **Member of the Verwaltungsrat:** Siegfried Holding AG (since April 2013)

CORPORATE GOVERNANCE REPORT 2013

THE DEFINITION OF GOOD CORPORATE MANAGEMENT AND SUPERVISION

Evotec takes its Corporate Governance responsibilities very seriously. As a consequence of its shares being listed on the Frankfurt Stock Exchange and its international shareholder base, the Company adheres not only to German but also to international Corporate Governance standards. Evotec's Management Board and Supervisory Board 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 13 May 2013 (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 only two exceptions, Evotec complies with all recommendations of the Code and the majority of the Code's suggestions. In December 2013, Evotec's Management Board and Supervisory Board declared in accordance with Section 161 of the German Stock Corporation Act (AktG):

Evotec AG has complied in 2013 with the recommendations of the Governmental Commission on the German Corporate Governance Code as published in the official section of the Federal Gazette and intends to comply in the future with the recommendations of the Code, with the following exceptions:

- *To incentivise executives via variable long-term incentive compensation, the 2012 Annual General Meeting in June approved the so-called Share Performance Plan. This complies with the recommendations set forth in Section 4.2.3 of the Code. In particular, it refers to specific key performance indicators and defines a "Maximum Target". From 2012 onwards, the Share Performance Plan replaced Evotec's stock option programme. Stock options issued in existing stock option programmes remain valid. 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) that was enacted in 2009.*

  However, 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 05 August 2009. The Company has decided to maintain this reasonable deductible for the time being. This decision was made in view of the Company's interest to attract international expertise for its Supervisory Board and the fact that a deductible for non-executive directors is not very common in international practice. Whilst a lot of the German companies quoted on the TecDAX do not have a respective deductible at all, the Company believes that a reasonable deductible is a good compromise.

- *The performance-related compensation of the Supervisory Board has been deleted without replacement at the 2013 Annual General Meeting. This is in compliance with the Code. Until then the performance-related compensation as stipulated in Article 12 (4) of the Company's Articles of Association was linked to potential dividend payments. The Company believed that this was sufficiently oriented toward sustainable growth of the enterprise as recommended in Article 5.4.6 para 2 of the Code. However, since it cannot be completely ruled out that this will be interpreted differently and for the reasons of precaution, we declare for the past a deviance from the recommendation set forth in Article 5.4.6 para 2 of the Code."*

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 and 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 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 two boards, however, 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 General Meeting ("Hauptversammlung") is the company body representing the interests of the shareholders.

Management Board
("Vorstand")

The Management Board of Evotec AG is responsible for the day-to-day operations of the Company 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.

The Evotec Management Board consists, in addition to the CEO, of three additional board members. In accordance with a suggestion of the Code, new members are appointed for up to three years; however, prolongations of existing contracts might be up to five years as currently agreed with the Chief Executive Officer. Management Board members may be reappointed and may be dismissed with good cause prior to the completion of their terms of office. 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 116.

The Company's rules of internal procedure assign functional duties and responsibilities to the Management Board members. The CEO is functionally responsible for the areas of Corporate Development, Investor Relations and Corporate Communications, the CFO for Finance, Controlling, Information Technology, Legal, Purchasing, Facility Management and Human Resources, the COO for Evotec's EVT Execute segment and global operations and the CSO for Evotec's EVT Innovate segment and Intellectual Property.

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")

Following the Articles of Association, the Evotec Supervisory Board consists of six members. With effect as of 09 December 2013, Dr Hubert Birner resigned from his Super visory Board membership and Chairmanship of the Audit Committee. Bernd Hirsch, CFO of Symrise AG, was appointed to the Supervisory Board by the trade register as of 16 December 2013 based on joint application of the Supervisory Board and the Management Board. Therefore, as at 31 December 2013, Evotec's Supervisory Board consisted of six independent members who, in accordance with the Code's recommendations, were appointed on the basis of their qualifications, work experience, independence and diversity.

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 next Annual General Meeting held in the year 2014.

To ensure compliance with these recommendations, the Supervisory Board has specified concrete objectives regarding its composition, which are ensured when making proposals to the Annual General 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 a majority of independent Supervisory Board members with national and international experience in the respective fields of (i) Research and Development, (ii) Finance, Capital markets, Legal, Corporate Governance (iii) Marketing and Sales and Operations and (iv) Healthcare Economy/Public Health. Potential conflict-of-interest situation(s) shall be avoided by deploying the highest scrutiny when assessing 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 the majority of its members are independent and 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: all members are independent, 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. The Supervisory Board, and in particular its Chairman, regularly consults with the Management Board and is thus informed at all

times about the business planning and development, the strategy of the Company as well as its risk environment and compliance. 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 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 in the course of 2013. However, in a simultaneous transaction to a capital increase by issuing 11,818,613 new shares to the Biotechnology Value Fund ("BVF"), BVF also purchased an option from TVM Capital granting BVF the right to acquire an additional 11,818,612 shares of Evotec from TVM Capital and ROI Verwaltungsgesellschaft mbH. Consequently, Roland Oetker and Dr Hubert Birner requested to abstain from the final consultation and vote of the Supervisory Board on the approval of the capital increase to avoid any potential conflict of interest or potential vulnerability of the decision taken. Both, Roland Oetker and Dr Hubert Birner emphasised that they did not consider themselves as conflicted. Also the other members of the Supervisory Board state that they see no conflict of interest as both transactions are separated from each other. However, Roland Oetker's and Dr Hubert Birner's position and cautiousness was appreciated and both Supervisory Board members did not participate in the Supervisory Board's decision.

Information on the professional affiliations of board members and on related party transactions can be found on pages 111 and 114.

Work in Supervisory Board Committees in accordance with the 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 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.

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 accounting processes, the effectiveness of the internal control system and the audit. In addition, 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 and procedures of the audit with the appointed auditing firm, including the auditors' independence, the additional services rendered by the auditor, the issuing of the audit mandate to the auditing firm, the determination of auditing focal points, the fee agreement and compliance issues. The members of the Audit Committee 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. Following Dr Hubert Birner's resignation, Bernd Hirsch, CFO of Symrise AG, has been appointed to the Supervisory Board by the trade register. Upon his appointment he was elected as Chairman of the Audit Committee. As a current Chief Financial Officer, Bernd Hirsch has the required 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 recommendations concerning their remuneration system and Share Performance Plan. Final decisions are made by the full Supervisory Board. For information about the appropriateness of the compensation of individual board members please see page 74 of the "Remuneration Report".

More details on the activities of the Supervisory Board can be found in the "Supervisory Board Report" on page 122.

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 General Meeting

Shareholders may exercise their voting rights at the Annual General Meeting. Each share entitles the shareholder to one vote. This year's Annual General Meeting, at which more

Tenures and composition of Supervisory Board Committees*

	END OF TENURE [1)]	AUDIT COMMITTEE	REMUNERATION AND NOMINATION COMMITTEE
Dr Flemming Ørnskov (Chairman until 12 June 2013)			×
Dr Walter Wenninger (Chairman since 12 June 2013)	*2014*		× *(Chair)*
Roland Oetker (Deputy Chairman since 12 June 2013)	*2014*		×
Dr Hubert Birner (until 09 December 2013)		× *(Chair)*	
Dr Claus Braestrup (since 12 June 2013)	*2014*		×
Bernd Hirsch (since 16 December 2013)	*2014*	× *(Chair)*	
Prof. Dr Andreas Pinkwart	*2014*	×	
Mary Tanner	*2014*	×	

[1)] Following the Annual General Meeting in June 2014.
** Information on the professional affiliations of Supervisory Board members can be found on page 116.*

than 40% of the share capital was represented, took place in Hamburg on 12 June 2013.

Evotec offers shareholders who are unable to attend the Annual General 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 General Meeting 2013.

The remuneration system for the Management Board has not changed since the Annual General Meeting 2012.

REMUNERATION REPORT

Section 4.2.5 of the Code stipulates that the Remuneration Report should be part of the Notes or the Management Report. Accordingly, the 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 the "Remuneration Report" of the Management Report on page 73.

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 2013 was as follows: see table on page 121.

Directors' Dealings regularly reported

Under the Securities Trading Act ("Wertpapierhandelsgesetz"), the members of the Supervisory Board and the Management Board 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. During 2013, no Directors' Dealings were reported.

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, which consists of the Chief Financial Officer, the General Counsel and the assistant to the Board. This committee examines the ad hoc relevance of insider information and ensures that Evotec complies with the law.

Compliance Programme of Evotec AG 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.

Directors' Shareholdings *as of 31 December 2013*

	SHARES	STOCK OPTIONS	SHARE PERFORMANCE AWARDS
Management Board			
Dr Werner Lanthaler	*516,494*	*990,000*	*389,415*
Colin Bond		*290,000*	*146,204*
Dr Cord Dohrmann	*41,387*	*390,000*	*152,569*
Dr Mario Polywka	*60,000*	*440,000*	*150,631*
Supervisory Board			
Dr Walter Wenninger	*38,538*		
Roland Oetker	*17,433,489*		
Dr Claus Braestrup			
Bernd Hirsch			
Prof. Dr Andreas Pinkwart	*6,134*		
Mary Tanner	*70,081*		

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 pursues a business model that aims at sustainable growth, creating value for all stakeholders and protecting the interests of its shareholders. 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 55 in the Management Report.

Risk management

An important element of sound Corporate Governance is dealing responsibly with risks. Evotec has established a systematic risk and opportunities 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 and opportunities management system and policies are covered by the annual audit of financial statements. Details can be found in the Management Report on page 58.

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 AG 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 General 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 and Share Performance Plans

A list of substantial equity investees as well as details on the Company's stock option plans can be found in the Consolidated financial statements on pages 101 and 112.

Investor Relations/Transparency

Evotec AG 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 2013, management presented the Company at eleven national and international investor conferences and held a Capital Market Day in New York.

SUPERVISORY BOARD REPORT

Dr Walter Wenninger
Chairman of the Supervisory Board

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

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 an Annual General Meeting ("AGM"). The Supervisory Board appoints a chairman and one vice-chairman from among its members. The members of the Supervisory Board are elected for a term of five years and may be re-elected. The term of all current members of the Evotec Supervisory Board will expire at the end of the Annual General Meeting held in the year 2014.

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 and the recommendations of the German Corporate Governance Code, an Audit Committee and a Remuneration and Nomination Committee. Members of both committees are appointed in accordance with the Code. For detailed information about the composition of the Supervisory Board and its committees please see page 119 of the "Corporate Governance Report".

In the course of 2013, the Supervisory Board convened for four formal meetings, one extraordinary meeting and held two telephone conferences to discuss the operational and strategic developments of Evotec AG. The Audit Committee convened separately for four telephone conferences, and the Remuneration and Nomination Committee convened four times in either face-to-face meetings or telephone conferences.

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 such as strategy, planning, risk management and compliance via numerous conference calls, held whenever appropriate.

In March 2013, Dr Werner Lanthaler, Chief Executive Officer of Evotec AG, resumed his role as Chief Executive Officer of the Company with immediate effect after a six-month period of leave due to health reasons.

In 2013, two Supervisory Board members resigned from their memberships. With effect as of the end of the AGM 2013, the Chairman Dr Flemming Ørnskov resigned. The AGM elected Dr Claus Braestrup, former CEO of Lundbeck A/S, as new Supervisory Board member. The Supervisory Board then approved Dr Walter Wenninger as its new Chairman and Roland Oetker as Deputy Chairman. With effect as of 09 December 2013, Dr Hubert Birner resigned from its Supervisory Board membership and Chairmanship of the Audit Committee. Bernd Hirsch, CFO of Symrise AG, has been appointed to the Supervisory Board by the trade register as of 16 December 2013 based on joint application of the Supervisory Board and the Management Board and elected as Chairman of the Audit Committee.

At each Supervisory Board meeting, the status of the Company's business, its scientific initiatives, its development partnerships, out-licensing activities and regular standard agenda items were discussed.

In addition, the Supervisory Board addressed the following specific subjects in detail during its meetings:

- In March 2013, the Supervisory Board discussed and approved the 2012 annual financial statements in the presence of the auditors. The Supervisory Board also approved the bonus

payments for the Management Team for their performance in 2012.

- In April 2013, the Supervisory Board reviewed the then current status of the strategic plan of the Company entitled Action Plan 2016 one year after its implementation and discussed required changes.
- In June 2013, the Supervisory Board focused on the upcoming AGM, the operational business of the Company, on strategic development opportunities and on reporting process upgrades. In addition, the Supervisory Board welcomed Dr Claus Braestrup as its new member and approved Dr Walter Wenninger as its new Chairman and Roland Oetker as Deputy Chairman after the resignation of Dr Flemming Ørnskov.
- In August 2013, the Supervisory Board held two telephone conferences in which it discussed and finally approved a capital increase from authorised capital against cash contribution by issuing 11,818,613 new shares to the Biotechnology Value Fund ("BVF").
- In its September 2013 meeting, the Supervisory Board discussed the status of the Company's operational business. Furthermore, it discussed and approved the grant of new Share Performance Awards to the Management Board.
- In a circular resolution, the Supervisory Board approved the appointment of Bernd Hirsch as successor of Dr Hubert Birner who resigned with effect of 09 December 2013 and suggested Bernd Hirsch for appointment to the Supervisory Board by trade register.
- In December 2013, the Board reviewed and approved the budget for the year 2014 on the basis of the new business segments of the Company, EVT Execute and EVT Innovate. It discussed the performance of the Company in 2013 and the corporate goals of the Company for 2014 as well as potential external growth opportunities.

The financial statements and the Management Report for Evotec AG for the year 2013 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 20 March 2014, the Auditors presented the status of the 2013 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 2014 March meeting of the full Supervisory Board and presented a comprehensive report on the audit and their observations. The Supervisory Board examined both the financial statements and the consolidated financial statements prepared by the Management Board based on its own judgment, 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 of Evotec AG and the consolidated financial statements for the year 2013.

The Supervisory Board was not aware of any potential conflict of interests among any of its members in the course of 2013. However, in a simultaneous transaction to a capital increase by issuing 11,818,613 new shares to BVF, BVF also purchased an option from TVM Capital granting BVF the right to acquire an additional 11,818,612 shares of Evotec from TVM Capital and ROI Verwaltungsgesellschaft mbH. Consequently, Roland Oetker and Dr Hubert Birner have requested to abstain from the final consultation and vote of the Supervisory Board on the approval of the capital increase to avoid any potential conflict of interest or potential vulnerability of the decision taken. Both, Roland Oetker and Dr Hubert Birner emphasised that they did not consider themselves as conflicted. Also the other members of the Supervisory Board stated that they saw no conflict of interest as both transactions are separated from each other. However, Roland Oetker's and Dr Hubert Birner's position and cautiousness was appreciated and both Supervisory Board members did not participate in the Supervisory Board's consultation and decision.

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 2014.

Hamburg, 20 March 2014
The Supervisory Board
Dr Walter Wenninger

DO YOU SPEAK EVOTEC?

GLOSSARY OF TERMS

ADMET: Acronym for **A**bsorption, **D**istribution, **M**etabolism, **E**xcretion and **T**oxicity of a substance reflecting the physiological processes. ADMET studies are used to characterise 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, ➜*in vivo*.

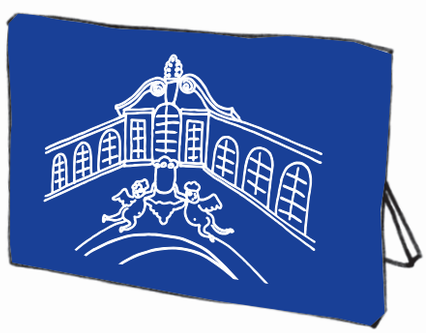
Agonist: Drug that binds a cellular receptor, which is ordinarily stimulated by naturally occurring substances, triggering a response.

Amyotrophic lateral sclerosis (ALS): Debilitating disease with varied etiology characterised by rapidly progressive weakness, muscle atrophy and fasciculations, muscle spasticity, difficulty speaking, difficulty swallowing and difficulty breathing.

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.

Beta cell: 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 1 and type 2 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 personalised therapy approach.

Evotec 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 characterisation 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 discovery. 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* means in the living organism as opposed to *in vitro*.

Ion channel: 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 ➜pre-clinical development candidate involving subtle structural changes to the lead using a "hand-crafted" approach.

Mode of Action (MoA): A mode of action describes a functional or anatomical change at the cellular level, resulting from the exposure of a living organism to a substance. A mode of action is important in classifying chemicals as it represents an intermediate level of complexity in between molecular mechanisms and physiological outcomes.

Muscular dystrophy: Muscular dystrophy refers to a group of diseases that produce muscle weakness. Muscular dystrophies all involve abnormalities of the muscle cells themselves, rather than the nerves that control the muscles. All muscular dystrophies are caused by genetic mutations.

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.

Nuclear magnetic resonance (NMR): 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 (➜ADMET).

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

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

Pre-clinical 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.

AUDITOR'S REPORT

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

"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 2013. 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 paragraph 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 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 paragraph 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, 7 March 2014
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, 07 March 2014

Dr Werner Lanthaler
Chief Executive Officer

Dr Mario Polywka
Chief Operating Officer

Colin Bond
Chief Financial Officer

Dr Cord Dohrmann
Chief Scientific Officer