Translation of

Financial Statements as of 31 December 2012 and Management Report

Evotec AG
Hamburg

Evotec AG, Hamburg

Balance Sheet as at 31 December 2012

A s s e t s

	31 December 2012		31 December 2011	
	EUR	EUR	EUR	EUR
A. Fixed Assets				
I. Intangible Assets				
Purchased patents, licences and similar rights		3.122.211,34		5.555.169,94
II. Property, plant and equipment				
1. Land, land rights and buildings including buildings on third party land	2.194.079,24		965.241,51	
2. Technical equipment and machinery	8.570.180,04		6.127.093,22	
3. Fixtures and fittings	573.582,91		679.891,98	
4. Payments in advance	1.081.214,74	12.419.056,93	1.031.984,36	8.804.211,07
III. Financial Assets				
1. Shares in affiliated companies	37.331.904,82		72.235.363,99	
2. Participations	9.950,00		9.950,00	
3. Other financial assets	0,00	37.341.854,82	2.983.150,00	75.228.463,99
		52.883.123,09		89.587.845,00
B. Current Assets				
I. Inventories				
1. Raw materials and supplies	1.900.684,07		1.619.509,54	
2. Work in process	213.880,96	2.114.565,03	567.100,06	2.186.609,60
II. Receivables and other assets				
1. Trade accounts receivables	5.982.627,46		6.386.880,35	
2. Accounts receivables due from affiliated companies	28.501.085,43		13.550.850,39	
3. Accounts receivables due from investments in other companies	181.963,83		501.940,45	
4. Other assets	1.545.701,12		760.164,70	
--thereof due after one year EUR 411,276.77 (2011: EUR 344,501.82)--		36.211.377,84		21.199.835,89
III. Investments				
Other investments		22.225.758,41		16.139.843,34
IV. Cash and cash equivalents		11.944.359,08		12.814.871,59
		72.496.060,36		52.341.160,42
C. Prepaid expenses		3.348.984,29		574.748,81
		128.728.167,74		142.503.754,23

Shareholder's equity and liabilities

	31 December 2012		31 December 2011	
	EUR	EUR	EUR	EUR
A. Stockholder's equity				
I. Share capital	118.546.839,00		118.315.864,00	
--conditional capital EUR 35,214,093.00 (2011: EUR 10,592,380.00)--				
./. Treasury shares	-798.271,00	117.748.568,00	-403,00	118.315.461,00
II. Additional paid-in capital		144.504.081,02		144.359.928,88
III. Reserve for Treasury shares		798.271,00		0,00
IV. Accumulated deficit		-178.699.057,45		-148.973.733,51
		84.351.862,57		113.701.656,37
B. Accrued liabilities				
1. Pension accrual		50.515,82		48.836,00
2. Other accrued expenses		3.819.245,69		5.313.944,31
		3.869.761,51		5.362.780,31
C. Liabilities				
1. Bank loans		17.000.000,00		15.000.000,00
--thereof due within one year EUR 13,000,000.00 (2011: EUR 12,000,000.00)--				
2. Advance payments received		295.882,42		282.449,92
--thereof due within one year EUR 295,882.42 (2011: EUR 282,449.92)--				
3. Trade accounts payable		1.858.819,04		4.157.665,84
--thereof due within one year EUR 1,848,819.04 (2011: EUR 4,157,665.84)--				
4. Accounts payable due to affiliated companies		767.048,41		1.447.414,51
--thereof due within one year EUR 767,048.41 (2011: EUR 1,447,414.51)--				
5. Other liabilities		775.310,19		341.342,70
--thereof due within one year EUR 775,310.19 (2011: EUR 341,342.70)--				
--thereof taxes EUR 211,470.81 (2011: EUR 179,355.64)--				
		20.697.060,06		21.228.872,97
D. Deferred income		19.809.483,60		2.210.444,58
		128.728.167,74		142.503.754,23

Evotec AG, Hamburg

Statement of Operations for the period from 1 January to 31 December 2012

	2012		2011	
	EUR	EUR	EUR	EUR
1. Revenues		41.195.579,30		25.210.746,50
2. Decrease (2011: increase) in inventories		-353.219,10		301.368,71
3. Other operating income		26.829.228,54		17.517.158,99
4. Cost of materials				
a) Raw materials and supplies	-5.210.887,52		-3.692.918,71	
b) Costs of services	-13.777.487,32	-18.988.374,84	-6.051.332,98	-9.744.251,69
5. Personnel costs				
a) Salaries	-11.991.321,19		-10.706.758,00	
b) Social security expenditure	-1.765.430,35	-13.756.751,54	-1.390.631,01	-12.097.389,01
--thereof pension costs EUR 7,113.00 (2011: EUR 4,952.00)--				
6. Depreciation				
a) of intangible assets and fixed assets	-6.403.305,11		-1.727.175,81	
b) of current assets to the extent that they exceed provisions normally recorded by the company	0,00	-6.403.305,11	-5.627.721,47	-7.354.897,28
7. Other operating expenses		-16.645.588,64		-15.924.668,54
8. Other interest income		3.933.823,18		2.958.391,89
--thereof from subsidiaries EUR 3,463,568.13 (2011: EUR 2,721,494.18)--				
9. Amortisation of financial assets and current investments		-44.009.937,29		-197.127,67
10. Other interest expense		-728.507,44		-330.211,40
11. Operating result		-28.927.052,94		339.120,50
12. Income tax		0,00		157.458,42
13. Net loss (-) / profit (+) for the year		-28.927.052,94		496.578,92
14. Allocation to reserve for treasury shares		-798.271,00		0,00
15. Net loss carried forward		-148.973.733,51		-149.470.312,43
16. Accumulated deficit		-178.699.057,45		-148.973.733,51

Evotec AG, Hamburg

Notes to the Financial Statements 2012

I. General Information

Evotec AG, hereinafter referred to as „Evotec" or „the company", is classified as large company according to section 267 par. 3 sentence 2 HGB ("Handelsgesetzbuch"; German commercial code).

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 05 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.

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.

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 01 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
Intangible assets	2-10
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 plus appreciation.

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 separately from the share capital with their nominal value. Since the company does not account for any free reserves the difference between the purchase price less EUR 1.00 and the nominal value is recognized within the profit and loss. In the amount of own shares the company booked a reserve.

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 have been estimated using the Projected Unit Credit-method with an interest rate of 4.74 % 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 payments in advance are due to the move into a new facility.

2. Financial assets

In the financial year 2012, Evotec acquired 100% of the shares of Evotec (Hamburg) GmbH, Hamburg. Since 14 May 2012, Evotec (Hamburg) GmbH is considered an affiliated company of Evotec. The carrying amount of Evotec (Hamburg) GmbH amounts to T€ 28.

In 2012, Evotec (Göttingen) AG was merged with Evotec NeuroSciences GmbH and was then renamed into Evotec International GmbH.

Due to the liquidation of Evotec Inc., Wilmington/Delaware, USA, in 2012, this is no more included in Financial assets. Due to the disposal of this investment, a loss of T€ 44,010 was recognised.

In 2012, Compound Focus, Inc. was merged to Renovis, Inc. and was then renamed into Evotec (US), Inc. The carrying amount of Evotec (US), Inc. was reduced by a reassignation of ADRs to Evotec AG of T€ 1,329. Evotec´s subsidiary Renovis Inc. owned 1,328,624 Evotec shares, representing 1.12% of Evotec´s share capital. These shares were transferred to Evotec in 2012.

At the same time, due to a valuation of the investment, an increase of investment by T€ 8.599 was recorded.

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

As of the balance sheet date of 31 December 2012, Evotec held direct equity investments in the following companies:

	Total equity	Share interest	Net income/loss-
	T€	%	T€
1. Evotec (Hamburg) GmbH, Hamburg*	24	100.00	-1
2. Evotec International GmbHindirectly through 1st	-84,120	100	5,305
3. Evotec (UK) Ltd., Abingdon, UK	20,150	100.00	841
4. Evotec (US) Inc., South San Francisco, USA*	11,692	100.00	499
5. Evotec (India) Private Limited, Maharashtra (Thane), India**	3,748	100.00	-489
6. Evotec (München) GmbH*	1,550	100.00	-718
7. European ScreeningPort GmbH, Hamburg***	-10	19.90	28

*unaudited

** local stats as per 31 March 2011

***Local stats as per 31 December 2011

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 2012 for the annual profit or loss statement.

Fixed Assets Movement Schedule for the year 2012

	Acquisition and manufacturing costs				
	1 January 2012	Additions	Disposals	Reclasses	31 December 2012
	EUR	EUR	EUR	EUR	EUR
I. Intangible Assets					
Purchased patents, licences and similar rights	8.220.303,09	2.047.250,00	21.470,35	0,00	10.246.082,74
II. Property, plant and equipment					
1. Land, land rights and buildings including buildings on third party land	2.829.280,47	1.518.115,72	1.166.273,31	0,00	3.181.122,88
2. Technical equipment and machinery	20.450.164,17	2.803.153,10	272.494,38	954.483,90	23.935.306,79
3. Fixtures and fittings	4.029.227,14	211.306,85	723.588,12	33.910,71	3.550.856,58
4. Payments in advance	1.031.984,36	1.038.284,99	660,00	-988.394,61	1.081.214,74
	28.340.656,14	5.570.860,66	2.163.015,81	0,00	31.748.500,99
III. Financial Assets					
1. Shares in affiliated companies	80.834.557,91	2.503.773,34	46.006.426,43	0,00	37.331.904,82
2. Participations	9.950,00	0,00	0,00	0,00	9.950,00
3. Other financial assets	3.000.000,00	0,00	3.000.000,00	0,00	0,00
	83.844.507,91	2.503.773,34	49.006.426,43	0,00	37.341.854,82
	120.405.467,14	10.121.884,00	51.190.912,59	0,00	79.336.438,55

	Depreciations				Net book value	
1 January 2012	Additions	Disposals	Reversal of impairment	31 December 2012	31 December 2012	31 December 2011
EUR	EUR			EUR	EUR	EUR
2.665.133,15	4.480.208,60	21.470,35	0,00	7.123.871,40	3.122.211,34	5.555.169,94
1.864.038,96	258.267,60	1.135.262,92	0,00	987.043,64	2.194.079,24	965.241,51
14.323.070,95	1.314.550,17	272.494,38	0,00	15.365.126,74	8.570.180,05	6.127.093,22
3.349.335,16	350.278,74	722.340,23	0,00	2.977.273,67	573.582,91	679.891,98
0,00	0,00	0,00	0,00	0,00	1.081.214,74	1.031.984,36
19.536.445,07	1.923.096,51	2.130.097,53	0,00	19.329.444,05	12.419.056,94	8.804.211,07
8.599.193,92	44.009.937,29	44.009.937,29	8.599.193,92	0,00	37.331.904,82	72.235.363,99
0,00	0,00	0,00	0,00	0,00	9.950,00	9.950,00
16.850,00	0,00	16.850,00	0,00	0,00	0,00	2.983.150,00
8.616.043,92	44.009.937,29	44.026.787,29	8.599.193,92	0,00	37.341.854,82	75.228.463,99
30.817.622,14	50.413.242,40	46.178.355,17	8.599.193,92	26.453.315,45	52.883.123,10	89.587.845,00

3. Inventories

	T€	T€
	31.12.2012	31.12.2011
Raw materials	1,901	1,620
Work in progress	214	567
	2,115	2,187

The raw materials mainly include compound libraries amounting to T€ 1,287 (2011: T€ 1,470) as at 31 December 2012.

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

4. Accounts receivable and other assets

Accounts receivable

The accounts receivable includes receivables from shareholders amounted to T€ 2 (2011: T€ 0).

Account receivable from affiliated companies

	Maturity			
	< 1 year	> 1 year	< 1 year	> 1 year
	31.12.2012		31.12.2011	
	T€	T€	T€	T€
Evotec (India) Private Ltd.	1,000	0	622	0
Evotec International GmbH	7,035	6,000	575	0
Evotec (München) GmbH	32	2,000	151	1,600
Evotec (US) Inc.	333	12,101	39	10,564
	8,400	20,101	1,387	12,164

Accounts receivables from affiliated accompanies include trade accounts receivables in an amount of T€ 373 (2011: T€ 823).

The receivables from affiliated companies manly increased due to reassessment of the results of operations Evotec International GmbH and the resulting depreciation adjustment of the loan from the previous Evotec NeuroSciences GmbH.

Accounts receivables were netted with liabilities of affiliated companies, including T€ 141 liabilities from Evotec (München) GmbH were included.

Due to the indebtedness of Evotec International GmbH in previous years, the accounts receivable were impaired. After a repayment of the loan of T€ 3,500 and the depreciation adjustment of T€ 10,000, the accumulated depreciation amounts to T€ 80,570 (previous year: T€ 94,070).

Accounts receivable from affiliated companies

	Maturity			
	< 1 year	> 1year	< 1 year	> 1 year
	31.12.2012		31.12.2011	
	T€	T€	T€	T€
European ScreeningPort GmbH	182	0	502	0
	182	0	502	0

The accounts receivable from the European ScreeningPort GmbH were impaired by T€ 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 T€ 1,298. The remaining receivables for the financial year 2012 exist solely due to current settlement receivables.

Other assets

	Maturity			
	< 1 Year	> 1 Year	< 1 Year	> 1 Year
	31.12.2012		31.12.2011	
	T€	T€	T€	T€
Tax authorities				
- Capital yields tax	247	0	105	0
- Corporate tax	92	0	92	0
- Value added tax	654	0	10	0
Deposits	95	411	91	345
Others	47	0	117	0
	1,135	411	415	345

5. Other investments

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

	T€	T€
	31.12.2012	31.12.2011
DB Platinum IV	16,775	9,350
GE Capital Bond	0	4,800
BMW Float 03/13	2,000	1,990
Volkswagen Float	498	0
Deutsche Bank bonds	2,953	0
	22,226	16,140

6. Cash and cash equivalents

As at 31 December 2012 cash on hand was T€ 3 (2011: T€ 1) and the cash equivalents amounted to T€ 11,944 (including T€ 2,277 (2011: T€ 1,187) in US dollar and T€ 894 (2011: T€ 151) in Pound Sterling).

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 2010, an increase of nominal capital is due to the exercise of stock options of € 7,000 and in 2011 nominal capital was increased by € 122,732.00. In 2012, both increases were registered in the Commercial register of companies. Additionally, the nominal capital was increased due to the exercise of stock options of € 230,975.00 in 2012. This entry in the Commercial register of companies will be made in 2013.

Additionally the company held due to the authorisation of the Annual General Meeting on the 16 June 2011and according to section 71 par. 1 no. 8 AktG 403 own shares. On 12 March 2012, a total of 1,328,624 own shares with a nominal value of € 1,328,624.00 were transferred by former Renovis, Inc. These shares represented 1.12% of the share capital. 530,353 of these shares with a nominal value of € 530,353.00 were used for servicing employee stock options. These shares represented 0.44% of the share capital. As at 31 December 2012, Evotec held 798,271 own shares with a nominal value of € 798,271.00. 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 € 117,748,568.00 including the capital increases and the own shares. As at 31 December 2012 these shares represented 0.67% of the share capital.

The remaining approved capital amounted to € 23,663,172.00 equal to 23,663,172 shares as at 31 December 2012.

Following the exercise of the stock options and two resolutions made by the Annual General Meeting on 14 June 2012, the conditional capital amounted to €35,214,093.00 on 31 December 2012. Conditional capital amounting to € 11,550,921.00 shall be used only to the extent that holders of stock options, awarded by Evotec on the basis of the shareholders' resolutions from 07 June 1999, 26 June 2000, 18 June 2001, 07 June 2005, 30 May 2007, 28 August 2008, 16 June 2011 and 14 June 2012, respectively exercise their rights to subscribe for new shares of the Company. It was created to give stock options to employees and members of the management board of the company or affiliated companies. Additional conditional capital in the amount of € 23,663,172.00 exists to issue no-par-value bearer shares to owners or creditors of convertible bonds and/or warrant-linked bonds, participation rights and/or income bonds (or a combination of such instruments) that may be issued by Evotec on the basis of the authorisation resolved by the Annual General Meeting on 14 June 2012. Such contingent capital increase shall only be used to the extent that option or conversion rights are utilised, or the owners or creditors are obligated to carry out their duty of conversion, and to the extent that no treasury shares or new shares from an exploitation of authorised capital are utilised for servicing.

The additional paid-in capital rose mainly due to exercised stock options by € 144,152.14 to € 144,504,081.02.

Evotec´s subsidiary Renovis Inc. owned 1,328,624 Evotec shares, representing 1.12% of Evotec´s share capital on 31 December 2011. These shares were transferred to Evotec AG in 2012.

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.

On 23 August 2012, LBBW Asset Management Investmentgesellschaft mbH, Stuttgart, Germany, ("LBBW") gave notice pursuant to Section 21 Para 1 WpHG that on 20 August 2012 its voting interest in Evotec AG fell short of the threshold of 3% and on that day its shareholding of 3.360.000 shares amounted to 2.84% of the total Evotec voting rights. Thereof 2.375% (2.810.000 shares) were attributed to LBBW according to Section 22 Para 1 Sentence 1 No. 6 WpHG.

TVM V Life Sciences Ventures GmbH & Co KG, München informed according to Section 21 Para 1 WpHG that its investments in Evotec fell below the 10% hurdle on February 24, 2006 and amounted to 9.71%.

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. The amount of this liability is T€ 126 on 31 December 2012 (2011: T€ 119). At the same time, the accruals for pensions were netted against an insurance cover, constituted as plan asset, amounting to T€ 76 (2011: T€ 70).

10. Other accruals

	31.12.2012	31.12.2011
	T€	T€
Outstanding invoices	1,361	1,918
Bonus	1,041	1,439
Unclaimed vacation	441	363
Supervisory remuneration	280	269
Risks from FX hedging deals	333	203
Liabilities relating to the prior facility	0	858
Termination Agreement	0	91
Others	363	173
	3,819	5,314

11. Liabilities

Liabilities to banks

As of 31 December 2012, the liabilities to banks comprise of three loans in the total amount of T€ 17,000 (2011: T€ 15,000). Two of the three loans have a maturity of up to one year (each amounting to T€ 6,500) and one loan (amounting to T€ 4,000) has a maturity of 1 to 5 years. The interest rate for both loans with a maturity of one year is 1.3 percentage points/1.25 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. No loan is secured.

Liabilities to affiliated companies

	Maturity			
	< 1 year	> 1 year	< 1 year	> 1 year
	31.12.2012		31.12.2011	
	T€	T€	T€	T€
Evotec (UK) Ltd.	659	0	1,445	0
Evotec (India) Private Ltd	85	0	0	0
Evotec International GmbH	23	0	0	0
Renovis, Inc.	0	0	2	0
	767	0	1,447	0

The balances only comprise trade payables.

In balancing the accounts receivables and liabilities of affiliated companies, T€ 424 accounts receivables from Evotec (UK) Ltd, T€ 198 from Evotec International GmbH and T€ 11 from Evotec (India) Private Ltd were included.

Other Liabilities

The other liabilities consist of a wage tax liability in the amount of T€ 211 (2011: T€ 179), customers with a credit balance of T€ 129 (2011: T€ 120) and a payment obligation of T€ 209 (2011: T€ 0) to former shareholders of DeveloGen AG.

Deferred revenues

Deferred revenues mainly relate to two current customer projects.

IV. Comments on the Statement of Operations

1. Revenues

The company recorded revenues of T€ 41,195 (2011: T€ 25,211) through research and development services, thereof T€ 4,657 with affiliated companies (2011: T€ 5,409).

The external revenues amounted to T€ 36,538 (2011: T€ 19,802) including licence income of T€ 1,615 (2011: T€ 1,645).

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

	2012	2011
	T€	T€
United States of America	19,036	8,929
United Kingdom	6,198	930
Belgium	5,240	1,236
Japan	3,931	1,618
Germany	1,177	2,872
Switzerland	469	3,586
Rest of Europe	417	400
Rest of the world	70	231
Total	36,538	19,802

2. Other operating income

	2012	2011
	T€	T€
Income relating to other periods		
- Income from repayments of loans	13,500	12,649
- Income from reversal of accruals	1,457	157
- Revaluation of investments	8,599	0
Costs charged to affiliated companies	1,663	1,648
Sublease of building	726	762
Subsidies	22	589
Others	862	1,712
	26,829	17,517

3. Other operating expenses

	2012	2011
	T€	T€
Rental expenses including related costs	3,990	3,763
Service and maintenance	1,401	1,294
Cost charged from affiliated companies	1,382	1,276
Reconstruction/ moving expenses	1,308	1,228
Legal and consultancy expenses	1,123	1,191
Royalty costs	917	242
Costs for Services	754	645
Others	5,771	6,286
	16,646	15,925

4. Depreciation of financial assets and marketable securities

The Depreciation of financial assets and marketable securities refers to the liquidation of ENS Inc.

5. Currency result

In 2012, the company recorded income relating to FX effects in the amount of T€ 632 (2011: T€ 372) and expenses relating to FX effects amounting to T€ 420 (2011: T€ 284).

6. Allocation to reserve for own shares

The adjustment of the loss due to the accounting treatment of the reserve for own shares was made because of the 798,271 own shares which the company held to the 31. December 2012. These own shares have a nominal value of € 798,271.00.

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 2012, the average employee count was 193 (2011: 153).

Other financial obligations

The other financial obligations for 2013 mainly relate to obligations from service contracts, rent and leasing and add up to T€ 2,891 (thereof to affiliated companies T€ 0). The total amount of all existing obligations for the period 2014 to 2017 is T€ 9,833. The other obligations for later periods add up to T€ 8,282.

As agreed in the acquisition of the former DeveloGen AG the company is obliged to make an earn-out payment to the former shareholders of former 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 shareholders 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 International GmbH (T€ 84,120) 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 2012, the Company had a guarantee outstanding of T€ 446 (2011: T€ 190) related to securing a loan from Evotec (München) GmbH. The company don't assume that this guarantee will be claimed. As of 31 December 2011, the Company has provided a guarantee for the European ScreeningPort GmbH to secure certain payment obligations in the amount of T€ 190.

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 2012 totalled T€ 2,584 (2011: T€ 3,265), of which T€ 695 (2011: T€ 511) is a variable remuneration and of which T€ 601 (2011: T€ 1,525) is a remuneration with long-term incentive effect. The remuneration includes T€ 590 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 2012, payable

on the achievement of certain strategic targets in the business year 2011, was based on the following criteria:

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

The variable portion of the remuneration in 2013 will be payable on the achievement of certain strategic targets in the business year 2012 and will be based on the following criteria:

	Achievement of defined corporate milestones	Achievement of defined corporate financial milestones	Achievement of personal objectives
	%	%	%
Dr Werner Lanthaler	48	32	20
Colin Bond	36	24	40
Dr Cord Dohrmann	36	24	40
Dr Mario Polywka	36	24	40

On 31. December 2012 the company has an accrual for the variable remunarationwhich will paid to the Management Board in March 2013 amounted to T€ 433. This accrual includes for Werner Lanthaler T€ 184 (2011: T€ 310), Colin Bond T€ 75 (2011: T€ 128), Cord Dohrmann T€ 87 (2011: T€ 128) und Mario Polywka T€ 87 (2011: T€ 153).

In addition to their fixed and variable remuneration, the members of the Management Board received 445,293 Share Performance Awards (SPA) in 2012 under the Company's share performance plan. These Share Performance Awards vest after four years according to achievement versus defined key performance indicators over a three-year performance measurement period. The fair values of all Share Performance Awards granted as of the grant date amounted to a total of T€ 601.

	2012	2012	2012	2012	
	Fixed remuneration	Variable remuneration	Stock options	Fair value of stock options	Total remuneration
	T€	T€	in pcs	T€	T€
Dr Werner Lanthaler	407	307	209,877	283	997
Colin Bond	269	126	76,190	103	498
Dr Cord Dohrmann	270	126	76,190	103	499
Dr Mario Polywka	342	136	83,036	112	590
Total	1,288	695	445,293	601	2,584

The members of the Management Board of Evotec AG have only customary rights in case of a change of control. Their contracts contain a change-of-control clause which would allow them to terminate their current contracts in the event of a change of control. In case members of the Management Board make use of their right to terminate their contracts in the event of a change of control, they are entitled to severance payments determined as follows: for Dr Werner Lanthaler, the severance payment shall be equal to 24 months of base salary; for Dr Mario Polywka, the payment shall be equal to 18 months of base salary; and for both Colin Bond and Dr Cord Dohrmann, the payment shall be equal to 12 months of base salary plus bonus (following new contracts from July and September 2013 respectively the payment shall be equal to 18 months base salary plus bonus). In no case shall the respective severance payment be higher than the total compensation due for the remaining term of the respective Management Board member's contract.

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

The company has 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 T€ 117 in 2012 (2011: T€ 124) and were paid by the company.

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.

Colin Bond is Chairman of the Supervisory Board of European ScreeningPort GmbH, Hamburg, and Member of the Board of Directors of Evotec India (Private) Ltd., Maharashtra, India.

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, Managing Director, TVM Life Science Management GmbH, Landsham/Pliening

Roland Oetker, Düsseldorf, Managing Partner, ROI Verwaltungsgesellschaft mbH, Düsseldorf

Prof Dr Andreas Pinkwart, Alfter, Rector and Academic Managing Director of the, Handelshochschule Leipzig gGmbH, Leipzig

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

The remuneration paid to the members of the Supervisory Board in the financial year amounted to T€ 280 (2011: T€ 269). The members of the Supervisory Board were members of the following other Supervisory Boards, Committees and Bodies.

Dr Flemming Ørnskov

Non-Executive Chairman of the Board of Directors:
Santaris Pharma A/S, Kopenhagen, DK (till December 2012)

Non-Executive Member of the Board of Directors:
PCI Biotech Holding ASA, Oslo, NO (till January 2013)
Spepharm Holding BV, Amsterdam, NL (till May 2012)

Dr Walter Wenninger

Chairman of the Supervisory Board:
Noxxon Pharma AG, Berlin

Non-Executive Chairman of the Board of Directors:
Santharis Pharma A/S, Hoersholm, DK (since December 2012, previously Non-Executive Member of the Board of Directors)

Non-Executive Member of the Board of Directors:
Recordati S.p.A. Mailand, I
Santharis Pharma A/S, Hoersholm, DK (till December 2012)

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:
Horizon Therapeutics, Northbrook, IL/US (till June 2012)
Proteon Therapeutics Inc., Waltham, USA
Spepharm Holding BV, Amsterdam, NL
Transmolecular, Inc., Cambridge, MA/US (till March 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 (till August 2012)

Prof Dr Andreas Pinkwart

Member of the Board of Trustees:
RAG-Stiftung, Essen (since October 2012)

Mary Tanner

Member of the Board of Directors:
Lineagen Inc., Salt Lake City, USA

Subsequent events after 31 December 2012

Signed in December 2012 and effective 03 January 2013, Evotec acquired 100% of the shares of CCS Cell Culture Service GmbH. The purchase price consists of a cash consideration of € 1.15 m and an earn-out component targeting € 1.4 m in cash. The earn-out component will become due one year after the acquisition and depends upon the achievement of revenue targets.

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, 6 March 2013

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 and business model

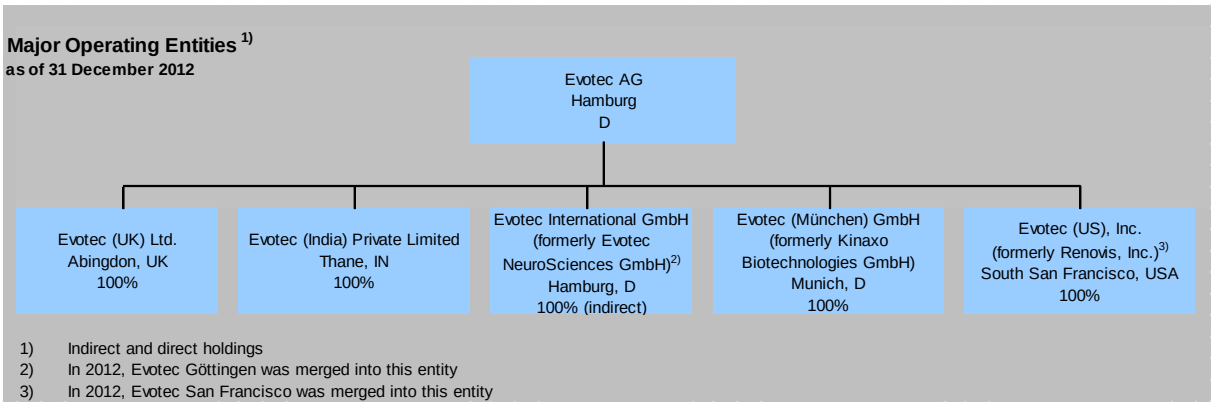
Evotec AG (hereinafter referred to as “Evotec” or “the Company”) is a drug discovery alliance and development partnership company. The Company operates worldwide and has leading scientific experts, state-of-the-art technologies as well as key therapeutic area expertise, covering neuroscience, pain, metabolic diseases, oncology and inflammation.

The core of Evotec’s business is drug discovery research in collaboration with a large number of Pharma and biotech partners and within selected areas also in-house projects. Evotec presents its drug discovery offerings under the banners of Execute, Integrate and Innovate, which represent business models that reach from straight fee-for-service, over risk-shared alliances to collaborations on proprietary projects. The approach to all of Evotec’s collaborations with customers is identical, in that the focus remains on providing best-in-class drug discovery solutions in the most efficient manner and thereby maximising the customer’s opportunities to progress candidates into the clinic and beyond.

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

In addition to Evotec AG, major operating sites exist in Abingdon, UK; Thane, India; Göttingen and Munich, Germany and South San Francisco, USA. Offices in Germany, the USA, the UK and India handle Evotec’s international sales activities which are closely integrated with the operations of Evotec’s Group.

The Evotec AG employed 199 people at the end of 2012.



– Products and services

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

Discovery alliances

In its discovery alliances, Evotec provides innovative and integrated solutions to pharmaceutical and biotechnology companies. The Company has developed substantial drug discovery expertise and an industrialised platform that assists its partners in driving new, innovative small molecule compounds into clinical trials. Evotec’s expertise covers already a broad range of drug 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, *in vivo* pharmacology (see the description of the drug discovery process below).

Evotec's alliance partners include, among others, Bayer Pharma AG ("Bayer"), Boehringer Ingelheim Pharma GmbH & Co. KG ("Boehringer Ingelheim"), CHDI Foundation, Inc. ("CHDI"), Genentech, Inc. ("Genentech"), Janssen Pharmaceuticals, Inc. ("Janssen"), Ono Pharmaceutical Co., Ltd. ("Ono") and UCB Pharma. ("UCB") (the core alliances are described in more detail in the chapter "Research and development - activities" on page 5 of this Management Report). In exchange for access to its integrated discovery offerings, Evotec receives contractual service fees and ongoing FTE-based research payments and, in certain circumstances, up-front technology or drug asset access fees and milestone and royalty payments related to the achievement of certain research, development and sales achievements.

– Evotec's drug discovery process

Setting off with the target

The drug discovery process builds on research showing that certain genes, or their corresponding proteins, play a role in the outbreak or course of a disease (***target*** *identification and validation*). The approaches and technologies employed in this phase of research vary significantly and are highly sophisticated. Evotec focuses its activities primarily on subsequent phases in which drug candidates are identified and optimised.

Drug candidates are molecules that interact with a target and thus possess the potential to influence the course of disease progression in a positive manner. The targets that are used are usually provided to Evotec from their partners, but in a growing number of projects Evotec is also expressing targets and generating respective cell lines internally. The Company has substantial experience and expertise in key therapeutic areas including neuroscience, pain, metabolic diseases as well as oncology and inflammation.

Primary screening

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

The numerous chemical compounds used for the screen may contain tens, or even hundreds, of thousands of structurally diverse molecules and are referred to as a **compound library**. Evotec provides customers with access to its own library of approximately 250,000 diverse compounds and to a third-party library of 100,000 for screening compounds. In addition, Evotec screens libraries of its partners, if required. The compounds that biologically interact with the target are subsequently referred to as "hit compounds" or simply "**hits**". The closer an assay reflects the natural biological processes within the human body; the more meaningful these hits are as starting points for drug discovery projects.

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

Evotec is one of the leading laboratories developing high-resolution confocal imaging assays for high content screening. These so-called high content assays allow very detailed analysis of cellular parameters and organelles or the distribution of intracellular targets (*high-content screening*). Finally, a large number of different biophysical methods such as NMR (nuclear magnetic resonance), SPR (surface plasmon resonance) and label-free screening techniques are established at Evotec. It is not necessary to force a target into an available assay; it is always possible to select the best matching technology for a target.

Further building on the undisputed competitive advantage of Evotec's detection technology, the Company has significantly extended its fragment-based drug discovery engine. Complementary to

identifying hits by chemical means, sophisticated computational methods that simulate how compounds bind to targets are increasingly employed in a process known as *virtual screening*. This helps to narrow down the number of chemical compounds for subsequent testing in the lab. Evotec has a powerful computer infrastructure at its disposal, enabling the Company to employ both classical "wet" and virtual screening methods in a complementary manner that brings even greater efficiency to Evotec's quest to identify new hit compounds.

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

The biologically active molecules, or "**lead structures**", that the above process yields are subsequently pharmacologically optimised. In *biological testing* and *optimisation*, selectivity tests are performed against similar targets, generating extensive side effect profiles. ADMET assays, which test for **a**bsorption, **d**istribution, **m**etabolism, **e**xcretion and **t**oxicity properties of compounds, are also conducted. For the first time, the impact of the lead compounds is then tested in living organisms, resulting in primary *in vivo* data. In *chemical optimisation*, the knowledge gained in biological testing is used to optimise the molecular structure by means of computational chemistry and medicinal chemistry methods. During more advanced phases of lead optimisation the Evotec Group also offers leading *proteomics* capabilities which can be used for in-depth profiling of compounds as well as for the identification and validation of project-specific biomarkers.

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

Pre-clinical drug research leads to IND filing
In drug development, pre-clinical development, also named pre-clinical studies and nonclinical studies, is a stage of research that begins before clinical trials can begin and during which important feasibility, iterative testing and drug safety data is collected. The main goals of pre-clinical studies are to determine a product's ultimate safety profile.
When a drug candidate is generated with the right pharmacological properties, it is ready to be tested in clinical trials for its safety and suitability as a therapeutic for humans. To enter into these clinical trials, an **IND** (**investigational new drug**) application must be filed.

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

In its proprietary research programmes as well as in those for its partners, Evotec makes use of all the above-mentioned discovery capabilities, offering integrated services that cover selected portions or the entire span of the R&D process. Evotec does not conduct any clinical trials internally, and the Company's joint clinical programmes are exclusively developed in partnerships with pharmaceutical companies, which fund their development.

Market and competitive position
The drug discovery outsourcing market
The global pharmaceutical industry continues to face significant productivity challenges. Research and development costs have escalated over the years, yet product pipelines are not producing the returns experienced in earlier decades. Against this industry backdrop, biotech and Pharma companies are increasingly turning to outsourcing of research and development activities to address and solve these

issues. 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. Based on the latest research, the drug discovery outsourcing market generated $ 9.7 bn in global revenues in 2011 and this is expected to increase to $ 21.3 bn by 2017 and to $ 35.7 bn by 2023, reaching approximately 3.5 times today's market value within the next 10 years. Chemistry services are the largest segment in drug discovery outsourcing with a market share of 38.9%, though biological services are expected to move up from their 29.6%, mainly due to the growing complexity and importance of biological and targeted therapies, fast progressing molecular biology and also the emerging market for biosimilars (source: Report "Drug Discovery Outsourcing: World Market 2013 - 2023", Visiongain).

Outsourcing has been used by the pharmaceutical industry for more than 20 years, mainly for supporting clinical trials or regulatory affairs in a particular country or region. In the current environment, companies are expected to continue to increase their outsourcing at earlier and earlier stages of the research and development process. In this way, losses at late stages should be reduced or avoided. The reorganisation of the pharmaceutical industry has been very visible during 2012 with high-profile restructuring exercises undertaken by a number of global pharmaceutical companies well-documented in the press. This is seen as the initial stages of the pharmaceutical industry addressing the challenges presented by its cost base and possible decline of top level revenues and seeking new and innovative ways to support its drug discovery pipeline going forward. All stages of drug discovery can be outsourced as a stand-alone discipline (target identification, target validation, high-throughput screening and lead optimisation), but the productivity challenge facing the pharmaceutical industry is set to drive an increase in strategic outsourcing, which will likely lead to larger outsourcing contracts favouring bigger players with lower perceived risk.

Evotec's competitive position in drug discovery outsourcing

Evotec has tracked this changing trend in the market over the past few years and has strategically positioned itself to take full advantage of these market developments. By assembling top-class scientific experts and integrating state-of-the-art technologies as well as substantial experience and expertise in key therapeutic areas, Evotec has established a unique competitive position to complement these changes in the industry.

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

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

Research and development – activities

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

1. EVT Execute R&D

In order to accelerate the drug discovery process, Evotec is continually upgrading its technology base and enhancing the offering to its partners. This is achieved by direct internal investments in R&D, technology agreements with other life science companies and by acquiring innovative R&D know-how and platforms. In 2012, internal R&D investments were primarily focused on expanding Evotec's already broad drug discovery platforms. The Company also invested in new areas such as methylomics capabilities to strengthen its epigenomics platform and an antibody library and screening platform via a strategic partnership with 4-Antibody.

The strategic partnership with 4-Antibody was concluded in May 2012. The agreement enables Evotec to offer a fully integrated antibody discovery and development service and thereby expand and complement its leading small molecule drug discovery and development platform. Combining 4-Antibody's fully human antibody library with Evotec's high throughput/content screening and selection methodology allows screening of large and diverse antibody populations for desired functionality and activity at early stages of the antibody discovery process. This combination of highly complex fully human antibody libraries with highly sophisticated functional screening substantially reduces attrition rates at later development stages.

In December 2012, Evotec signed an acquisition of CCS Cell Culture Service GmbH ("CCS") with effective date in January 2013. CCS is a Hamburg-based company which supports the cell-culture needs of the Pharma and biotech market. The integration of CCS's unique capabilities in frozen cell preparations and bulk cell transfection for cell-based screening further upgrades Evotec's screening capabilities, a core expertise in the drug discovery process.

2. EVT Integrate R&D

EVT Integrate provides highly integrated solutions to many Pharma and biotech companies. A seamless and highly customised integration of individual components of the leading drug discovery platforms into a project is the key for long term success. In exchange for access to its integrated discovery offering, Evotec receives ongoing research fees and, in an increasing number of collaborations, milestone payments based on research success as well as potential royalties. While the nature and scope of these alliances is very different, they all aim at supporting Evotec's partners in discovering and developing novel drug candidates. Evotec's activities in its key alliances are detailed below.

Bayer Pharma AG: In October 2012, Evotec entered into a five-year, multi-target collaboration with Bayer with the goal of developing three clinical candidates for the treatment of endometriosis and associated pain. Endometriosis affects women in childbearing age therefore there is an incredible need for new, non-surgical treatments that will alleviate pain whilst preserving fertility. Both Bayer and Evotec contribute drug targets and technology infrastructures and resources to drive the programmes and will share the responsibility for early research and pre-clinical characterisation of potential clinical candidates. Bayer will be responsible for any subsequent clinical development and commercialisation.

Boehringer Ingelheim Pharma GmbH & Co. KG: In 2004, Evotec entered into a multi-year, multi-target drug discovery alliance with Boehringer Ingelheim to jointly identify and develop pre-clinical development candidates addressing various disease areas including central nervous system, ("CNS"), inflammation, cardiometabolic and respiratory diseases. In 2009, the collaboration was extended for an additional four years and the scope expanded to include oncology. Under the terms of the

agreement, Boehringer Ingelheim has full ownership and global responsibility for clinical development, manufacturing and commercialisation of the compounds identified. To date, 17 milestones have been achieved in this collaboration.

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

Ono Pharmaceutical Co., Ltd.: Evotec entered into its first research collaboration with Ono in March 2008, combining its high throughput screening and its proprietary fragment-based drug discovery platform to identify novel compounds active against a protease target. In October 2009, Evotec entered into a second collaboration with Ono to identify small molecules targeting an ion channel implicated in cardiovascular, CNS and urological diseases. Multiple compounds were jointly identified and progressed into lead optimisation. Ono has a worldwide right to develop and commercialise compounds generated by Evotec in this collaboration.

UCB Pharma SA: In July 2011, Evotec entered into a three-year integrated drug discovery collaboration with UCB to identify small-molecule modulators of a number of high-priority biological targets, selected by UCB, involved in CNS disorders. The molecules will be further optimised and progressed through lead optimisation to a pre-clinical development candidate. In October of the same year, Evotec entered into a second multi-year, multi-target integrated drug discovery collaboration with UCB in the field of immunology.

3. EVT Innovate pre-clinical R&D

EVT Innovate gives partners access to highly innovative and integrated drug discovery projects and assets. In exchange for access to its integrated discovery offerings, Evotec receives upfront payments, significant milestone and royalty payments as well as ongoing research fees at significant margins.

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

Projects to fuel future EVT Innovate collaborations: Evotec invests in highly innovative approaches to address key therapeutic areas and major pharmaceutical markets. As a result the Company is developing technologies that will lead to an improved understanding in the key areas of CNS, oncology, inflammation, metabolic and kidney disease. In 2012, Evotec invested significantly into its beta cell technology and the Cure*Beta* alliance with Harvard University. In July 2012, Janssen was selected as the appropriate Pharma partner to expand the scope of Cure*Beta* and strengthen and extend the value chain in terms of clinical development and marketing (see EVT Innovate pre-clinical R&D above). In addition, Evotec established a second alliance with Harvard University in the field of kidney diseases (Cure*Nephron*). Similar to Cure*Beta*, the initial goal of the collaboration is to pursue a comprehensive and systematic approach towards the identification and development of physiological mechanisms and targets that are involved in the development of chronic kidney disease and acute kidney injury. Evotec continues to focus on developing additional "Cure" initiatives, i.e. early assets in innovative areas of drug discovery, such as regenerative medicine, and is currently in the process of

establishing further academic alliances in order to access highly innovative biology and early-stage assets that have the potential to be developed into disease-modifying therapies.

In addition to the ongoing academic alliance with Harvard University, Evotec signed an open innovation alliance with Yale University in December 2012 which will leverage first-rate science discovered at Yale University together through Evotec's drug discovery infrastructure and expertise into highly innovative and partnerable discovery approaches in diseases of high unmet medical-like metabolic diseases, CNS, immunological diseases and cancer. Furthermore and in line with this strategy, Evotec has also embarked on research partnerships with the biotech companies Haplogen GmbH ("Haplogen") and APEIRON Biologics AG ("Apeiron") to expand Evotec's portfolio of potential first-in-class therapies. The early assets generated in these research efforts are actively introduced into partnering discussions with third parties and may form the basis of future collaborations.

Research and development – 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 to maintain its competitive position and deliver on its strategy. Evotec has a number of patent families under its full control. All of these are on file, or pending through national and/or foreign applications, such as patent applications filed under the Patent Cooperation Treaty, or applications filed with the United States Patent Office, the European Patent Office or the Japanese Patent Office.

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

Evotec also pursues certain discovery projects internally. The Company monitors the research activities and results of this in-house research in order to identify potentially patentable drug candidate series which have the potential for partnering. Numerous patent applications have been filed so far for such series.

Significant corporate development events 2012

In January 2012, Evotec completed the squeeze-out process for DeveloGen AG, which was then renamed Evotec (Göttingen) AG by formal registration in the commercial register. This triggered payments to the former minority shareholders of DeveloGen of € 12.75 per share, totalling € 176,217.75.

Also in January 2012, Evotec announced a second strategic alliance with Harvard University, this time including Brigham and Women's Hospital, aimed at discovering and developing new biomarkers and treatments in the field of kidney disease ("Cure*Nephron*"). The first collaboration ("Cure*Beta*") was established in March 2011 to develop new diabetes therapies targeting beta cell regeneration. The alliance will pursue systematic and unbiased approaches towards the identification of kidney-disease-relevant mechanisms with particular interest in mechanisms with disease-modifying potential. This programme is designed to deliver and exploit novel therapeutic targets as well as biomarkers that allow more accurate diagnosis, monitoring and treatment of chronic and acute kidney disease, conditions associated with high morbidity and mortality.

In May 2012, Evotec and 4-Antibody AG ("4-Antibody") entered into a strategic collaboration agreement under which Evotec will offer a fully integrated antibody discovery and development service expanding on its leading small molecule drug discovery and development expertise. Evotec's novel and unique high throughput and high content screening approach coupled with 4-Antibody's high throughput antibody selection methodology will allow screening of large and diverse antibody populations for desired functionality and activity at a much earlier stage of selection. This unique combined approach is expected to substantially reduce attrition rates at later development stages. Evotec has paid an initial € 2 m access fee to 4-Antibody, which is anticipated to get fully reimbursed from future returns. Going forward the parties will share profits from joint projects.

In July 2012, Evotec announced that it licensed a portfolio of small molecules and biologics designed to trigger the regeneration of insulin-producing beta cells to Janssen. The small molecules and biologics were identified in collaboration with Dr Douglas Melton's laboratory at Harvard University and further developed in collaboration with scientists from Evotec as part of the Cure*Beta* research and development programme. Janssen perfectly complements this effort, providing industrial scope and scale as well as pharmaceutical development expertise and marketing capabilities. The agreement between Evotec and Janssen triggered an upfront payment of $ 8 m. This amount will be recognised straight-line over the three-year term of the collaboration agreement. Upon achievement of certain pre-clinical, clinical, regulatory and commercial goals, Janssen would make future milestone payments of up to $ 300 m per product. In addition, Janssen will pay royalties on future sales of any products that result from this collaboration. The upfront, milestone and royalty payments will be shared by Evotec and Harvard according to pre-agreed terms. Evotec also receives ongoing research support for discovery and early development work that is conducted in collaboration with Janssen.

In October 2012, Evotec extended its collaboration with CHDI until the end of 2015. This contract extension could be worth up to $ 41 m in research payments for Evotec. The collaboration takes full advantage of Evotec's integrated drug discovery platform and its proficiency in neurological research, including its expertise in medicinal chemistry, *in vitro* and *in vivo* pharmacology and compound management. Evotec and CHDI entered into this alliance in March 2006. Since then, the collaborative relationship has grown significantly.

In October 2012, Evotec announced it had entered into a five-year, multi-target collaboration with Bayer with the goal of developing three clinical candidates for the treatment of endometriosis. Both parties will contribute drug targets and high-quality technology infrastructures and will share the responsibility for early research and pre-clinical characterisation of potential clinical candidates. Bayer will be responsible for any subsequent clinical development and commercialisation. Evotec received € 12 m as an upfront payment. In total, Evotec may receive pre-clinical, clinical and sales milestones of potentially up to approximately € 580 m plus potential royalties of up to low double-digit percentages of net sales, depending on which party brought the compound to the collaboration and the successful development and approval of potential drug candidates.

Throughout 2012, Evotec made several changes to the legal entity structure in order to improve customer service, reduce administrative complexity and optimise the Group for corporate tax purposes. The key changes were the liquidation of the ENS Holdings, Inc. as well as Evotec

(Göttingen) AG was merged with Evotec NeuroSciences GmbH to form Evotec International GmbH. The effects of, these changes on the financial situation of Evotec can be found in the financial section.

Signed in December 2012 and effective in January 2013, Evotec acquired CCS, a Hamburg-based company which supports the cell culture needs of a worldwide customer base of biotech and pharmaceutical companies. CCS' large-scale processes for cell production, freezing and storage, including the entire team of specialised cell culture scientists and technicians, will be fully integrated into Evotec's Hamburg operations to realise cost synergies and efficiency improvements. The purchase price consists of a cash consideration of € 1.15 m and an earn-out component targeting € 1.4 m in cash. The earn-out component will become due one year after the acquisition and depends upon the achievement of revenue targets. Through the acquisition of CCS, Evotec confirms its leading position as fully integrated drug discovery and early development partner for Pharma and biotechnology companies. Integration of CCS' unique capabilities, such as frozen cell preparations and bulk cell transfection for cell-based screening will enable Evotec's partners to access the latest science and the best-in-class technology infrastructure to increase efficiency in the drug discovery process.

Procurement and facility management

The high-quality collaborative services provided by Evotec to its customers are based on a combination of recruiting the best drug discovery scientists available alongside a premium research platform to allow access to cutting-edge technologies. To ensure that Evotec maintains and strengthens its offering in this regard the Company invests significantly in capital equipment.

For the year 2012 Evotec expected capital expenditure, around the same level as in 2011. This was based on the growth expectations of the business, the move to a new global headquarters in Hamburg and the completion of a capital investment programme designed to address several years of under-investment in capital equipment prior to 2010.

This, combined with the strengthened procurement function put in place during 2011, provided an important opportunity to further develop and roll-out robust controls over capital equipment procurement. This was achieved by clear top-down communication across the organisation of a set of procurement guidelines surrounding capital equipment, allowing the Company to measure and report the spend against plan on a month-by-month basis. In doing so, Evotec's management was able to monitor the progress of all capital projects and assess and adjust as appropriate the ongoing priorities of such expenditure in the light of changes within collaborative programmes being undertaken and of those in discussion.

All significant capital expenditure procurement was centralised as part of this process with professional procurement staff undertaking all negotiations, effectively coordinating linked purchases across the Evotec Group, thereby maximising synergies and economies of scale. This process has had the added benefit of significantly reducing the burden on operational staff of activities tangential to their core roles, allowing them to focus on the partnerships with customers.

Further to this, Evotec undertook a successful review of operational consumables cost. In partnership with consumable supply industry experts the most significant families of consumables used within the operations were carefully reviewed and the costs paid benchmarked for these against market-available best price. This led to significant savings being identified at a time where the operations were growing quickly, thus allowing like-for-like margins to be improved without compromising on the quality of service provided to Evotec's customers.

2012 saw the completion of the move from the west of Hamburg to the state-of-the-art research premises at the Manfred Eigen Campus north of the city. This coincided with significant growth driven by increased customer demand, allowing the Company to expand its operations as well as bringing onto a single campus it's *in vivo* pharmacology team and its nuclear magnetic resonance ("NMR") screening team.

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 an Annual General Meeting ("AGM"). The Supervisory Board appoints a chairman and one vice-chairman from among its members. The members of the Supervisory Board are elected for 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 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, in addition to the CEO, of three additional board members. The CEO is functionally responsible for the areas of Corporate Development, Investor Relations and Corporate Communications, the CFO for Finance, Controlling, Information Technology, Legal, Purchasing, Facility Management and Human Resources, the COO for Business Development and Business Operations and the CSO for Intellectual Property and Research Operations.

In 2012, Colin Bond, CFO, Dr Cord Dohrmann, CSO, and Dr Mario Polywka, COO, agreed new three-year contracts with the Company starting July 2013 (Bond), September 2013 (Dohrmann) and November 2013 (Polywka). Dr Werner Lanthaler, CEO, already signed a new five-year contract in 2011, which started in March 2012.

On 04 October 2012, Evotec announced that its CEO, Dr Werner Lanthaler, will temporarily stand down from his role within the Company due to health reasons. Following a decision by the Supervisory Board after consulting Dr Lanthaler, the Management Board consisting of Dr Cord Dohrmann and Colin Bond under the direction of Dr Mario Polywka will lead the Company in his absence. Dr Lanthaler will reassume the role of CEO as soon as he has recovered.

Information regarding the remuneration of Evotec's Management Board and Supervisory Board can be found in the "Remuneration report" on page 26 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

Evotec's primary measure of success is the overall return that the Company delivers to its shareholders. To achieve this objective Evotec has developed a clear vision supported by a strategic plan entitled "Action Plan 2016 – Innovation Efficiency".

The overall objective of Action Plan 2016 is for Evotec to become the global leader in drug discovery solutions. Execution of this strategy focuses on high-class innovation combined with Group size, optimal cost structures and maximal operational efficiency. Specific objectives of Action Plan 2016 of the Evotec Group include the following:

- Deliver maximum innovation efficiency for Evotec´s customers
- Double 2011 revenues by 2016
- Improve the quality of revenue mix through royalty, milestone and service income
- Achieve operating margin in the order of 15% and accelerate cash generation
- Further build up of a pipeline without financial risks

Long-term sustainable innovation and growth strategy
Evotec's strategy is to grow the Company and create value upside through sustainable and profitable drug discovery alliances and development partnerships. To this end, in March 2009, the Company implemented its strategy "Evotec 2012 – Action Plan to Focus and Grow". The core elements of this strategy were to strengthen the discovery alliances business, refocus the pipeline on the most valuable assets and significantly reduce operating expenses and strategic clinical risks, the latter being achieved through development partnerships on selected proprietary projects. By the end of 2011, all of the key goals had been achieved and a solid foundation had been established for the next growth phase of the Company. "Action Plan 2016 – Innovation Efficiency" is the new strategy framework and was first announced in March 2012. Three core areas are defined within which the Company's key objectives and goals are set:

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

EVT Integrate: EVT Integrate represents a comprehensive and systematic approach for processing drug targets in Evotec's key areas of expertise. Pharma and biotech companies have experienced the advantages of developing drug candidates in integrated performance-based projects with Evotec: Evotec does not simply lower costs for its customers; most importantly, the Company significantly reduces the time taken to reach key decision points in the progression of compounds to the clinic. Evotec will continue to expand its business around metabolic, pain, oncology and CNS drug targets.

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 assumes initial research costs to develop early stage assets but then partners those assets at an early stage with an appropriate pharmaceutical company in return for an initial upfront payment and research fees. In addition, Evotec shares in the success of the projects through milestone and product royalties. As a result of this strategy, Evotec is building a pipeline without bearing the extensive financial risk normally involved in such projects. To reduce Evotec's risk further, the Company also continues to seek strategic partnerships to fund the further development of its clinical assets.

	Objectives	Major achievements 2012
EVT Execute	• Provide high-tech functional solution tools and capabilities to optimise efficiency at any point of a drug discovery process • Achieve strong foundation of repeat business • Drive profitability via economies of scale and process optimisation • Deliver double-digit revenue growth	• Extension of ongoing collaboration with CHDI • Major technology upgrade and capacity expansion programme undertaken • Counter screening and protein production capability added to service offering • Antibody alliance with 4-Antibody
EVT Integrate	• Offer integrated drug discovery alliances that can start at any point in the drug discovery process • Deliver an increase in the number of integrated collaborations • Risk-shared arrangements, profitability dependent on project success, milestones and royalties	• Significant alliance concluded with Bayer to fight endometriosis
EVT Innovate	• Deliver unique target-driven drug discovery initiatives for first-in-class novel drugs • Focused investments in research to drive higher returns • Achieve significant upfront, milestone and royalty payments associated with projects	• Cure*Beta* partnering with Janssen • Second strategic alliance with Harvard University focused on new biomarkers and treatments in the field of kidney disease (Cure*Nephron*)

The goals defined for 2013 in the context of Action Plan 2016 can be found in ”Outlook”, ”Business direction and strategy” on page 39 of this Management Report.

Strategic group structure and financial interest

Evotec’s strategic Group structure reflects the international direction of the Company and its strategy to acquire businesses with assets that perfectly complement Evotec’s offering. With affiliates in Germany, the UK, India and the US, Evotec is active and provides potential partners and customers direct access to the most important regions and their respective advantages. Evotec will seek to expand its technology and capabilities in offering an integrated drug discovery platform that compliment its current operations to accelerate future growth. To this end, Evotec may continue to acquire or buy shares in other companies provided that there is a good strategic fit and a compelling rationale for its shareholders. As a result, the Group structure may change depending on any acquisitions made.

Strategic financing measures

Evotec is pursuing the goals of ensuring a balanced capital structure and of limiting refinancing risks through diversification of its financing sources and instruments. The Company increased its access to non-dilutive financing during 2012 and significantly improved the terms and conditions on which this financing is made available. Evotec has defined its minimum liquidity in order to ensure that sufficient cash is available at all times to support the ongoing operations. A Treasury Committee was established at the end of 2010. This committee meets on a monthly basis to consider all aspects of the Company’s funding, liquidity and cash management. Currently, Evotec has a liquidity of € 34.2 m and drew € 17.0 m of bank loans from its existing credit lines as per 31 December 2012. In order to diversify risk the Company works with three banks. On this basis, Evotec is confident that adequate funding is in place to support its medium-term objectives and especially all goals of Action Plan 2016.

Performance measurement

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

Evotec's long-term key financial performance indicators are consistent with the focus above. In addition to growing revenues, Evotec plans to increase the Company's profitability and maintain a solid, not necessarily growing, liquidity position. These elements are measured via the monthly and quarterly operating result and the liquidity status. In addition, the Company has implemented a long-term profitability target. According to Action Plan 2016, the Evotec Group aims to reach an operating margin in the order of 15% by 2016.

– Development of financial key performance indicators

in kEUR	2008	2009	2010	2011	2012
Revenues	12,793	14,604	19,241	25,211	41,195
Operating result	-22,486	-43,315	-2,503	339	-28,927
Liquidity	38,943	28,479	31,632	31,938	34,170

Management engages in monthly financial reviews with a strong emphasis on financial performance drivers, such as revenues, order book status and margins, as well as careful cost analysis (selling, general and administrative, and research and development expenses) to measure its performance against its financial targets and to analyse performance versus the prior year.

In addition, cash forecasts, including the definition of minimum cash levels, the monitoring of contract research revenues and milestones, and operating 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 a research-driven and employee-based industry such as biotechnology, financial information alone shows an incomplete picture of a company's value creation achievement and potential. Therefore the key non-financial performance measures of Evotec's strategy are as follows:

Quality of drug discovery solutions and performance in discovery alliances (Sustainable development – key performance indicator 1 ("SD-KPI1"))
Evotec generates the vast majority of its revenues from alliances with pharmaceutical and biotechnology companies. Consequently, the most important non-financial performance indicator for Evotec is its quality of drug discovery solutions and performance in those alliances.

Evotec progresses alliances based on its broad range of integrated capabilities within the Evotec Group spanning the whole drug discovery process. Defining and following standards that aim to be best-in-class is the highest priority 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. Only the best and most advanced technologies, combined with the highest quality of drug

discovery solutions, are the standards which Evotec wishes to consistently deliver to its partners.

There are different parameters to measure customer satisfaction with Evotec's offering and performance in discovery alliances. Number, growth and size of alliances, the percentage of repeat business, new customer acquisition and the status of the Company's sales and order book are key indicators. During its 19-year 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 close to 30 Pharma and biotech companies on a global basis. This growth and progression is highlighted in the tables below.

Development of Evotec's alliances*

	2011	2012
Number of alliances	38	31
Number of alliances** > € 1m Revenues	4	8
New alliances during the Year	17	14
** Number of alliances equal number to customer		

* To the Company's knowledge benchmark data not available

Development of TOP 10 collaborations*

In kEUR	2010	2011	2012
TOP 1: UCB	0	1,085	9,792
TOP 2: CHDI	4,267	5,903	7,382
TOP 3: Top Pharma Company	0	710	6,075
TOP 4 – 10	8,075	8,841	10,333
Total TOP 10 Revenues	**12,342**	**16,539**	**33,582**
Growth in %		*34%*	*103%*

* To the Company's knowledge benchmark data not available

Notably, several collaborations significantly increased in volume in recent years and this is seen as a clear indicator of customer satisfaction. The number of alliances in which Evotec generates more than € 1 m revenues per year increased from four in 2011 to eight in 2012. Revenues from the Company's TOP 10 collaborations amounted to € 33.6 m, up 103% over the prior year. In addition, the key collaborations with CHDI and UCB significantly increased in size.

In 2012 new collaborations were announced with 4-Antibody, Aspireo, Bayer, Janssen, Probiodrug and Teijin. Substantial contract extensions were signed with Active Biotech, CHDI and UCB.

Quality and safety performance of products
(Sustainable development – key performance indicator 3)
It is important to note that, during the past five years, no services were recalled and neither fines nor settlement payments related to litigation in Evotec's drug discovery alliances were due.

Research and development performance
(Sustainable development – key performance indicator 2)
As a company developing novel pharmaceutical drug compounds, sustainable productivity in R&D is obviously a second key non-financial performance indicator. Unlike for most biotech companies, success of clinical programmes represents pure upside for Evotec as all clinical development activities are funded by a Pharma partner. Evotec participates in the progress and success of those programmes through milestone payments and royalties.

Evotec's early-stage discovery projects were developed according to plan, primarily focusing on delivering compounds to the clinical pipeline in future years and preparing selected programmes for partnering.

For a more detailed description of Evotec's advanced drug candidates and its research programmes, please see chapter "Research and development - activities" on page 5 of this Management Report.

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

1. Current and expected developments of the market for drug discovery alliances and general trends in research and development:

Developments and trends are monitored on a regular basis and in the case of any triggering events. When new developments or trends with a potential impact on the Company's product portfolio or financial position are observed, this can lead to adjustments in Evotec's strategy and current decisions. If necessary, actions are taken to reduce negative impacts or to realise chances correspondingly.

2. The development of Evotec's IP position:

In order to protect intellectual property Evotec reviews its patent portfolio regularly (see more details in the chapter "Research and development" - Intellectual property" on page 7).

3. The sales and order book:

The sales and order book provides good visibility of revenues for the coming months and is updated on a monthly basis.

4. The monthly/quarterly results:

Financial results are regularly used for measuring the current performance of the Company but also to extrapolate the development of the business in future years. By analysing trends and figures the management is able to adjust parts of its business plan, cost components and outlook should deviations of expected results be recognised.

5. The achievement of milestones in discovery alliances and development partnerships:

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

General market and healthcare summary

Economic development

The first quarter of 2012 saw a degree of stability in the financial markets based on global economic developments and a decrease in bad news emanating from the peripheral Eurozone countries. This trend reversed in the second quarter as concerns resurfaced and optimism generated by initial European stimulus efforts began to fade.

Mario Draghi, President of the European Central Bank (ECB), declared in July that he would do "whatever it takes" to save the Euro and this helped to reverse the declines. In September, he added further momentum to global market sentiment by laying out plans to buy bonds from struggling Euro countries via a Eurozone-wide permanent rescue fund labelled the European Stability Mechanism (ESM).

In November, European output figures indicated that the region had sunk back into recession, again placing Europe at the centre of market concerns. However, financial markets remained positive, suggesting that this information was fully anticipated and already priced into the markets.

The conclusion of the presidential election in the US was largely viewed positively. However, until resolution is achieved of the so-called US fiscal cliff and agreement is reached on the US debt ceiling, it is expected that there will continue to be a notable level of volatility within the markets. The lack of clarity is likely to suppress the US dollar. Once the current uncertainty is resolved the US dollar is expected to strengthen against the Euro.

In Japan, the economy contracted in 2012 after being hit by a combination of a strong Yen, which dented exports, and the surfacing of diplomatic tensions with China, a major trading partner, over sovereignty of the Diayou/Senkaku islands.

As the year progressed it became clear that some appetite for riskier assets had crept back into the market despite ongoing concerns over the Eurozone, a slowdown in the rate of economic growth in the Far East and the US's continued inertia in addressing its pending fiscal cliff. This has resulted in all major equity markets trending positively over the latter part of the year from a June low. By the end of the year the blue chip DAX Index was up 29.1% on the year. The German index performed better than other major indices such as the European Stoxx50, which closed the year up 13.8% and NASDAQ up 16.8%.

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. The biggest patent cliff the pharmaceutical industry has ever seen led to an estimated $ 33 bn of sales forecast to be lost in 2012 alone (Source: Nature Reviews Drug Discovery, January 2013). In order to address this, instead of developing a product from early-stage research which involves significant capital investment, the industry is increasingly looking at opportunities to externally acquire promising pipeline candidates. The industry has continued to experience in-licensing transactions to make up for the loss of revenues that will arise as key products lose patent exclusivity. Restructuring within the pharmaceutical industry continued in 2012 with companies such as Novartis planning to cut jobs in the US and Roche cutting jobs and shifting its focus to China. Furthermore, AstraZeneca, Abbott, Takeda, Merck KGaA, Sanofi and Lundbeck all announced significant restructurings (Source: Scrip: Analysis: December 2012). 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 restructuring has been accompanied by a shift towards more collaborative work with discovery solution providers, such as Evotec, and dedicated project groups within pharmaceutical companies. This has resulted in an increased outsourcing of drug discovery projects. This trend was anticipated by Evotec and allowed the Company to position itself most appropriately to meet changing customer needs.

Besides this, most of the top-leading biotech companies have all seen significant gains in their market caps based on products and changes in strategy (Source: EP Vantage, November 2012). This sentiment and the big Pharma restructurings show that outsourcing is proving to be a useful tool by which pharmaceutical companies manage their core functions and increase capital efficiency, allowing them to focus internal resources on later stage developments and revenue growth. Strategic outsourcing has provided a valuable way to achieve time and cost savings as well as to provide financial and operational flexibility.

Development of legal factors

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

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

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

In 2012, on the whole, legal factors affecting Evotec were largely unchanged and the Group's operating business was not materially affected.

Exchange rate development, interest rates and financing

Evotec's financial performance is affected by currency movements and to a much lesser extent by fluctuations in interest rates. Changes in raw material prices do not materially affect Evotec.

The biggest impact from currency movements on Evotec's financial position in 2012 resulted from the Euro (€) to US dollar ($) **exchange rate.** It fluctuated between 1.21 and 1.34. The Euro remained relatively strong in the first quarter but declined from May through July on the back of the Euro crisis and the sovereign debt issues in a number of the Eurozone countries. From late July, with some stability underpinning the markets due to European policy to solve the crisis, the Euro strengthened against the US dollar through the rest of a volatile year. The reasons for the relative US dollar weakness in the second half was the pending presidential election causing uncertainty on the approach to tackling underlying concerns over the economy, the budget deficit and the increasing level of US government borrowings. Overall however, the US dollar was significantly stronger against the Euro in 2012 compared to 2011, with an average exchange rate of 1.29 compared to 1.39 in the prior year and reflects that currency markets are torn between an uncertain situation in both the US and Europe.

For Evotec, a strengthening US dollar leads to an increase in reported revenues and expenses in Euro and to an increase in liquidity in Euro terms. This had a positive impact on 2012 revenues of approx. € 1.7 m in comparison to 2011 and a negative impact of € 0.2 m on 2012 expenses. At year-end, the US dollar weakened against the Euro from 1.29 (2011) to 1.32 (2012), which resulted in an unrealised loss of approximately € 0.1 m for the year-end liquidity position of € 2.3 m.

The second most important currency for Evotec is the Pound Sterling (£). The Pound Sterling to Euro exchange rate fluctuated between 1.18 and 1.28 in 2012. The average exchange rate

was 1.23 compared to 1.15 in the prior year. Similar to the US dollar, a strengthening Pound Sterling leads to an increase in reported revenues in Euro and to an increase in liquidity in EUR terms. This had a positive impact on 2012 revenues of approximately € 0.1 m and a negative impact on gross profit of € 0.9 m in comparison to 2011. In terms of liquidity at the end of the year, the Pound Sterling strengthened from 1.19 to 1.22. The year-end position of € 0.9 m was slightly positively affected.

Overall, the Company is US dollar generated and Euro consumptive. This is due to the fact that the Company generates 54% of its revenues in US dollar and 96% of its total cost base is denominated in Euro. Evotec's policy is not to speculate on foreign exchange movements. The strategy of the Company is to sell surplus US dollar in both the forward and spot markets as well as to convert US dollar into Euro with its subsidiaries, in accordance with decisions made by Evotec's Treasury Committee.

Historically low **interest rates** continued throughout 2012. In Europe the ECB inter-banking interest rate (3 months Euribor) dropped significantly from 1.3% to a historic low of 0.2% at year end due to the slow-down in growth in the Eurozone. In the US, the target range for the federal funds rate was kept at between 0% and 0.25%. The main impact of low interest rates on the financial performance of Evotec is a reduction in interest income received on the cash deposits and the short-term investments of the Company. However, there is a partially offsetting decrease in the interest expense on the borrowings of the Company.

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. The Company's debt is **financed** without any collateral requirements. Evotec will continue to operate as capital-efficiently as possible, to assess the funding of its R&D activities and capital investments carefully and to balance this against cash flow from revenue-bearing business to ensure that Evotec's cash will be sufficient to maintain and grow the Company sustainably.

– Development of Evotec's shares
Globally, the first quarter 2012 saw a positive start for all major stock market indices. The second quarter, however, saw investor confidence checked by the global economic outlook, concerns for Europe and the ongoing impact of the global financial crisis. Evotec's shares started 2012 at a price of € 2.36 and hit a 12-month low of € 1.97 in early June in line with the general market sentiment from which point the shares closed the year up 34%. From early July the share price developed positively on the back of predominantly positive news regarding milestones, partnerships and research achievements. The Company closed the year up 11% at € 2.63.

Management Board's assessment of the economic situation and business performance

As a provider of drug discovery solutions Evotec's business performance is not directly impacted by the economic cycle. Regarding the Pharma market, developments in 2012 can be evaluated as mostly positive for the Company. The current and planned restructuring processes within big Pharma may lead to increased outsourcing by the pharmaceutical industry as it seeks to increase productivity and access innovation in research and development. Evotec anticipated this trend early and continues to improve and develop its drug discovery infrastructure to meet the customers' expectations. This has been rewarded by a growing customer base, increasing contract volumes as well as a high percentage of repeat business. Evotec's Action Plan 2016 provides innovation and solutions as the core of all its partnering activities and the Company continues to be one of the few drug discovery businesses that can execute a comprehensive outsourcing strategy in the Group, because of its highly integrated drug discovery capability.

II. Financial report

Results of operations

Revenues
Evotec total revenues in 2012 amounted to € 41.2 m, an increase of €16.0 m or 63% comparison with the previous year (€ 25.2 m).

Third party revenues increased from € 19.8 m (2011) to € 35.6 m in 2012. Revenues are composed of assay development, screening (including 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 an integrated deal where several affiliates are involved (Group-based contracts). Evotec contracted revenues increased by 58.6% from € 11.6 m in 2011 to € 18.4 m in 2012. This increase (€ 6.8 m) was primarily driven by a comprehensive drug discovery alliance with a US-Pharma company. The contract was already started in the second half of 2011 and constantly run throughout the whole year of 2012. Furthermore Evotec received additional orders of existing customers and acquired new customers. Group contracted revenues amounted to € 16.4 m in 2012. This means an increase of € 9.9 m or 151.1% comparing to 2011 (€ 6.5 m). Evotec is the partner for various integrated deals, which have been signed over the past years and closed a couple of new integrated deals in 2012 which are part of the growth during the Year. License income amounted to € 1.6 m and remained on the same level as in 2011.

Total internal revenues decreased by € 0.7 m from € 5.4 m (2011) to € 4.7 m in 2012. The internal demand from affiliated companies includes support for external projects and for internal R&D programmes. 2012 the support demand for customer work decreased compared to the previous year.

The geographical spread of revenues for Evotec continues to be global. The US market increased with 53% (2011: 45%). The new and major orders came from US customers. Consequently, the European market decreased to 36% (2011: 46%) The Asian and rest of world market (11%) (2011: 9%) is still of lower significance. In 2012 the geographical spread of revenues for Evotec has broadened. In the past years the top customer represented up to one third of the revenues. In 2012 about three major customers represented 64% of the revenues. At least equally important the number of customers with third party revenues of more than € 1.0 m increased from four to eight customers in 2012 compared to the previous year.

Net result
Despite the strong growth of revenues of € 16.0 m the net result for the year decreased to a net loss of € 28.9 m. This is a decrease of € 29.4 m in comparison to a net income of € 0.5 m in 2011,
Overall the result primarily was influenced by disposal liquidation of an investment and impairments for internal discovery programmes. The operating result before depreciation of current assets, amortisation of financial assets and income or expenses from investments showed a net loss of € 3.3 m (2011: €(6.5) m).

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

Other operating income increased by € 9.3 m from € 17.5 m to € 26.8 m in 2012. Income from reversal of provisions increased by € 1.0 m. This is mainly due to accruals for outstanding invoices. As in the previous year, Evotec benefited from a loan repayment by the subsidiary Evotec International GmbH (formerly EVOTEC NeuroSciences GmbH) in the amount of € 3.5 m (2011: € 12.6 m), which effects other operating income because the original receivables were written-off in prior periods. Also in 2012, an appreciation of loan receivables in the amount of € 10.0 m was recognized due to the improved income outlook. In 2012, Evotec took over a share package from its subsidiary Renovis, Inc., which reduced the total investment by € 1.3 m. Also in 2012, the investment was increased by a reversal of impairment of € 8.6 m due to increased income expectations. In 2011, Evotec received public grants for own research programs in the amount of € 0.6 m. In 2012, Evotec did not apply for significant public grants.

Total cost of materials increased from € 9.7 m in 2011 to € 19.0 m in 2012. Raw materials and supplies of € 5.2 m occurred € 1.5 m higher in comparison to the previous year. The increasing customer requirements led to increased consumption of chemical substance as well as an increase in

consumables and materials needed for lab equipment and machinery. As a result general materials increased by € 0.5 m from € 1.3 m in 2011 to € 1.8 m in 2012. The customer specific materials were higher by € 2.9 m in 2012 (2011: € 1.9 m). Expenses for internal research programmes remain unchanged comparing to previous year. The usage of € 0.3 m was recorded for Evotec's compound library in 2012 (2011: € 0.4 m), which includes a write-up of € 0.1 m.

Costs of services increased by € 7.7 m to € 13.8 m in 2012 (2011: € 6.1 m). € 7.0 m of this increase from € 4.1 m in 2011 to € 11.1 m, 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 2012. Additionally, as part of the collaboration with the Harvard University, Evotec invested in its internal research programmes Cure*Beta* (before partnering) and Cure*Nephron.* The increase of € 1.3 m is mainly related to work outsourced to Evotec International GmbH. However, the research programme H3 was stopped and no cost occurred in 2012 (2011: € 0.5 m).

Personnel expenses increased by € 1.7 m to € 13.8 m (2011: € 12.1 m). The strong increase in demand on research work required the recruitment of new 32 employees during 2012 (thereof 28 for the operational business). Evotec employed 199 people at 31 December 2012.

In 2012, the depreciation of intangible assets amounted to € 0.7, which was related to the proportional amortisation of the access fee for the 4-Antibody platform. In April 2012, Evotec and 4-Antibody form a strategic alliance to innovate antibody identification and selection. The annual regular impairment review of the intangible assets led to the impairment of two clinical research programmes. The asset of the research programme VR1 was fully written down (€ 2.5 m) since Pfizer stopped the programme following a strategic portfolio review. The research programme H3 was written down by € 1.2 m, because both the likelihood of market entry and the commercialisation of the programme were estimated to be lower than in the previous year. Overall, an impairment of € 3.7 m was recognised in 2012.

Depreciation of fixed assets increased by € 0.3 m to € 2.0 m in 2012, mainly for buildings, leasehold improvements (€ 0.1 m) and laboratory equipments which results from increased capital expenditures to enable future operational growth.

In 2011, € 5.6 m receivables from Evotec NeuroSciences GmbH were written off as a result of the over-indebtedness.
Other operating expenses increased by € 0.7 m to € 16.6 m.
Evotec spent € 1.3 m (2011: € 1.4 m) for the completion of the move into the new building and additional required construction work. Rent and running costs related to the new and the old location amounted to € 4.0 m in 2012 (2011: € 3.8 m). Expenses for sales-related license payments increased by € 0.7 m to € 0.9 m. This primarily resulted from the participation of Harvard University in the commercialisation of the internal research programme "CureBeta" in July 2012. Sales commissions and expenses for temporary workers increased by € 0.1 m each.

The interest result improved by € 0.6 m to € 3.2 m. Interest income increased by € 0.9 m and primarily resulted from the granting of intercompany loans to subsidiaries. Due to the contracting of new bank loans in the fourth quarter of 2011 and in the first quarter of 2012, interest expense increased to € 0.7 m in 2012 (2011: € 0.3 m).

In 2012, Evotec decided to liquidate its shares in its subsidiary ENS Holdings, Inc. in the USA. This resulted in an expense of € 44.0 m for the disposal of this investment.

Evotec benefited in 2011 from tax reimbursements for trade tax and corporate tax in the amount of € 0.2 m. No such reimbursements were made in 2012.

Financing and financial position

Cash and financing

As per 31 December 2012, Evotec's cash and cash equivalents together with bonds and investment funds, presented as other investments, amounted to € 34.2 m which is a increase of € 5.2 m compared to the end of 2011 (€ 29.0 m). Evotec received two major upfront payments (Bayer and Janssen) amounted to € 18.5 m. In the context of the acquisition of Evotec München, an earn-out payment of € 2.0 m in cash was effected. In 2012, Evotec invested € 5.6 m to finance capital expenditures. Additionally, Evotec paid € 2.0 m access fee for the usage of the antibody platform from 4-Antibody. Repayment of loans balanced to € 1.6 m from Evotec' affiliated companies. Furthermore Evotec took over the liquidity of € 0.7 m from the liquidation of the ENS Holding.

Assets and liabilities

Capital structure
Total share capital and additional paid in capital increased slightly to € 263.0 m in comparison to 2011 (2011: € 262.7 m). This increase was due to exercising of stock options during the year.

In 2012, 230,975 stock options were exercised by employees and former Management Board members of the Evotec Group (2011: 122,732) and converted into Evotec shares – using conditional capital. Furthermore in 2012, 530,353 stock options were exercised by employees, the Management Board and former Management Board members of the Evotec Group which are serviced from own shares. As per 31 Dezember 2012 Evotec held 798,271 of own shares.

Total equity decreased to € 84.4 m (2011: € 113.7 m) mainly due to the net loss of € 28.9 m. Hence, Evotec ended the year with an equity ratio of 65.5% (2011:79.8%).

Net assets and liabilities

The intangible assets include licenses and patents, customer lists as well as capitalised development costs. In 2012 the intangible assets decreased from € 5.6 m in 2011 to € 3.1 m. In 2012 Evotec received usage rights to an antibody platform from 4-Antibody to innovate antibody identification and selection. Evotec spent € 2.0 m access fee for this platform, whereof € 0.7 m had already been depreciated in 2012. However, the assets of the internal research programmes H3 and VR1 were fully written down in the amount of € 3.7 m following of impairment tests.

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, Evotec has offices and information technology which are also used by its affiliated companies.

Tangible fixed assets increased from € 8.8 m at the end of 2011 to € 12.4 m in 2012. In 2012, Evotec invested € 5.6 m in capital expenditures. This is an increase of € 0.7 m comparing to last year. € 1.5 m of capital expenditures were spent for the equipment and modification of the new building for Evotec needs compared to last year (2011: € 1.2 m). Evotec's capital expenditures strategy for 2012 remained unchanged to invest in 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 sustainable competitive ability. Furthermore capital expenditures were used to spend in IT and administrative equipment and to replace old machinery and equipment in general. Depreciation in 2012 was € 1.9 m (2011: € 1.7 m).

Financial assets comprise the Company's investments and shares in affiliated companies. These investments decreased to € 37.3 m (year-end 2011: € 75.2 m). The significant increase is mainly due to the liquidation of the ENS Holdings, Inc. which resulted to a reduction in financial assets by € 44.7 m. Contrarily is the reverse of impairment in Evotecs subsidiary Renovis, Inc. in the net amount of € 8,6 m. The earn-out payment to Evotec München (Kinaxo) increased by € 2.0 m following the achievement of a performance-based milestone, which triggered an earn-out component of € 2.0 m. In 2012, Evotec took over shares on the value of € 0.1 m due to the squeeze-out from the DeveloGen acquisition.

Inventories decreased by € 0.1 m to € 2.1 m.

Trade accounts receivables and other assets increased to € 36.2 m (2011: € 21.2 m). Trade accounts receivables decreased by € 0.4 m to € 6.0 m (2011: € 6.4 m). Evotec recorded € 28.5 m accounts receivables from affiliated companies (2011: € 13.6 m). This increase is primarily due to the granting of intercompany loans. Other assets increased by € 0.7 m to € 1.5 m (2011: € 0.8 m) due to value added tax receivables from the tax authority.
In 2012, Evotec received an upfront payment of $ 8.0 m from Janssen under the Cure*Beta* research collaboration. This amount will be recognised straight-line over the duration of the collaboration agreement. The payments will be shared by Evotec and Harvard according to pre-agreed terms. This commitment constitutes the primary reason for the increase of prepaid expenses from € 0.6 m to € 3.3 m.

Accrued liabilities decreased by € 1.5 m from € 5.4 m to € 3.9 m. Accrued liabilities of € 0.9 m for the vacancy and repair of the old location at Schnackenburgallee were utilised and accruals of € 0.2 m for outstanding work at the new location were made. Accruals for outstanding invoices decreased by € 0.6 m, which was mainly affected by the reversal of accruals for outstanding invoices of € 1.0 m.

In 2012, Evotec's AG debt with financial institutions increased to € 17.0 m (31 December 2011: € 15.0 m). An additional loan was taken within Evotec AG. This loan was used for investments related to the new facility and the upgrading of laboratory equipment.
Trade accounts payable decreased from € 4.2 m to € 1.9 m. At the end of 2011, major items in the trade accounts payable were investment of construction work and capital expenditures in the new building as well as the investment of machinery equipment.
Liabilities with affiliated companies decreased by € 0.6 m to € 0.8 m (2011: € 1.4 m). In 2011, Evotec's liabilities mainly included invoices related to customer, which had to be recharged to Evotec (UK) Ltd. This was related to a group-based contract, where a large portion of the work was done in Evotec (UK) Ltd.

The increase of deferred income by € 17.6 m to € 19.8 m primarily results from deferred revenues of the research collaboration Cure*Beta* (€ 5.3 m) and the long-term collaboration with Bayer (€ 11.5 m).

Shareholdings exceeding 10% of voting rights
On 13 May 2011, Evotec was last notified by its shareholder Roland Oetker that he, via ROI Verwaltungsgesellschaft mbH, Königsallee 20, 40212 Düsseldorf, Germany, owned 14.74% of the shares of the Company. The Company is not aware of any other direct or indirect shareholdings in its share capital exceeding 10% of its capital.

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. Employees

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

Headcount
As at 31 December 2012, the Evotec AG employed a total of 199 people. This represents an increase of nearly 20% in headcount compared to the end of 2011 (167 people). This reflects the increased demand for Evotec's core disease biology know-how and the need to support new research projects and collaborations with an increasing biology focus.

Approximately 48% of Evotec's employees have worked for the Company for more than five years. The average age of Evotec's employees at the end of 2012 was approximately 38 years.

Diversity
Evotec has an international employee population possessing a rich diversity of skills, capabilities and experiences. This diversity brings a range of perspectives to the workplace, which in turn helps to grow the global business and to create a strong link to clients all over the world. The Company is committed to recruiting and promoting solely on the basis of ability and performance.

Women account for nearly 65% of employees. At the junior entry level for newly qualified graduates, more than 32% of the people Evotec hired in 2012 were females.

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

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

Education and training
The targeted succession planning and development programme described above operates alongside more broad-based development linked to further education and professional training programmes to consistently promote the personal abilities of all Evotec employees. In 2013, the Company will continue its approach to training and development in Evotec. Evotec provides a coherent framework that offers professional learning and training programmes which are tailored to the needs of the employees and the Company. Through its training and development initiatives, the Company ensures that employees are given every opportunity to effectively perform their jobs, gain competitive advantage and seek self-growth for future and increased work responsibilities.

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

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

In 2012, Evotec designed and implemented a new global long-term incentive programme (LTIP) to promote and ultimately reward the values of innovation, industrialisation, entrepreneurship and customer focus that underpin the Company's Action Plan 2016. The LTIP is a Share Performance Plan in which participants are allocated shares, the vesting of which is subject to the actual performance versus four equally weighted key performance indicators (KPIs) – revenues, operating income, operating cash flow and the share price – over a three-calendar-year period that started on 01 January 2012. These four KPIs were carefully selected on the basis of being the indicators that will drive shareholder value and ensure the future success of Evotec.

Communication and team spirit
Evotec is committed to transparent communication on the strategy, progress and performance of its business. Therefore, quarterly face-to-face meetings between the Senior Management and the employees were held to communicate key information and important company developments.

On 14 June 2012, subsequent to the Annual General Meeting, Evotec proudly held the opening ceremony of its new German headquarters and facilities in the north of Hamburg. Nobel Prize winner Prof. Dr Manfred Eigen, one of Evotec's most prominent founders and the building's namesake, attended and provided the keynote speech reflecting the Company's history and development and growth into one of Germany's most successful biotech companies. The event attracted over 550 participants including employees, their partners and families, as well as alumni and guests who got the opportunity to walk through the Manfred Eigen Campus and view the modern laboratories. In the evening, guests enjoyed a barbecue, live music and dancing.

The Manfred Eigen Campus is a world-class facility for Evotec's employees to work in, and is another key element in attracting and retaining the best talents in the industry.

– Looking to the future
In 2013, Evotec will continue to position itself as 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 Human Resources in the coming year.

IV. Remuneration report

The Remuneration Report describes the Company's remuneration structure and provides information about payments to the board members in accordance with the requirements of the German Corporate Governance Codex (the "Code"). It is part of both the Financial Statements and the Corporate Governance Report. The variable remuneration for all employees is detailed in the section "Employees" on page 24 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 compensation is awarded based on an assessment of performance that is oriented towards the sustainable growth of Evotec. The criteria for determining the amount of compensation awarded include the tasks of the individual members of the Management Board, their personal performance, the economic situation, the performance and outlook of Evotec as well as the comparative level of compensation at peer companies and the compensation structure in place in other areas of the Company.

The Law on the Appropriateness of Management Board Compensation (VorstAG) of 31 July 2009 allows the Annual General Meeting (AGM) to decide to approve the system of remunerating members of the Management Board (Sec. 120 Para. 4 AktG). The Management Board and the Supervisory Board of Evotec AG proposed such an approval at the AGM on 14 June 2012 with item 5 on the agenda "Resolution regarding the approval of the compensation system for members of the Management Board". The shareholders and shareholder representatives voted in favour of this item of the agenda with a majority of 92.22% of the votes.

In 2012, fixed and variable remuneration as well as components with a long-term incentive effect of active members of the Management Board totalled T€ 2.584 of which the variable part amounted to T€ 695 and the components with a long-term incentive effect amounted to T€ 601.

Fixed remuneration includes base salaries paid in 12 monthly instalments at the end of each month and fringe benefits such as contributions to retirement insurances, premiums for accident and accidental death insurances as well as the benefit derived from the use of company cars in the upper medium range for their own use. Apart from the remuneration, business-related payments, expenditure and expenses are reimbursed.

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

The variable portion of the remuneration paid out in March 2012 was based on the achievement of certain strategic targets for the business year 2011. The variable portion of the remuneration for the achievement of strategic targets for the business year 2012 will be paid out in March 2013. In both years, 80% of the bonus of the Company's Chief Executive Officer, Dr Werner Lanthaler, was based on the achievement of corporate milestones, and the remaining 20% on the achievement of personal objectives. For Colin Bond, Dr Cord Dohrmann and Dr Mario Polywka, as the other members of the Management Board, 60% of their bonus was based on the same corporate milestones, and the remaining 40% on the achievement of personal objectives. The company has accrued k€ 433 for the variable portion of the remuneration paid out in March 2013 for the Board members at 31. December 2012. The accrued amounts are in detail k€ 184 for Werner Lanthaler, k€ 75 for Colin Bond, k€ 87 for Cord Dohrmann and k€ 87 for Mario Polywka.
The 2011 and the 2012 corporate objectives referred to targets considered important for the positive development of the Company, such as the achievement of revenue and profitability targets, the execution of significant integrated collaboration agreements, the implementation of an innovation strategy and the preparation of the Company for sustainable future growth.

In addition to their fixed and variable remuneration, the members of the Management Board received 445,293 Share Performance Awards (SPA) in 2012 under the Company's share performance plan. These Share Performance Awards vest after four years according to achievement versus defined key performance indicators over a three-year performance measurement period. The fair values of all Share Performance Awards granted as of the grant date amounted to a total of T€ 601.

Remuneration of the Management Board 2012

	Fixed remuneration in T€	Variable remuneration in T€	Share Performance Awards in pcs	Fair values of SPA granted in T€	Total remuneration in T€
Dr Werner Lanthaler	407	307	209,877	283	997
Colin Bond	269	126	76,190	103	498
Dr Cord Dohrmann	270	126	76,190	103	499
Dr Mario Polywka	342	136	83,036	112	590
Total	**1,288**	**695**	**445,293**	**601**	**2,584**

The members of the Management Board of Evotec AG have only customary rights in case of a change of control. Their contracts contain a change-of-control clause which would allow them to terminate their current contracts in the event of a change of control. In case members of the Management Board make use of their right to terminate their contracts in the event of a change of control, they are entitled to severance payments determined as follows: for Dr Werner Lanthaler, the severance payment shall be equal to 24 months of base salary; for Dr Mario Polywka, the payment shall be equal to 18 months of base salary; and for both Colin Bond and Dr Cord Dohrmann, the payment shall be equal to 12 months of base salary plus bonus (following new contracts from July and September 2013 respectively the payment shall be equal to 18 months base salary plus bonus). In no case shall the respective severance payment be higher than the total compensation due for the remaining term of the respective Management Board member's contract.

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

The Company has made a provision for pension for one former Management Board member amounting to T€ 51. No such further provisions are due for other former Management Board members or their surviving dependents.

Remuneration of the Supervisory Board

The remuneration of the members of the Supervisory Board is set forth in the Company's Articles of Association as decided by the Annual General Meeting (AGM) 2011 and also applies for the following years, unless a new AGM passes different resolutions for the future.

According to Sec. 113 AktG, Supervisory Board remuneration is to be 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 German Corporate Governance 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 per year (Chair three times, Deputy Chair twice this amount) and Committee Chairs receive additional shares valued at T€ 10 per year. 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 2012, the individual members of the Evotec Supervisory Board receive the following compensation:

Remuneration of the Supervisory Board 2012

	Cash remuneration in T€	Value of share-based remuneration in T€	Total in T€
Dr Flemming Ørnskov	48.8	30.0	78.8
Dr Walter Wenninger	40.0	30.0	70.0
Dr Hubert Birner	25.0	20.0	45.0
Roland Oetker	18.7	10.0	28.7
Prof Dr Andreas Pinkwart	18.7	10.0	28.7
Mary Tanner	18.8	10.0	28.8
Total	**170.0**	**110.0**	**280.0**

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

Directors and Officers Liability Insurance (D&O Insurance)

Evotec procured directors and officers liability insurance coverage for its Management and Supervisory Board members, its senior management and the directors of its subsidiaries at a cost to the Company of T€ 117 in 2012. For the members of Supervisory Board, an appropriately sized deductible, and for the members of the Management Board, a deductible in line with the stipulations of the legal provisions of the VorstAG, were agreed upon.

Risk and opportunities management

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

Risk and opportunities management principles

Evotec is regularly confronted with risks and opportunities which have the potential to negatively or positively impact the financial position and profit and loss of the Company. Within the Company risk is defined as a potential occurrence of an external or internal event (or series of events) that may negatively impact our ability to achieve Evotec's business objectives or financial goals. Inversely, Evotec defines opportunity as a potential occurrence of an external or internal event (or series of events) that can positively impact the Evotec's business objectives or financial goals.

Evotec considers risk and opportunities management as the ongoing task of determining, analysing and evaluating actual and potential developments in the Company and the Company's environment. Evotec identifies opportunities based on comprehensive quantitative and qualitative analyses of market data, research projects and general trends in the biotechnological environment. The close cooperation between the Company's strategic and global operating departments allows Evotec to recognise risk and opportunities worldwide at an early stage. Where possible, Evotec's Management Board responds to these risks and opportunities by implementing corrective or supportive measures. The Company's risk and opportunities management system is therefore an important component of its management and control and plays a major role in the Group-wide guidelines described in more detail below.

While Evotec has summarised the most important individual risks in the section "Risks" below, an overview of the most important individual opportunities can the found in the chapter "Outlook" on page 38 of this report.

Risk and opportunities management system

Evotec employs a comprehensive risk management policy and risk and opportunities management system, which forms an integral part of the Group's management processes and complies with all legal requirements. Evotec believes that a key component of risk and opportunities management is the identification and evaluation of risks, risk-mitigating actions and opportunities where they arise. In addition, a concerted approach to handling, monitoring and reporting is of key importance. Therefore, the Management Board ("Vorstand") has the overall responsibility to operate an effective risk and opportunities management system.

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

Evotec's risk and opportunities management process is a Group-wide activity, which utilises critical day-to-day insight from both global and local business units and functions. It systematically assesses on an ongoing basis all significant Company activities to identify, analyse and value risks and opportunities. Despite this appropriate and functioning system, there cannot be an absolute certainty that all possible risks are identified and managed. Opportunities are mainly captured and reported with regard to commercial opportunities as they often could serve to mitigate a commercial risk. The system's efficacy is tested on a continuous basis. Besides the formal risk management policy, as explained in the remainder of this section, the risk management and opportunities 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. 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)). The Management Board is directly involved in all key decisions concerning financial assets and manages all businesses and transactions considered to be material for the Company.

To cover other risks associated with the Company's business, including those that would not have a short-term financial impact, Evotec performs regular commercial project portfolio reviews. Strict application of project and investment approval processes, legal contract review procedures and signing authorities are also standardised procedures. In addition, the Company emphasises its information technology 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 at all sites of the Group and appropriate training programmes are in place. The Company also takes its Corporate Governance responsibilities very seriously. A declaration according to section 161 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 and opportunities management system is regularly reviewed by the Group's Compliance Officer, the Management Board and the Audit Committee of the Supervisory Board in order to quickly adjust to changing environments, risk profiles and business opportunities.

The risk management system comprises the following elements:

(i) a **Risk and opportunities early detection system** to identify risks as early as possible; to precisely describe them, quantify them and estimate their probability of occurrence; and to report them to management in a timely fashion as to allow management to deal with them from their very onset. The Risk Owners have primary responsibility for the identification of risks and opportunities. Through *Prompt Notifications* and *Quarterly Risk Reports* any risks that are either outside the normal course of business or might have a material impact on the Company's financial performance, are raised and reported by the Risk Owners to the Risk Manager together with a summary and assessment of the specific risk and the countermeasures to be taken. The Risk Manager together with the Chief Financial Officer evaluates and summarises the risk reports above into a report for the Management Board. This report also includes a cash stress test to examine whether Evotec could bear the cash effect of all captured risks should they fully materialise in parallel. To date, Evotec has always passed this cash stress test.

In addition, any triggering information for an ad hoc notification required 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.

(ii) a **Risk prevention system** to monitor the risks incurred and/or the development of measures and systems to prevent potential risks from occurring. Therefore, all internal reports are formally included in the Company's risk management system and will be provided to the responsible managers regularly. This procedure increases general alertness to risk and risk management and also emphasises the principle of risk prevention across the Company.

Internal controls over financial reporting

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

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

Evotec maintains an adequate internal control system both to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the 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 information technology (IT) accounting systems are mitigated by a well-defined set of IT controls, such as restricted authorisation and defined rules for access, change and system recovery.

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

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

Specific risks related to 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 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 Company-wide application of the risk management systems cannot completely guarantee the accurate, complete and timely recording of facts in Group accounting.

Risks

Evotec AG is exposed to a range of risks entirely consistent with its business undertaking. The business, financial condition and results of Evotec may be materially adversely affected by each of these risks. If not stated differently, the risks mentioned below are unchanged in comparison to 2011.

Evotec has summarised the most important of these risks in the following categories: Business environment and industry risks, Performance-related risks, Commercial risks, Strategy risks, Financial risks, Intellectual property risks, Legal risks, HR risks and IT risks.

– Business environment and industry risks

Risks inherent to drug discovery alliances

Evotec's discovery alliance platform is well established within the industry and has generated a growing revenue stream over past years. A satisfied customer base, increased efficiency and superior service quality allow Evotec to generate value through its leveraged research platform and positive gross margin contributions. However, the market environment is marked by pricing pressures originating from funding restrictions of some biotechnology customers, the restructuring activity of major pharmaceutical companies and from evolving and strengthening competition in individual drug discovery disciplines in low-cost countries. Therefore, firm cost management, continuous enhancement of capabilities and technologies, careful market positioning and sales from high-value, results-based contracts are critical for Evotec.

Risks inherent to proprietary drug discovery and development

Evotec has a clear strategic focus on drug discovery alliances and engages in limited proprietary discovery activities only in order to kick-start such alliances. Later-stage clinical development projects are only undertaken if a partner is funding the development costs. Evotec expects to achieve significant payments when any one of its drug candidates is either out-licensed to a pharmaceutical or biotechnology company or when Evotec decides to partner the drug. This concept was again proven in 2012 when Evotec entered into the licence and collaboration agreement with Janssen on Cure*Beta* in July 2012. From these agreements Janssen receives the exclusive rights to this drug discovery programme, including all developments conducted by Evotec. In return, Evotec received a significant upfront payment, together with the potential for milestones and significant royalties.

Although Evotec's proprietary investments are limited, drug discovery and development always carries inherent risk. Today, the Company has no commercial drug products and there is no assurance that Evotec or its strategic partners will successfully develop and commercialise potential drugs. Significant returns are only expected to materialise when successful research leads to upfront and milestone payments and when potential royalties from future drug sales are received. However, if the development of an in-licensed or acquired project or drug candidate is not as expected, an impairment of the intangible asset may be required. The associated risks are those inherent to the biotechnology and drug development industry in general.

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

> Research and development activities as well as the approval and marketing of a pharmaceutical product are subject to extensive regulation by the USA FDA, the European Medicines Agency (EMA) and similar regulatory agencies elsewhere. The approval of the relevant authorities is required before a product can be tested in humans and later sold in a given market. The regulatory approval process is intensive and time-consuming and the timing of receipt of regulatory approval is difficult to predict. Therefore, even if the further development of Evotec's drug candidates is successful, regulatory approval might not be received, might be restricted to certain geographical regions or indications, later withdrawn or significantly delayed, which could significantly impact the receipt of product revenues, if any.

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

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

> Even with a stable revenue stream, fluctuating capacity utilisation and resource allocation between different parts of the business can significantly impact profitability and therefore this needs to be carefully managed. In addition, dependence on individual large customer contracts needs to be closely monitored. In 2012, Evotec's largest customer accounted for 27% of total revenues (see table "TOP 3 Alliances" on page 15).

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

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

Commercial risks
Commercial risks include the following:

> The Company continues to be engaged in a selected number of active drug discovery and early development programmes that it intends to license to pharmaceutical companies for clinical development and commercialisation. As outlined above, this strategy was again proven when Evotec entered into the licence and collaboration agreement with Janssen.

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

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

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

Evotec's financial planning is not based on any product commercialisation and therefore the business is sustainable even in the absence of such an event.

Strategy risks

Implementation and achievement of strategic goals

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. Overall, the main elements of the Plan were put into effect slightly earlier than initially anticipated. In March 2012 Action Plan 2016 – Innovation Efficiency was announced. This is a five-year mid-range plan that defines the corporate strategy until 2016 (see chapter "Corporate Objectives and Strategy" on page 12 of this report).

Following this Plan, Evotec continued in 2012 to focus its internal R&D activities on its most valuable assets in order to decrease its risk exposure. At present, the Company has no plans to build-up a more extensive pipeline, but it will concentrate its efforts on bringing proprietary products from its existing portfolio and from collaborations with scientific institutions to important value inflection points or to partner them.

The implementation of a company strategy always bears the risk of misjudgements concerning future developments. Investments in wrong products, partnerships and technology decisions, unsuccessful commercialisation strategies or the lack of market acceptance for newly discovered products could lead to significant negative impact on Evotec's market position which could lead to significant negative impact on business objectives and financial goals.

Overall, the biotech industry is currently experiencing rapid market changes and tough competition. In this critical market environment it is more difficult to design and achieve long-term strategies. Thanks to Evotec's long-standing market experience, broad international positioning and the conclusion of important partnerships and strategic alliances, associated risks are considered as medium.

Risks from M&A

Evotec's market position is well established, and Evotec is known for its first-class services by its customers. However, following Action Plan 2016 the Company is pursuing ambitious goals regarding its growth rate through both internal organic growth development and opportunistic acquisitions of financially rewarding and complementary service capacities and capabilities. In 2012, this was exemplified in the acquisition of CCS in Hamburg which became effective as of 01 January 2013. However, such merger and acquisition activities contain specific risks that need to be managed.

The acquisition of CCS bears the risk that the integration of the company into the Evotec AG may be difficult and expensive to achieve. 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 believes that these risks can be assessed as low, as CCS is only a small entity that fits well into Evotec's existing cell culture operations and therefore the integration should not be complex.

Financial risks

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

Liquidity risks

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

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

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

Evotec is currently well-financed.

Default risks

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

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

Currency risks

> Evotec's business and reported profitability are affected by fluctuations in foreign exchange rates between the US dollar 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 into Euros. A portion of the funds are held in currencies other than the Euro in order to meet needs and due to different currencies defined in customer contracts.

Intellectual property risks

The intellectual property (IP) associated risks includes the following:

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

> Evotec holds licences granted by several parties related to certain of Evotec's pre-clinical research projects. Any termination of these licences could result in the loss of significant rights and could harm Evotec's ability to commercialise its drug candidates or endanger existing partnering collaborations. However, Evotec maintains long-term and trustful relationships with its partners and is therefore confident that such license agreements will remain unaffected.

Legal risks
> As reported in 2010 and 2011, in a letter on 19 August 2010, the Federal Financial Supervisory Authority (BaFin) requested certain information with regard to an ad hoc release made by the Company on 12 August 2010. The Company provided such information in a detailed letter on 13 September 2010. BaFin informed the Company on 14 October 2010 that there might be an indication that the timing of the ad hoc publication constituted an infringement of section 15 WpHG and that an administrative offence may have occurred. In a letter on 5 September 2012, BaFin requested additional information with regard to the circumstances in 2010. Again, the Company provided such information and explained in detail its refusal of any alleged infringement of section 15 WpHG. The timing and content of the respective ad hoc release in August 2010 was based on an in-depth and thorough legal examination and in line with some acknowledged expert opinion in the legal literature. No further information has been received from BaFin up to the date of this report.

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.

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

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

> To minimise organisational risks such as manipulation and unauthorised access, access is protected by passwords that must be changed regularly. Moreover, Company guidelines relating to data protection, which also regulate the assignment of access rights, must be observed.

Other risks
Other risks, such as 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 does not foresee any material warranty or future liability claims.

Management Board's assessment of risk situation

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

– Corporate risks overview

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

Based on the general principles for estimating risk factors described above the Management Board believes that although the risks in any drug discovery and development business are significant, the Company has great opportunities to create long-term value that outweigh the foreseeable risks. At present, no risks have been identified that either individually or in combination could endanger the continued existence of Evotec AG. Furthermore, no material changes to risks were identified compared to 2011.

Evotec has no external credit rating.

VI. Post-balance sheet events

Effective 01 January 2013, Evotec AG acquired the Hamburg-based company CCS. With the initial payment of the purchase price Evotec became the sole owner of CCS.

CCS supports the cell culture needs of a worldwide customer base of biotech and pharmaceutical companies. The integration of the unique capabilities of CCS, such as frozen cell preparations and bulk cell transfection for cell-based screening will enable Evotec's partners to access the latest science and the best-in-class technology infrastructure to increase efficiency in their drug discovery process.

The purchase price consists of a cash consideration of € 1.15 m and an earn-out component in cash of up to € 1.4 m. The earn-out component will become due only one year after the acquisition and depends upon the achievement of certain pre-defined revenue targets.

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
Last year, we again experienced periods of turbulence in the industry and capital markets. However, on the whole 2012 turned out to be a surprisingly good year for many investors and companies.

In the coming years, global economic development will again vary widely from region to region. Overall, analysts are forecasting a very volatile year in 2013. Global gross domestic product (GDP) will expand moderately in real terms, again significantly faster in the emerging markets than in the Western industrialised countries. The forecast for economic growth in 2013 is around 2%, but depends very much on the industry and region. GDP growth in Europe is estimated to be only around 1% and therefore around the same rate that was achieved in 2012. In the USA, economic growth is expected to accelerate in 2013. For Asia growth forecasts are significantly stronger, but no longer reaching double-digit growth from the years 2010 and 2011. These expectations, relating to the overall situation, are subject to considerable uncertainties due to the financial and economic crisis. However, Evotec is confident that these factors will not have a major impact on the Company's expected corporate development or performance.

– The market for drug discovery alliances
Despite the challenging global environment, the global drug discovery market is expected to experience continued growth. According to studies from Kalorama Information (June 2010) and Visiongain (2012), the global drug discovery market including later-stage *in vivo* work is expected to grow strongly, reaching $ 14 bn in 2014. According to Visiongain, in 2011 the global revenues generated in the overall drug discovery outsourcing amounted to $ 9.7 bn. Also, according to Visiongain, by 2023 total global revenues generated by drug discovery outsourcing could even reach $ 35.7 bn. The growth in outsourcing will be stimulated by Pharma and biotech companies focusing on more efficient drug discovery solutions and switching to a variable cost model. This will result in core

capabilities and capacities being outsourced at a lower cost. Most importantly, expertise in required areas will be accessed externally, avoiding the need to build additional infrastructure and capabilities internally. This innovation efficiency demand will be increasingly met by companies such as Evotec.

The overall outsourcing trend in the pharmaceutical industry is toward larger strategic research contracts favouring big alliance partners, which feature a lower perceived commercial risk. This presents a challenge for the highly fragmented drug discovery outsourcing industry. However, the Evotec Group is ideally positioned to take full advantage of these market developments. The Company is one of the few drug discovery businesses that can execute a comprehensive outsourcing strategy, because it is able to undertake integrated drug discovery projects. In addition, the Company has an outstanding track record in the industry and is financially stable.

– Trends in research and development
The significant increase in costs to take a drug to market has led to a number of key trends, including an increase in outsourcing and a focus by major Pharma companies concentrating on fewer core disease areas. In terms of proprietary research and development of novel drug compounds, experts believe that sufficient financial resources will remain a critical competition advantage for biotechnology companies as funding availability will continue to be limited for the coming years. There has been a reduction in venture capital for new enterprises since 2009 and this situation is not expected to change. Hence, many companies across the globe are expected to continue to cut non-core programmes and focus on a few high-value assets.

Business direction and strategy

Evotec aims to be the leading provider of drug discovery solutions. In 2009, Evotec implemented Action Plan 2012 – Focus and Grow, which brought the Group into profitability and established a solid platform for further expansion. With Action Plan 2016 – Innovation Efficiency, Evotec defined the next goals the Company wants to achieve in the years to come.

The three building blocks (as described in “Corporate objectives and strategy” on page 12 of this report) will help us to achieve long-term leadership in the drug discovery solutions market.

The goals for the Evotec Group as well as for Evotec AG defined for 2013 in the context of Action Plan 2016 are as follows:

EVT Execute	EVT Integrate	EVT Innovate
Continue to expand technology offering to increase range of customer solutions	Further expansion of portfolio with new strategic multi-target alliances	Define one or two more Cure *X* initiatives
Expand and optimise footprint with services closer to our customers	Increase in milestones achieved in ongoing alliances	Commercialise one Cure *X* initiative
Further improve service levels, gross margins and profitability	Increase in number of biotech and mid-sized Pharma customers	Expand academic innovation network

Expected research and development, new products, services and technologies

All of Evotec’s new products, services or technologies are based on internal R&D activities, technology agreements with other companies and the acquisition of assets. Evotec is continually upgrading its capabilities to maintain the best infrastructure and skills to meet its partner’s needs in drug discovery. This trend is expected to continue in 2013 and beyond.

In terms of in-house research, the Company will continue to invest into a selected number of highly innovative approaches to address key medical areas. An important part of this is the Company’s Cure *X* initiative, whereby Evotec accesses and accelerates early academic or research initiatives in innovative areas of disease biology and develops and positions such assets for commercial partnering. The Cure*Beta* and Cure*Nephron* initiatives were started with Harvard University in March

2011 and February 2012, respectively. In order to continue the progression of the Cure *X* initiatives, Evotec is currently developing Cure*Neuron* and Cure*Heart* internally and is exploring potential collaboration opportunities. In January 2013 Evotec expanded this strategy by signing an agreement with Yale University, whereby both institutions will accelerate targets to a suitable partnering position within this "open innovation alliance". These projects and others that are currently under development are expected to lead to a significant number of large strategic alliances with pharmaceutical companies in the future. Cure*Beta* is a great example of this as it entered an alliance with Janssen in 2012 and has since then been externally funded.

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

Financial outlook for 2013

Expected operating results

In 2013 Evotec **revenues** are expected to see double-digit growth in percentage terms. This assumption is based on the current order book, expected new contracts and contract extensions, particularly of group-based contracts.

Evotec AG's **operating result** will depend on the productivity of its drug discovery business. In 2013 the operating result is expected to significantly improve because the 2012 result was negatively impacted by the disposal of an investment. A further positive impact on the operating result 2013 is expected from the planned revenue growth. Negative effects may originate from corporate expenses not chargeable to the affiliates. For 2013, these costs are expected to be on the same level as in 2012. Apart from very little outstanding work to be done, the move and construction work of the new facility was completed in 2012. The rental agreement for the old facility was terminated in 2012, thus Evotec does not expect any parallel rental costs or costs due to under-utilisation from 2013 onwards. Related to the growth of revenues, Evotec also expects further growth of headcount. In addition, depreciation of property plant and equipment due to the expansion of the laboratory equipment as well as furniture and fixtures is expected to increase over the 2012 level.
The operating result could be strongly influenced, both negatively and positively, by the regular impairment tests of affiliates as well as owned research programmes. Overall, 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 2013 is expected to improve over 2012.

Actual results could materially deviate from these projections.

Expected Financing and Financial Position

In January 2013, Evotec AG announced the acquisition of the Hamburg-based company CCS Cell Culture Service GmbH. The purchase price consists of a cash consideration of approx. € 1.15 m and an earn-out component in cash of up to € 1.4 m. The earn-out component depends upon the achievement of certain pre-defined revenue targets. In contrast, revenues of high margin of more than € 1.0 m are expected in 2013.

Again in 2013, Evotec will invest to support its long-term growth aspirations. However, capital expenditures are expected to be € 2.0-3.0 m and will thereby remain significantly below the level of the previous years. Main portions of the investments will be used for expanding laboratory equipments and a lower proportion will be invested in the Manfred Eigen Campus to integrate the new acquired company.

Evotec had to finance again some of its subsidiaries in 2012. A small amount of financing is also expected for its affiliates for 2013. It is planned to start to build a new facility for Evotec (India) Private Limited in 2013 and Evotec will support the financing of the building.

Cash outflow is expected to increase with further investments in early research activities. However, the focus is on the liquidity from the growing operating business which is expected to increase in the near future.

Due to the strong strategic situation of Evotec the cash situation should remain strong throughout 2013. 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 reinvest them in the Company. Nevertheless, given the very solid growth path, dividend payments will be carefully considered in the mid-term.

Opportunities

Evotec operates in a market which continues to have excellent growth opportunities. There is a clear trend towards larger, multi-year contracts within a full-service outsourcing model, meaning increased opportunities for alliance partners, such as Evotec, which offer integrated drug discovery capabilities and project management from across the entire discovery value chain.

Evotec has entered into partnerships with pharmaceutical companies for a number of its development programmes. A highlight of 2012 was the successful partnering of Cure*Beta* with Janssen. After partnering, all development costs are covered by the partner and as Evotec is not investing itself, there is no financial risk for the Company. The upside, however, may be significant. In case of clinical and commercial success, Evotec will benefit from significant milestone payments and double-digit royalties.

General statement of expected development by the Management Board

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

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

On this basis, the Management Board expects Evotec to show strong revenue growth in 2013 and continued profitability. The Company's strong cash position will provide a firm foundation to consider potential M&A opportunities that might strengthen the business and increase shareholder value.

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 2012. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Section 317 HGB [„Handelsgesetzbuch”: „German Commercial Code”] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [„Institute of Public Auditors in Germany”] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development."

Hamburg, 6 March 2013

KPMG AG
Wirtschaftsprüfungsgesellschaft

Kniese	Zander
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]