

**Translation of
Financial Statements as of
31 December 2009
and Management Report**

**Evotec AG
Hamburg**

Evotec AG, Hamburg

Balance Sheet as of 31 December 2009

Assets

	31 December 2009		31 December 2008	
	EUR	EUR	EUR	EUR
A. Fixed Assets				
I. Intangible Assets				
Patents, licences and similar rights		6,448,237,16		100,113,02
II. Property, plant and equipment				
1. Land, land rights and buildings including buildings on third party land	503,488,57		666,183,13	
2. Technical equipment and machinery	4,924,404,77		3,913,438,53	
3. Fixtures and fittings	516,751,38		544,376,56	
4. Payments in advance	62,593,31	6,007,238,03	33,278,07	5,157,276,29
III. Financial Assets				
1. Shares in affiliated companies	76,744,902,84		87,762,677,96	
2. Participations	9,950,00		9,950,00	
3. Other financial assets	3,065,354,00	79,820,206,84	63,411,00	87,836,038,96
		92,275,682,03		93,093,428,27
B. Current Assets				
I. Inventories				
1. Raw materials and supplies	1,819,543,80		1,439,757,09	
2. Work in process	362,807,58	2,182,351,38	367,143,15	1,806,900,24
II. Receivables and other assets				
1. Trade accounts receivables	1,130,916,36		1,397,081,72	
--thereof due after one year				
EUR 0.00 (2008: EUR 0.00)--				
2. Accounts receivables due from affiliated companies	279,547,93		23,964,192,47	
--thereof due after one year				
EUR 260,000.00 (2008: EUR 18,495,929.78)--				
3. Accounts receivables due from investments in other companies	248,904,96		450,968,55	
--thereof due after one year				
EUR 0.00 (2008: EUR 320,000.00)--				
4. Other assets	336,548,59		1,326,151,39	
--thereof due after one year				
EUR 12,651.98 (2008: EUR 7,851.98)--		1,995,917,84		27,138,394,13
III. Investments				
Other investments		2,995,519,64		0,00
IV. Cash and cash equivalents				
		25,483,572,65		38,943,001,68
		32,657,361,51		67,888,296,05
C. Prepaid expenses				
		453,356,11		337,464,94
		125,386,399,65		161,319,189,26

Shareholder's equity and liabilities

	31 December 2009	31 December 2008
	EUR	EUR
A. Stockholder's equity		
I. Share capital	108,838,715,00	108,838,715,00
--conditional capital EUR 10,599,380.00 (2008: EUR 10,599,380.00)--		
II. Additional paid-in capital	144,176,579,92	144,176,579,92
III. Net loss carried forward	-103,386,682,10	-78,940,058,62
IV. Net loss for the year	-43,589,603,17	-24,446,623,48
	106,039,009,65	149,628,612,82
B. Accrued liabilities		
1. Pension accrual	74,611,00	71,034,00
2. Tax accrual	217,946,71	145,800,00
3. Other accrued expenses	4,743,773,72	5,901,171,03
	5,036,331,43	6,118,005,03
C. Liabilities		
1. Bank loans	6,500,000,00	3,000,000,00
--thereof due within one year EUR 6,500,000.00 (2008: EUR 0.00)--		
--thereof due from one to five years EUR 0.00 (2008: EUR 3,000,000.00)--		
2. Advance payments received	298,879,66	274,999,92
--thereof due within one year EUR 298,879.66 (2008: EUR 274,999.92)--		
3. Trade accounts payable	1,030,443,23	1,108,159,81
--thereof due within one year EUR 1,030,443.23 (2008: EUR 1,108,159.81)--		
4. Accounts payable due to affiliated companies	5,548,821,83	388,592,61
--thereof due within one year EUR 5,548,821.83 (2008: EUR 388,592.61)--		
5. Other liabilities	559,009,81	283,558,30
--thereof due within one year EUR 559,009.81 (2008: EUR 283,558.30)--		
--thereof taxes EUR 118,057.29 (2008: EUR 144,765.82)--		
--thereof social security EUR 0.00 (2008: EUR 0.00)--		
	13,937,154,53	5,055,310,64
D. Deferred income	373,904,04	517,260,77
	125,386,399,65	161,319,189,26

Evotec AG, Hamburg

Statement of Operations for the period from 1 January to 31 December 2009

	2009		2008	
	EUR	EUR	EUR	EUR
1. Revenues		14,604,385,64		12,792,720,58
2. Decrease in inventories		-4,335,57		-146,071,70
3. Other operating income		4,841,558,47		6,341,967,33
4. Cost of materials				
a) Raw materials and supplies	-1,616,608,85		-1,850,028,39	
b) Costs of services	-947,988,26	-2,564,597,11	-1,589,821,03	-3,439,849,42
5. Personnel costs				
a) Salaries	-6,796,319,58		-6,831,640,09	
b) Social security expenditure	-866,585,45	-7,662,905,03	-925,676,68	-7,757,316,77
--thereof pension costs				
EUR 3,577.00 (2008: EUR 3,413.00)--				
6. Depreciation				
a) of intangible assets and fixed assets	-1,295,179,85		-1,262,419,14	
b) of current assets to the extent that they exceed provisions normally recorded by the company	-38,440,783,37	-39,735,963,22	-64,375,540,53	-65,637,959,67
7. Other operating expenses		-10,532,799,03		-13,378,375,55
8. Income from investments		4,180,037,86		44,437,429,67
--thereof from subsidiaries				
EUR 4,013,243.49 (2008: EUR 42,821,055.52)--				
9. Other interest income		5,919,878,53		4,906,650,60
--thereof from subsidiaries				
EUR 5,651,773.33 (2008: EUR 4,018,260.60)--				
10. Amortisation of financial assets and current investments		-12,253,319,78		-21,200,35
11. Other interest expense		-107,319,93		-583,534,37
12. Operating result		-43,315,379,17		-22,485,539,65
13. Extraordinary expenses		0,00		-1,700,000,00
14. Income tax		-274,224,00		-261,000,00
15. Other taxes		0,00		-83,83
16. Net loss for the year		-43,589,603,17		-24,446,623,48
17. Net loss carried forward		-103,386,682,10		-78,940,058,62
18. Accumulated deficit		-146,976,285,27		-103,386,682,10

Evotec AG, Hamburg

Notes to the Financial Statements 2009

I. General Information

Evotec AG, henceforth referred to as „Evotec” or „the company”, fulfils the size criteria of a medium-sized company in the meaning of section 267 par. 2 HGB („Handelsgesetzbuch”; German commercial code) but according to section 267 par. 3 sentence 2 HGB is classified as large company.

With regards to financial reporting and valuation practices, the company complies with sections 242 et seq. HGB, with sections 264 et seq. HGB (which specifically apply to incorporated firms) as well as to the regulations of the German Stock Corporation Act AktG („Aktien-gesetz”).

The statement of operations is presented in the total expenditure format (section 275 paragraph 2 HGB).

From 11 February 2003, to 19 March 2007, the company was listed in the German Stock Exchange’s TecDAX index, having formerly been listed in the Neue Markt index from 10 November 1999, onwards. Since 19 March 2007, the company had been listed on the German Stock Exchange. Since 28 October 2009 the company is listed in the German Stock Exchange’s TecDAX index again. Additionally, the company had been listed on the NASDAQ Global Market in the US since 5 May 2008. The company voluntarily delisted from the NASDAQ effective 30 November 2009.

II. Basis of Presentation, Accounting and Valuation Practices

The presentation system applied for the balance sheet and the statement of operations in the preceding financial year 2008 have been maintained.

Intangible assets and property, plant and equipment are recorded at historical cost or manufacturing cost less scheduled straight-line depreciation or amortization over their useful lives. Depreciation is applied on a monthly basis. Assets which are not yet ready to use get impaired to the fair value as of the balance sheet date when the company considers these assets permanently impaired. As from 1 January 2008 low-value fixed assets will be valued in accordance with Section 6 par. 2 and par. 2a EStG.

The useful lives are estimated as follows:

	Years
Buildings	10-15
Technical equipment and machinery	5-10
Factory and office equipment	5-10
Computer equipment and software	3

Financial assets are recorded at historical cost less extraordinary depreciation or on the basis of information given by the insurer, in regards to the actuarial reserve plus surplus dues.

Inventories are recorded at historical cost or manufacturing cost less purchase price reductions, taking into account the principle of the lower of cost or market.

Accounts receivable and other current assets are recorded at nominal value or at lower attributable value. Foreign currency assets, all of which are short-term, are recorded on the basis of the period-end exchange rates, taking into account the principle of the lower of cost or market.

Other investments are recorded at historical cost in accordance with the principle of lower of cost or market.

Cash and cash equivalents are recorded at nominal value.

Accrued liabilities make allowance for all risks and contingent liabilities that are identifiable with sound business judgement. **Pension accruals and similar commitments** are recorded at

current value in accordance with tax law, taking into account Prof. Dr. Klaus Heubeck's reference tables („Richttafeln") issued in 2005G.

Liabilities are recorded at the amount repayable. Foreign currency liabilities are recorded on the basis of the period-end exchange rates, taking into account the recognition-of-loss principle.

III. Notes to the Balance Sheet

1. Intangible assets and property, plant and equipment

The development of the fixed assets is specified in the fixed asset movement schedule (see pages 6 and 7) and includes gross cost, historic cost and manufacturing cost of items.

In 2009 the company acquired research projects from Evotec NeuroSciences GmbH and Renovis Inc. amounting to TEUR 6.296. These research projects will be carried on by Evotec in the following years. For these intangibles no amortisation was taken in 2009.

2. Financial assets

Evotec acquired a majority interest of Research Support International Private Limited, Thane, India, ("RSIPL"). Since 31 August 2009 Evotec (India) Private Limited (former RSIPL) is included in the shares of affiliated companies of Evotec with a portion of 70%.

The value of that 70% majority interest amounted to TEUR 2,454, including the paid purchase price, an earn-out and expenses of the acquisition.

Due to the liquidation of Neuro3d S.A., Mulhouse, France this subsidiary is no longer included in the shares of affiliated companies of Evotec.

Due to a capital reduction at Evotec (UK) Ltd. Abingdon, UK amounting to TEUR 3,210 Evotec's share interest in Evotec (UK) Ltd. was reduced by TEUR 440. The remaining amount of TEUR 2,770 was recorded as income from investments.

As of the balance sheet date of 31 December 2009, Evotec held direct equity investments in the following companies:

	Total Equity	Share interest	Net income/loss
	TEUR	%	TEUR
1. ENS Holdings Inc., Wilmington/Delaware, USA*	25,183	100.00	-38
2. EVOTEC NeuroSciences GmbH, Hamburg* (indirectly through 1 st)	-106,366	100.00	-12,946
3. Evotec Neurosciences AG, Zurich, CH* (indirectly through 1 st)	287	100.00	27
4. Evotec (UK) Ltd., Abingdon, UK	17,213	100.00	2,209
5. Evotec Inc., Wilmington/Delaware, USA* (indirectly through 4 th)	193	100.00	16
6. Oxford Asymmetry Employee Shares Trust Ltd., Abingdon, UK* (indirectly through 4 th)	3	100.00	0
7. Renovis Inc., San Francisco, USA*	27,620	100.00	-11,910
8. Evotec (India) Private Limited, Maharashtra (Thane), Indien*	1,807	70.00	63
9. Evotec RSIL Ltd., Maharashtra (Thane), India* (indirectly through 8 th)	619	70.00	-90
10. Evotec (Asia) Pte. Ltd. Singapore* (indirectly through 4 th)	123	100	131
11. European ScreeningPort GmbH, Hamburg*	-705	19.90	-513

*unaudited

With regards to companies whose annual statements were set up in a foreign currency, the exchange rate as of balance sheet date was used for equity, and the average exchange rate for the year 2009 for annual profit or loss.

The company bought a bearer bond amounting to TEUR 3,000 in 2009. The market value of the bearer bond is 99.72% as of 31 December 2009 leading to a fair value of TEUR 2,992 at year end 2009. However, according to section 253 paragraph 2 sentence 3 HGB Evotec did not recognise an impairment of the bearer bond because the company does not consider the bearer bond permanently impaired.

Development of the fixed assets

(following pages)

Fixed Assets Movement Schedule for the year 2009

	Acquisition and manufacturing costs				
	1 January 2009	Additions	Disposals	Reclasses	31 December 2009
	EUR	EUR	EUR	EUR	EUR
I. Intangible Assets					
Patents, licences and similar rights	2,765,582,97	6,382,100,08	2,049,25	33,278,07	9,178,911,87
II. Property, plant and equipment					
1. Land, land rights and buildings including buildings on third party land	2,027,650,33	0,00	0,00	0,00	2,027,650,33
2. Technical equipment and machinery	17,825,220,79	2,009,144,83	419,671,97	0,00	19,414,693,65
3. Fixtures and fittings	3,666,822,72	230,823,62	432,204,78	0,00	3,465,441,56
4. Payments in advance	33,278,07	62,593,31	0,00	-33,278,07	62,593,31
	23,552,971,91	2,302,561,76	851,876,75	-33,278,07	24,970,378,85
III. Financial Assets					
1. Shares in affiliated companies	87,762,677,96	2,454,485,20	1,228,317,08	0,00	88,988,846,08
2. Participations	9,950,00	0,00	0,00	0,00	9,950,00
3. Other financial assets	63,411,00	3,001,943,00	0,00	0,00	3,065,354,00
	87,836,038,96	5,456,428,20	1,228,317,08	0,00	92,064,150,08
	114,154,593,84	14,141,090,04	2,082,243,08	0,00	126,213,440,80

Depreciations			Net book value		
1 January 2009	Additions	Disposals	31 December 2009	31 December 2009	31 December 2008
EUR	EUR	EUR	EUR	EUR	EUR
2,665,469,95	67,253,50	2,048,74	2,730,674,71	6,448,237,16	100,113,02
1,361,467,20	162,694,56	0,00	1,524,161,76	503,488,57	666,183,13
13,911,782,26	806,787,07	228,280,45	14,490,288,88	4,924,404,77	3,913,438,53
3,122,446,16	258,444,72	432,200,70	2,948,690,18	516,751,38	544,376,56
0,00	0,00	0,00	0,00	62,593,31	33,278,07
18,395,695,62	1,227,926,35	660,481,15	18,963,140,82	6,007,238,03	5,157,276,29
0,00	12,243,943,24	0,00	12,243,943,24	76,744,902,84	87,762,677,96
0,00	0,00	0,00	0,00	9,950,00	9,950,00
0,00	0,00	0,00	0,00	3,065,354,00	63,411,00
0,00	12,243,943,24	0,00	12,243,943,24	79,820,206,84	87,836,038,96
21,061,165,57	13,539,123,09	662,529,89	33,937,758,77	92,275,682,03	93,093,428,27

3. Inventories

The raw materials include compound libraries amounting to TEUR 1,643 as of 31 December 2009. In previous years the compound libraries were impaired according to section 253 paragraph 3 sentence 1 HGB. Due to a new estimation of the usage of the compound libraries the company reversed the impairment of the libraries according to section 280 paragraph 1 HGB by TEUR 418 in 2009.

The work in progress consists of order based research and development work.

4. Accounts receivable and other assets

Accounts receivable from affiliated companies

	Maturity			
	< 1 year 31.12.2009	> 1 year	< 1 year 2008	> 1 year
	TEUR	TEUR	TEUR	TEUR
Evotec (India) Private Ltd.	2	260	0	0
Evotec Neurosciences AG	18	0	0	0
EVOTEC NeuroSciences GmbH	0	0	5,468	18,496
	20	260	5,468	18,496

Due to the excessive indebtedness of EVOTEC NeuroSciences GmbH the accounts receivable from EVOTEC NeuroSciences GmbH were impaired by another TEUR 37,386 according to section 253 paragraph 3 sentence 2 HGB. This leads to a total impairment of TEUR 101,431 (2008: TEUR 64.045).

Accounts receivable from investments in other companies

	Maturity			
	< 1 year 31.12.2009	> 1 year	< 1 year 2008	> 1 year
	TEUR	TEUR	TEUR	TEUR
European ScreeningPort GmbH	249	0	131	320
	249	0	131	320

The accounts receivable from European ScreeningPort GmbH were impaired by TEUR 989 (2008: TEUR 0) according to section 253 paragraph 3 sentence 2 HGB.

	Other assets			
	Maturity			
	< 1 Year	> 1 Year	< 1 Year	> 1 Year
	31.12.2009		2008	
	TEUR	TEUR	TEUR	TEUR
Tax authorities				
- Capital yields Tax	150	0	745	0
- Value added tax	27	0	420	0
Deposits	0	13	0	8
Others	147	0	153	0
	324	13	1,318	8

5. Other investments

The other investments include shares from listed investment funds which were used as a short-term liquidity reserve. These shares will not be used for permanent business operation purposes.

In 2009, the company acquired 59,865 treasury shares with a par value of EUR 59,865.00 for the remuneration of the members of the Supervisory Board according to their contractual agreements at a price of EUR 0.728 per share. These shares were transferred to the members of the Supervisory Board in 2009. The company has no treasury shares as of 31 December 2009.

6. Cash and cash equivalents

The cash on hand as of 31 December 2009 amounted to TEUR 3 and bank account balances amounted to TEUR 25,481 (thereof TEUR 1,371 in US Dollar and TEUR 682 in British Pounds). As of 31 December 2009 an amount of TEUR 8,303 (2008: TEUR 465) of cash and cash equivalents was pledged as security.

7. Equity

Share capital was unchanged in 2009 and amounted to EUR 108,838,715.00 or 108,838,715 shares by 31 December 2009.

Conditional capital was unchanged in 2009 and amounts to EUR 10,599,380.00. It was created to give stock options to employees and members of the Management Board of the company or affiliated companies.

From an economic perspective, Evotec's subsidiary Renovis, Inc. owns 1,646,772 of Evotec's shares, representing 1.51% of Evotec's nominal capital.

In the course of the merger between Renovis, Inc. and Evotec AG, certain options and deferred stock units (DSUs) held by Renovis employees were transformed into Renovis shares. These shares were delivered into an irrevocable Company Trust for the benefit of the Renovis employees (under the conditions of the original agreements entered into when these options or DSUs were granted). At Closing of the merger, the Renovis shares delivered into the Company Trust were exchanged in Evotec American Depository receipts (ADRs), whereby one ADR represents two Evotec shares. Upon valid exercise of options/DSUs by Renovis employees, the Company Trust delivers the respective number of ADRs to these employees. The Trust Agreement between Renovis, Inc. and the Trustee provides that once all obligations of the Trust to deliver ADRs under the option agreements or the DSU agreements are satisfied or otherwise extinguished (e.g. due to an expiry of exercise periods or non-occurrence/discontinuance of exercise conditions), any ADRs held by the Company Trust shall be delivered to Renovis, Inc. or Evotec AG, as instructed by Renovis, Inc.

The ADRs in the Company Trust are treated as economically owned by Renovis, Inc. Legal ownership of these ADRs will be acquired by Renovis, Inc. or Evotec AG, respectively, once all rights of Renovis employees will have been satisfied or extinguished and the shares remaining in the company Trust will have been delivered to either Renovis, Inc. or Evotec AG according to instruction by Renovis, Inc. That acquisition of legal ownership will not require a consideration, section 71 paragraph 1 number 4 AktG.

The approved capital amounted to EUR 21,733,878.00 equal to 21,733,878 shares as of 31 December 2009.

In a letter dated 9 July 2009, Stichting Pensioenfonds ABP, Heerlen, The Netherlands, has given notice, pursuant to section 21 paragraph 1 of the WpHG, that on 9 July 2009, its voting interest in Evotec AG fell below the threshold of 3% and amounted to 2.97% (3,232,795 voting rights).

Stichting Pensioenfonds ABP has further informed the company that it does not have a parent company, a major shareholder or an investment manager who controls its voting rights.

In a letter dated 30 September 2009, ROI Verwaltungsgesellschaft mbH, Düsseldorf, Germany, has given notice, pursuant to section 21 paragraph 1 and section 22 paragraph 1 sentence 1 number 1 WpHG, that on 29 September 2009, its voting interest in Evotec AG exceeded the threshold of 10 % and amounted now to 11.07 % (12,051,313 voting rights).

These voting rights are fully attributed to Mr. Roland Oetker from ROI Verwaltungsgesellschaft mbH according to section 22 paragraph 1 sentence 1 number 1 WpHG.

Therefore, in a letter of 30 September 2009, Mr. Roland Oetker, Germany, has given notice, pursuant to Section 21 paragraph 1 WpHG, that on 29 September 2009, his voting interest in Evotec AG exceeded the threshold of 10 % and amounted to 11.07 % (12,051,313 voting rights).

Mr. Roland Oetker has further informed us on his own behalf and on behalf of ROI Verwaltungsgesellschaft mbH with regard to the voting rights announcements as above and pursuant to Section 27a WpHG as follows:

* The purchase of the stocks pursues strategic objectives. Dependent on the development of the stock price it is intended to obtain further voting rights within the next 12 months either by purchase or in another manner. Currently, no influence on the composition of the Management Board or the Supervisory Board of Evotec AG exceeding the importance of ordinary voting rights on Evotec AG's Annual General Meeting is aimed for. Moreover, currently no material changes in Evotec AG's capital structure which might affect the proportion of equity financing and debt financing or the dividend politics of Evotec AG, are aimed for.

* The capital spent for acquiring the voting rights by ROI Verwaltungsgesellschaft mbH are capital resources of ROI Verwaltungsgesellschaft mbH.

8. Pension accruals

Pension accruals were set up according to a valuation by Mercer Deutschland GmbH and pertain a former director of Evotec Biosystems GmbH, of which Evotec is the successor in title.

9. Other accruals

Other accruals

	31.12.2009	31.12.2008
	TEUR	TEUR
Outstanding invoices	1,595	1,729
Bonus	1,326	1,132
Earn out RSIPL	748	0
Termination agreement	352	1,700
Unclaimed vacation	299	229
Others	424	1,111
	<u>4,744</u>	<u>5,901</u>

Contained in the accruals for outstanding invoices is an accrual of TEUR 280 (2008: TEUR 198) for Supervisory Board remuneration and of TEUR 165 (2008: TEUR 223) for the payment to inventors.

10. Liabilities

Bank loans

Bank loans as of 31 December 2009 comprise of two loans totalling to TEUR 6,500 (2008: TEUR 3,000) which are due within one year. The first loan will be repaid by 10 December 2010, the second loan will be repaid by 30 June 2010. The interest rate for both loans is 1.15 % above six month EURIBOR. The loans are secured by a general terms and conditions lien.

Accounts payable to affiliated companies

	Maturity			
	< 1 year 31.12.2009	> 1 year	< 1 year 2008	> 1 year
	TEUR	TEUR	TEUR	TEUR
Evotec (UK) Ltd.	337	0	307	0
Renovis Inc.	3,494	0	82	0
Evotec RSIL Ltd.	3	0	0	0
EVOTEC NeuroSciences GmbH	1,715	0	0	0
	<u>5,549</u>	<u>0</u>	<u>389</u>	<u>0</u>

The netting of the accounts receivable and the accounts payable from affiliated companies includes TEUR 9 from Renovis Inc., TEUR 430 from EVOTEC NeuroSciences GmbH and TEUR 700 from Evotec (UK) Ltd.

Other liabilities

The other liabilities include essentially a wage tax liability amounting to TEUR 118 and a customer with a credit balance of TEUR 407.

IV. Notes to the Statement of Operations

1. Revenues

The company recorded revenues of TEUR 14,604 (2008: TEUR 12,793) through services, thereof TEUR 2,391 with affiliated companies (2008: TEUR 2,771).

The company's revenues with third parties can be divided into following geographical regions:

	2009	2008
	TEUR	TEUR
Germany	4.208	2.175
United Kingdom	849	597
Switzerland	656	551
Denmark	637	60
Rest of Europe	105	1.167
United States of America	5.363	4.912
Japan	381	542
Rest of the world	14	18
Total	12.213	10.022

2. Other operating income

	2009	2008
	TEUR	TEUR
Cost charged to affiliated companies	2,516	3,042
Sublease of building	1,099	1,216
Income relating to other periods from reversal of accruals	162	758
Others	1,065	1,326
	<u>4,842</u>	<u>6,342</u>

3. Depreciation

The depreciation includes TEUR 37,386 from the impairment of the loan receivables from EVOTEC NeuroSciences GmbH, TEUR 989 from the write-down of loan receivables from European ScreeningPort GmbH and TEUR 65 from the write-down of other assets.

4. Other operating expenses

	2009	2008
	TEUR	TEUR
Rental expenses including related costs	1,924	1,896
Legal and consultancy expenses	1,130	2,655
Costs charged from affiliated companies	1,072	1,766
Repairs and maintenance	827	738
Costs for Services	418	410
Royalty costs	392	185
Others	4,770	5,728
	<u>10,533</u>	<u>13,378</u>

5. Income from investments

	2009	2008
	TEUR	TEUR
Direvo Biotech AG		
- Sale of convertible bonds	167	4,607
Evotec (UK) Ltd.		
- Dividend	0	27,431
- Capital reserve reduction	2,770	12,400
Neuro 3d S.A.		
- Liquidation	1.243	0
	<u>4,180</u>	<u>44,438</u>

6. Amortisation of financial assets and current investments

Amortisation of financial assets in 2009 mainly includes an impairment of the investment in EVOTEC NeuroSciences GmbH amounting to TEUR 2,330 and an impairment of the investment in Renovis Inc. amounting to TEUR 9,914.

7. Extraordinary result

Extraordinary result of 2008 includes only extraordinary expenses amounting to TEUR 1,700 as a result from a severance agreement with a member of the Management Board.

8. Income tax

The income tax includes TEUR 124 for corporate tax (2008: TEUR 115) and TEUR 150 for corporate trade tax (2008: TEUR 145) as a result of the tax calculation for 2009.

V. Other Disclosures

Audit fees

	2009	2008
	TEUR	TEUR
Auditing	177	120
Other auditing and valuation services	191	374
Tax consultancy services	24	53
Other services	0	5
	<u>392</u>	<u>552</u>

Employees

In 2009, the average headcount was 99 (2008: 101).

As part of the stock option plan, employees of the company and its affiliates received a total of 621,450 options (2008: 0) as well as the Management Board received 700,000 options (2008: 600,000).

Other financial obligations

The other financial obligations for 2010 are mainly obligations from service contracts, rent and leasing and add up to TEUR 2,307 (thereof to affiliated companies TEUR 0). The sum of all existing obligations from 2011 to 2014 is TEUR 5,700. Obligations with a longer term amount to TEUR 0.

According to the loan agreement with European Screening Port GmbH the company is obliged to disburse a loan with an amount of up to TEUR 1,500. This loan has been utilised with an amount of TEUR 989 as of 31 December 2009.

Guarantees and Other Commitments

In order to prevent the legal consequence of over-indebtedness of EVOTEC NeuroSciences GmbH (TEUR 106,366) Evotec AG issued letter of comfort.

Corporate Governance Code

Both Management Board and Supervisory Board have issued a statement in accordance with section 161 AktG which has been made permanently available in the past and in future to all shareholders on Evotec's website www.evotec.com.

Management Board

Dr Werner Lanthaler, Business Executive, Hamburg (Chief Executive Officer)
(from March 2009),

Dr Klaus Maleck, Biotechnologist, Hamburg (Chief Financial Officer),

Dr Mario Polywka, Chemist, Oxfordshire, UK (Chief Operating Officer).

The remuneration paid to the members of the Management Board in the financial year totalled TEUR 1,201 (2008: TEUR 1,264), of which TEUR 395 (2008: TEUR 362) were variable remuneration. The remuneration includes TEUR 589 for Dr Mario Polywka which were not paid by Evotec. Furthermore, its variable portion contains a retention bonus of TEUR 225. Fixed remuneration includes base salaries, contributions to personal pension plans, premiums for accident and accidental death insurances as well as the benefit derived from the use of company cars. The variable remuneration of the Management Board is based on a bonus scheme designed by the Remuneration Committee of the Supervisory Board and is then approved by the Supervisory Board. The variable portion of the remuneration in 2009, payable on the achievement of certain strategic targets for the business year 2008, was based on the following criteria:

	Achievement of defined corpo- rate milestones	Achievement of personal objectives
	%	%
Dr Klaus Maleck	90	10
Dr Mario Polywka	90	10

In addition, Dr Mario Polywka and Dr Klaus Maleck were granted an extra bonus of TEUR 20 respectively as compensation and incentive for jointly leading the company during the period of vacancy of the CEO position until Dr Werner Lanthaler joined Evotec in March 2009.

The variable portion of the remuneration in 2010 refers to the business year 2009 and is based on the following criteria:

	Achievement of five defined corporate mile- stones	Achievement of personal objectives
	%	%
Dr Werner Lanthaler	100	-
Dr Klaus Maleck	90	10
Dr Mario Polywka	90	10

Under the Company's stock option plan, the members of the Management Board received 700,000 (2008: 600,000) options in 2009 which may be exercised after three years provided the conditions of this plan are met.

	2009	2009	2009
	Fixed remuneration	Variable remuneration	Stock options
	T€	T€	
Dr Werner Lanthaler	295	0	500,000
Dr Klaus Maleck	243	74	100,000
Dr Mario Polywka	268	321*	100,000
Total	806	395	700,000

* including a onetime retention bonus of TEUR 225

The contracts of the Management Board members contain a change-of-control clause that would allow them, in the event of a takeover of the Company, to terminate their current contracts. Such a change-of-control occurs when a new investor assumes more than 30% of the shares of the Company. Upon contract termination the chief financial officer Dr Klaus Maleck and the chief operating officer Dr Mario Polywka are entitled to severance payments of one year's base salary plus bonus, calculated on the basis of the prior year's remuneration, while Dr Lanthaler is entitled to two years base salary, but no more than the total remuneration due for the remaining term of the contract. The company has a Directors and Officers (D&O) insurance policy in place for the Management Board, the Supervisory Board, the executive management and the managers of subsidiary companies. The insurance expense amounted to TEUR 180 in total in 2009 (2008: TEUR 179), and was paid by the company.

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

Apart from the payments to Jörn Aldag, no payments were made in 2009 to any former member of the Management Board.

Dr Werner Lanthaler is Non-Executive Member of the Board of Directors der BioXell S.p.A., Segrate, I (until March 2009), as well as Member of the Board of Directors of Evotec India (Private) Ltd., Maharashtra, India (since 31 August 2009).

Dr Klaus Maleck is Chairman of the Board of Directors of European SeeningPort GmbH, Hamburg, D (since January 2009) and Member of the Board of Directors of Evotec India (Private) Ltd., Maharashtra, India (since 31 August 2009).

Dr Mario Polywka is Non-Executive Chairman of the Board of Directors of Glycoform Ltd, Oxfordshire, UK (until November 2009), as well as Pharminox Ltd, Oxfordshire, UK and Non-Executive Member of the Board of Directors of Evotec-RSIL Ltd, Maharashtra, India, as well as Member of the Board of Directors of Evotec India (Private) Ltd., Maharashtra, India (since 31 August 2009).

Supervisory Board

Dr Flemming Ørnskov, Global President Pharmaceuticals, Bausch & Lomb, Inc. Zürich, CH (Chairman);

Dr Corey Goodman, Managing Partner venBio, LLC, Oakland, CA, US (Vice Chairman since 4 June 2009) (until 31 December 2009);

Dr Hubert Birner, General Partner of Techno Venture Management GmbH, Landsham/Pliening; (Vice Chairman until 4 June 2009);

Dr Peter Fellner, Non-Executive Chairman of Vernalis plc., Oxfordshire, UK (since November 2009, former Executive Chairman);

Mary Tanner, Managing Director, Peter J. Solomon LLC, New York, NY, US;

Dr Walter Wenninger, former Member of the Management Board of Bayer AG, Leverkusen (from 4 June 2009);

John Walker, Chief Executive Officer iZumi Bio, Inc., Atherton, CA, US (until 4 June 2009);

The remuneration paid to the members of the Supervisory Board in the financial year 2009 amounted to TEUR 280 (2008: TEUR 198). The members of the Supervisory Board were members of the following other Supervisory Boards, Committees and Bodies according to section 125 paragraph 1 sentence 3 AktG:

Dr Flemming Ørnskov

Non-Executive Chairman of the Board of Directors:

Astion Pharma A/S. Copenhagen, DK; Santaris Pharma A/S, Copenhagen, DK;

Non-Executive Member of the Board of Directors:

PCI Biotech Holding ASA, Oslo, NO; Shangdong Bausch & Lomb Freda Pharmaceutical Company Limited, Jinan, CN; Spepharm Holding BV, Amsterdam, NL (since December 2009).

Dr Corey Goodman

Non-Executive Chairman of the Board of Directors:

iPierian, Inc., South San Francisco, CA, US (since July 2009); Limerick BioPharma, Inc., South San Francisco, CA, US (since July 2009, formerly Non-Executive Member); Oligasis, LLC, Palo Alto, CA, US (since October 2009); PhyloTech, Inc., San Francisco, CA/US (since June 2009);

Non-Executive Member of the Board of Directors:

Mirna Therapeutics Inc., Austin, TX, US (since December 2009); NeuroTherapeutics Pharma, Inc., Chicago, IL, US (since September 2009).

Dr Hubert Birner

Non-Executive Chairman of the Board of Directors:

Argos Therapeutics Inc., Durham, North Carolina, US;

Non-Executive Member of the Board of Directors:

BioXcell SA, Segrate, IT; Nitec Pharma AG, Reinach, CH; Proteon Therapeutics Inc., Waltham, US; Spepharm Holding BV, Amsterdam, NL; TransMolecular, Inc., Cambridge, MA, US.

Dr Peter Fellner

Non-Executive Chairman of the Board of Directors:

Astex Therapeutics Ltd., Cambridge, UK; Consort Medical plc, Hemel Hempstead, UK (since May 2009, formerly Non-Executive Member);

Non-Executive Member of the Board of Directors:

Biotie Therapeutics Corp., Turku, FI (since November 2009); QinetiQ Group plc, London, UK (until August 2009); UCB SA, Brussels, BE.

Mary Tanner

Non-Executive Member of the Board of Directors:

Synvista Therapeutics, Inc., Montvale, NJ, US (until August 2009).

Dr Walter Wenninger

Chairman of the Supervisory Board:

Pain AG, Aachen, DE; Noxxon Pharma AG, Berlin, DE;

Non-Executive Member of the Board of Directors:

Recordati S.p.A., Milano, IT; Santharis Pharma A/S, Hoersholm, DK.

John Walker

Non-Executive Member of the Board of Directors:

Aerovance, Inc., Berkeley, CA, US; Affymax, Inc., Palo Alto, CA, US; Ceregene, Inc., San Diego, CA, US; Geron Corporation, Menlo Park, CA, US (until January 2009); Transcept Pharmaceuticals, Inc., Pt. Richmond, CA, US (since January 2009).

Scientific Advisory Board

One meeting of the board took place in 2009. The remuneration amounted to TEUR 86 (2008: TEUR 39)

Others

The company has prepared Consolidated Financial Statements that qualify as statutory obligatory Consolidated Financial Statements pursuant to section 315a par. 1 HGB, which will be published in the electronic German Federal Official Gazette („Bundesanzeiger“). The company prepares Consolidated Financial Statements for the largest and smallest possible number of companies. These statements can be obtained at the Commercial Register in Hamburg, Germany.

Hamburg, 25 February 2010

Dr Werner Lanthaler

Dr Klaus Maleck

Dr Mario Polywka

Evotec AG, Hamburg

Management Report for the Financial Year 2009

I. Operations and Business Environment

Organisational Structure and Business Activities

Evotec AG (hereinafter referred to as “Evotec” or “the Company”) is a publicly listed stock corporation operating under German law. The Company has its headquarters in Hamburg, Germany and operating subsidiaries in Abingdon, UK; North Potomac, Maryland, USA; Thane, India and Singapore and employed 99 people at the end of 2009.

Evotec AG is the parent company of Evotec group which is focused on drug discovery and development for novel small molecule therapeutics. Through various research programs Evotec group generates high quality research results, building a portfolio of proprietary drug candidates and feeding into the pipeline of its partners in the pharmaceutical and biotechnology industries.

Evotec AG for itself is a drug discovery and development company focused on providing integrated and innovative drug discovery services and alliances to the pharmaceutical and biotechnology industry.

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

Significant Corporate Development Events

In March 2009, Evotec published its 'Evotec 2012 – Action Plan to Focus and Grow'. With this initiative, the Company communicated its refocused strategy to invest into and grow its core Discovery Platform. In addition, Evotec AG decided to significantly reduce its Selling, General & Administrative (SG&A) expenses. With these measures reducing headcount by 7 employees Evotec de-risked its business model substantially and laid the grounds to secure liquidity beyond 2012.

In May, as a further result of implementing 'Evotec 2012 – Action Plan to Focus and Grow', Evotec group announced the re-engineering of its research operations, including the closure of its South San Francisco facility (Renovis), to more effectively leverage the Discovery Platform. In this relation, Evotec AG established a new R&D pipeline with buying the proprietary projects VR1 antagonist (vanilloid receptor 1) and P2X₃ antagonist (treatment of inflammation and urinary incontinence) from Renovis in November 2009.

In August, the Company acquired a 70% controlling stake of the Indian company, Research Support International Private Limited, Thane, for €2.5m in cash. Included in the purchase price is an earn-out due in 2010 amounting to €0.8m. Evotec has a call option to purchase the remaining 30% in the event of a change-of-control.

In November, Evotec published its intention to voluntarily delist its American Depositary Shares from NASDAQ Global Market and to concentrate its share trading on its home market in Germany. Evotec filed Form 25 with the NASDAQ on 20 November 2009, and the delisting became effective on 30 November 2009. Evotec thereby followed the trading behaviour of its shareholders and intends to reduce unnecessary complexity in its capital market presence and related costs. Evotec's re-entry into the German technology index TecDAX in October 2009 is expected to support this decision and to further increase liquidity for Evotec's shareholders though increased visibility of the stock.

Additionally in November, Evotec transferred 38 employees from its subsidiary EVOTEC NeuroSciences GmbH to Evotec AG. In this course, Evotec bought the intellectual properties of the proprietary research projects for H3 antagonist (treatment of cognitive disorders and narcolepsy) and B1 antagonist (treatment of neuropathic pain and inflammation), as well as the early stage programmes Orexin and Kv1.3 from EVOTEC NeuroSciences GmbH.

Management and Supervision

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

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

Under Evotec's Articles of Association, the Supervisory Board determines the size of the Management Board, which must have at least one member under the German Stock Corporation Act. The statutory maximum term for members of the Management Board is five years, but Evotec's current practice is to limit the terms to three years. Management Board members may be reappointed and may be dismissed with good cause prior to the termination of their terms of office. Dr Werner Lanthaler was appointed to the position of President & Chief Executive Officer in March 2009, succeeding Jörn Aldag who left the Company in December 2008. Dr Lanthaler had previously served as Chief Financial Officer of Intercell AG in Vienna, Austria, where he was also responsible for business development and marketing. Dr Klaus Maleck, Chief Financial Officer, and Dr Mario Polywka, Chief Operating Officer, continued in their management positions.

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

Impact of Business Environment on Evotec's strategy

Management's objective is to systematically and continuously increase the value of the Company. Management has successfully transformed Evotec AG and its subsidiaries from a small technology provider into a focused discovery and development company. Non-core research services and the discovery instruments business were divested for cash.

Evotec's strategy is to build a sustainable, profitable drug discovery business. Consequently, Evotec focuses on high value, revenue generating partnerships with pharmaceutical and biotechnology companies. Additionally, Evotec will bring some of the (purchased) proprietary projects to a position where they become partnerable. The key elements and related non-financial performance measures of Evotec's strategy are as follows:

Focus on the Discovery Platform

Evotec has built substantial drug discovery expertise and an industrialized platform that can assist pharmaceutical and biotechnology partners drive new innovative small molecule compounds into the clinic. This expertise covers the entire spectrum of discovery and is applicable to targets across multiple therapeutic indications. Its capabilities include high-throughput and high-content screening, fragment-based drug discovery and *in vivo* pharmacology. In addition, Evotec has built a deep internal knowledge base in various therapeutic areas. Leveraging these skills and expertise,

the Company intends to organically grow its Discovery Platform through strategic partnerships with pharmaceutical and biotechnology companies.

Establish corporate collaborations to assist in the development and commercialisation of Evotec's pipeline products

Evotec invested in proprietary late-stage preclinical research programmes with focus on H3 antagonists for the treatment of cognitive disorders and narcolepsy, B1 antagonists for the treatment of neuropathic pain and inflammation, as well as antagonists for the purinergic receptor P2X₃ for the treatment of inflammation and urinary incontinence. Evotec seeks to selectively partner or publicly fund these assets for further development.

Financial Control Criteria

As described above, Evotec has embarked on a strategy of focusing on its core Discovery Platform. The restructuring and reduced R&D pipeline through implementation of 'Evotec 2012 – Action Plan to Focus and Grow' resulted in lower financing of Evotec's subsidiaries and has significantly reduced cash burn in 2009 and will lead to a path of sustainability. Cash and cash equivalents together with bonds and investment funds presented as other financial assets and other investments at the end of 2009 amounted to €31.5m. The continuous tight watch on SG&A expenses have resulted in a significant change in the structure of Evotec's Statement of Operations.

Evotec's goal is to reach operative profitability and to generate cash by 2012. The Company believes that the strong growth anticipated in its Discovery Platform and its drive toward sustainable profitability, is the basis for future success and shareholder value creation.

Cash forecasts, including the definition of minimum cash levels, the monitoring of contract research revenues and milestones, and operational cash flow are critical to short and mid-term financial performance. Value analysis based on discounted cash flow models are the most important financial control criteria for Evotec's investment decisions and development projects.

Management engages in monthly financial reviews with a strong emphasis on key financial performance drivers such as revenues, order book status and gross margins as well as careful cost analysis (SG&A, R&D expenses) to measure its performance against its financial targets. Evotec's performance against its 2009 financial targets is explained in detail below.

General Market and Healthcare Summary

General Economic and Healthcare Review

After the crash of the financial markets in 2008, the real economy suffered from a strong recession in 2009. Following the governments' rescue efforts including multi-billion dollar bail outs, the banking systems normalised although financing remained tight. The economic environment reflects the financial shock with high public debt

levels and low interest rates on 31 December 2009. Interest rates in the US are close to zero (FED interest rates: 0.25%), in Europe the ECB inter-banking interest rates are at 1%. Despite this cheap money, capital for riskier investments is not readily available. Relevant raw material prices, in particular crude oil were massively depressed in the first half year, concurrent to the economic crisis. They became somewhat speculative again in the second half but have not reached last year's high.

While in the first quarter of 2009 stock markets were still depressed, positive early indicators, underpinned by massive governmental support programmes, helped to re-establish trust in the markets in early summer. Over the year, stock markets across the globe gained 25%, with especially strong developments in the BRIC countries. The German DAX Index closed the year up by 23.8% in line with other European stock markets (FTSE 100: 22.1%, CAC40: 22.3%, IBEX: 29.8%). The Dow Jones Industrial Average improved by 18.8%, while the NASDAQ Composite saw a substantial 43.9% increase over the past year. The biotech indices, starting from a low level, improved too. NASDAQ Biotech Composite improved by 15.6%, which was less than the general market development due to financial distresses.

Although the top-line of the pharmaceutical industry was not affected by this economic downturn, the aftermaths were manifold, especially for biotech companies, as refinancing became challenging and R&D budgets were cut across the industry. Because of ongoing issues over patent expiries and shallow pipelines nearly all the top pharma companies have publicly stated that their growth strategies include both organic R&D and opportunistic M&A of entire companies and individual projects. Looking forward, most sector analysts see little impact on pharma's medium term R&D spending plans. Importantly for Evotec, these R&D strategies will increasingly include outsourced R&D on both a fee-for-service and a collaborative / co-development basis in order to increase efficacy and reduce fixed costs.

The regulatory environment continues to be challenging with the agency focusing specifically on safety and relevance over efficacy. It appears the FDA is concluding that the risk of approval is only justified if a drug meets an unmet medical need or if it provides a well-defined benefit over existing therapies.

Exchange Rate Development

The World's banks' short-term interest rate cuts had a major impact on currencies, including the US Dollar, Sterling and Euro. Sterling kept its historic low against the Euro, staying close at parity, after the Bank of England's interest rate cut in January. Investors seeking a safe haven from the havoc that has been overwhelming the world markets flocked first to US treasuries, creating a steep rise in the US Dollar. In the second half of 2009, carry trade impacted the exchange rate to the opposite, and the US Dollar lost its strength against the Euro. Therefore overall the US Dollar to Euro exchange rate had no material impact on Evotec's financial position. The Company generates approximately 35% of its revenues in Dollars and has low expenses in foreign currencies. In addition, the currency translation of liquid assets held in US Dollars into Euros negatively impacted Evotec's reported liquidity position during the year. At year-end, however, the rise of the US Dollar in the last quarter had a positive liquidity impact.

Evotec is one of the very few European small cap biotech companies with a healthy liquidity position and believes this to be a competitive advantage in building the Company and shareholder value. Hence, especially in this difficult market environment, Evotec will continue to operate as capital-efficiently as possible, to carefully assess the funding of its in 2009 acquired R&D activities and capital investments. Balancing this against cash inflows from revenue-bearing business helps assuring that Evotec's cash will be sufficient to develop the Company to sustainability.

Management's General Assessment of Business Performance

In 2009 Evotec AG sustained its position in a still difficult business environment. Core business revenues with third parties excluding license income improved over 2008 by 6 %. With the transfer of Employees and some R&D projects from EVOTEC NeuroSciences GmbH, Evotec will reduce significantly the financial needs of this subsidiary, while maintaining the chance to profit from a partnering event. The transferred employees will also work on growing the discovery platform. Evotec AG remains comfortably financed and, also through its affiliates, possesses a pipeline that includes several partnerable assets that could provide significant upside. The investments in these assets, however, will be focused on the most value-generating steps and programmes.

II. Financial Report

Results of operations

Revenues

Evotec's total revenues in 2009 amounted to € 14.6m, an increase of € 1.8m or 14 % in comparison with the previous year (€ 12.8m). Third party sales increased from € 10.0m (2008) to € 12.2m. Within third party sales, assay development and screening (incl. nuclear magnetic resonance (NMR) screening) performed slightly worse with a decrease of € 0.2m (3 %) compared to 2008 (€ 5.4m). FTE-based revenues showed an increase of € 0.7m (22 %) to € 3.8m in 2009 mainly driven by one customer (€ 0.5m). The increase is caused by a mix of a higher number of paid FTE's during the year and profitable foreign currency effects due to a stronger US-Dollar. License income amounted to € 3.2m (2008: € 1.5m). The increase is composed of a milestone of € 1.0m and of € 0.7m relating to a license payment portion from a former Joint Venture partner. The internal demand from affiliated companies, which includes support for external projects of subsidiaries and for internal R&D programmes, decreased by € 0.4m. This is mainly caused by the decreasing demand for support of internal R&D programmes due to the above mentioned 'Evotec 2012 – Action Plan to Focus and Grow' and the transfer of some R&D projects from Evotec's subsidiaries.

The geographical spread of revenues for Evotec continues to be global. Driven by the license income, the European market was the largest market for Evotec in 2009 (53 %) followed by the US market (44 %). The Asian market (3 %) is of lower significance. The top customer represented almost 29 % of the revenues, but the remaining third party revenues are spread over a large number of different customers.

Gross profit (Rohertrag)

The gross profit (Rohertrag) for 2009 increased to € 12.0m which translates into a gross profit margin of 82.4 % (2008: € 9.2m respectively 72.0 %). The increase in revenues contributed € 1.8m to the increase of the gross profit whereby license income with € 1.7m made up the major part. Evotec's focus on contract research led to an increase of external resource needs by € 0.1m for customer projects but reduced the expenses for platform R&D, especially fragment-based screening, by € 0.7m. In summary, total outsourcing costs were reduced by € 0.7m from € 1.6m to € 0.9m. Material expenses (€ 1.6m) as part of cost of revenues are € 0.3m lower in comparison to the previous year (€ 1.9m). This is a result of less usage from Evotec's compound library (€ 0.2m) in 2009 and savings for consumables by € 0.1m due to re-negotiations of terms with Evotec's supplier.

Net result

The net loss for the year increased by € 19.2m to € 43.6m (2008: net loss of € 24.4m). As mentioned above the net loss is positively impacted by the increase (€ 2.8m) of the gross profit (Rohertrag).

The net loss was dominated by the following specific effects:

Evotec benefited in 2009 from € 2.8m gain from a reduction in capital reserves of Evotec (UK). In 2008, Evotec (UK) Ltd performed a reduction in capital reserves and distributed dividends to Evotec AG which positively impacted the net loss in 2008 in the amount of € 39.8m. € 0.2m gains with convertible bonds from DIREVO Biotech AG positively impacted net loss in 2009 while in 2008 a gain relating to the sale of those convertible bonds in connection with the sale of DIREVO Biotech AG to Bayer HealthCare contributed € 4.6m. Additionally, Evotec benefited in 2009 from € 1.2m earnings related to the liquidation of Neuro3d S.A.

In 2009, loan receivables of € 37.4m and the investment (€ 2.3m) in EVOTEC NeuroSciences GmbH were written-off as a result of the over-indebtedness of Evotec AG's subsidiary EVOTEC NeuroSciences GmbH. Additionally, a write-down of the investment in Renovis Inc. was recognised in 2009 amounting to € 9.9m due to the wind down of the US operations. Also in 2009, a write-off of loan receivables amounting to € 1.0m with the European ScreeningPort GmbH, a minority holding of Evotec, was recognised. This write-off is based on an insufficient cash forecast of the European ScreeningPort GmbH in the near future. And hence, Evotec's Management decided a cancellation of debt subject to restoration (Forderungsverzicht mit Besserungsabrede). In 2008, loan receivables of € 64.0m were written-off as a result of the over-indebtedness of Evotec AG's subsidiary EVOTEC NeuroSciences GmbH.

The following variations additionally impacted the net loss of 2009:

A decrease in intercompany recharges (€ 0.6m), income from reversal of provisions (€0.6m) and foreign currency exchange gains (€ 0.5m) lowered the other operating income, with a slight offsetting effect of € 0.4m from a write-up of parts of the company's compound library.

Personnel expenses decreased slightly by € 0.1m to € 7.7m. Headcount was reduced due to the implementation of "Evotec 2012 – Action Plan to Focus and Grow" during 2009 but increased by the transfer of employees from EVOTEC NeuroSciences GmbH in November 2009. Incurred expenses for restructuring efforts are included in the personnel expenses as well and partly absorbed the effect of the action plan.

Other operating expenses decreased by € 2.9m to € 10.5m and contributed positively. One major effect in the amount of € 1.8m resulted from a decrease of foreign currency losses. Additional effects occurred in 2009 over 2008 from a decrease of consultancy expenses in connection with the achieved implementation of a new ERP-system, audit costs related to Renovis Inc. and associated costs to achieve Sarbanes-Oxley compliance.

Evotec AG received by € 1.6m higher interest income from intercompany loans which was reduced by € 0.6m lower interest income mainly from cash on deposits due to low interest rates in 2009 despite a higher average cash position held in 2009. Interest expenses were reduced by € 0.5m in 2009 mainly caused by the repayment of a loan from Evotec (UK) Ltd. in 2008.

Extraordinary expenses of € 1.7m in 2008 related to the termination agreement with Evotec's former CEO Jörn Aldag who left Evotec effective 31 December 2008. There were no extraordinary expenses in 2009.

Financing and financial position

Cash and Financing

As per 31 December 2009, Evotec's cash and cash equivalents together with bonds and investment funds presented as other financial assets and other investments amounted to € 31.5m which is lower than at the end of 2008 (€ 38.9m). Evotec benefited from a repayment of share capital by Evotec (UK) Ltd. of € 3.2m and a cash inflow from the liquidation of Neuro3d S.A. (€ 2.0m). Additionally, Evotec received license payments from a milestone (€ 1.0m) and from a former Joint Venture (€ 0.7m). A significant part of the liquidity was used to finance the affiliate EVOTEC NeuroSciences GmbH and its proprietary R&D programmes (€ 7.9m, net). Furthermore, cash was used in relation with the RSIPL acquisition (€ 1.6m) and to finance the European ScreeningPort GmbH (€ 0.7m).

Assets and liabilities

Capital structure

Evotec's share capital and additional paid in capital stayed unchanged in comparison to 2008. Total equity decreased to € 106.0m (2008: € 149.6m) mostly affected by the write down of current and financial assets. No stock options were exercised by Evotec employees during the year ended 31 December 2009. Hence, Evotec ended the year with an equity ratio of 84.6% (2008: 92.7%).

Net assets and liabilities

The Company owns fixed assets consisting of leasehold improvements, technical equipment and machinery, fixture and fittings (predominantly laboratories) and scientific and technical equipment for use in these laboratories. In addition, the Company has offices and information technology which are also used by its affiliated companies.

As in previous years new investments in tangible fixed assets were handled restrictively. Tangible fixed assets increased from € 5.2m at end of 2008 to € 6.0m in 2009. € 0.3m were assets which Evotec bought from EVOTEC NeuroSciences GmbH in relation to the employee transfer from the subsidiary to Evotec. In general, capital expenditures in 2009 were used to replace old machinery and equipment respectively where required for Evotec's long-term collaboration agreements.

Financial assets comprise the Company's shareholdings in affiliates and other financial assets. These investments decreased to € 76.8m (year-end 2008: € 87.8m), mainly due to the write down of the investments in EVOTEC NeuroSciences GmbH and Renovis Inc.

As of 31 December 2009, inventories increased slightly to € 2.2m (2008: € 1.8m), mainly due to a write-up of parts of Evotec's compound libraries. Receivables decreased to € 2.0m (2008: € 27.1m) mainly due to a decrease in accounts receivables from affiliated companies (€ 23.7m). The loan provided to European ScreeningPort GmbH was increased from € 0.3m to € 1.0m during 2009 and then fully impaired at the end of the year as described above. Further € 0.3m loans were allowed to Evotec (India) Private Ltd. The decrease in other assets is mainly a result of the offset of capital yields tax for previous years (€ 0.7m).

Evotec AG's debt with financial institutions increased by € 3.5m to € 6.5m as per 31 December 2009. The Company borrowed a maturity loan of € 3.0m in December 2007, repayable at the end of 2010 and additional € 3.5m in December 2009, repayable mid of 2010. Trade accounts payable decreased from € 1.1m to € 1.0m. Accrued liabilities decreased from € 6.1m to € 5.0m mainly in connection with the termination agreement with the former CEO Jörn Aldag provided for in 2008. Liabilities with affiliates increased to € 5.3m (2008: € 0.4m), primarily due to the transfer of

intellectual properties on proprietary research from EVOTEC NeuroSciences GmbH and Renovis Inc. invoiced in December 2009.

Employees

Evotec employed on average 99 staff in 2009 compared to 101 in the year before. Headcount decreased during the year following the “Evotec 2012 – Action Plan to Focus and Grow”, implemented in March, but increased in November when the employees of EVOTEC NeuroSciences GmbH were transferred to Evotec.

Remuneration of the Management Board

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

In 2009, fixed and variable remuneration of active members of the Management Board totalled T€ 1,201, of which the variable part amounted to T€ 395. The remuneration of the Management Board included T€ 589 for Dr Mario Polywka who was not paid by Evotec AG.

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

Variable remuneration is determined by a bonus scheme that is designed every year by the Remuneration and Nomination Committee of the Supervisory Board and is subsequently approved by the Supervisory Board. The variable portion of the remuneration paid out in 2009, payable upon the achievement of certain strategic targets for the business year 2008, was based on several criteria. For Dr Mario Polywka and Dr Klaus Maleck, 90 % was based on the achievement of five defined corporate milestones and 10 % on the achievement of personal objectives. In addition, Dr Mario Polywka and Dr Klaus Maleck were granted an extra bonus as compensation and incentive for jointly leading the Company during the period of vacancy of the CEO position until Dr Werner Lanthaler joined Evotec in March 2009.

The variable portion of the remuneration to be paid out in 2010 depends on the achievement of certain strategic targets for the business year 2009. For Dr Werner Lanthaler it will be based on the achievement of five sets of corporate milestones. For Dr Klaus Maleck and Dr Mario Polywka it will be based on these corporate milestones

for 90 % of their bonus and for the remaining 10 % on the achievement of personal objectives.

In addition to their fixed and variable remuneration, the members of the Management Board received a total of 700,000 stock options in 2009 under the Company's stock option plans. The options granted in 2009 are subject to the stipulations of the Option Plans 2007 and 2008, respectively and may be exercised after three years if the conditions of these plans are met.

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

* including a onetime retention bonus of T€225

The contracts of the Management Board members contain a change-of-control clause that allows them to terminate their current contracts in the event of a takeover of the Company. Such a change-of-control occurs when a new investor assumes more than 30% of the shares of the Company. Upon contract termination the Management Board members Dr Maleck and Dr Polywka are entitled to severance payments of one year's base salary plus bonus, calculated on the basis of the prior year's remuneration, while Dr Lanthaler is entitled to two years base salary, but no more than the total remuneration due for the remaining term of the contract.

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

Apart from the payments to Jörn Aldag, no payments were made in 2009 to any former Management Board member.

The Company has made a provision for pension for one former Management Board member amounting to T€75. No further such provisions are due for other former Management Board members or their surviving dependents.

Remuneration of the Supervisory Board

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

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

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

For their contributions in 2009, the individual members of the Evotec Supervisory Board receive the following compensation:

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

After his resignation from the Supervisory Board in August 2008, Professor Dr Heinz Riesenhuber entered into a two-year consultancy agreement with Evotec. Thus the Company is able to call upon Professor Dr Riesenhuber's knowledge and expertise of the Company's business activities and its business environment. The agreed compensation amounted to T€ 22.5 in the first 12 months and to T€ 25.0 in the last 12 months of the agreement.

For the period from December 2008 to June 2009, the Company had entered into a consultancy agreement with flemmingo GmbH, a consultancy firm led by Evotec's Supervisory Board Chairman Dr Flemming Ørnskov. Reaching well beyond Dr Ørnskov's duties as Chairman of the Supervisory Board, flemmingo GmbH consulted and represented the Company in discussions and negotiations with potential industry partners about partnering of Evotec's drug candidates. The firm also provided Evotec consulting services related to the finalisation of a strategic project. With the approval of the Supervisory Board the consultancy firm received T€ 25 per month for its services.

Dr Corey Goodman, member of Evotec's Supervisory Board until 31 January 2010, was a member of the Company's Scientific Advisory Board until the end of 2009. For his activities on the Scientific Advisory Board, the Company, with the approval of the Supervisory Board, entered into an agreement with Dr Goodman which entitled him to a yearly payment of T€ 10 plus T€ 2 per participation in a full day physical meeting of the Scientific Advisory Board.

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

Directors and Officers Liability Insurance (D&O Insurance)

Evotec has procured directors and officers liability insurance coverage for its Management and Supervisory Board members, its senior management and the directors of its subsidiaries, at a cost to the Company of T€ 180 in 2009. For the Management and Supervisory Board members an appropriately sized deductible was agreed upon.

Information Pursuant to Section 289 Paragraph 4 of the German Commercial Code

Evotec's management focuses on value creation. To that degree, any change-of-control or takeover offer that realizes some of the embedded value of the Company for the benefit of current shareholders is carefully analyzed 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 acquire 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 and Voting Rights

As of 31 December 2009 the capital stock of Evotec AG amounted to EUR 108,838,715 and was divided into 108,838,715 non-par value shares. All shares are bearer shares and have the same voting rights. Management is not aware of any restriction of the voting rights or the right to transfer. Existing stock option schemes do not allow for immediate vesting or additional issuance in the case of a takeover offer. Also, no binding lock-up agreements have been made with any shareholder, and neither stock loans, nor pre-emptive stock purchase rights are known to the Company. The Company does not control voting rights of any shares owned by employees. No shareholder holds the right to have representatives on the Company's Supervisory Board, or is restricted or bound to specific votes at annual shareholder meetings.

Shareholdings Exceeding 10% of Voting Rights

In September 2009, Evotec was notified by its shareholder Roland Oetker that he, via ROI Verwaltungsgesellschaft mbH, Königsallee 20, 40212 Düsseldorf, Germany, owned 11.07 % of the shares of the Company. The Company is not aware of any other direct or indirect shareholdings in its share capital exceeding 10 % of its capital.

Board Structure

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

Authorisation of Management Board to Issue Shares

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

1. Authorised Capital: Pursuant to section 5 paragraph 4 of the Articles of Association the Management Board, with the approval of the Supervisory Board, is authorised to increase the Company's share capital by up to EUR 21,733,878.00 in one or more tranches by 27 August 2013 by issuing new shares against cash or non-cash consideration. Any shares to be issued on this basis will be subject to the statutory subscription rights of Evotec's shareholders. Given 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.

2. Conditional Capital: The shareholders created conditional capital in the total amount of EUR 10,826,681.00, divided into 10,826,681 ordinary bearer shares with no par value. The Management Board, with the approval of the Supervisory Board, is authorized to increase the share capital only to the extent that holders of stock options, awarded by Evotec on the basis of the shareholders' resolutions from 7 June 1999, 26 June 2000, 18 June 2001, 7 June 2005, 30 May 2007 or 28 August 2008 exercise their rights to subscribe for the new shares. Currently, after certain holders of stock options

have exercised 227,301 stock options in the past and new shares have been issued from this conditional capital accordingly, an amount of 10,599,380 remains for new shares to be issued from this conditional capital as further outlined in section 5 paragraphs 5 to 11 of the Articles of Association.

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

Authorisation of Management to Repurchase Stock

As of 31 December 2009, and as authorised by the last shareholder meeting, the Company is authorised to acquire by 3 December 2010 stock of the Company amounting to a mathematical share in the capital stock of altogether up to € 500,000.00 for the purpose of Supervisory Board compensation and to fulfil subscription rights that were and/or are granted within the framework of stock option programmes. To the extent that treasury stock is to be transferred to members of the Management Board such a decision is to be made by the Supervisory Board. In both cases, shareholders' subscription rights shall be excluded and stock may not be acquired for trading purposes.

Amendment to the Company's Articles of Association

Any amendment to the Company's Articles of Association requires a shareholder resolution. According to section 15 of the Articles, the shareholder resolution amending the Company's Articles of Association requires an affirmative vote of at least three quarters of the Company's share capital present in a general shareholders' meeting.

Change-of-Control Provisions

The Management Board of Evotec AG has only customary change-of-control rights. Their individual contracts contain a change-of-control clause which allows management to terminate their current contracts in the event of a change-of-control. The resulting severance entitlement is equal to 24 months of base salary but no more than the total compensation due for the remaining term of the contract for Dr Werner Lanthaler and one year's base salary plus bonus for Dr Klaus Maleck and Dr Mario Polywka. The remuneration of the Management Board is reported in more detail in the 'Remuneration Report' of this Management Report.

III. Risk Management and Risk Report

Risk and Opportunity Management System

Evotec is aware that it needs to regularly monitor and limit the risk exposure associated with its business and to successfully capture new business opportunities in order to secure the generation of shareholder value. Evotec therefore places substantial emphasis on risk management as an ongoing management task. Evotec employs a comprehensive risk management policy and risk management system which forms an

integral part of the Company's management processes and complies with the legal requirements. Evotec's risk management system assesses permanently and in a systematic manner all material company activities and identifies, analyses and values risks. It documents and communicates these centrally to the Risk manager and the executive board (Vorstand). Despite the hereafter explained suitable and functional system, there cannot be an absolute certainty to identify and manage all possible risks. The system's efficiency is verified on a continuous basis and regularly reported to the Audit Committee. Besides the formal risk management guidelines, which are described in the following, the risk management system is based upon Evotec's general guidelines of corporate management and the code of conduct, as described in the Declaration of Corporate management.

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

To cover other risks associated with the Company's business, including those that would not have a short-term financial impact, Evotec performs regular commercial project portfolio reviews. Strict application of project and investment approval processes, legal contract review procedures and signing authorities are also standardised procedures. In addition, the Company emphasizes its IT security throughout the Company and reviews its insurance coverage regularly. Compliance with the regulatory environment, for example environment, health and safety, has a high priority and corresponding training programmes are in place. All these measures and procedures, as well as further controls, were adapted and implemented in line with the Evotec SOX compliance activities. The Company also takes its Corporate Governance responsibilities very seriously. A declaration according to Section 161 AktG was made by the Management Board and the Supervisory Board of the Company. This declaration regarding the Company's compliance with the Corporate Governance Codex is accessible to the shareholders on Evotec's website.

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

Evotec's risk management system comprises of the following elements:

(i) a **Risk Early Detection System** to identify risks as early as possible, to precisely describe them, to quantify their potential damage value and their probability of occurrence (wherever possible) and to report them to the competent management in a timely fashion, and

(ii) a **Risk Prevention System** to monitor the risks incurred and the measures and systems to prevent potential risks from occurring.

> The **Risk Early Detection System** shall identify and report risks as early as possible so as to allow management to deal with them from their very onset. It consists of the following two kinds of reports: Through *Internal Ad Hoc Notifications*, any risks, that are either outside the normal course of business or might have a material impact on the Company's financial performance, are raised and reported to the Risk Manager as they emerge by the manager concerned together with a summary and assessment of the specific risk and the counter measures to be taken. The Risk Manager reports the received Internal Ad Hoc Notifications to the Chief Financial Officer. Moreover, on a quarterly basis, responsible line managers forward *Periodical Risk Reports* which (i) give an update on the risks described in an interim Internal Ad Hoc Notification (if any), (ii) report about any other material risk that has occurred even when beneath the pre-defined thresholds, and (iii) monitor the success of any measure taken to deal with the previously reported risks. The Risk Manager evaluates and summarizes the various risk sheets into a quarterly report for the Management Board, which also includes a cash stress test to examine whether Evotec could bear the cash effect of all captured risks should they fully materialize in parallel. As of today, Evotec has always passed this cash stress test.

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

Internal Controls over Financial Reporting

Section 289 para 5 of German Commercial Code (HGB) requires the Management Board to take responsibility for adhering to and reporting on an internal control system for reliable financial reporting. The internal control system is part of the risk management system and primarily secures the preparation of financial statements according to regulatory and legal requirements. Evotec satisfies the requirements under Section 289 para 5 of German Commercial Code (HGB) and the requirements of section 404 of the Sarbanes-Oxley Act as Evotec shares are registered with the SEC under the Securities Exchange Act of 1934 as amended and is therefore required to

comply with all SEC stipulations during 2009. Following its delisting from NASDAQ in November 2009 Evotec will satisfy SOX requirements at least until its shares have been deregistered with the SEC.

In this context, Evotec's Management Board is required to assess annually the effectiveness of internal controls over financial reporting. The effectiveness of Evotec's internal controls over financial reporting will be audited by its independent registered public accounting firm for the first-time for the full-year 2009. From internal assessments no material weaknesses were identified and detected deficiencies were remediated immediately.

Evotec uses the Committee of Sponsoring Organizations of the Treadway Commission's 'Internal Control Integrated Framework' (COSO framework) as the basis for its internal controls over financial reporting. Using the COSO framework, Evotec's financial reporting control system is based upon:

- the control environment;
- risk evaluation;
- control activities;
- information and communication pathways and
- monitoring of the internal control systems

Evotec's internal control system is designed to ensure compliance with applicable accounting standards over its financial reporting. The system is based upon various automated and manual, preventive and detective controls, segregation of financial related duties as well as the adherence to Evotec's policies (such as the Four-Eyes-Principle for approval of all its expenditures and its financial reporting). Such controls include the utilisation of IT-based solutions that define distinctive entry and approval levels and grant respective limited access. In addition, Evotec includes external specialists, for example to value share-based compensation or to derive deferred taxes. Evotec trusts that these measures significantly reduce the risk of harmful influences to the financial reporting.

Risks

Evotec AG is exposed to different risks which are relevant to many business functions. 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 2008.

Risks inherent to drug discovery collaborations

Evotec's collaborations business is well established within the industry, and has generated a steady revenue stream over the last years. The continuous drive for increasing research efficiency, combined with superior service quality, allows Evotec to generate value through positive cash contributions, and a shared and leveraged

research platform with its customers. However, in this context, business specific risks also need to be managed:

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

> Even when exhibiting a steady revenue stream, fluctuating capacity utilization and resource allocation between different parts of the business can significantly impair profitability, unless these are carefully and flexibly adjusted. In addition, dependence on individual larger customer contracts needs to be carefully monitored. In 2009, the largest volume generated with one single customer was 29.2 % of total revenues.

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

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

Risks inherent to proprietary drug discovery and development

Through the acquisition of pre-clinical programmes from ENS and Renovis in November 2009 Evotec is newly engaged in a selected number of active drug discovery and development programmes. These programmes promise significant returns when they are successful, but also carry high scientific and financial risk, concentrated on few individual projects. Today, Evotec has no commercial drug products and there is no assurance that Evotec will successfully develop and commercialize potential drugs. Significant returns are only expected to materialize when successful research leads to upfront and milestone payments and potential royalties from future drug sales are received. Evotec expects to achieve its first payments when any one of the drug candidates is either out-licensed to a pharmaceutical or biotechnology company, or when Evotec decides to partner the drug whilst still retaining some marketing rights. Evotec trusts that the associated risks have to be assessed as medium/high. The associated risks are those inherent to the biotechnology and drug development industry in general:

> Drug discovery and development is expensive, time consuming and subject to a high degree of failure. At each stage there is an inherent risk that developments need to be aborted or delayed due to unpredictable results. The rate of failure is highest the earlier the stage of a programme. However, the cost of failure tends to be higher the later the stage of development and preclinical studies may not accurately predict the results obtained in later stage clinical testing. A number of companies have suffered significant setbacks in late-stage clinical trials even after achieving promising results in earlier

development activities. Even if Evotec identifies promising compounds to valuable targets, or in-licenses or otherwise acquires promising projects or drug candidates, any resulting internal R&D project could experience delays or even fail and it could take several years before the Company could sell or license any drug candidates, if at all.

> Evotec depends on external contract research organizations to conduct certain preclinical studies under their agreement with Evotec. Despite their contractual rights, Evotec cannot control the amount of time and resources that they devote to such programmes. The programmes may therefore not be diligent, careful or timely, and there may be mistakes in the conduct of these studies.

Evotec intends to partner or publicly fund proprietary programmes to share the risk wherever possible.

Commercial risks

The commercial risks inherent to Evotec's drug discovery alliance platform are described in detail in the section 'Risks inherent to drug discovery collaborations' of this Risk Report. Regarding other commercial risk Evotec trusts that the associated risks could be assessed as medium. Those risks are:

> Since November 2009 Evotec AG is engaged in a selected number of active drug discovery and development programmes that it intends to license to pharmaceutical companies for clinical development and commercialisation. 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. The timing and commercial values of, or financial proceeds from partnering individual projects could therefore deviate significantly from earlier projections, for better or worse.

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

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

Financing and other financial risks

> Evotec AG continues to finance its shareholdings and affiliates, primarily its subsidiary EVOTEC NeuroSciences GmbH (ENS) although at a much reduced level. ENS pre-clinical assets have been transferred and ENS is expected to require financing if any at a low level in 2010. Renovis' operations have been shut down in 2009. Evotec (UK) Ltd. generates most of its financing needs through its operations. However, despite reductions in research and development activities, expenditures on internal discovery and development programs may reduce its short- to mid-term profitability and cash reserves.

Evotec management, however, defines minimum liquidity levels which should be maintained. The Company intends to reduce part of this financial exposure in its investments through early partnering agreements with sizeable down-payments by a partner, to the degree possible and advisable when trying to maximize longer term returns. Evotec believes that existing liquidity reserves are sufficient under the risk management plan to cope with all cumulated, identified risk implications and will fund its planned activities at least until the end of 2012.

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

> Other than the trust Evotec implemented in the acquisition of Renovis to issue shares as replacement for outstanding options and similar share-based compensation involving Renovis employees, Evotec has not had any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as "structured finance" or "special purpose entities", which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Therefore, Evotec is not materially exposed to any financing, liquidity, market or credit risk that could arise if it had been engaged in these relationships.

>The general risk of losing a significant amount of cash in cash investments is continuously mitigated by spreading the investments across different types of instruments and with different counterparties. Evotec monitors its investments and the counterparties on an ongoing basis.

Currency risks

Evotec's business is affected by fluctuations in foreign exchange rates between the US Dollar, UK Sterling and the Euro. Currency exchange movements impact Evotec's reported liquidity through the translation of liquid assets held in US Dollars or UK Sterling into Euros. A portion of the funds are held in currencies other than the Euro in order to meet local operating needs.

With a high proportion of sales denominated in US Dollars, currency exposure creates a risk to Evotec's profitability.

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 objectives. However, Evotec has set up its management such that the Company's knowledge is shared amongst key employees. Furthermore, recruiting and retaining qualified scientific personnel to perform research and development work in the future is critical to Evotec's success. If Evotec is unable to attract and to retain personnel on acceptable terms despite its strong corporate culture and presence in two biotech clusters, this may delay Evotec's development efforts or otherwise harm its business.

Among other benefits, Evotec has granted stock options as a method of attracting and retaining key employees. Due to fluctuations in the trading price of Evotec ordinary shares, a substantial portion of the stock options held by Evotec employees have exercise prices that are significantly higher than the current trading price of Evotec's shares. In addition, as a German "Aktiengesellschaft", Evotec can only issue limited amounts of stock options to its employees which might not be competitive for US standards. If Evotec is unable to offer competitive remuneration including stock options that provide sufficient incentives, Evotec may be unable to retain its existing employees and attract additional qualified candidates.

In the recent past, Evotec has not encountered difficulties in attracting and retaining qualified employees. Therefore, such risk could be assessed as low and is in comparison to the previous year unchanged.

Risks associated with financial crisis

The financial turmoil witnessed during the last year has not significantly impacted Evotec operations. Evotec's cash holdings are invested at several different banks, in liquid, highly diversified investment instruments. Evotec's customers are generally financially stable pharmaceutical companies, foundations and larger biotech companies and we do not foresee an increased level of accounts receivable or a drop of future revenues due to this crisis. The financial crisis also hits the pharmaceutical industry, but especially the biotech industry and leads to an increasingly challenging partnering market and financial weakness of a few of our smaller customers. Although Evotec is well financed and anticipates no need to raise capital in the short-term, Evotec is more cautious than ever to further conserve its liquidity and strengthen its business performance. Nonetheless, the associated risks have to be assessed as medium and are in comparison to the previous year unchanged.

Other risks

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

Surviving business risks of divested businesses, PerkinElmer Cellular Technologies (former Evotec Technologies GmbH) and the Chemical Development Business, are limited to customary guarantees given to the acquirer as well as the risk of terminating existing sublease agreements with Evotec AG. The Company believes that these are limited and existing precautionary measures are sufficient. Evotec does not foresee any material warranty of future liability claims.

Management Assessment of Risk Situation

Management believes that although the risks in any drug discovery business are significant, the Company has great opportunities to create long-term value that outweigh the foreseeable risks. Following its restructuring, Evotec has further reduced its risk exposure and mitigates its business risk through multiple customer contracts. With highly competitive research collaborations business, a significantly reduced cost structure, supported by substantial financing and adequate risk and opportunity management systems, Evotec is well prepared to deliver on its strategy and to develop the Company to sustainability.

IV. Post Balance Sheet Events

There are no material events to be reported.

V. Outlook

Expected General Market and Healthcare Development

Economic Development

The global economy is in the early stages of a recovery following the sharpest contraction for many decades, but progress is uneven. Economists are forecasting a rosier 2010 for global finances than the year 2009 has been. But they warn that the economic recovery remains fragile and will not be led by the world's advanced industrialised nations.

The Drug Discovery Market

The global drug discovery market is expected to experience robust growth, exceeding \$ 8bn in 2010 and reaching \$ 14bn in 2013.

The global pharmaceutical industry continues to face a significant R&D productivity challenge. There is increasing pressure for pharmaceutical companies to develop new drug compounds due to the near-term loss of patent protection for many drug products. And there is also pressure to reduce the time and money spent in drug discovery in order to bring drugs to market faster and more affordably.

While innovative scientific technologies and approaches are a rich source for the identification of novel drugs, they have and will continue to make drug discovery more complex, dramatically increasing the number of drug targets and active compounds prosecuted. Biotechnology companies often lack the technical staff or technology to process their targets internally. Those companies as well as pharmaceutical companies increasingly turn to outsourcing R&D activities which provides them with expertise in required areas without the need to build additional infrastructure and capabilities internally. This is where discovery outsourcing solutions, such as those provided by Evotec, can help make the drug discovery and development process more efficient.

Business Direction and Strategy

In its research collaborations, the Company will continue to work with customers on a wide variety of disease areas and target classes. Evotec is working towards increasing its level of participation through results-based partnerships with pharmaceutical companies, resulting in milestones and royalties for Evotec in addition to research payments. The customer segments addressed will continue to include pharmaceutical and biotechnology companies as well as academia and not-for-profit organisations.

With the new proprietary research projects, Evotec gained a chance to profit from a partnering event.

To maintain its competitive advantage, Evotec will continue to leverage its advanced technologies, superior know-how and expertise in areas such as fragment-based drug discovery, library enhancement, multiple target classes, in particular ion channels and GPCRs, and profound disease biology expertise in CNS. Evotec will also use its drug discovery platform and expertise to progress a German government research program funded by the German Federal Ministry of Education and Research (BMBF).

V. Business Performance in 2010 and 2011

Profitability Outlook

Revenues

Despite the general difficult economic environment Evotec AG expects no change in the main market of its products and services. For 2010, the current order book, expected new contracts and contract extensions, shows increased demand from third parties in comparison to 2009 at the same time last year so that total revenues in the range of 2009 are anticipated. Growing revenues are expected for 2011.

Results

Evotec AG's result will operationally depend on the financial performance of its drug discovery business. License income was positively influenced by exceptional milestone and license payments in 2009 which are not expectable for 2010 and 2011. Material and outsourcing cost are expected to increase in the next two years over 2009, mainly caused by additional expenses for research and development programmes. Therefore the Company expects a lower gross profit (Rohertrag) margin as in 2009. Negative contributions will originate from corporate expenses not chargeable to the affiliates. But these costs are expected to be lower for the next years due to the restructuring efforts in 2009.

Actual results as well as individual contributions from revenues and costs could materially deviate from these projections.

Finance Outlook

With the transfer of employees and proprietary projects, the Company is expecting to reduce significantly the future financing needs from its investments, especially for EVOTEC NeuroSciences GmbH (ENS), for the further enhancement of the proprietary pipeline. With additional milestone income, ENS will be nearly able to finance itself. European Screening Port GmbH may need further loans but only in smaller amounts. Liquidity outflow is expected to increase with the investments in proprietary research and funded research programmes. However, the focus on the growing drug discovery platform will lead to higher cash generating in the near future so that liquidity of Evotec AG will be sufficient to fund its operations over the next 3 years.

A successful partnering event may influence the critical threshold positively.

General Statement of Expected Development

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

Management's core strategy for Evotec is to continue to focus on its Discovery Business to lead the path to profitability and sustainability, to expand base business capabilities through strategic investments in platform technologies, know-how and disease expertise, and to partner with more strategic customers.

By focusing on and expanding its profitable business, the Company has the opportunity to build significant long-term value for its shareholders.

Dividends

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

Hamburg, 25 February 2010

Management Board

Dr Werner Lanthaler

Dr Klaus Maleck

Dr Mario Polywka

Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of Evotec AG, Hamburg, for the business year from 1 January to 31 December 2009. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Section 317 HGB [„Handelsgesetzbuch“: „German Commercial Code“] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [„Institute of Public Auditors in Germany“] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company 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 books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and 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 annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with [German] principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Hamburg, 25 February 2010

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