Translation of

Financial Statements as of 31 December 2011 and Management Report

Evotec AG
Hamburg

Evotec AG, Hamburg

Balance Sheet as at 31 December 2011

A s s e t s

	31 December 2011		31 December 2010	
	EUR	EUR	EUR	EUR
A. Fixed Assets				
I. Intangible Assets				
Purchased patents, licences and similar rights		5.555.169,94		5.533.357,51
II. Property, plant and equipment				
1. Land, land rights and buildings including buildings on third party land	965.241,51		340.794,01	
2. Technical equipment and machinery	6.127.093,22		4.607.830,75	
3. Fixtures and fittings	679.891,98		456.345,87	
4. Payments in advance	1.031.984,36	8.804.211,07	166.618,65	5.571.589,28
III. Financial Assets				
1. Shares in affiliated companies	72.235.363,99		70.999.817,96	
2. Participations	9.950,00		9.950,00	
3. Other financial assets	2.983.150,00	75.228.463,99	3.000.000,00	74.009.767,96
		89.587.845,00		85.114.714,75
B. Current Assets				
I. Inventories				
1. Raw materials and supplies	1.619.509,54		1.713.767,20	
2. Work in process	567.100,06		265.731,35	
3. Payments in advance	0,00	2.186.609,60	65.800,00	2.045.298,55
II. Receivables and other assets				
1. Trade accounts receivables --thereof due after one year EUR 0.00 (2010: EUR 0.00)--	6.386.880,35		1.158.249,80	
2. Accounts receivables due from affiliated companies	13.550.850,39		3.391.845,65	
3. Accounts receivables due from investments in other companies	501.940,45		139.080,94	
4. Other assets	760.164,70		261.729,53	
--thereof due after one year EUR 344,501.82 (2010: EUR 90,536.00)--		21.199.835,89		4.950.905,92
III. Investments				
Other investments		16.139.843,34		19.891.275,92
IV. Cash and cash equivalents		12.814.871,59		11.740.631,10
		52.341.160,42		38.628.111,49
C. Prepaid expenses		574.748,81		364.246,27
		142.503.754,23		124.107.072,51

Shareholder's equity and liabilities

	31 December 2011		31 December 2010
	EUR	EUR	EUR
A. Stockholder's equity			
I. Share capital	118.315.864,00		
--conditional capital EUR 11,676,648.00 (2010: EUR 10,592,380.00)--			
./. Treasury shares	-403,00	118.315.461,00	115.595.729,00
II. Additional paid-in capital		144.359.928,88	144.185.023,92
III. Net loss carried forward		-149.470.312,43	-146.976.285,27
IV. Net profit (+) / loss (-) for the year		496.578,92	-2.494.027,16
		113.701.656,37	110.310.440,49
B. Accrued liabilities			
1. Pension accrual		48.836,00	44.040,00
2. Tax accrual		0,00	0,00
3. Other accrued expenses		5.313.944,31	5.112.926,27
		5.362.780,31	5.156.966,27
C. Liabilities			
1. Bank loans		15.000.000,00	6.500.000,00
--thereof due within one year EUR 12.000.000,00 (i.Vj. EUR 6.500.000,00)--			
2. Advance payments received		282.449,92	277.917,36
3. Trade accounts payable		4.157.665,84	1.067.707,51
--thereof due within one year EUR 4.157.665,84 (2010: EUR 1,067,707.51)--			
4. Accounts payable due to affiliated companies		1.447.414,51	139.699,95
--thereof due within one year EUR 1.447.414,51 (2010: EUR 139,699.95)--			
5. Other liabilities		341.342,70	421.839,31
--thereof due within one year EUR 341,342.70 (2010: EUR 421,839.31)--			
--thereof taxes EUR 179,355.64 (2010: EUR 156,782.89)--			
		21.228.872,97	8.407.164,13
D. Deferred income		2.210.444,58	232.501,62
		142.503.754,23	124.107.072,51

Evotec AG, Hamburg

Statement of Operations for the period from 1 January to 31 December 2011

	2011		2010	
	EUR	EUR	EUR	EUR
1. Revenues		25.210.746,50		19.240.936,94
2. Increase in inventories		301.368,71		97.076,23
3. Other operating income		17.517.158,99		10.092.748,87
4. Cost of materials				
a) Raw materials and supplies	-3.692.918,71		-2.163.389,38	
b) Costs of services	-6.051.332,98	-9.744.251,69	-4.531.393,70	-6.694.783,08
5. Personnel costs				
a) Salaries	-10.706.758,00		-8.544.718,72	
b) Social security expenditure --thereof pension costs EUR 4,952.00 (2010: EUR 4,018.00)--	-1.390.631,01	-12.097.389,01	-1.261.011,26	-9.805.729,98
6. Depreciation				
a) of intangible assets and fixed assets	-1.727.175,81		-1.562.158,61	
b) of current assets to the extent that they exceed provisions normally recorded by the company	-5.627.721,47	-7.354.897,28	-2.160.407,61	-3.722.566,22
7. Other operating expenses		-15.924.668,54		-13.896.764,33
8. Other interest income --thereof from subsidiaries EUR 2,721,494.18 (2010: EUR 2,256,516.59)--		2.958.391,89		2.333.898,25
9. Amortisation of financial assets and current investments		-197.127,67		0,00
10. Other interest expense		-330.211,40		-147.606,06
11. Operating result		339.120,50		-2.502.789,38
12. Extraordinary expenses		0,00		-30.127,00
13. Income tax		157.458,42		38.889,22
14. Net profit (+) / loss (-) for the year		496.578,92		-2.494.027,16
15. Net loss carried forward		-149.470.312,43		-146.976.285,27
16. Accumulated deficit		-148.973.733,51		-149.470.312,43

Evotec AG, Hamburg

Notes to the Financial Statements 2011

I. General Information

Evotec AG, hereinafter referred to as „Evotec” or „the company”, fulfils the size criteria of a medium-sized company pursuant to 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, additionally, to the regulations of the German Stock Corporation Act AktG („Aktiengesetz”).

The statement of operations is presented according to the total cost method (section 275 paragraph 2 HGB).

From 11 February 2003 to 19 March 2007, the company was listed on the German Stock Exchange’s TecDAX index, having formerly been listed on 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 on the German Stock Exchange’s TecDAX index again. Additionally, the company was listed on the NASDAQ Global Market in the US since 5 May 2008. The company voluntarily delisted from the NASDAQ effective 30 November 2009. On 30 December 2010, in accordance to the US security law (Securities and Exchange act OF 1934), the deregistration of the ADS (American Depository Shares) was submitted with the form 15F at the SEC (Securities and Exchange Commission). The deregistration became effective in March 2011.

The Company concluded a new lease contract for new business premises on 22 December 2010. The move to the new building started in the second half of the financial year 2011.

II. Basis of Presentation, Accounting and Valuation Practices

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

According to Section 66 Par. 3 S. 1 EGHGB, the Company adopted BilMoG for the first time in the fiscal year 2010. Valuation adjustments were done considering the regulations of the transition period from 1st January 2010 onwards. No material effects as a result of respective adjustments were recognized in 2010. Prior years' balances have not been adjusted according to Section 67 par. 8 EGHGB.

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. Respective assets are depreciated from the point in time, they are available for use in operations.Non-real-estate fixed assets are depreciated on a monthly basis. Assets which are not yet available for operational use and have a presumably lasting decrease in their values will be unscheduled depreciated to the attributable value as of the closing date.

Low value assets which were acquired after 1 January 2008 are depreciated by 20% in the year of the acquisition and the next four years.

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

Tenant fixtures are depreciated over the period of the lease contract at the most.

Financial assets are recorded at historical cost less the unscheduled depreciation.

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

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 converted at period-end exchange rates.

Trade securities are recorded at historical cost in accordance with the lower of cost or market principle. Trade securities held in foreign currency are converted at period-end exchange rates.

Cash and cash equivalents are recorded at a nominal value.

Own shares are shown seperately from the share capital with their nominal value. Since the company does not account for any free reserves the difference between the purchase price and the nominal value is recognized within the profit and loss.

Accrued liabilities make allowance for all risks and contingent liabilities that are identifiable with sound business judgement. Future increases in price and costs are also considered according to Section 253 par. 1 HGB. According to Section 253 par. 2 HGB, accruals with a maturity of more than one year are discounted using a discount rate which is equivalent to a market interest rate over the last seven years.

Pension accruals and similar commitments are recorded in accordance with the "Bilanzrechtsmodernisierungsgesetz". The provisions have been estimated using the Projected Unit Credit-method with an interest rate of 4.86 % p. a and under consideration of Prof. Dr. Klaus Heubeck's reference tables ("Richttafeln") issued in July 2005. The interest rate is equivalent to an average market interest rate over the last seven years considering a maturity of 10 years. This interest rate is determined on the interest rates published by the Deutsche Bundesbank.

Pension progression was considered at a rate of 2.0%.

Liabilities are recorded at the amount repayable. Foreign currency liabilities are converted at period-end exchange rates.

Future taxable temporary differences which lead to **deferred tax liabilities** do not exist. Deferred tax asset for future taxable differences in accruals and losses carried forward have been calculated using a combined tax rate of 32.28% and have not been capitalized according to section 274 par. 1 s. 2 HGB.

III. Comments on the Balance Sheet

1. Fixed assets

The development of the fixed assets is specified in the summery of fixed assets (see pages 6 and 7), and includes gross cost, historic cost and manufacturing cost of assets and the respective accumulated depreciations.

The increase of the payments in advance is due to the move into a new facility.

2. Financial assets

In the financial year 2011, Evotec acquired 100% of the shares of Kinaxo Biotechnologies GmbH in Munich. Since 18th April 2011, Kinaxo is considered an affiliated company of Evotec.

The carrying amount of this investment amounts to TEUR 7,243 and contains the already paid cash portion of the purchase price (TEUR 3,000), an already paid earn out component (TEUR 1,500) as well as ancillary acquisitions costs (TEUR 146). Additionally, the company issued new shares in the value of TEUR 2,597 by way of a non-cash capital increase which are also included in the carrying amount.

The majority interest in DeveloGen AG which was acquired in 2010, was increased by way of squeeze out. Respective squeeze out caused additional acquisitions costs of TEUR 110. Due to a reduced earn out payment in 2011 the investment was reduced by TEUR 332.

The in majority interest in Evotec (India) Private Ltd. was increased to 100% due to the acquisition of the outstanding 30% of shares which were held by DIL Limited India. The purchase price was amounted to TEUR 1,700. Additionally a capital increase were realized. This increased the carrying amount by another TEUR 2,075. Overall, the carrying amount of the investment increased by TEUR 3,775 to TEUR 6,230.Due to the liquidation of the Evotec Neurosciences AG, Zurich Swizerland in 2011 which was included in Evotecs investments indirectly through Evotec NeuroSciences GmbH this is no more included in investments breakdown.

In 2011, the carrying amount of the investment in Renovis Inc. was reduced by TEUR 9,560 due to a cash payment out of the capital reserve.

In 2011 Renovis Inc. acquired 100% of the shares of Compound Focus Inc.; South San Francisco, USA. Herewith Evotec hold this investment indirectly through Renovis Inc.

As of the balance sheet date of 31 December 2011, Evotec held equity investments in the following companies:

	Total Equity	Share interest	Net income/ loss
	TEUR	%	TEUR
1. ENS Holdings Inc., Wilmington/Delaware, USA*	27,776	100.00	-24
2. EVOTEC NeuroSciences GmbH, Hamburg (indirectly through 1st)	-92,850	100.00	8,503
3. Evotec (UK) Ltd., Abingdon, UK	27,161	100.00	4,356
4. Evotec Inc., Wilmington/Delaware, USA* (indirectly through 3 rd)	225	100.00	22
5. Renovis Inc., San Francisco, USA	2,189	100.00	781
6. Compound Focus Inc., South San Francisco, USA* (indirectly through 5th)	1,175	100,00	-6,062
7. Evotec (India) Private Limited, Maharashtra (Thane), Indien**	2,553	100,00	-324
8. Evotec (Asia) Pte. Ltd. Singapore* (indirectly through 4th)	0	100,00	-36
9. Kinaxo Biotechnologies GmbH*.	73	100,00	-1,477
10. DeveloGen AG,Göttingen	5,079	99.4***	2,067
11. European ScreeningPort GmbH, Hamburg*	-10	19.90	28

* unaudited

** local stats as per March 31st 2011

*** In 2012: 100 % due to completed squeeze out in 2012

With regard to companies whose annual statements were set up in a foreign currency, the exchange rate on balance sheet date was used for equity and the average exchange rate of 2011 for the annual profit or loss statement.

The company bought a bearer bond amounting to TEUR 3,000. The market value of the bearer is 99.28% as at 31 December 2011 resulting in a fair value of TEUR 2,983 at year end. The company uses the option according to section 253 par. 3 s. 4 HGB and made a write down to the lower amount as at 31 December 2011.

Fixed Assets Movement Schedule for the year 2011

	Acquisition and manufacturing costs				
	1 January 2011	Additions	Disposals	Reclasses	31 December 2011
	EUR	EUR	EUR	EUR	EUR
I. Intangible Assets					
Purchased patents, licences and similar rights	8.112.880,37	107.422,72	0,00	0,00	8.220.303,09
II. Property, plant and equipment					
1. Land, land rights and buildings including buildings on third party land	2.027.650,33	801.630,14	0,00	0,00	2.829.280,47
2. Technical equipment and machinery	17.724.423,97	2.606.310,59	0,00	119.429,61	20.450.164,17
3. Fixtures and fittings	3.547.775,88	481.451,26	0,00	0,00	4.029.227,14
4. Payments in advance	166.618,65	984.795,32	0,00	-119.429,61	1.031.984,36
	23.466.468,83	4.874.187,31	0,00	0,00	28.340.656,14
III. Financial Assets					
1. Shares in affiliated companies	79.599.011,88	11.127.583,59	9.892.037,56	0,00	80.834.557,91
2. Participations	9.950,00	0,00	0,00	0,00	9.950,00
3. Other financial assets	3.000.000,00	0,00	0,00	0,00	3.000.000,00
	82.608.961,88	11.127.583,59	9.892.037,56	0,00	83.844.507,91
	114.188.311,08	16.109.193,62	9.892.037,56	0,00	120.405.467,14

Depreciations			Net book value	
1 January 2011	Additions	31 December 2011	31 December 2011	31 December 2010
EUR	EUR	EUR	EUR	EUR
2.579.522,86	85.610,29	2.665.133,15	5.555.169,94	5.533.357,51
1.686.856,32	177.182,64	1.864.038,96	965.241,51	340.794,01
13.116.593,22	1.206.477,73	14.323.070,95	6.127.093,22	4.607.830,75
3.091.430,01	257.905,15	3.349.335,16	679.891,98	456.345,87
0,00	0,00	0,00	1.031.984,36	166.618,65
17.894.879,55	1.641.565,52	19.536.445,07	8.804.211,07	5.571.589,28
8.599.193,92	0,00	8.599.193,92	72.235.363,99	70.999.817,96
0,00	0,00	0,00	9.950,00	9.950,00
0,00	16.850,00	16.850,00	2.983.150,00	3.000.000,00
8.599.193,92	16.850,00	8.616.043,92	75.228.463,99	74.009.767,96
29.073.596,33	1.744.025,81	30.817.622,14	89.587.845,00	85.114.714,75

3. Inventories

	TEUR 31.12.2011	TEUR 31.12.2010
Raw materials	1,620	1,714
Work in progress	567	265
Advance Payments	0	66
	2,187	2,045

The raw materials mainly include compound libraries amounting to TEUR 1,470 (2010: TEUR 1,579) as at December 31st 2011.

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

4. Accounts receivables and other assets

Trade accounts receivables

The increase in the trade accounts receivable is mainly attributable to invoiced milestone payments.

Accounts receivables from affiliated companies

	Maturity			
	< 1 year	> 1year	< 1 year	> 1 year
	31.12.2011		31.12.2010	
	TEUR	TEUR	TEUR	TEUR
Evotec (India) Private Ltd.	622	0	0	340
EVOTEC NeuroSciences GmbH	429	0	704	0
Kinaxo Biotechnologies GmbH	151	1,600	0	0
DeveloGen AG	146	0	54	2,100
Compound Focus, Inc.	39	0	0	0
Renovis Inc.	0	10,564	19	0
Evotec (UK) Ltd.	0	0	175	0
	1,387	12,164	952	2,440

Accounts receivables from affiliated accompanies include trade accounts receivables in an amount of TEUR 823 (2010: TEUR 952).

The receivables from affiliated companies manly increased due to a new loan which the company issued to Renovis Inc.

Accounts receivables were netted with liabilities of affiliated companies, including TEUR 41 liabilities from EVOTEC NeuroSciences GmbH, TEUR 106 from DeveloGen AG, TEUR 118 from Evotec (India) Private Ltd. and TEUR 4 from Compound Focus were included.

Due to the indebtedness of EVOTEC NeuroSciences GmbH, the accounts receivable were according to the prudence principle impaired by TEUR 5,628. After a repayment of the loan of TEUR 12,649, the accumulated depreciation amounts to TEUR 94,070 (previous year TEUR 101,091).

Accounts receivables from affiliated companies

	Maturity			
	< 1 year	> 1year	< 1 year	> 1 year
	31.12.2011		31.12.2010	
	TEUR	TEUR	TEUR	TEUR
European ScreeningPort GmbH	502	0	139	0
	502	0	139	0

The accounts receivables from the European ScreeningPort GmbH were impaired by TEUR 1,387 according to the prudence principle in 2010. The company agreed to a cancellation of debt subject to restoration towards the European ScreeningPort GmbH in the amount of TEUR 1,198. The remaining receivables for the financial years 2010 and 2011 exist solely due to current settlement receivables.

Other assets

	Maturity			
	< 1 Year	> 1 Year	< 1 Year	> 1 Year
	31.12.2011		31.12.2010	
	TEUR	TEUR	TEUR	TEUR
Tax authorities				
- Capital yields tax	105	0	26	0
- Corporate tax	92			
- Value added tax	10	0	0	0
Deposits	91	345	5	91
Others	117	0	140	0
	415	345	171	91

5. Other investments

The other investments include shares from listed investment funds which were used as a short-term liquidity reserve. The company invested Euro and US-Dollar in these shares. These shares will not be used for permanent business operation purposes.

	TEUR	TEUR
	31.12.2011	31.12.2010
DB Platinum IV	9,350	19,891
GE Capital Bond	4,800	0
BMW Float 03/13	1,990	0
	16,140	19,891

6. Cash and cash equivalents

As at December 31st 2011 cash on hand was TEUR 1 and the cash equivalents amounted to TEUR 12,814. (including TEUR 1,187 in US-Dollar and TEUR 151 in GB-Pound.) As at December 31st 2011, TEUR 0 (prev. year TEUR 7,278) cash and cash equivalents were pledged as security.

7. Deferred Taxes

The deferred tax receivables mainly result of taxable losses brought forward. According to Section 274 par. 1 s. 2 HGB, the receivables from deferred taxes were not activated. The tax rate for the deferred taxes is a combined rate of 32.28 % which is based on the applicable tax rates for corporation tax, solidarity surcharge and trade tax.

8. Equity

In 2011, the nominal capital rose due to the authorization of the Management Board at the annual general meeting on the 28th of August 2008, with agreement of the supervisory board from 15 April 2011, by EUR 2,597,403.00 and amounted to EUR 118,186,132.00 at the end of period. For this capital increase, the approved capital was used. This increase is connected with a contribution in kind. In order to acquire Kinaxo, , 2,597,403 new Evotec shares were issued. The entry in the Commercial Register of companies has taken place on 11 May 2011.

In 2010, another increase of nominal capital is due to the exercise of stock-options of EUR 7,000 and in 2011 nominal capital was increased by EUR 122,732.00, both increases have not yet been registered in the Commercial register of companies. The entries in the Commercial register of companies are likely to be made in 2012.

Additionally the company held due to the authorization of the annual general meeting on the 16th of June 2011and according to section 71 par. 1 no. 8 AktG 403 own shares as at 31st December 2011. The company bought 27.967 own shares with a nominal value of EUR 27,967 at a share price of EUR 2.39 with regard to the remuneration of the supervisory board. These shares are representing 0.02% of the share capital. As at 31 December 2011, 27,564 shares have been provided to the members of the supervisory board. As at 31st December 2011, Evotec held 403 own shares with a nominal value of EUR 403.00. Respective shares are shown separately from the share capital pursuant to section 272 par. 1a HGB. Hence, the nominal value of the share capital amounted to EUR 118,315,461.00 including the capital increases and the own shares. As at 31st December 2011 these shares representing 0.01% of the share capital.

The remaining approved capital amounted to EUR 23,637,226.00 equal to 23,637,226 shares as at 31 December 2011.

On 31 December 2011 the conditional capital amounted to EUR 11,669,648.00. It was created to give stock options to employees and members of the management board of the company or affiliated companies.

The additional paid-in capital rose due to exercised stock-options by EUR 174,904.96 to EUR 144,359,928.88.

Evotec´s subsidiary Renovis Inc. owns 1,328,624 Evotec shares, representing 1.12% of Evotec´s share 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 DSU´s were granted). At closing of the merger, the Renovis shares delivered into the Company Trust were exchanged in Evotec American Depositary Receipts (ADR), whereby one ADR represents two Evotec shares. Upon valid exercise of options/DSU´s 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 ADR´s under the options 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 ADR´s 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 instructions by Renovis, Inc. This acquisition of legal ownership will not require a considerable, section 71 paragraph 1 number 4 AktG.

On 13 May 2011, Evotec was notified by its shareholder Roland Oetker that he, via ROI Verwaltungsgesellschaft mbH, Königsallee 20, 40212 Düsseldorf, Germany, owned 14.74% of the shares of the Company. No further notification concerning this matter was received and the Company is not aware of any other direct or indirect shareholdings in its share capital exceeding 10% of its capital.

9. Pension accruals

Pension accruals were set up according to a valuation by Mercer Deutschland GmbH and pertain to a former director of Evotec Biosystems GmbH, of which Evotec is the successor in title. This accrual included an extraordinary increase because of the revaluation according to the BilMoG. In 2010, the company decided to add this amount in total to the accrual according to the BilMoG effective 1 January 2010. The amount of this liability is TEUR 119 (2010: TEUR 112). At the same time, the accruals for pensions were netted against an insurance cover, constituted as plan asset, amounting to TEUR 70 (2010: TEUR 68).

10. Other accruals

Other accruals

	31.12.2011	2010
	TEUR	TEUR
Outstanding invoices	1,918	1,605
Bonus	1,439	1,020
Liabilities relating to the prior facility	858	0
Unclaimed vacation	363	260
Supervisory remuneration	269	248
Risks from FX hedging deals	203	0
Uncertain accounts payable	0	1,500
Outstanding intercompany invoices	0	260
Termination Agreement	91	0
Others	173	220
	5,314	5,113

Included in the accruals for outstanding invoices is an accrual in the amount TEUR 298 (2010: TEUR 0) for the move to a new building.

11. Liabilities

Liabilities to banks

As of 31 December 2011, the liabilities to banks comprise of three loans in the total amount of TEUR 15,000 (2010: TEUR 6,500). Two of the three loans have a maturity of up to one year and one loan has a maturity of 1 to 5 years. The loans with a maturity of one year will be repaid on 30 June 2012 respectively 10 August 2012 at the latest. The interest rate for both loans is 1.3 percentage points above the six month EURIBOR per annum. The loan with a maturity of 1 to 5 years will be repaid on 13 October 2014 at the latest. The interest rate for this loan is 1.05 percentage points above the six month EURIBOR per annum.

Trade accounts payables

The increase in the trade account payables is mainly due to invoiced payables at year end connected withthe move to the new facility.

Liabilities to affiliated companies

	Maturity			
	< 1 year	> 1 year	< 1 year	> 1 year
	31.12.2011		31.12.2010	
	TEUR	TEUR	TEUR	TEUR
Evotec (UK) Ltd.	1,445	0	0	0
Renovis Inc.	2	0	0	0
Evotec (India) Private Ltd	0	0	140	0
	1,447	0	140	0

The balances only comprise trade payables.

In balancing the accounts receivables and liabilities of affiliated companies, TEUR 464 accounts receivables from Evotec (UK) Ltd were included.

Other Liabilities

The other liabilities consist of a wage tax liability in the amount of TEUR 179 (2010 TEUR 157) and customers with a credit balance of TEUR 120 (2010 TEUR 201).

Passive Rechnungsabgrenzungsposten

	TEUR	TEUR
	31.12.2011	31.12.2010
Refund of relocation expenses	1,358	0
Rent discount	746	0
Royalty	88	233
Others	18	0
	2,210	233

With regard to the relocation to new premises, the company got a refund of particular costs. This refund and a granted rent discount will be distributed over the duration of the lease contract.

IV. Comments on the Statement of Operations

1. Revenues

The company recorded revenues of TEUR 25,211 (2010: TEUR 19,241) through research and development services, thereof TEUR 5,409 with affiliated companies (2010: TEUR 5,246).

The external revenues amounted to TEUR 19,802 (2010: TEUR 13,995) including licence income of TEUR 1,645 (2010: TEUR 1,615).

Revenues with third parties can be split based on customers' locations, in the following geographical regions:

	2011	2010
	TEUR	TEUR
United States of America	8,929	5,914
Switzerland	3,586	3,183
Germany	2,872	2,762
Belgium	1,236	134
Japan	1,618	1,011
United Kingdom	930	485
Rest of Europe	400	506
Rest of the world	231	0
Total	19,802	13,995

2. Other operating income

	2011	2010
	TEUR	TEUR
Income relating to other periods		
- Income from repayments of loans	12,649	2,500
- Income from reversal of accruals	157	465
Costs charged to affiliated companies	1,648	1,319
Sublease of building	762	877
Subsidies	589	638
Revaluation of investments	0	3,644
Others	1,712	659
	17,517	10,093

3. Depreciation of current assets

This item solely refers to the depreciation of the loan granted to EVOTEC NeuroSciences GmbH.

4. Other operating expenses

	2011	2010
	TEUR	TEUR
Rental expenses including related costs	3,763	2,034
Service and maintenance	1,294	1,050
Cost charged from affiliated companies	1,276	2,259
Reconstruction/ moving expenses	1,228	0
Legal and consultancy expenses	1,191	933
Expenses relating to the prior facility	858	0
Costs for Services	645	307
Royalty costs	242	235
Others	5,428	7,079
	15,925	13,897

5. Extraordinary expenses

In 2010, the extraordinary expenses included expenses due to adjustments for accruals for pension obligations according to the BilMoG in the amount of TEUR 30.

6. Currency result

In 2011, the company recorded income relating to FX effects in the amount of TEUR 372 und expenses relating to FX effects amounting to TEUR 284.

V. Other Information

Audit Fees

In regard to the audit fees see the group financial statement which is created by the Evotec AG.

Employee Information

In 2011, the average employee count was 153 (2010: 126).

As part of the stock option plan, employees of the company and its affiliates received a total of 1,071,050 options (2010: 694,250) and the Management Board received 1,660,000 options (2010: 625,000).

Other financial obligations

The other financial obligations for 2012 mainly relate to obligations from service contracts, rent and leasing and add up to TEUR 3,253 (thereof to affiliated companies TEUR 0). The total amount of all existing obligations for the period 2013 to 2016 is TEUR 8,110. The other obligations for later periods add up to TEUR 9,939.

As agreed in the acquisition of the DeveloGen AG the company is obliged to make an earn out payment to the former share holders of DeveloGen of 30% of the net income from certain licence- and cooperation contracts after the receipt of the payment.

As agreed in the acquisition of Kinaxo the company is obliged to make earn out payments to the former share holders of Kinaxo. These payments depend on the achievement of particular revenues and the continuation of a customer project

Guarantees and Other Commitments

In order to prevent the legal consequence of over-indebtedness of EVOTEC NeuroSciences GmbH (TEUR 92,850) Evotec AG issued letter of comfort. The company does not expect this liability to be claimed, since the over-indebtedness materially relates to a loan liability in favour of the Evotec AG.

At 31 December 2011, the Company had a guarantee outstanding of TEUR 190 (31 December 2010: TEUR 190) related to securing certain payment obligations of the European Screening-

Port GmbH. As of 31 December 2010, the Company has provided a guarantee for the European ScreeningPort to obtain a further loan facility in the amount of TEUR 113.

Corporate Governance Code

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

Management Board

Dr Werner Lanthaler; Business Executive, Hamburg (Chief Executive Officer)

Colin Bond; Qualified Chartered Accountant, Hamburg (Chief Financial Officer)

Dr. Cord Dohrmann; Biologist, Göttingen (Chief Scientific 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 3,265 (2010: TEUR 2,088), of which TEUR 511 (2010: TEUR 433) is a variable remuneration and of which TEUR 1,525 (2010: TEUR 587) is a remuneration with long term incentive effect. The remuneration includes TEUR 434 for Dr. Mario Polywka which was not paid by Evotec but is rather recharged by another group company. Fixed remuneration includes base salaries, contributions to personal pension plans, insurance premiums 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. Respective scheme was approved by the Supervisory Board. The variable portion of the remuneration in 2011, payable on the achievement of certain strategic targets in the business year 2010, was based on the following criteria

	Achievement of defined corporate milestones	Achievement of personal objectives
	%	%
Dr Werner Lanthaler	80	20
Dr Klaus Maleck ***)	60	40
Dr Mario Polywka	60	40
Dr Cord Dohrmann **)	60	40
Colin Bond *)	60	40

*) Member Management Board since 01 August 2010
**) Member Management Board since 01 September 2010
***) Member Management Board till 31 October 2010

The variable portion of the remuneration in 2012 will be payable on the achievement of certain strategic targets in the business year 2011 and will be based on the following criteria:

	Achievement of defined corporate milestones	Achievement of personal objectives
	%	%
Dr Werner Lanthaler	80	20
Colin Bond	60	40
Dr Cord Dohrmann	60	40
Dr Mario Polywka	60	40

In 2011 under the Company's stock option plans, the members of the Management Board received 1,660,000 (2010: 625,000) options which may be exercised after three or four years, depending on the option plan, provided that the conditions of this plan are met..

	2011	2011	2011	2011	
	Fixed remuneration	Variable remuneration	Stock options	Fair value of stock options	Total remuneration
	TEUR	TEUR	in pcs	TEUR	TEUR
Dr Werner Lanthaler	376	294	640,000	597	1,267
Colin Bond	276	52	290,000	261	589
Dr Cord Dohrmann	266	42	290,000	261	569
Dr Mario Polywka	311	123	4400,000	406	840
Total	1,229	511	1,660,000	1,525	3,265

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. Upon contract termination, the Management Board member Dr Werner Lanthaler is entitled to severance payments of a two year's base salary. Dr Mario Polywka is entitled to severance payments of 18 month salary. Colin Bond as well as Dr. Cord Dohrmann are entitled to severance payments of a one year´s base salary plus bonus, but in all cases 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 expenses amounted to TEUR 124 in 2011 (2010: TEUR 214), and were paid by the company.

In 2011, Dr. Klaus Maleck received a variable remuneration that amounted to TEUR 63 with regard to his former membership in the management board.

In 2010 the Company paid a remaining amount of TEUR 322 to Jörn Aldag according to his exit agreement. He resigned from the Company's Management Board effective 31 December 2008.

Evotec accounted for a liability in favour of a former manager of the Evotec Biosystems GmbH for which the Evotec AG is the legal successor which is explained in more detail in the management report.

Dr. Werner Lanthaler is member of the Verwaltungsrat of Pantec Biosolutions AG, Rugell, LI..

Dr. Cord Dohrmann is Chief Executive Officer of DeveloGen AG, Göttingen.

Dr. Mario Polywka is Non Executive Chairman of the Board of Directors of Pharminox Ltd., Oxfordshire, UK and Member of the Board of Directors of Evotec India (Private) Ltd., Maharashtra, India.

Supervisory Board

Dr. Flemming Ørnskov, Zurich, CH, Head General Medicine, Bayer Schering Pharma AG (Chairman);

Dr. Walter Wenninger, Leverkusen, Former Member of the Management Board of Bayer AG, Leverkusen (Vice Chairman);

Dr. Hubert Birner, Gräfeling, General Partner of Techno Venture Management GmbH (TVM), Landsham/Pliening;

Roland Oetker, Düsseldorf, Managing Partner, ROI Verwaltungsgesellschaft mbH, Düsseldorf (since 16 June 2011);

Prof. Dr. Andreas Pinkwart, Alfter, Rector and Academic Managing Director of the, Handelshochschule Leipzig gGmbH, Leipzig (since 16 June 2011)

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

Dr Peter Fellner, Winnersh, UK, Non Executive Chairman Vernalis plc, Winnersh, UK.(until 16 June 2011).

The remuneration paid to the members of the Supervisory Board in the financial year amounted to TEUR 269 (2010: TEUR 248). The members of the Supervisory Board were members of the following other Supervisory Boards, Committees and Bodies according to section 125 paragraph 1 clause 3 AktG:

The Supervisory Board had the following additional memberships in supervisory boards and memberships in comparable governing bodies of enterprises according to § 125 par. 1 third sentence AktG:

Dr Flemming Ørnskov

Non-Executive Chairman of the Board of Directors:
Santaris Pharma A/S, Kopenhagen, DK.

Non-Executive Member of the Board of Directors:
PCI Biotech Holding ASA, Oslo, NO (till March 2011);
Spepharm Holding BV, Amsterdam, NL (till March 2011).

Dr. Walter Wenninger

Chairman of the Supervisory Board:
Noxxon Pharma AG, Berlin.

Non-Executive Member of the Board of Directors:
Recordati S.p.A. Mailand, I;
Santharis Pharma A/S, Hoersholm, DK.
Paion AG, Aachen (till May 2011);

Member of the Advisory Group:
Novo A/S, Hellerup, DK.

Dr. Hubert Birner

Non-Executive Chairman of the Board of Directors:
Argos Therapeutics Inc., Durham, North Carolina, USA.

Non-Executive Member of the Board of Directors:
Proteon Therapeutics Inc., Waltham, USA;
Spepharm Holding BV, Amsterdam, NL;
Transmolecular, Inc., Cambridge, MA, USA;
Horizon Therapeutics, Northbrook

Mary Tanner

Member of the Board of Directors:

Lineagen Inc., Salt Lake City, USA (from September 2011).

Roland Oetker

Member of the Supervisory Board:

Deutsche Post AG, Bonn;

Rheinisch-Bergische Verlagsgesellschaft mbH, Düsseldorf.

Member of the Board of Trustees:

RAG-Stiftung, Essen.

Dr Peter Fellner

Non-Executive Chairman of the Board of Directors:

Astex Therapeutics Ltd., Cambridge, UK;

Consort Medical plc, Hemel Hempstead, UK;

Biotie Therapeutics Corp., Turku, FI;

Optos plc, Dunfermline, UK.

Non-Executive Member of the Board of Directors:

UCB SA, Brüssel, BE.

Member of the Advisory Group:

Novo A/S, Hellerup, DK.

Subsequent events after 31st December 2011

Effective 4th January 2011, Evotec AG completed the squeeze-out process to acquire all of the remaining shares of DeveloGen AG from its minority shareholders. With the registration of the squeeze-out in the commercial register Evotec became the sole owner of DeveloGen AG which has been renamed to Evotec (Göttingen) AG. The former minority shareholders of DeveloGen will receive a payment of EUR 12.75 per share, summing up to approximately EUR 180,000.

Other

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, 24 February 2012

Dr Werner Lanthaler   Colin Bond   Dr. Cord Dohrmann   Dr Mario Polywka

Management Report

I. Operations and Business Environment

Organisational Structure and Business Activities

Group Structure

Evotec AG (hereinafter referred to as “Evotec” or “the Company”) is a drug discovery alliance and development partnership company. The Company is operating worldwide and has integrated top-class scientific experts, state-of-the-art technologies as well as experience and expertise in key therapeutic areas like CNS diseases, pain, metabolic diseases and related disease biology know-how.

Evotec is a publicly listed stock corporation operating under German law and has its headquarters in Hamburg, Germany.

Evotec’s operating subsidiaries are located in Abingdon, UK; Thane, India; Göttingen and Munich, Germany; and South San Francisco, USA. Offices in Hamburg, Germany, Oxford, UK as well as North Potomac and South San Francisco, USA as well as Thane, India handle Evotec’s international sales activities. The Evotec AG employed 167 people at the end of 2011.

Products, Services, and Business Processes

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

In its contracted drug discovery, Evotec provides services to pharmaceutical and biotechnology companies. The Company has built substantial drug discovery expertise and an industrialised platform that can assist its partners to drive new innovative small molecule compounds into clinical trials. This expertise covers the entire spectrum of discovery and is applicable to drug targets across multiple therapeutic indications. Its capabilities include early-stage assay development and screening, compound management, fragment-based drug discovery and *in vivo* pharmacology. The Company continuously updates its capabilities to always deliver a first-class infrastructure and service (see ‘Upgrading the Technology Platform 2011’ on page 3 of this report). Evotec’s alliance partners include, among others, Boehringer Ingelheim, CHDI, Genentech (Roche), Vifor, Ono Pharmaceutical, Shionogi, Takeda and UCB. In exchange for access to its integrated discovery offerings Evotec receives contractual service fees and ongoing FTE-based research payments and, in certain circumstances, up-front technology or drug asset access fees, and milestone and royalty payments related to the achievement of certain research, development and sales milestones.

In summary, Evotec works as a high-quality discovery solution provider for dedicated project groups within pharmaceutical and biotechnology companies, which outsource drug discovery projects to manage their core functions and increase capital efficiency. Evotec has integrated all disciplines of drug discovery, optimised the whole process and consequently implemented a strategy of providing innovation as core of its partnering activities.

Important Market and Competitive Position

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

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

Evotec is ideally positioned to take full advantage of these market developments. By assembling top-class scientific experts and integrating state-of-the-art technologies, as well as substantial experience and expertise in key therapeutic areas, the Company has established a unique competitive position.

Significant Corporate Development Events 2011

In March 2011, the deregistration under the U.S. Securities Exchange Act of 1934 (Exchange Act) for its American Depositary Shares (ADSs) and its ordinary shares underlying the ADSs were taking effect. This deregistration from the SEC was the final step following delisting from NASDAQ, which was initiated in November 2009. Evotec shares continue to be traded on Frankfurt Stock Exchange, Evotec's ADSs are traded on the over-the-counter (OTC) market in the U.S.

Also in March 2011, Evotec announced the establishment of a research collaboration with Harvard University and the Howard Hughes Medical Institute (HHMI) aimed at discovering and developing new treatments in the field of diabetes. The common goal is to develop orally available small molecule therapies that trigger or support beta cell replication. Therapies that trigger/support beta cell replication are expected to enhance or even restore the body's ability to produce sufficient insulin to maintain optimal glycemic control and thereby reduce and prevent the development of diabetic complications. Leveraging key insights about beta cell replication and forming co-development alliances with pharmaceutical companies at the appropriate point in the development chain are the core strategic drivers of the collaboration.

In April 2011, Evotec acquired Kinaxo Biotechnologies GmbH, a Munich-based biotechnology company supporting the development of personalised drugs. The acquisition confirmed Evotec's leading position as a fully integrated drug discovery and early development partner for pharma and biotechnology companies, and added a unique combination of innovative technologies improving drug development across the entire pharma value chain (see also ‘Acquisition of R&D know-how’ on page 7). The purchase price consist of € 3 m in cash and 2.6 m in shares; plus earn-out payments of up to € 4 m dependent on certain performance milestones. In 2011 € 1.5 m has been payed from this Earn-out payment.

Finally, in October 2011, Evotec acquired the remaining 30% interest in Evotec (India) Private Limited, from DIL Limited India, for € 1.7 m. This acquisition gave Evotec 100% ownership of this subsidiary, of which 70% was first acquired in August 2009. As a result of the deal, Evotec successfully expanded its global scientific resource, primarily in the area of Medicinal Chemistry, to offer the most complete and cost efficient drug discovery solutions to the pharmaceutical and biotech industry. Evotec is now able to operate and accelerate its business in India with full control. The transaction allows financial optimisation and a reduction in administration costs. The deal also gives Evotec complete freedom to expand its activity in India in future without any restrictions.

Upgrading the Technology Platform 2011

In order to accelerate the drug discovery process with the best possible tools available Evotec is continually upgrading its technology base and enhancing its offering to partners by investing into its technology platform through internal research activities (see page 7), entering into technology agreements with other companies and through the acquisition of assets. Evotec's major technology upgrading initiative in 2011 comprised predominantly screening and protein production. Furthermore old equipment was replaced and upgraded, such that Evotec's employees are working with the most reliable and efficient instrumentation and the quality of the data provided for customers is reproducible and robust. Areas invested in 2011 included screening and IT. Although Evotec leased a new fitted out facility, capital expenditures had been required to house the described screening activities, in-vivo pharmacology and IT infrastructure in fitting out the new Manfred Eigen Campus in Hamburg.

Legal Structure and Supervision

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

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

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

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

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

Information regarding the remuneration of Evotec's Management Board and Supervisory Board can be found in the 'Remuneration Report' on page 15 of this Management Report.

Declaration of Corporate Management

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

Corporate Objectives and Strategy

Management's objective is to systematically and continuously increase the value of the Company by achieving the leadership position in drug discovery solutions. Evotec has established a unique competitive position by assembling top-class scientific experts and integrating state-of-the-art technologies as well as substantial experience and expertise in key therapeutic areas like CNS and neuropathic pain. Focus areas in 2011 included Huntington's disease, Alzheimer's disease and schizophrenia. The Company has a selected number of drug candidates at various stages of development that are either partnered or available for partnering.

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

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

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

The main elements of the Plan were put into effect slightly earlier than initially anticipated.

With "Action Plan 2016 – Leadership in Drug Discovery Solutions" Evotec has defined the next goals that the Company wants to achieve in the years to come (see 'Outlook', 'Business Direction & Strategy' on page 29 of this Management Report).

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

Performance Measurement

Financial Performance Measures

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

Evotec's long-term key performance indicators are derived from these goals. In addition to increasing revenues, Evotec wants to improve the Company's operating result and cash flow. This is measured using the operating result and liquidity status. At the end of the year 2011 Liquidity includes also coupon bonds which are shown as financial assets.

in k EUR	2007	2008	2009	2010	2011
Revenues	13,324	12,793	14,604	19,241	25,211
Operating result	2,254	-22,486	-43,315	-2,503	339
Liquidity	19,260	38,943	28,479	31,632	31,938

Management engages in monthly financial reviews with a strong emphasis on financial performance drivers such as revenues, order book status, project margins as well as careful cost analysis to measure its performance against its financial targets and to understand performance versus prior year.

In addition, the monitoring of contract research revenues and milestones, cash forecasts, and operational cash flow are critical in optimising Evotec´s short and mid-term financial performance. Treasury management is undertaken in a comprehensive and timely manner with the focus on cash management, FX exposure, funding optimisation and investment opportunities.

Value analysis based on discounted cash flow models is the most important financial control criterion for Evotec's investment decisions regarding M&A projects and in-licensing opportunities.

Non-Financial Performance Measures

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

- Quality of drug discovery solutions and performance in discovery alliances

With a strong focus on discovery alliances with pharmaceutical and biotechnology companies probably the most important non-financial performance indicator for Evotec is its quality of drug discovery solutions and performance in discovery alliances. Defining and following standards that always aim to be best-in-class is most important for Evotec, as the Company's goal is to accelerate the drug discovery process with the best possible tools available. Consequently, Evotec is continually upgrading its technology base and enhancing its offering to partners by investing into its technology platform through internal R&D activities, entering into technology agreements with other companies and through the acquisition of assets. For more detail see the chapter 'Upgrade the Technology Platform 2011' on page 3 of this Management Report. Only the best and most advanced technologies combined with the highest quality of drug discovery solutions, are the standards by which Evotec wishes to constantly deliver to its partners.

There are different parameters to measure customer satisfaction with Evotec's offering and performance in discovery alliances. The number and growth of alliances and the status of the Company's sales and order book (see early indicators below) are good indicators. During its 18 years of history Evotec has continued to deliver excellent results in existing programmes and expanded its customer base and global network of partnerships. The Company is now working with more than 38 pharma and biotech companies on a global scale.

	2010	2011
Number of alliances	31	38
Growth in %		*23%*
New business during the year	17	17
Growth in %		*0%*

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

At least equally important than the number of new collaborations and contract extensions is the further strategic development of Evotec's existing core alliances. The Company aims to strategically develop its large strategic alliances and deliver innovation as the core of all its partnering activities as Evotec, with its fully integrated drug discovery process, is uniquely positioned to execute a comprehensive outsourcing strategy. In 2011, revenues in Evotec's TOP 10 customers grew by 34%, with Evotec's TOP 1 customer CHDI by 38%.

In k EUR	2009	2010	2011
TOP 1: CHDI	3.571	4.267	5.903
TOP 2: Vifor	489	3.144	3.557
TOP 3: Roche	3.165	1.615	1.415
TOP 4 – 10	3.220	3.316	5.664
Total TOP 10 revenues	**10.445**	**12.342**	**16.539**
Growth in %		*18%*	*34%*

Early indicators

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

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

Research and Development

Upgrading the technology platform

Through technology agreements with other companies and the acquisition of assets Evotec is continually upgrading its technology base and enhancing its offering to partners by investing into its technology platform through internal R&D activities. In 2011, the R&D spend on platform technologies was focused on closing technology gaps within Evotec's technology platforms in the following areas: multivariate data analyses routines in the context of high content screening offering, enhanced pulse protocols for protein observed nuclear magnetic resonance (NMR) screening, process enhancement and automation of primary neuronal assays.

Development of innovative early assets in key therapeutic areas
Evotec also invests in highly innovative approaches to address key therapeutic areas and major pharmaceutical markets, e.g. beta cell technology and technologies to better understand metabolic diseases. In 2011, Evotec has continued to focus on developing early assets in innovative areas of drug discovery such as regenerative medicine. In March 2011, Evotec established a research collaboration with Harvard University and the Howard Hughes Medical Institute (HHMI) aimed at discovering and developing new treatments in the field of diabetes ('CureBeta'). The initial goal of the collaboration is to pursue a comprehensive and systematic approach towards the identification and development of physiological mechanisms and targets that regulate beta cell replication.

Acquisition of R&D know-how
In February 2011, Evotec announced the acquisition of Kinaxo Biotechnologies GmbH, a bioanalytical company supporting the development of personalised drugs. Kinaxo is a 100% subsidiary of Evotec AG and added a unique combination of innovative technologies improving drug development across the entire pharma value chain.

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

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

- PhosphoScout® provides valuable knowledge on drug modes-of-action in vivo and how they respond to drug treatment. PhosphoScout® allows to generate a phosphosignature closely correlated to drug action thereby allowing to predict drug efficacy in specific patients.

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

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

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

General Market and Healthcare Summary

Economic Development

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

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

Development in the Pharmaceutical and Biotechnology Sector

The performance of the pharmaceutical industry continues to be affected by a significant imbalance between new product introductions and patent losses. Instead of developing a product from early stage research, which involves significant funds, pharma companies are increasingly looking for promising pipeline candidates. The industry has continued to experience significant M&A activity and in-licensing transactions to make up for the loss of revenues that will arise with key products losing patent exclusivity. For example in 2011, Sanofi acquired Genzyme for $ 20 bn, Teva acquired Cephalon for $ 6.2 bn, Johnson & Johnson acquired Synthes for $ 21.3 bn and Takeda acquired Nycomed for $13.6 bn. At the same time a number of major pharmaceutical companies such as Pfizer, Merck and Abbott announced restructuring programmes. These programmes included closure plans for entire research facilities, reducing the number of disease areas of focus within their therapeutic portfolio and focusing on externalisation. This trend is expected to continue into 2012 and beyond. This constitutes a shift in the pharmaceutical landscape where the world is moving more and more towards collaborative work processes between discovery solution providers such as Evotec and dedicated project groups amongst the pharmaceutical companies, thus resulting in increased outsourcing of drug discovery projects. According to a study from Kalorama Information (June 2010) the global drug discovery market is expected to experience robust growth and reaching $ 14 bn in 2014. Outsourcing has proven to be a useful tool by which pharmaceutical companies manage their core functions and increase capital efficiency. Strategic outsourcing has provided a valuable way to achieve time and cost savings as well as provide financial and operational flexibility.

Exchange Rate Development, Interest Rates and Financing

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

The Euro (EUR) to US Dollar (USD) **exchange rate** fluctuated between 1.29 and 1.49 in 2011. The Euro remained relatively strong in the middle of the year despite the Euro crisis and the sovereign debt issues in a number of the Euro zone countries. One of the reasons for US Dollar weakness was concern about the scale of the budget deficit in the US, the level of US government borrowings and the extent of fiscal stimulus provided by the Federal Reserve. However, the Euro weakened significantly against the US Dollar in Q4 2011 as investors were attracted by the traditional safe haven status of US Government debt and some relatively positive economic data in the United States. For Evotec a strengthening USD leads to an increase in reported revenues in EUR and to an increase in liquidity in EUR terms. Overall the USD was weaker against the EUR in 2011 compared to 2010 with an average exchange rate of 1.39 compared to 1.33 in prior year. This had a negative impact on 2011 revenues of approx. € 0.5 m in comparison to 2010. In terms of liquidity at the end of the year, the USD strengthened from 1.33 to 1.29 which resulted in an unrealised gain of € 0.2 m for the year-end position of € 6.6 m.

Overall the Company is USD generative and EUR consumptive. This is due to the fact that the Company generates approximately 37% of its revenues in USD and approximately 97% of its total cost base is denominated in EUR. Evotec's policy is not to speculate on foreign exchange movements. The strategy of the Company is to sell surplus USD in both the forward and spot markets to cover ongoing EUR expenses as well as to convert surplus USD into EUR with its subsidiaries, in accordance with decisions made by Evotec's Treasury Committee.

Historically low **interest rates** continued throughout 2011. In Europe the ECB inter-banking interest rate was between 1.0% and 1.5% during the year and ended 2011 at 1.0% due to the slow-down in growth in the Euro zone. In the US, the target range for the federal funds rate was kept at between 0 and 0.25 %.The main impact of low interest rates on the financial performance of Evotec is a reduction in interest income received on the cash deposits and the short-term investments of the Company. However, there is a partially offsetting decrease in the interest expense on the borrowings of the Company.

During the course of 2011 this was entirely replaced with traditional debt without any collateral requirements. This was achieved as a result of the significant improvement in the financial performance of Evotec group in 2010 and 2011. Evotec is one of the very few European small cap biotech companies with a healthy liquidity position and believes this to be a competitive advantage in building the Company and shareholder value. Evotec will continue to operate as capital-efficiently as possible, to assess the funding of its R&D activities and capital investments carefully and to balance this against cash flow from revenue-bearing business to assure that Evotec's cash will be sufficient to develop the Company to sustainability.

Development of Evotec's shares

Evotec shares began the year in strength on the back of deals, strategic acquisitions and milestones from collaborations. The termination of the phase II clinical trial with EVT101/103 for treatment resistant depression, and the relating decision by Roche not to exercise an option to acquire the rights on the compounds was a clear setback in April. Once again, global disquiet pulled back the gains and in early August Evotec shares hit the 2011 low at € 1.58. On partnering news the shares turned and the last four months of 2011 were positive, kicking off the macro issues and gaining 48% from the low. Early September, the strategic collaboration with Roche in Alzheimer's disease confirmed investor confidence in the Company through December with positive Phase III clinical indications on Type I diabetes treatment DiaPep277 reported by partners Andromeda Biotech/TEVA and further potential milestone payments for Evotec. Despite a solid flow of strong news also including 31% group revenue growth, strong liquidity and a very strong sales order book for 2012 Evotec's share price finished the year broadly in line with the German technology stock index TecDAX. The Company closed the year off 20% at € 2.34.

Management Board's General Assessment of the Economic Situation and Business Performance

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

II. Financial Report

Results of operations

Revenues

Evotec's total revenues in 2011 amounted to € 25.2m, an increase of € 46.0m or 31 % in comparison with the previous year (€ 19.2m).

Third party revenues increased from € 14.0m (2010) to € 19.8m. Revenues are composed of assay development, screening (incl. nuclear magnetic resonance (NMR) screening) and FTE-based revenues as well as License income. Evotec generates its revenues either by signing a single contract with the customer or as a part of a contract where two or more affiliates are involved (group contracted revenues). Evotec contracted revenues increased by 39.3% from € 8.3m in 2010 to € 11.6m in 2011. Nearly half of this increase was driven by one single Customer (€ 1.6m). These revenues are FTE based and the volume increased significantly during the year. The remaining increase was reached by additional orders of existing customers and acquisition of new customers. Group contracted revenues amounted to € 6.6m in 2011. This means an increase of € 2.5m or 61.8% comparing to 2010 (€ 4.1m). The initiatives from the 'Evotec 2012 – Action Plan to Focus and Grow', implemented in spring 2009, were put into effect slightly earlier than initially anticipated. A couple of new integrated deals could be reached in 2011 and are the contributor of the increase. License income amounted to € 1.6m and remained on the same level as in 2010.

Total Internal sales increased by € 0.2m from € 5.2m (2010) to € 5.4m.The internal demand from affiliated companies includes support for external projects and for internal R&D programmes. The support demand for customer work did not changed over the year and stayed constantly with € 5.1m whereas the support for internal R&D programmes increased by € 0.2m to € 0.3m. Main support was an internal R&D programme in Develogen AG (€ 0.3m).

The geographical spread of revenues for Evotec continues to be global. The European market and the US market are nearly at the same level with 46% and 45% in 2011. This is adverse to the trend of the last years where the European market was the largest market for Evotec. The Asian and rest of world market (9 %) is still of lower significance. The top customer represented almost 30 % of the revenues, but the remaining third party revenues are spread over a large number of different customers.

Net result

The net result for the year improved by € 3.0m from a loss of € 2.5m to an income of € 0.5m.

The improvement in net result was caused by the following effects:

As mentioned above there is a positive effect of € 6.0m from the increase in revenues.

Evotec benefited in 2011 from a loan repayment by the subsidiary Evotec NeuroSciences GmbH (€ 12.6m) (2010 € 2.5m) which effects other operating income because the original loan receivables were written-off in prior periods. Income from reversal of provisions decreased by € 0.3m. With the acquisition of Kinaxo Biotecholnogies GmbH (Evotec Munich) and Compound Focus, Inc (Evotec San Franciso), Intercompany recharges increased by € 0.4m. Evotec received reimbursements for construction work from the landlord of the new Headquarter in the amount of € 0.3m. Income from current investments amounted to € 0.3m. In 2010, a reverse of the write-off of the Investment in Evotec NeuroSciences GmbH (€ 2.3m) and Renovis Inc. (1.3m) was recorded. All in all other operating income increased by € 7.4m from € 10.1m to € 17.5m.

Total raw materials and outsourcing expenses increased from € 6.7m in 2010 to € 9.7m in 2011.

Raw materials and supplies for external research programmes € 3.5m occurred € 1.5m higher in comparison to the previous year. Out of these, general materials and customer specific materials were higher by € 1.4m as a result of the increasing revenue growth. A usage of € 0.4m was recorded for Evotec's compound library in 2011 whereas a write off and usage in the amount of € 0.3m occurred in 2010. Raw materials and supplies for internal research programmes did not changed with € 0.2m comparing to previous year.

Outsourcing cost increased by € 1.6m to € 6.1m in 2011 (2010 € 4.5m). € 1.0m of this increase is related to a higher amount of outsourced work packages to Evotec's subsidiaries as a result of a higher number of integrated deals in 2011. € 0.5m is mainly related to outsourced work to Develogen AG for the internal preclinical research programme ('Curebeta') as a part of the Harvard collaboration.

Personnel expenses increased by € 2.3m to € 12.1m (2010: € 9.8m). The strong increase in demand of the operational business and resulting increase in administration required the recruitment of new employees (40 employees during 2011), so that the average number of employees increased by 24 employees in comparison to previous year.

In 2011, further € 5.6m (2010: 2.2m) loan receivables from Evotec NeuroSciences GmbH were written-off as a result of the over-indebtedness.

Other operating expenses increased by € 2.0m to € 15.9m. The move into the new building required construction work and move cost in the amount of € 1.4m. € 0.3m of the cost are funded by the Landlord but shown under other operating income as mentioned above. Additionally to the rent of the old building, Evotec paid rent for the new building of € 1.2m and running cost of € 0.4m. An amount of € 0.9m was accrued for the planned under-utilisation of the old building as well as for remediation costs. Evotec spend € 0.6m for temp workers in order to fulfil increasing customer and administrative requirements. Leasing expenses, mainly for lab equipment, increased by € 0.3m. Intercompany recharges 2011 decreased by € 1.0m to € 1.3m. In 2010, a loss from asset disposal of B1 in the amount of € 1.0m was recorded as the company does not expect a benefit from research in the future. During the year, Evotec transferred the BMBF funded project Serine Racemase from its subsidiary Evotec NeuroSciences GmbH to Evotec (€ 0.7m). Also in 2010, a further write-off of loan receivables amounting to € 0.4m from the European ScreeningPort was necessary.

Interest income from intercompany loans increased by € 0.5m to € 2.7m mainly from the intercompany agreement with Renovis, Inc. Other interest income increased by € 0.2m, which is mainly a result of a new current investments strategy but also from cash on deposits. Total other interest income increased from € 2.3m to € 3.0m.

Evotec benefited in 2011 from tax reimbursements for trade tax and corporate tax in the amount of € 0.2m (2010: € 0.1m).

Financing and financial position

Cash and Financing

As per 31 December 2011, Evotec's cash and cash equivalents together with bonds and investment funds, presented as other financial assets and other investments, amounted to € 31.9m which is a decrease of € 2.7m compared to the end of 2010 (€ 34.6m). In the context of the acquisition of Evotec Munich a payment of € 4.5m in cash was effected. Renovis, Inc. received an intercompany loan of € 10.3m in order to acquire Evotec San Francisco as an indirect investment for Evotec. Furthermore Evotec bought the remaining 30% of shares (€ 1.7m) that Evotec (India) Private Ltd. becomes a 100% subsidiary of Evotec. Thus, Evotec committed to grant Evotec (India) Private Ltd an intercompany loan of € 0.3m for capital expenditures. Additionally, Evotec paid € 2.1m as a capital increase to this entity. DeveloGen shareholders received € 1.2m as earn out payment in 2011. To finance all of these activities, Evotec benefited from the distribution of share capital by Renovis, Inc. (€ 9.5m) and draw loans in the amount of € 8.5m over the year. Additionally, cash was used to finance the investments in capital expenditures and the new building as well as operational cost of promising R&D programmes.

Assets and liabilities

Capital structure

Total share capital and additional paid in capital increased to € 262.7m in comparison to 2010 (2010: € 259.8m). Due to the acquisition of Kinaxo Biotechnologies GmbH Evotec's share capital and additional paid in capital increased by € 2.6m. Further € 0.3m resulted from exercising of stock options during the year.

Evotec entered a lock-up agreement with regard to a total of 2,597,403 Evotec shares issued in the context of the acquisition of Kinaxo Biotechnologies GmbH, out of which 991,619 shares were not to be sold before 18 October 2011, while the remaining 991,619 shares are locked until 18 April 2012.

In 2011, 122,732 stock options were exercised by employees and former Management board members of the Evotec group (2010: 7,000) and converted into Evotec shares – using conditional capital. Total equity increased to € 113.7m (2010: € 110.3m) following the acquisition and the net income of € 0.5m. Hence, Evotec ended the year with an equity ratio of 79.8% (2010: 88.9%).

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.

Tangible fixed assets increased from € 5.6m at end of 2010 to € 8.8m in 2011. Evotec invested € 4.9m for capital expenditures in 2011. This is a strong increase comparing to last year (€ 1.1m). € 1.2m of capital expenditures were spent for the equipment and modification of the new building for Evotec needs. Evotec's capital expenditures strategy in 2011 was to expand and upgrade Evotec's laboratory equipment for assay development and screening to cover the growing number of sales orders and to fulfill market approach of technology standard to keep a sustainable competitive ability. Furthermore capital expenditures were used for spend of IT and administrative equipment and to replace old machinery and equipment in general. Depreciation in 2011 was € 1.7m (2010: € 1.5m)

Financial assets comprise the Company's shareholdings in affiliates and participations. These investments increased to € 72.2m (year-end 2010: € 71,0m). The investment in Kinaxo Biotechnologies GmbH effective 19 April 2011, increased the investments by € 7.2m. Additionally, the acquisition of the remaining 30% of shares in Evotec (India) Private Ltd. as well as a capital increase into this entity increased this investment by € 3.8m. In 2011, the acquisition costs of the investments were reduced by € 9.6m (2010: € 17.8m) due to a cash payment out of the capital reserve in Renovis, Inc. In 2010, the carrying amount of the investment in Renovis, Inc. was written-up by €1.3m. Furthermore, the write-off of the Investment in 2009 (€ 2.3m) in Evotec NeuroSciences GmbH was reversed in 2010 as a result of an impairment test.

As of 31 December 2011, inventories increased slightly to € 2.2m (2010: € 2.0m), mainly due to customer projects expected to be finalised in Q1 2012 and associated increase of work in progress. Receivables increased to € 21.2m (2010: € 5.0m) Trade accounts receivables increased by € 5.2m to 6.4m (2010: € 1.2m). The increase is a result of a number of higher receivables, in particular a milestone in the amount of € 2.5m which was charged in December but not yet paid. Evotec recorded € 13.6m accounts receivables from affiliated companies (2010 € 3.4m). The increase of € 10.2m is mainly composed of loans Evotec provided to its subsidiaries. Renovis, Inc. raised a loan of € 10.3m, whereas DeveloGen AG repaid its loan of € 2.1m taken up in 2010.

Evotec AG's debt with financial institutions increased to € 15.0m from € 6.5m as per 31 December 2010. Additional loans were taken within Evotec AG. This was in order of a debt conversion and thus favourable financing opportunities within the group.

Trade accounts payable increased from € 1.1m to € 4.2m. The investment of construction work and capital expenditures in the new building as well as the investment of machinery equipment at the end of 2011 were the main contributor for this increase.

Accrued liabilities increased from € 5.2m to € 5.4m.This is mainly the result of accruals for the location at Schnackenburgallee (€ 0.9m) and in adverse the performance-related deferred payment (earn-out) to the former shareholder of DeveloGen AG (€ 1.5m).

Liabilities with affiliates increased to € 1.4m (2010: € 0.1m), primarily due to the invoices related to customer, which had to be recharged to Evotec (UK) Ltd. This is a long term collaboration where Evotec AG is the owner of the contract but work is done completely in Evotec (UK) Ltd.

Shareholdings Exceeding 10% of Voting Rights

On 13 May 2011, Evotec was notified by its shareholder Roland Oetker that he, via ROI Verwaltungsgesellschaft mbH, Königsallee 20, 40212 Düsseldorf, Germany, owned 14.74% of the shares of the Company. No further notification concerning this matter was received and the Company is not aware of any other direct or indirect shareholdings in its share capital exceeding 10% of its capital.

Amendment to the Company's Articles of Association/ Appointment of Management Board

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

III. HR Report

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

Attracting and Retaining Our People

On average Evotec employed 153 people, excluding the Management Board, in 2011 compared to 126 in the year before. As of 31 December 2011, Evotec employed a total of 167 people. To meet the increased demand in drug discovery services Evotec recruited 40 new employees in 2011. The increase mainly resulted from operations. Employees in administration only increased slightly by 5 to 34 people.

The majority of the people are graduates. 51% of the employees have been working with the Company for more than 5 years.

Flexibility in considering work-life balance

As an employer, Evotec is fully aware that individual life circumstances are becoming more and more varied, and today's employees are becoming more vocal in their demand that such circumstances should be taken into consideration. Given this trend, employee work-life balance is becoming an increasingly important factor in recruiting and retaining staff. Evotec therefore offers, where appropriate, the possibility of part-time employment arrangements as well as work-at-home options.

Women account for nearly 57 % of employees and 4 of the 9 senior managers reporting to members of the Management Board are women. At the junior entry level for young academics, more than 55% of the people Evotec hired this year are females. Evotec aims to increase the proportion of women working for the Company, especially the percentage of female managers. To help achieve this goal, the succession planning and development programme will be further enhanced in 2012.

Rewarding Performance

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

Evotec's compensation system consists of three elements:

1. A base compensation that takes into account the employees' professional and personal abilities and the level of responsibility.
2. A performance-related bonus scheme. The key criteria are overall Company performance and the individual objectives, which are agreed between each employee and his or her line manager at the beginning of the year.
3. Share options to all employees. Individual awards were performance based.

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

New building at Headquarters

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

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

Looking to the future

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

IV. Remuneration Report

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

Statements and the Corporate Governance Report. The variable remuneration for all employees is detailed in the section HR Report on page 14 of this Management Report.

Remuneration of the Management Board

The total annual compensation of the individual members of the Management Board, which is fixed by the Supervisory Board and agreed with all Management Board members, is composed of fixed and variable compensation components. It is guided by Sec. 87 AktG and the German Corporate Governance Code. In line with those requirements it is determined at an appropriate amount based on a performance assessment and is oriented towards sustainable growth of Evotec. Criteria for determining the appropriateness of compensation include the tasks of the individual member of the Management Board, their personal performance, the economic situation, the performance and outlook of Evotec as well as the common level of compensation of Evotec’s peer companies and the compensation structure in place in other areas of the Company.

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

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

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

Variable remuneration is determined by a bonus scheme that is designed every year by the Remuneration and Nomination Committee of the Supervisory Board and is subsequently approved by the Supervisory Board.

The variable portion of the remuneration paid out in March 2011 was based on the achievement of certain strategic targets for the business year 2010. For the Company’s Chief Executive Officer Dr Werner Lanthaler, it was based on the achievement of four sets of corporate milestones for 80% of his bonus, and for the remaining 20% on the achievement of personal objectives. For the other members of the Management Board it was based on the same corporate milestones for 60% of their bonus, and for the remaining 40% on the achievement of personal objectives. The corporate milestones related to the achievement of budget results concerning revenues and cash, to the implementation of a growth strategy and a R&D strategy as well as to Company organisation.

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

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

Remuneration of the Management Board 2011

T€	Fixed remuneration in T€	Variable remuneration in T€	Stock options in pcs	Fair values options granted in T€	Total remuneration in T€
Dr Werner Lanthaler	376	294	640.000	597	1.267
Colin Bond	276	52	290.000	261	589
Dr Cord Dohrmann	266	42	290.000	261	569
Dr Mario Polywka*	311	123	440.000	406	840
Total	**1.229**	**511**	**1.660.000**	**1.525**	**3.265**

* Dr Mario Polyw ka is paid by Evotec (UK) Ltd

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

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

In 2011, Evotec paid a variable remuneraton to its former Management board member Dr Klaus Maleck in the amount of T€ 63.
The Company has made a provision for pension for one former Management Board member amounting to T€ 49. No further such provisions are due for other former Management Board members or their surviving dependents.

Remuneration of the Supervisory Board

The remuneration of the members of the Supervisory Board is set forth in the Company's Articles of Association as decided by the Annual Shareholder Meeting. They came into force in their current version on 27 June 2011 and also apply for the following years, unless a new AGM passes different resolutions for the future.

According to Sec. 113 AktG, Supervisory Board remuneration is to be in appropriate relation to the task of the Supervisory Board members and the situation of the Company. The members of Evotec's Supervisory Board are entitled to fixed and performance-based payments as well as out-of pocket expenses. In accordance with the recommendations of the Corporate Governance Code, Chair and Deputy Chair positions on the Supervisory Board, as well as the chair positions and membership on committees are considered when determining the remuneration of individual members. Consequently, every Supervisory Board member receives T€ 15 per year, with the Chair receiving three times that amount and the Deputy Chair twice that amount. Members of Supervisory Board committees additionally receive T€ 3.75 per year, with the chairperson receiving T€ 10.

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

For their contributions in 2011, the individual members of the Evotec Supervisory Board receive the following compensation:

Remuneration of the Supervisory Board 2011

T€	Cash remuneration	Value of share based remuneration	Total
Dr Flemming Ørnskov	48,8	30,0	78,8
Dr Walter Wenninger	41,7	30,0	71,7
Dr Hubert Birner	25,0	20,0	45,0
Roland Oetker 1)	10,2	5,4	15,6
Prof Dr Andreas Pinkwart 1)	10,2	5,4	15,6
Mary Tanner	18,8	10,0	28,8
Dr Peter Fellner 2)	8,5	4,6	13,1
Total	**163,2**	**105,4**	**268,6**

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

After his resignation from the Supervisory Board in August 2008, Professor Dr Heinz Riesenhuber had entered into a two-year consultancy agreement with Evotec. The term of this two-year agreement was extended for one further year that is for the period between

1 September 2010 and 31 August 2011. The agreed annual compensation amounted to T€ 20 for the one year term until 31 August 2011 when the agreement expired.

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

Directors and Officers Liability Insurance (D&O Insurance)

Evotec has procured directors and officers liability insurance coverage for its Management and Supervisory Board members, its senior management and the directors of its subsidiaries, at a cost to the Company of T€ 124 in 2011. For the members of Supervisory Board, an appropriately sized deductible, and for the members of the Management Board, a deductible in line with the stipulations of the legal provisions of the Act on Appropriateness of Management Board Compensation (VorstAG) were agreed upon.

V. Risk and Opportunities Management

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

Risk Management

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

Opportunities Management

Evotec identifies opportunities based on comprehensive quantitative and qualitative analyses of market data, research projects and general trends in the biotechnological environment. An overview of the most important opportunities, which Evotec intends to seize for the business development, can be found in the chapter "Outlook" on page 27.

Risk Management System

Evotec employs a comprehensive risk management policy and risk management system, which forms an integral part of the Group's management processes and complies with all legal requirements. Evotec's risk management system assesses on an ongoing basis all significant company activities to identify, analyse and value risks. These risks are documented and communicated to the Risk Manager and the Management Board (Vorstand). Despite this appropriate and functioning system, there cannot be an absolute certainty that all possible risks are identified and managed. The system's efficacy is verified on a continuous basis. Beside the formal risk management policy as explained in the remainder of this section, the risk management system is based upon Evotec's general guidelines of corporate management and the code of conduct, as described in the Declaration of Corporate Management.

According to the Company's risk management policy Evotec engages in businesses and incurs risks only when the businesses are in line with its strategy, when they have a risk profile consistent with industry norms, when there is a corresponding opportunity for an increase in value and when the risks can be managed using established methods and measures within Evotec's organisation. At least once a year the Management Board defines the Group's specific affinity to financial risk in accordance with the prevailing business and financial condition, including in particular the definition of minimum cash levels and corporate 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. Currency exposures are reduced through natural hedges and, where appropriate, hedging instruments. It is Company policy not to speculate on foreign exchange movements, but to manage the risks arising from underlying business activities, for example, to secure foreign exchange certainty against the value of signed customer contracts. Financial investments are made in low risk categories (products or financial institutions rated A or better (Standard & Poor's ratings)). Subsequent to the financial crisis in 2008 the Management Board increased its focus on mitigating financial risks. The Board is therefore directly involved in all key decisions concerning financial assets and manages all businesses and transactions considered to be material for the Company, as reinforced by a revised set of Company policies.

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

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

The risk management system comprises the following elements:

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

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

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

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

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

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

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

All regular internal reports are formally included in the Company's risk management system (**Risk Prevention System**). This procedure increases general alertness to risk and risk management, and also emphasises the principle of risk prevention across the Company.

Accounting-Related Internal Control System

Section 289 paragraph 5 of German Commercial Code (HGB) requires the Management Board to take responsibility for adhering to and reporting on an internal control system for reliable financial reporting. The internal control system is part of the risk management system and primarily secures the preparation of financial statements according to regulatory and legal requirements. It is continually developed and is an integral part of the accounting and financial reporting process. The internal control system comprises all the principles, processes and measures (such as preventive and detective controls) that are applied to secure effective, economical and proper accounting and compliance with the pertinent legal provisions. Evotec complies fully with the requirements of the German Commercial Code.

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

Evotec maintains an adequate internal control system to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with applicable HGB Standards and to avoid risks from fraud. The Company's control system is based upon the following:

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

Among other things, Evotec regularly checks that:

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

Management has determined that Evotec's internal controls over financial reporting based on the integrated framework of the Committee of Sponsoring Organization of the Treadway Commission (COSO) were effective in their design and operation as of 31 December 2011.

Evotec routinely engages external specialists in order to minimise the risk in relation to specific issues, for example to value share-based compensation or to derive deferred taxes.

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

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

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

Risks

Evotec AG is exposed to a range of risks entirely consistent with its business undertaking. The business, financial condition and results of Evotec may be materially adversely affected by each of these risks. If not stated differently, the risks mentioned below are unchanged in comparison to 2010.

Business environment and industry risk

(i) Risks inherent to drug discovery

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

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

> The market environment is marked by <u>pricing pressures</u> originating from funding restrictions of some biotechnology customers, the restructuring activity of major pharmaceutical companies and from evolving and strengthening competition in individual drug discovery disciplines in low cost countries. Therefore, firm cost management, continuous enhancement of capabilities and technologies, careful market positioning and sales are critical for Evotec.

> Even with a stable revenue stream, <u>fluctuating capacity utilisation</u> can significantly impact profitability, unless these are carefully and flexibly adjusted. In addition, <u>dependence on individual larger customer contracts</u> needs to be closely monitored. In 2011, Evotec's largest customer accounted for 30% of total revenues.

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

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

(ii) Risks inherent to proprietary drug discovery and development

Evotec has a clear strategic focus on contracted drug discovery and engages in limited proprietary discovery activities only in order to support such contracts. Evotec continued to work on its proprietary later-stage preclinical research projects.These activities clearly carry scientific and financial risk, concentrated on few individual projects. Evotec seeks to selectively partner or publicly fund these proprietary later-stage preclinical research projects for further development.

Although, Evotec's proprietary investments are limited, drug discovery and development always carries inherent risk. Today, the Company has no commercial drug products and there is no assurance that Evotec or its strategic partners will successfully develop and commercialize potential drugs. Significant returns are only expected to materialise when successful research leads to upfront and milestone payments and potential royalties from future drug sales are received. Evotec believes that the associated risks have to be assessed as low/medium but remain more or less unchanged in comparison to the previous year. The associated risks are those inherent to the biotechnology and drug development industry in general.

(iii) Commercial risks

The commercial risks inherent to Evotec's contracted drug discovery are described in detail in the section 'Risks inherent to drug discovery' on page 23 of this Risk Report. Regarding other commercial risk Evotec trusts that the associated risks could be assessed as medium and are unchanged in comparison to the previous year. Those risks are:

> The Company continues to be engaged in a selected number of active drug discovery and early development programmes that it intends to license to pharmaceutical companies for clinical development and commercialisation.

The market environment and competitive landscape for licensing and licensed projects or individual drug candidates, in general or for individual treatments, however, might change while engaging in individual projects. The actual timing and commercial values of, or the financial proceeds from, partnering individual projects could therefore deviate significantly from earlier projections.

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

Strategy Risks

(i) Merger and Acquisition

Evotec's market position is well established and Evotec is known for its first class services by its customers. However, the Company pursues ambitious goals regarding its growth rate through both internal organic growth development and opportunistic acquisitions of financially rewarding and suiting service capacities and capabilities. In 2011, this was exemplified in the acquisition of Kinaxo Biotechnologies GmbH in Munich. However, such merger and acquisition activities contain specific risks that need to be managed.

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

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

(ii) Implementation of strategic plans

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

Following this Plan, Evotec continued in 2011 to focus its internal R&D activities on its most valuable assets in order to decrease its risk exposure. At present, the Company has no plans to build-up a more extensive pipeline, but will concentrate its efforts on bringing proprietary products from its existing portfolio to important value inflection points or to partner them. This means that the main elements of the Plan were put into effect slightly earlier than initially anticipated and therefore, the risk of Evotec not becoming profitable and sustainable could be significantly decreased in comparison to the years before.

Financial Risks

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

Liquidity Risks

> Expenditures on internal discovery and early development programmes and other costs, as well as reduced revenues, might negatively impact Evotec's short- to mid-term profitability and cash reserves. To actively address any related risk, Evotec's management has defined minimum liquidity levels and prepared a scenario planning to safeguard its cash position. Evotec believes that existing liquidity reserves are sufficient to cope with the cumulative impact of all identified risks.

> Evotec AG continues to finance its shareholdings and affiliates. But in 2012, only Kinaxo Biotechnologies GmbH and Evotec (India) Private Ltd. are expected to require financing efforts from Evotec AG. All other subsidiaries should generate most of its financing needs through its operations.

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

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

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

Default risks

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

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

Therefore, Evotec assesses the current default risks to be low, remaining unchanged in comparison to the previous year.

Currency risks

> Evotec's business and reported profitability are affected by fluctuations in foreign exchange rates between the US Dollar, UK Sterling and the Euro. The Company manages this exposure via natural hedges and selective hedging instruments. The hedging instruments used do not expose the Company to any material additional risk. Currency exchange movements also impact Evotec's reported liquidity primarily through the translation of liquid assets held in US Dollars or UK Sterling into Euros. A portion of the funds are held in currencies other than the Euro in order to meet operating needs.

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

Intellectual property risks

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

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

Legal Risks

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

HR risks: Dependence on key personnel

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

corporate culture and industry leadership position, this may delay Evotec's development efforts or otherwise harm its business.

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

Other risks, including IT

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

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

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

Management Board's Assessment of Risk Situation

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

Evotec does not dispose of an external credit rating

VI. Post-Balance Sheet Event

Effective 4 January 2012, Evotec AG completed the squeeze-out process to acquire all of the remaining shares of DeveloGen AG from its minority shareholders. With the registration of the squeeze-out in the commercial register Evotec became the sole owner of DeveloGen AG which has been renamed to Evotec (Göttingen) AG. The former minority shareholders of DeveloGen will receive a payment of € 12.75 per share, summing up to approximately € 0.2 m.

VII. Outlook

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

Expected General Market and Healthcare Development

Economic Development
The global economic development will again vary widely from region to region in the coming years. Overall analysts are forecasting a more difficult year in the global economy in 2012 compared to 2011. Global gross domestic product (GDP) will expand moderately in real terms both 2012 and 2013, again significantly faster in the emerging markets than in the industrialised countries. The forecast for the economic growth in 2012 is around 3%, and probably slightly higher in 2013. GDP growth in Europe is estimated to be below 1%, and therefore, below the rate achieved in 2011. In the USA economic growth could pick up slightly to 2.0% in 2012. It is not yet possible to assess what effects any further government stimulus programs may have. For Asia growth forecasts are significantly stronger, but probably not reaching double-digit growth. These expectations relating to the overall situation are subject to considerable uncertainties due to the financial and economic crisis in the USA as well as Greece, Italy and other European countries. However, Evotec is confident that these factors will not have a major impact on the Company's expected developments.

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

As outlined in the 'General Market and Healthcare Summary' on page 8 of this Management Report, the global pharmaceutical industry continues to face significant R&D productivity challenges. There is increasing pressure for pharmaceutical companies to develop new drug compounds due to the near-term loss of patent protection for many drug products. As a consequence, the industry has experienced significant M&A activity over the last few quarters and in-licensing deals to make up for the loss of revenues that will arise with key products losing patent exclusivity and is continuing to do so. In addition, there is pressure to reduce the time and money spent in drug discovery in order to bring drugs to market faster and more affordably. The resulting implementation of restructuring programmes, including closure plans for entire research facilities, reduction of the number of disease areas of focus within their therapeutic portfolio and the focus on externalisation is also expected to continue into 2012.

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

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

Trends in Research & Development
No significant changes could be observed in this market in recent years. In terms of proprietary research and development of novel drug compounds, experts believe that sufficient capital resources remain a critical competitive advantage for biotechnology companies as funding availability will continue to be limited for the coming years. Across the USA, Europe and Canada, biotech companies raised $ 25 bn in 2010 — more or less on par with the average raised during the "easy money" era of the four years preceding the crisis. Hence, many companies across the globe are expected to continue to cut non-core programmes and focus on a few high-value assets.

Business Direction and Strategy

Evotec aims to further expand its position as a leading provider of drug discovery solutions, building on the competitive advantages and reputation established. By the end of 2011, Evotec had implemented the main elements of its Action Plan 2012 (see 'Corporate Objectives and Strategy' on page 4 of this report) slightly earlier than initially anticipated. With "Action Plan 2016 – Leadership in Drug Discovery Solutions" Evotec has at the end of 2011 defined the next goals that the Company wants to achieve in the years to come.

Action Plan 2016 – Leadership in Drug Discovery Solutions

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

- EVT Execute: EVT Execute will deliver an even more industrialised high-tech infrastructure to Evotec's partners in long-term relationships. The goal is to optimise the capital efficiency of the work dedicated to each target that its partners are working on. Partners who work with Evotec get selected access to the latest science, and globally the best-in-class technology infrastructure which is a strong foundation of repeat business. Through economies of scale and process optimisation the Company aims to deliver double-digit growth in this building block.

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

- EVT Innovate: Evotec is committed to delivering solutions for some of the largest and most pressing medical needs. With EVT Innovate the Company brings forward the most promising scientific ideas to make a difference in key medical areas. Evotec will partner its proprietary solutions to pharmaceutical companies at early stages of discovery. This focused investment in research is expected to drive higher returns through significant up-front payments, milestones and royalty payments associated to these projects.

Expected Research & Development, New Products, Services and Technologies

All of Evotec's new products, services or technologies are based on internal R&D activities, entering into technology agreements with other companies and through the acquisition of assets. In 2011, Evotec has expanded its offering and is able to provide even more comprehensive, integrated and innovative discovery solutions in 2012 and beyond. Details on Evotec's 2011 initiatives can be found in the section 'Upgrading the Technology Platform and 'Research and Development' on pages 3 and 6 of this Management Report.

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

In internal R&D, the Company will continue to invest into a selected number of highly innovative approaches to address key medical areas such as beta cell technology and technologies to better understand metabolic diseases. The Company's beta cell research programme 'CureBeta' in collaboration with Harvard University and the Howard Hughes Medical Institute (HHMI) is making excellent progress. This project and further more to come are expected to form the basis of larger strategic alliances going forward.

Financial Outlook for 2012 and 2013

Expected Operating Results

In 2012, total Group **revenues** are expected to see double digit % growth. This assumption is based on the current order book, expected new contracts and contract extensions. In 2013, growth is expected to continue in the above 10% per year.

Evotec AG´s **operating result** will depend on the financial performance of its drug discovery business. Due to the growth of revenues, the operating result is expected to improve. Negative contributions will originate from corporate expenses not chargeable to the affiliates. For 2012 and 2013, these costs are expected to be on the same level as in 2011. In early 2012, Evotec's operations will complete the move into the new facility in Hamburg. Related to the expected revenue growth, a further growth of employees is necessary. Cost related to the movement into the new building will burden the operating result also in 2012. Despite these fact, operating result before "Depreciation of current assets to the extent that they exceed provisions normally recorded by the company"," Amortisation of financial assets and current investments" as well as "Income from investments" for the years 2012 and 2013 is expected to improve over 2011.

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

Expected Financing and Financial Position

In 2012, Evotec will invest to support its long-term growth aspirations. This is reflected in another year of significant investment in **capital expenditures**, even exceeding the high levels of 2011. More than € 6 m are planned to be invested in the long-term upgrading of Evotec's capacities including the new facility in Hamburg, the Manfred Eigen Campus. In 2013, capital expenditures are expected to decrease compared to 2012.

Evotec had to finance some of its subsidiaries in 2011. A working capital loan was granted to Kinaxo Biotechnologies GmbH and Evotec (India) Private Limited received a loan to finance capital expenditures. Furthermore Renovis, Inc. was provided with a loan to acquire a company in South San Francisco (Compound Focus, Inc.). Evotec NeuroSciences GmbH was able to finance itself and repay a significant portion of its debt. A small amount of financing is expected for Kinaxo Biotechnologies GmbH in 2012 as well and Evotec (India) Private Limited will require a loan for capital expenditures from Evotec AG in 2012 or 2013.

Liquidity outflow is expected to increase with further investments in proprietary research. However, despite increasing investments in capital expenditures and the move into the new building in Hamburg, the focus on the growing drug discovery platform will lead to higher cash generating in the near future. Evotec´s cash situation should remain strong also throughout 2012 and the years to come. Hence, the Company's mid-term financial plan does not indicate any financing needs for Evotec's operating business. However, all strategically desirable moves such as potential company or product acquisitions will need to be considered separately.

A successful partnering event may influence the critical threshold positively.

Dividends

Payment of dividends is dependent upon Evotec's financial situation and liquidity requirements, the general market conditions, and statutory, tax and regulatory requirements. Evotec currently intends to retain any potential future profits and to re-invest into the Company. Nevertheless, given the very solid growth path, dividend payments will be carefully considered in the near- to mid-term.

Opportunities

Evotec operates in a market, which has excellent growth opportunities. The need to improve efficiency forces pharmaceutical and biotechnology companies to increasingly outsource drug discovery and development. There is an obvious trend towards larger contracts in a full-service outsourcing model with increased opportunities for an alliance partner such as Evotec, offering integrated drug discovery capabilities and project management.

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

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

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

General Statement of Expected Development by the Management Board

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

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

On this basis, the Management Board expects Evotec to show double-digit revenue growth also in 2012 and 2013, and an improved operating result before "Depreciation of current assets to the extent that they exceed provisions normally recorded by the company"," Amortisation of financial assets and current investments" as well as "Income from investments", exceeding the 2011 levels. Its strong cash position will provide opportunities for M&A that could grow the business even faster.

All these assumptions are not taking into account the digital events with respect to Evotec's partnered development programme. Should this programme be scientifically and commercially successful as novel drug, the Company has a significant chance to exceed its current guidance significantly.

Auditor’s Report

We have rendered our unqualified auditor’s report in German which was translated as follows:

„Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the statement of operations 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 2011. 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 responsebility 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, 24 February 2012

KPMG AG
Wirtschaftsprüfungsgesellschaft

Kniese	Zander
Wirtschaftsprüfer	Wirtschaftsprüfer