

**Translation of
Financial Statements as of
31 December 2016
and Management Report**

**Evotec AG
Hamburg**

Evotec AG, Hamburg
Statement of financial position as of 31 December 2016

Assets	<u>EUR</u>	<u>31 Dec 2015 EUR</u>
A. Fixed assets		
I. Intangible assets		
Purchased franchises, industrial and similar rights and assets, and licenses in such rights and assets	<u>871,449.06</u>	<u>923,444.97</u>
II. Property, plant and equipment		
1. Land, land rights and buildings, including buildings on third-party land	1,861,257.97	2,010,257.01
2. Plant and machinery	8,912,947.28	9,342,276.38
3. Other equipment, furniture and fixtures	545,136.29	612,690.53
4. Prepayments and assets under construction	<u>522,274.23</u>	<u>147,528.88</u>
	11,841,615.77	12,112,752.80
III. Financial assets		
Shares in affiliates	<u>86,974,459.99</u>	<u>31,678,119.26</u>
	<u>99,687,524.82</u>	<u>44,714,317.03</u>
B. Current assets		
I. Inventories		
1. Raw materials, consumables and supplies	1,406,293.25	1,526,483.23
2. Work in process	<u>326,700.42</u>	<u>509,376.42</u>
	1,732,993.67	2,035,859.65
II. Receivables and other assets		
1. Trade receivables	7,247,165.52	8,241,236.16
2. Receivables from affiliates	55,964,969.64	18,085,495.24
3. Other assets	<u>4,402,860.02</u>	<u>2,302,900.60</u>
	67,614,995.18	28,629,632.00
III. Securities		
Other securities	23,283,796.26	36,884,272.72
IV. Cash on hand and bank balances		
	<u>8,355,102.21</u>	<u>24,129,984.82</u>
	<u>100,986,887.32</u>	<u>91,679,749.19</u>
C. Prepaid expenses		
	<u>435,358.05</u>	<u>562,266.82</u>
	<u>201,109,770.19</u>	<u>136,956,333.04</u>

Equity and liabilities**A. Equity****I. Subscribed capital**

./. nominal value Treasury shares

31 Dec 2015
EUR EUR

133,051,739.00 132,584,082.00
-249,915.00 -249,915.00

132,801,824.00 132,334,167.00

II. Capital reserves

165,602,115.48 165,251,915.72

III. Revenue reserves

Reserve for treasury shares

249,915.00 249,915.00

IV. Accumulated loss

-178,354,986.17 -205,969,169.89

120,298,868.31 91,866,827.83

B. Provisions

1. Provisions for pensions and similar obligations
2. Tax provisions
3. Other provisions

68,413.10 63,592.50
502,600.00 227,600.00
4,498,791.23 3,954,735.95

5,069,804.33 4,245,928.45

C. Liabilities

1. Liabilities to banks
2. Prepayments received on account of orders
3. Trade payables
4. Liabilities to affiliates
5. Other liabilities
thereof for taxes: EUR 280,665.17 (prior year: EUR 469,902.01)

28,606,959.07 22,942,155.42
253,545.16 6,575.78
2,228,945.96 1,644,734.83
36,039,315.87 1,148,750.50
1,788,322.88 609,012.58

68,917,088.94 26,351,229.11

D. Deferred income

6,824,008.61 14,492,347.65

201,109,770.19 136,956,333.04

Evotec AG, Hamburg
Income statement for the period from 1 January 2016 to 31 December 2016

	EUR	2015 BilRUG	2015 EUR
1. Revenue	71,414,032.89	62,875,336.76	57,219,481.54
2. Increase or decrease in finished goods and work in process	-182,676.00	-292,938.62	-292,938.62
3. Other operating income thereof income from currency translation: EUR 732,522.26 (prior year: EUR 2,343,951.77)	23,513,694.18	3,074,571.03	8,730,426.25
	94,745,051.07	65,656,969.17	65,656,969.17
4. Cost of materials			
a) Cost of raw materials, consumables and supplies and of purchased merchandise	6,988,014.82	6,326,498.13	6,326,498.13
b) Cost of purchased services	23,408,097.57	20,240,482.33	18,017,417.29
5. Personnel expenses			
a) Wages and salaries	17,555,487.83	16,614,157.80	16,614,157.80
b) Social security, pension and other benefit costs thereof for old-age pensions: EUR 7,378.00 (prior year: EUR 3,073.00)	2,667,780.82	2,587,076.18	2,587,076.18
6. Amortization, depreciation and write-downs of intangible assets and property, plant and equipment	2,548,781.18	2,406,122.94	2,406,122.94
7. Other operating expenses thereof expenses from currency translation: EUR 2,763,111.76 (prior year: EUR 1,891,330.65)	15,540,724.34	29,412,336.34	31,635,401.38
	68,708,886.56	77,586,673.72	77,586,673.72
8. Other interest and similar income thereof from affiliates: EUR 1,861,010.06 (prior year: EUR 1,942,842.54)	2,620,615.72	2,470,210.11	2,470,210.11
9. Write-downs of financial assets and securities classified as current assets	13,500.00	0.00	0.00
10. Interest and similar expenses	367,617.04	474,206.44	474,206.44
	2,239,498.68	1,996,003.67	1,996,003.67
11. Income taxes	661,479.47	434,613.40	434,613.40
12. Net income/net loss for the year	27,614,183.72	-10,368,314.28	-10,368,314.28
13. Withdrawals from reserve for treasury shares	0.00	22,400.00	22,400.00
14. Net loss carried forward	205,969,169.89	195,623,255.61	195,623,255.61
15. Accumulated loss	-178,354,986.17	-205,969,169.89	-205,969,169.89

Evotec AG, Hamburg

Notes to the Financial Statements for the year 2016

I. General Information

Evotec AG, hereinafter referred to as „Evotec” or „the company”, is classified as a large company according to section 267 paragraph 3 German Commercial Code (“Handelsgesetzbuch” or “HGB”).

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

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

The company is listed on the German Stock Exchange’s TecDAX index at the Frankfurt stock exchange since 28 October 2009.

To improve the clarity of the statement, we summarized particular items of the balance sheet and the income statement. These items are disclosed and commented separately in the notes. For the same reason, we also indicate in the notes whether individual items are related to other balance sheet accounts and “thereof” items.

II. Register information

The company registered under the commercial firm name Evotec AG with place of business in Hamburg in the Commercial Registry of Hamburg with HRB 68223.

II. Basis of Presentation, Accounting and Valuation Practices

The presentation system applied for the income statement 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.

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 fair values will be impaired as of the closing date.

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

The useful lives are applied 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 impairment 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. All recognizable risks in the inventory due to surpassing turnover rate, lower usability and lower replacement costs are considered in reasonable devaluation.

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.

Treasury 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 was recognized within the profit and loss. In the amount of treasury shares the company booked a reserve.

Pension accruals and similar commitments have been estimated using the Projected Unit Credit-method with an interest rate of 4.01% 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 ten years considering a maturity of 15 years. This interest rate is determined on the interest rates published by the Deutsche Bundesbank. Pension

progression was considered at a rate of 1.3%. The average market interest rate over the last seven years was 3.24%.

Provisions 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 paragraph 1 HGB. According to section 253 paragraph 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.

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

Prepaid expenses and deferred income are expenses and income before the closing date as far as they represent expenses and income for a specified time after this date.

Future taxable temporary differences which lead to **deferred tax liabilities** between commercial law valuation of assets, liabilities and accrual and their taxable valuation or due to tax loss carry forward do not exist. Deferred tax asset for future taxable differences in accruals, liabilities and losses carried forward have been calculated using a combined tax rate of 32.28% and have not been capitalized according to section 274 paragraph 1 sentence 2 HGB.

III. Comments on the Balance Sheet

1. Fixed assets

The development of the fixed assets is specified on a gross basis in the statement of changes in fixed assets (see page 5) and includes historic cost and manufacturing cost of assets and the respective accumulated depreciations.

2. Financial assets

As at the balance sheet date of 31 December 2016, Evotec held direct equity investments in the following companies:

	Total equity	Share interest	Net income/loss-
	TEUR	%	TEUR
1. Evotec (Hamburg) GmbH, Hamburg*	12.678	100,00	-1
2. Evotec International GmbH indirectly through 1st	-92.964	100,00	3.766
3. Evotec (UK) Ltd., Abingdon, UK	29.422	100,00	5.878
4. Evotec (US) Inc., South San Francisco, USA*	-11.279	100,00	-1.651
5. Evotec (India) Private Limited, Maharashtra (Thane), India**	2.212	100,00	-55
6. Evotec (München) GmbH, Munich*	875	100,00	1.070
7. Evotec (France) SAS, Toulouse, France	24.530	100,00	14.872
8. Cyprotex PLC, Macclesfield, UK	-5.488	100,00	515
9. Eternygen GmbH, Berlin (31 December 2015)*	-577	22,02	-352

*unaudited

**in Liquidation

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 2016 for the annual profit or loss statement.

Statement of changes in fixed assets for fiscal year 2016

	Acquisition and production cost					Accumulated amortization, depreciation and write-downs					Net book values		
	1 Jan 2016	Additions	capitalized interests on borrowed capital	Disposals	Reclassifications	31 Dec 2016	1 Jan 2016	Additions	Disposals	Reclassifications	31 Dec 2016	31 Dec 2016	31 Dec 2015
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	kEUR
I. Intangible assets													
1. Acquired franchises, industrial and similar rights and assets, and licenses in such rights and assets	5,997,069.60	142,296.55	0.00	0.00	11,906.57	6,151,272.72	5,073,624.63	206,199.03	0.00	0.00	5,279,823.66	871,449.06	923
II. Property, plant and equipment													
1. Land, land rights and buildings, including buildings on third-party land	2,943,364.70	100,878.83	0.00	0.00	39,810.07	3,084,053.60	933,107.69	289,687.94	0.00	0.00	1,222,795.63	1,861,257.97	2,010
2. Plant and machinery	28,731,693.43	1,288,850.92	0.00	6,369,802.90	16,029.24	23,666,770.69	19,389,417.05	1,678,243.08	6,313,836.72	0.00	14,753,823.41	8,912,947.28	9,342
3. Other equipment, furniture and fixtures	3,752,790.84	306,023.90	0.00	28,357.70	1,073.00	4,031,530.04	3,140,100.31	374,651.14	28,357.70	0.00	3,486,393.75	545,136.29	613
4. Prepayments and assets under construction	147,528.88	443,564.23	0.00	0.00	-68,818.88	522,274.23	0.00	0.00	0.00	0.00	0.00	522,274.23	148
	35,575,377.85	2,139,317.88	0.00	6,398,160.60	-11,906.57	31,304,628.56	23,462,625.05	2,342,582.16	6,342,194.42	0.00	19,463,012.79	11,841,615.77	12,113
III. Financial assets													
1. Shares in affiliates	37,907,822.21	55,296,340.73	0.00	0.00	0.00	93,204,162.94	6,229,702.95	0.00	0.00	0.00	6,229,702.95	86,974,459.99	31,678
	79,480,269.66	57,577,955.16	0.00	6,398,160.60	0.00	130,660,064.22	34,765,952.63	2,548,781.19	6,342,194.42	0.00	30,972,539.40	99,687,524.82	44,714

3. Inventories

	kEUR	kEUR
	31.12.2016	31.12.2015
Raw materials	1,406	1,527
Work in progress	327	509
	<u>1,733</u>	<u>2,036</u>

The raw materials mainly include compound libraries amounting to kEUR 1,219 (2015: kEUR 1,191) as at 31 December 2016.

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

4. Accounts receivable and other assets

Accounts receivable from affiliates

	Maturity					
	< 1 year	> 1 year	total	< 1 year	> 1 year	total
	31.12.2016			31.12.2015		
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Evotec (India) Private Ltd.	527	0	527	510	0	510
Evotec International GmbH	0	23,798	23,798	2,601	0	2,601
Evotec (München) GmbH	0	1,900	1,900	0	1,900	1,900
Evotec (US) Inc.	0	12,033	12,033	0	11,747	11,747
Evotec (France) SAS	395	0	395	1,328	0	1,328
Cyprotex PLC	0	17,312	17,312	0	0	0
	<u>922</u>	<u>55,043</u>	<u>55,965</u>	<u>4,439</u>	<u>13,647</u>	<u>18,086</u>

Accounts receivables from affiliates include trade accounts receivables in an amount of kEUR 422 (2015: kEUR 3,939). The other kEUR 55,543 (2015: kEUR 14,147) include loans which were granted from Evotec AG.

Due to the indebtedness of Evotec International GmbH in previous years, the accounts receivable were impaired. In 2016, an appreciation in value to the amount of kEUR 22,353 was recorded. The accumulated depreciation amounts to kEUR 82,114 (2015: kEUR 104,467).

Other assets

	Maturity			
	< 1 Year	> 1 Year	< 1 Year	> 1 Year
	31.12.2016		31.12.2015	
	kEUR	kEUR	kEUR	kEUR
Tax authorities				
- Capital yields tax	0	0	1	0
- Corporate tax	0	0	10	0
- Value added tax	195	0	0	0
Rights	0	2,512	0	1,500
Prepayments	1,065	0	0	0
Accounts payable with debit balances	19	0	142	0
Deposits	2	417	2	417
Licences	0	0	0	0
Others	193	0	231	0
	<u>1,474</u>	<u>2,929</u>	<u>386</u>	<u>1,917</u>

5. Other securities

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

	kEUR	kEUR
	31.12.2015	31.12.2014
Hamburger Sparkasse Inhaberschuldverschreibungen	5,307	4,295
Deutsche Bank Anleihen	2,489	3,467
HSBC Anleihe	2,150	2,129
BMW Finance Anleihe	2,090	2,071
Metro Finance Anleihe	2,088	2,075
Mercedes Benz Anleihe	1,972	2,390
GE Capital Anleihen	1,915	6,815
Volkswagen Anleihen	0	4,363
Others	5,273	9,279
	<u>23,284</u>	<u>36,884</u>

6. Cash and cash equivalents

As at 31 December 2016 cash on hand was kEUR 3 (2015: kEUR 1) and the cash equivalents amounted to kEUR 8,352 (2015: kEUR 24,129) (including kEUR 2,398 (2015: kEUR 7,676) in US Dollar and kEUR 3,276 (2015: kEUR 3,345) in Pound Sterling).

7. Prepaid Expenses

Prepaid expenses mainly relate to ongoing maintenance contracts.

8. Deferred Taxes

The deferred tax receivables mainly result from taxable losses brought forward. According to section 274 paragraph 1 sentence 2 HGB, the receivables from deferred taxes were not capitalized. The tax rate used in determining 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.

9. Equity

The share capital of the company is classified into 133,051,739 shares with a par value of EUR 1.00 made out to bearer.

In 2015, an increase of nominal capital was due to the exercise of stock options of EUR 873,206.00, registered in the Commercial Registry in 2016. Additionally in 2016, the nominal capital increased due to the exercise of stock options of EUR 467,657.00. This entry in the Commercial Registry was made in 2016.

Additionally the company held due to the authorisation of the Annual General Meeting on the 16 June 2011 and according to section 71 paragraph 1 no. 8 AktG own shares. On 12 March 2012, 1,328,624 own former Renovis, Inc. transferred shares with a nominal value of EUR 1,328,624.00. These shares represented 1.12% of the share capital. Of these shares, 530,353 were used for servicing employee stock options in 2012, 459,456 in 2013, 66,500 in 2014 and 22,400 in 2015, all with an identical nominal value. In 2016, the shares represented 0.02% of the share capital. As at 31 December 2016, Evotec held 249,915 own shares with a nominal value of EUR 249,915.00. Respective shares are shown separately from the share capital pursuant to section 272 paragraph 1a HGB. Hence, the nominal value of the share capital amounted to EUR 132,801,824.00 including the capital increases and the own shares. As at 31 December 2016, these shares represented 0.19% of the share capital.

The remaining approved capital amounted to EUR 26,292,038.00 equal to 26,292,038 shares as at 31 December 2016.

The conditional capital as of 31 December 2016 consists of 11,653,083 shares available with respect to the share performance plan and the stock option plans and 26,516,816 shares available to issue no-par-value bearer shares to owners or creditors of convertible bonds and/or warrant-linked bonds, participation rights and/or income bonds (or a combination of such instruments). Consequently, the remaining conditional capital as of 31 December 2016 amounts to 38,637,556 shares.

The accumulated deficit represents EUR 205,969,169.89 on 31 December 2016.

The capital reserves rose due to the capital increase and exercised stock options by EUR 350,199.76 to EUR 165,602,115.48.

According to law investors whose share of voting rights exceeds a specified threshold are obliged to notify the company.

According to section 21 WpHG Evotec has received the following voting rights notifications in the expired financial year.

Date	Notifier	Triggering event	Threshold crossed or reached	Total amount of voting rights
28.01.2016	TVM V Life Science Ventures GmbH & Co. KG, München, Deutschland	Falling below threshold	5%	4,98%
28.01.2016	TVM V Life Science Management GmbH & Co. KG, München, Deutschland	Falling below threshold	5%	4,98%
07.03.2016	Mark N. Lampert, USA	Falling below threshold	3%, 5% und 10%	2,68%
07.03.2016	BVF Inc., Wilmington, DE, USA	Falling below threshold	3%, 5% und 10%	2,68%
07.03.2016	BVF Partners, L.P., Wilmington, DE, USA	Falling below threshold	3%, 5% und 10%	2,68%
07.03.2016	Biotechnology Value Fund, L.P., Wilmington, DE, USA	Falling below threshold	3%	1,28%
07.03.2016	BVF Investments, L.L.C., Wilmington, DE, USA	Falling below threshold	3% und 5%	0%
07.03.2016	Philip Korsant, USA	Falling below threshold	3% und 5%	0%
29.04.2016	Deutsche Asset Management Investment GmbH, Frankfurt, Deutschland	Exceeding threshold	3%	3,82%
03.05.2016	TVM V Life Science Management GmbH & Co. KG, München, Deutschland	Falling below threshold	3%	0%

Date	Notifier	Triggering event	Threshold crossed or reached	Total amount of voting rights
23.08.2016	Roland Oetker, Deutschland	Voluntary group notice	N/A	10,09%
31.10.2016	Ministry of Finance on behalf of the State of Norway, Oslo, Norwegen	Exceeding threshold	3%	3,23%
11.11.2016	Ministry of Finance on behalf of the State of Norway, Oslo, Norwegen	Falling below threshold	3%	2,78%
16.11.2016	Ministry of Finance on behalf of the State of Norway, Oslo, Norwegen	Exceeding threshold	3%	3,31%
17.11.2016	Ministry of Finance on behalf of the State of Norway, Oslo, Norwegen	Falling below threshold	3%	2,86%
12.12.2016	Ministry of Finance on behalf of the State of Norway, Oslo, Norwegen	Exceeding threshold	3%	3,01%
12.12.2016	Ministry of Finance on behalf of the State of Norway, Oslo, Norwegen	Falling below threshold	3%	2,96%

10. Pension accruals

Pension accruals were set up according to a valuation by Mercer Germany 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 kEUR 151 on 31 December 2016 (2015: kEUR 144). At the same time, the accruals for pensions were netted against an insurance cover, constituting as plan asset, amounting to kEUR 83 (2015: kEUR 80).

The difference according to section 253 paragraph 3 HGB amounts kEUR 14 and is subject to a restriction in profit distribution.

11. Other accruals

	31.12.2016	31.12.2015
	kEUR	kEUR
Bonus	2,286	1,456
Outstanding invoices	1,023	1,085
Risks from FX hedging	0	483
Unclaimed vacation	372	432
Supervisory board remuneration	305	303
Consultancy expenses	200	0
Interest derivatives	107	116
Others	206	80
	<u>4,499</u>	<u>3,955</u>

12. Liabilities

Liabilities to banks

As of 31 December 2016, the liabilities to banks comprise of six loans in the total amount of kEUR 28,607 (2015: kEUR 22,942). No loan is secured.

Loan in kEUR	Interest Rate
7,115	1,5 percentage points above 3-Month-LIBOR
6,500	1,25 percentage points above 3-Month-EURIBOR
6,500	1,25 percentage points above 3-Month-EURIBOR
4,000	1,2 percentage points
3,032	1,25 percentage points
1,460	1,5 percentage points above 3-Month-LIBOR

Maturity							
31.12.2016				31.12.2015			
< 1 year	1 to 5 years	> 5 years	total	< 1 year	1 to 5 years	> 5 years	total
EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
21,412	7,195	0	28,607	13,000	6,375	3,567	22,942

Customer deposits and advances

As last year, the customer deposits and advances are due within one year.

Accounts payables

The accounts payable are completely due within one year.

Liabilities to affiliated companies

	Maturity			
	< 1 year	> 1 year	< 1 year	> 1 year
	31.12.2016		31.12.2015	
	kEUR	kEUR	kEUR	kEUR
Evotec (UK) Ltd.	950	0	950	0
Evotec International GmbH	0	0	0	0
Evotec (US) Inc.	45	0	45	0
Evotec (München) GmbH	154	0	154	0
	1,149	0	1,149	0

In contrast to prior year the balances mainly consist of loan liabilities against Evotec (UK) Ltd. to the amount of kEUR 24,527 and against Evotec International GmbH to the amount of kEUR 11,680 and trade payables.

In offsetting accounts receivable with liabilities of affiliated companies, kEUR 21 accounts receivables from Evotec (UK) Ltd, kEUR 314 from Evotec (US) Inc. and kEUR 155 from Evotec (München) GmbH were included. Furthermore, kEUR 1,850 liabilities from Evotec International GmbH and kEUR 145 from Evotec (France) were included.

Other Liabilities

The other liabilities mainly consist of a capital contribution owed to Eternygen GmbH to the amount of kEUR 1,460 and a wage tax liability to the amount of kEUR 281 (2015: kEUR°315). As in 2015, all other liabilities are due within one year.

13. Deferred revenue

Deferred revenue mainly relate to current customer projects.

IV. Comments on the Statement of Operations

1. Revenues

Revenues of the previous year are not comparable due to the revised version of section 277 paragraph 1 HGB (BilRUG).

The company recorded revenues of kEUR 71,414 (2015: kEUR 62,875) through research and development services, thereof kEUR 23,293 with affiliated companies (2015: kEUR 22,270).

The external revenues amounted to kEUR 48,121 (2015: kEUR 39,225; BilRUG: kEUR 40,491) including revenues from milestones of kEUR 8,900 (2015: kEUR 3,800) and rental income of kEUR 302 (2015: kEUR 370).

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

	2016 kEUR	2015 after BilRUG	2015 kEUR
United States of America	20,530	19,660	19,137
Germany	14,160	10,996	10,310
France	4,930	1,584	1,576
Austria	2,820	1,947	1,947
Belgium	2,368	2,205	2,205
Switzerland	1,788	1,695	1,676
Rest of Europe	1,261	2,217	2,193
Israel	0	161	155
Japan	0	26	26
Rest of the world	264	0	0
Total	48,121	40,491	39,225

2. Other operating income

The other operating income of the previous year are not comparable due to the revised version of section 277 paragraph 1 HGB (BilRUG).

	2016 kEUR	2015 after BilRUG	2015 kEUR
Appreciation in value receivable loan	22,353	0	0
Currency gains	733	2,344	2,344
Subsidies	204	342	342
Income from reversal of accruals	205	205	205
Costs charged to affiliated companies	0	0	4,275
Costs charged to third parties	0	0	896
Sublease of building	0	0	370
Others	19	183	298
	<u>23,514</u>	<u>3,074</u>	<u>8,730</u>

3. Cost of Materials

The costs of materials in 2016 amounted to kEUR 30,396 (2015: kEUR 24,344; BilRUG: kEUR 26,567) including mainly costs of purchased services with affiliated companies to the amount of kEUR 22,792 (2015: 17,613; BilRUG: kEUR 19,836).

4. Other operating expenses

The other operating expenses of the previous year are not comparable due to the revised version of section 277 paragraph 1 HGB (BilRUG).

	2016 kEUR	2015 after BilRUG	2015 kEUR
Currency losses	2,763	1,891	1,891
Rental expenses including related costs	2,007	2,212	2,212
Legal and consultancy expenses	1,835	1,175	1,175
Service and maintenance	1,060	1,236	1,236
Royalty costs	664	893	893
Reconstruction/ moving expenses	646	622	622
Costs for Services	499	743	743
Patent costs	291	512	512
Write-down on loan receivable from affiliated company	0	13,888	13,888
Cost charged from affiliated companies	0	0	1,535
Others	5,776	6,240	6,928
	<u>15,541</u>	<u>29,412</u>	<u>31,635</u>

5. Currency result

In 2016, the company recorded income relating to unrealised FX effects in the amount of kEUR 113 (2015: kEUR 812) and expenses relating to unrealised FX effects amounting to kEUR 37 (2015: kEUR 928).

6. Allocation to reserve for own shares

The adjustment of the loss due to the accounting treatment of the reserve for treasury shares was made because of the 249,915 (2015: 249,915) treasury shares which the company held as of 31 December 2016. These treasury shares have a nominal value of EUR 249,915.00 (2015: EUR°249,915.00).

V. Other Information

Audit Fees

Concerning the audit fees, see the consolidated financial statements, prepared by Evotec AG.

Transactions with affiliated companies

There are no transactions with affiliated companies, which are not made in usual accordance market terms.

Employee Information

The average number of people employed by the company in 2016 was 300 (2015: 284). Thereof 55 employees serve in sales and administration functions (2015: 45).

Other financial obligations

The other financial obligations for 2017 mainly relate to obligations from service contracts, rent and leasing and add up to kEUR 3,788. The total amount of all existing obligations for the period 2018 to 2021 is kEUR 8,211. The other obligations for later periods add up to kEUR 1,656.

As agreed in the acquisition of the former DeveloGen AG (Evotec International GmbH) the company is obliged to make an earn-out payment to the former shareholders 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 (Evotec (München) GmbH) the company is obliged to make earn-out payments to the former shareholders. These payments depend on the achievement of particular revenues and the continuation of a customer project.

Furthermore, the company agreed with third parties of granting access to their technology and Know-how for Evotec's business or cooperation's. Based on this the company is obligated to share the turnover with these third parties.

Guarantees and Other Commitments

In order to mitigate the legal consequence of over-indebtedness of Evotec International GmbH (kEUR 92,964) Evotec AG issued a 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 Evotec AG.

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);

Enno Spillner, Business Executive, Hamburg (Chief Financial Officer, since 18 July);

Colin Bond; Qualified Chartered Accountant, Hamburg (Chief Financial Officer, until 30 June);

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 of 2016 totalled kEUR 3,880 (2015: kEUR 3,275) of which kEUR 796 (2015: kEUR 930) is a variable remuneration and of which kEUR 1,534 (2015: kEUR 910) is a remuneration with long-term incentive effect. The remuneration includes kEUR 824 for Dr Mario Polywka, which was not paid by Evotec but is recharged to 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. The Supervisory Board approved respective scheme. The variable portion of the remuneration in 2016, payable on the achievement of certain strategic targets in the business year 2015, was based on the following criteria:

	Achievement of de- fined corporate milestones %	Achievement of de- fined corporate fi- nancial milestones %
Dr Werner Lanthaler	40	60
Dr Cord Dohrmann	40	60
Dr Mario Polywka	40	60
Enno Spillner	40	60
Colin Bond	40	60

The variable portion of the remuneration in 2017 will be payable on the achievement of certain strategic targets in the business year 2016 and will be based on the criteria mentioned.

On 31 December 2016, the company has an accrual for the variable remuneration, which will be paid to the Management Board in March 2017, amounted to kEUR 992 (2015: kEUR 754). This accrual includes kEUR 407 (2015: kEUR 289) for Dr Werner Lanthaler, kEUR 211 (2015: kEUR 153) for Dr Cord Dohrmann, kEUR 211 (2015: kEUR 172) for Dr Mario Polywka, kEUR 78 (2015: kEUR⁰) for Enno Spillner and kEUR 82 (2015: kEUR 140) for Colin Bond.

In addition to their fixed and variable remuneration, the members of the Management Board received 396,291 Share Performance Awards (SPA) in 2015 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 kEUR 1,534.

	2016	2016	2016	2016	2016
	Fixed	Variable	Stock	Fair value	Total remuneration
	kEUR	kEUR	options	kEUR	kEUR
			pcs		
Dr Werner Lanthaler	503	289	217,054	840	1.632
Dr Cord Dohrmann	348	153	64,009	248	749
Dr Mario Polywka	400	214	62,016	240	854
Enno Spillner	158	0	53,212	206	364
Colin Bond	141	140	0	0	281
Total	1,550	796	396,291	1,534	3,880

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 Enno Spillner and Dr Cord Dohrmann, the payment shall be equal to 18 months of 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 kEUR 75 in 2016 (2015: kEUR 91) and were paid by the company.

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

Dr Werner Lanthaler is Non-Executive Member of the Board of Directors of arGEN-X, Breda, the Netherlands.

Dr Mario Polywka is Non-Executive Chairman of the Board of Directors of Nanotether Discovery Sciences Ltd, Cardiff University, United Kingdom (until December 201) and Member of the Board of Directors of Evotec India (Private) Ltd., Maharashtra (Thane), India.

Dr. Cord Dohrmann is Member of the Supervisory Board of Eternygen GmbH, Berlin, Germany (since 08 December).

Enno Spillner is Non-Executive Member of the Board of Directors und Chairman of the Audit Committee of Nanobiotix SA, Paris, France.

Colin Bond was during his time as CFO Member of the Board of Directors (“Verwaltungsrat”) of Siegfried Holding AG, Zofingen, Switzerland and Member of the Board of Directors of Evotec India (Private) Ltd., Maharashtra (Thane), India.

Supervisory Board

Prof Dr Wolfgang Plischke, Aschau im Chiemgau, DE, former Member of the Management Board of Bayer AG, Leverkusen, DE (Chairman of the Supervisory Board);

Bernd Hirsch, Holzminden, DE, CFO of Bertelsmann SE & Co. KGaA, (since April 2016);

Dr Claus Braestrup, Kopenhagen, DK, Advisor, former President and Chairman of the Management Board of Lunbeck A/S;

Prof Dr Paul Linus Herrling, Küsnacht, CH, Former Head of global Research of Novartis Pharma AG, Risch-Rotkreuz, CH;

Prof Dr Iris Löw-Friedrich, Ratingen, DE, Chief Medical Officer of UCB S.A., Brussels, BE;

Elaine Sullivan, London, UK, CEO of Carrick Therapeutics Ltd., Dublin, IRL

The remuneration paid to the members of the Supervisory Board in the financial year amounted to kEUR 305 (2015: kEUR 303). The members of the Supervisory Board were members of the following other Supervisory Boards, Committees and Bodies according to section 125 paragraph 1 sentence 3 AktG.

Prof. Dr. Wolfgang Plischke

Members of the Supervisory Board:

Bayer AG, Leverkusen/DE (since April 2016)

Bernd Hirsch

Director

Bertelsmann Inc., New York/US (since April 2016)

Penguin Random House LLC, New York/US (since April 2016)

RTL Group S.A., Luxemburg (since April 2016)

Dr Claus Braestrup

Non-Executive Chairman of the Board of Directors:

Saniona AB, Malmö, Ballerup/SE

Non-Executive Member of the Board of Directors:

Ataxion Inc. Boston/US

Bavarian Nordic A/S, Kvistgaard/DK

Evolva SA, Basel/CH

Gyros AB, Uppsala/CH

Prof Dr Paul Linus Herrling

Chairman of the Board:

Novartis Institute for Tropical Disease Ltd, Singapore/SG

Member of the Board:

Novartis Institute for Functional Genomics, La Jolla/US

Novartis International Pharmaceuticals, Hamilton/US (until November 2016)

Vice president of the Rat:

Eidgenössische Technische Hochschule, Bern/CH

Prof Dr Iris Löw-Friedrich

Chairman of the Supervisory Board:

TransCelerate BioPharma Inc, King of Prussia/US

Member of the Supervisory Board:

Fresenius SE & Co. KGaA, Bad Homburg/DE (since May 2016)

Elaine Sullivan

Non- Executive Member of the Board of Directors:

IP Group plc, London/UK (since July 2015)

Subsequent Events

On 9 February 2017, Evotec announced that it resolved on a capital increase from its authorized capital against cash. Evotec will issue 13,149,019 new shares to Novo A/S (Denmark). In this private placement, Novo A/S will invest € 90.3 m to subscribe shares of Evotec at a price of € 6.87 per share.

Proposal for appropriation of net income

The management of Evotec AG proposes to carry forward the net income 2016 amounting to EUR 27,614,183.72.

Other

The company has prepared Consolidated Financial Statements that qualify as statutory obligatory Consolidated Financial Statements pursuant to section 315a paragraph 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, 14 March 2017

Dr Werner Lanthaler

Enno Spillner

Dr Cord Dohrmann

Dr Mario Polywka

Evotec AG, Hamburg
MANAGEMENT REPORT for 2016
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I. Operations and business environment

Organisational structure and business activities

– Business model

Evotec is a drug discovery partnership company providing drug discovery solutions to pharmaceutical and biotechnology companies, academic institutions as well as to foundations and not-for-profit organisations. With a large pool of highly experienced scientists, state-of-the-art technology platforms, first-class scientific operations and key therapeutic expertise in the areas of neuronal diseases, diabetes and complications of diabetes, pain and inflammation, oncology and infectious diseases, Evotec aims to identify and develop best-in-class and first-in-class differentiated therapeutics for collaborators or for its own internal pipeline development.

The Company operates and manages its business activities under its two business segments EVT Execute and EVT Innovate.

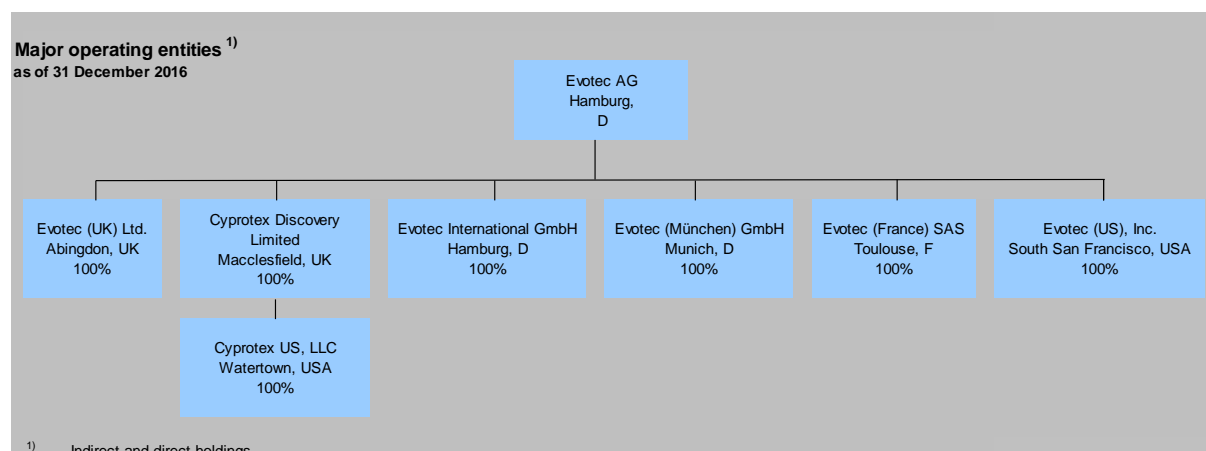
EVT Execute provides stand-alone drug discovery services on a typical fee-for-service basis or integrated drug discovery collaborations on partners' targets through a variety of commercial structures including research fees, milestones and/or royalties.

EVT Innovate develops drug discovery programmes and assets, both internally or through academic collaborations. Evotec seeks to partner these into collaborations in return for upfront payments, ongoing research payments and significant financial upside potential through milestones and royalties.

Further information on Evotec's segments can be found in the section "Corporate objectives and strategy" on page 4 of this Management Report.

– Group structure

Evotec AG, founded in 1993, is a publicly listed stock corporation operating under German law. Evotec AG is headquartered in Hamburg, Germany.



Effective 14 December 2016, Evotec acquired UK-based Cypotex PLC ("Cypotex"), whose operations will be integrated into the Evotec Group in 2017.

Evotec employed 303 people at the end of 2015 (2014:298)

Including the newly acquired Cyprotex sites, major operating sites exist in Abingdon, Manchester, Macclesfield and Alderley Park (UK), Hamburg, Göttingen and Munich (Germany), Toulouse (France) and South San Francisco, Branford, Princeton, Watertown and Kalamazoo (USA).

– Evotec’s products and services

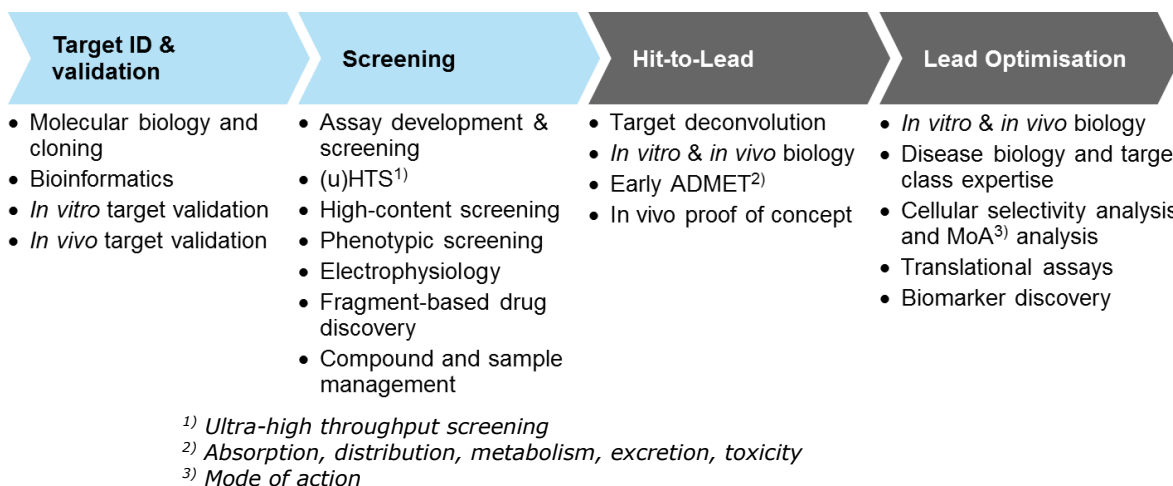
Alliances and partnerships

Evotec’s partners include many of the Top 20 pharmaceutical companies, many biotechnology and mid-sized pharmaceutical companies, academic institutions, foundations and not-for-profit organisations. In 2016, Evotec continued to deliver in many established, long-term partnerships and also entered into many, new significant collaborations. An overview of Evotec’s Top 10 customers in 2016 is given in table “Development of Top 10 collaborations” on page 8 of this Management Report. Further information on Evotec’s alliances and partnerships is provided in the “Performance Measurement” chapter under “Quality of drug discovery solutions and performance in discovery alliances” on page 7 of this Management Report.

Drug discovery services

Evotec’s capabilities span the key stages of drug discovery encompassing the complete value chain of pre-clinical drug discovery. An overview of all integrated disciplines is provided in the diagram below and more detailed information on Evotec’s offering can be found in the Services section on Evotec’s website (www.evotec.com).

Overview of Evotec’s drug discovery offering



– Market and competitive position

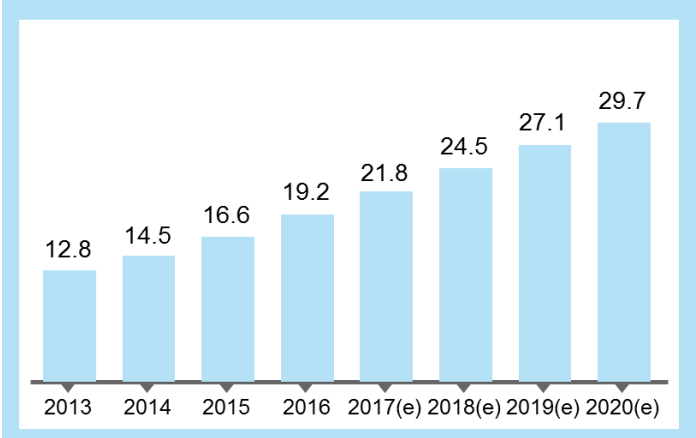
The drug discovery outsourcing market and Evotec’s competitive position (EVT Execute business)

Over more than a decade, the global pharmaceutical industry has suffered from decreasing efficiency in new product launches. Research and development costs have escalated over

the years, yet product pipelines are not producing the returns experienced in earlier decades. This trend has led to restructuring of research and development with significant downsizing of the relevant departments within many large Pharma companies and an increased need and willingness to outsource activities traditionally performed in-house. In 2016, this trend continued. Through the use of external innovation solution providers, fixed costs can be converted into variable costs. This outsourcing model also provides expertise in selected areas without the client needing to maintain or build internal capabilities and infrastructure, thereby reducing their development risk.

Based on research by Visiongain, the drug discovery outsourcing market generated \$ 14.5 bn in global revenues in 2014. This number is expected to increase to \$ 27.1 bn by 2019 and \$ 41.2 bn by 2025, representing an annual growth rate of 13.3% between 2014 and 2019. This forecast indicates that the market for Evotec’s drug discovery services will continue to grow, although this must also be addressed against a backdrop of slow decision making and continued market consolidation.

Macro trend drug discovery outsourcing – Market overview (Revenues, in \$ bn)



(Source: "Drug Discovery Outsourcing: World Market 2015–2025" report, Visiongain)

Over the years, contract service providers have expanded their service offerings to better meet the needs of full-service outsourcing across the drug discovery value chain. Contracts vary in their agreement types, ranging from strategic, integrated partnerships to stand-alone service agreements for specific activities and tactical demand. Amongst its peers in the Western markets, Evotec is one of the largest and financially most stable drug discovery providers with a unique hybrid model, critical mass and a long-standing track record of success. The Company is positioned to exploit the expected increase in strategic outsourcing opportunities being one of the few drug discovery companies in the world that can provide both innovative research projects and assets as well as a comprehensive range of drug discovery services.

Corporate objectives and strategy

Evotec’s objective is to be the global industry leader in drug discovery, providing drug discovery services of highest quality as well as innovative projects and drug candidates to the pharmaceutical industry. Revenue generating partnerships provide near-term growth and profitability while a broad and deep pipeline of first-in-class partnered product is expected to generate significant long-term value. Through this model, Evotec aims to continuously increase the value of the Company for its shareholders.

Evotec's strategy is transparent and long-term oriented. The Company translates first-in-class innovation into high potential projects ready for partnering and aims to bring drugs to the patient ultimately via its partners in the pharmaceutical and biotech industry. In addition, Evotec very selectively invests into early-stage companies that utilise Evotec's drug discovery platform.

Today, Evotec has established a global leadership position in the high-quality drug discovery outsourcing space. The Company has an industrialised, cutting-edge, comprehensive and unbiased drug discovery platform which enables it to meet the industry's need for innovation and efficiency in drug discovery. Evotec has built a deep internal knowledge base in the therapeutic areas of neuronal diseases, diabetes and complications of diabetes, pain and inflammation, oncology and infectious diseases. Evotec partners with pharmaceutical companies, biotech companies, not-for-profit organisations and foundations through its two business segments: EVT Execute and EVT Innovate. These segments effectively comprise various project types operating from a common drug discovery platform. Both of them play an important role in successfully delivering on the Company's strategy.

- **EVT Execute:** The EVT Execute segment provides stand-alone or integrated drug discovery solutions for collaborators' targets and programmes on a typical fee-for-service basis or through a variety of commercial structures, which may include research fees, milestones and royalties. Projects are selected to match Evotec's expertise and technology.
- **EVT Innovate:** The EVT Innovate segment focuses on building a long-term partnered pharmaceutical pipeline from its own, internally developed assets and platforms. Evotec's programmes typically focus on first-in-class and best-in-class projects based on innovative biology or chemistry. These so-called Cure X or Target X initiatives are typically developed internally or through academic partners ('the BRIDGE from Academia to Pharma'). EVT Innovate partnerships usually include upfront and research payments as well as milestones and product royalties. In 2016, Evotec expanded its EVT Innovate segment through equity participation in selected companies.

In 2016, Evotec consistently delivered on this strategy by accelerating its portfolio building and expanding the Company's industrial drug discovery platform. In this context, Evotec acquired Cypotex, a leading ADME-Tox/DMPK contract research organisation effective 14 December 2016. Alongside its EVT Innovate strategy, Evotec invested in companies, e.g. Carrick Therapeutics Ltd. ("Carrick Therapeutics") and Eternygen GmbH ("Eternygen"). Also in 2016, significant progress was made in the further development of an industrialised induced pluripotent stem cell ("iPSC") drug discovery platform.

The Company's 2016 objectives for its two business segments and major achievements are summarised in the following table:

	Specific objectives 2016	Major achievements 2016
EVT Execute	<ul style="list-style-type: none"> • New long-term deals with large and mid-sized Pharma, foundations and biotech • New integrated technology/disease alliance • Milestones from existing alliances 	<ul style="list-style-type: none"> • Support of new long-term deals with large and mid-sized Pharma, foundations and biotech via Evotec subsidiary • Important milestones from existing alliances (mainly Bayer, Boehringer Ingelheim) • Important contract extensions with numerous partners (e.g. Astra Zeneca) • Phase I clinical start in endometriosis in Bayer alliance • Acquisition of Cyprotex, world-leading contract research organisation in ADME-Tox and DMPK
EVT Innovate	<ul style="list-style-type: none"> • Partnering of Cure X/Target X initiatives • Strong progress of pipeline within partnerships • Expansion of network of top-class academic alliances 	<ul style="list-style-type: none"> • Supporting broad strategic drug discovery collaboration with Celgene via Evotec's subsidiary based on Evotec's unique iPSC platform • Partnering and initiation of Cure X/Target X initiatives (TargetαSN with The Michael J. Fox Foundation for Parkinson's Research) • Participation in selected company formations (e.g. Carrick, Eternygen)

Evotec is strategically well-positioned to continue to deliver innovation efficiency with its unique business model and strengthen its leadership position by:

- Understanding the needs of the pharmaceutical and biotech industry for innovative new medicines,
- Serving the macro trend of outsourcing as well as driving and accelerating innovation
- Expanding critical mass and highly experienced drug discovery expertise,
- Fostering a culture of deep understanding of disease biology in core disease areas,
- Positioning first-in-class projects for strategic partnerships, focused on areas where breakthrough innovation is urgently needed.

The Company's objectives defined for 2017 can be found in the "Business direction and strategy" section of the "Outlook" chapter on page 37 of this Management Report.

Performance measurement

– Financial performance indicators

As set out in the "Corporate objectives and strategy" chapter on page 4 of this Management Report, Evotec's Management Board uses various financial indicators to manage the Company. Financial goals set by the Management Board are continued company growth, improved adjusted EBITDA and stable liquidity. EBITDA is thereby defined as earnings before

interest, taxes, depreciation and amortisation of intangible assets, tangible assets and financial assets (shares in affiliates). Adjusted EBITDA excludes impairments and reversal of impairments on intangible assets, tangible assets and financial assets (shares in affiliates). The Company's long-term key financial performance indicators are designed to support these goals.

Evotec's management performs monthly financial reviews with a strong emphasis on financial performance drivers such as revenues, order book status and margins. In addition, the management reviews comprehensive cost data and analysis. The Company's performance is measured against budgeted financial targets and the prior-year performance. Liquidity levels are monitored in comparison to the forecast and defined minimum cash levels. Operating cash flows are reviewed on a regular basis with an emphasis on receipt of contract research revenues and milestones as well as on the management of capital expenditure. Treasury management is undertaken on an ongoing basis with a focus on cash management, foreign exchange ("FX") exposure, funding optimisation and investment opportunities. Value analysis based on discounted cash flow models is the most important financial evaluation and control criterion for Evotec's investment decisions regarding merger and acquisition projects and in-licensing opportunities.

– Development of financial key performance indicators

in k EUR	2013	2014	2015	2016
Revenues	49,437	63,327	62,875	71,414
Adjusted EBITDA	(5,177)	(2,085)	(9,524)	28,571
Liquidity	65,545	54,171	61,014	31,639

**The representation of revenues had been adapted for the years 2013-2015 due to a change in the legislation (§ 277 Abs. 1 HGB-BilRUG)*

A reconciliation of adjusted EBITDA with operating result can be found on page 19 of this Management Report

The Company's 2016 performance compared to planned figures can be found in the "Comparison of 2016 financial results with forecast" chapter on page 17 of this Management Report.

– Non-financial performance indicators

Biotechnology is a research-driven and employee-based industry. Consequently, financial information alone does not provide a comprehensive picture of the Company's value creation potential. Therefore, Evotec's management also applies non-financial performance indicators to manage the Company.

Quality of drug discovery solutions and performance in discovery alliances

The vast majority of Evotec's revenues is generated in alliances with Pharma and biotech companies, not-for-profit organisations and foundations. Thus, the most important non-financial performance indicators for Evotec are the quality of its drug discovery solutions, performance within its alliances and overall customer satisfaction.

These indicators can be measured by the total number, growth and size of alliances, the percentage of repeat business, average contract duration and the status of the Company's

sales and order book. Since its inception in 1993, Evotec has continually delivered excellent results in existing programmes and has supported to expand Evotec's Group customer base and its global network of partnerships. This growth and progression is summarised in the tables below.

*Development of Evotec's alliances**

	2013	2014	2015	2016
Total customers	52	50	37	26
Number of external customers	49	46	32	21
Number of external customers > € 1m revenues	6	11	8	9
New external customers in the year	24	12	7	4

* To the Company's knowledge, no benchmark data is available

Development of Top 10 collaborations (sorted by reporting year)*

In k EUR	2013	2014	2015	2016
TOP 1: Evotec International	2,460	10,008	16,340	19,444
TOP 2: Bayer	4,131	10,808	8,729	13,296
TOP 3: CHDI	8,001	7,568	8,996	8,838
TOP 4 – 10	28,034	25,869	19,597	24,298
Total TOP 10 revenues	42,625	54,252	53,663	65,875
<i>Growth in %</i>		27%	-1%	23%

* To the Company's knowledge, no benchmark data is available

Notably, several collaborations have significantly increased in size in recent years, regarded as an indication of customer satisfaction. The number of external customers decreased in 2016 as new contracts are mainly closed with the subsidiary Evotec International GmbH. However, the number of external contracts with which Evotec generates more than €1 m of revenues per year increased slightly by one customer to a total of nine customer. Evotec's number one external customer by revenues in 2016 was Bayer AG with € 13.3 m revenues. Evotec's repeat business, as defined by the percentage of 2016 revenues coming from customers that the Company already had in 2015, amounted to 99.5%.

Research and development performance in development partnerships

Evotec is a company which discovers and develops novel, innovative pharmaceutical drug compounds. Therefore, the progression of drug programmes and candidates within Evotec's partnerships is another relevant non-financial performance indicator. The success of research, pre-clinical and clinical programmes progressed by its partners represents additional upside for the Company with no financial liability. Evotec participates in the progress and success of those programmes through milestone payments and royalties.

For a more detailed description of Evotec's advanced drug candidates and its research programmes please see the "Research and development" chapter on page 9 of this Management Report.

- Early indicators

Several factors are used to evaluate, in a timely manner, whether the Company's goals will be fulfilled in the medium to long term. Early indicators used at Evotec include:

- **Current and expected developments in the market for drug discovery alliances and general trends in research and development:** Developments and trends are monitored on an ongoing basis in order to identify major changes and triggering events that can have a significant impact on the Company's product portfolio or financial position.
- **The development of Evotec's intellectual property ("IP") position:** In order to protect intellectual property, Evotec reviews its patent portfolio on a regular basis (see more details in the "Research and development" chapter on page 9 of this Management Report).
- **New business pipeline:** The monthly review of potential new business opportunities and status of negotiations is an early indicator for the sales forecast of both EVT Execute and EVT Innovate.
- **Sales and order book:** The sales and order book provides a high degree of visibility of revenues for the coming months and is updated on a monthly basis.
- **Monthly/quarterly results:** Financial monthly and quarterly results as well as regular forecasts are used for measuring the Company's current performance but also to extrapolate the development of the business in future periods.
- **Achievement of milestones in discovery alliances and development partnerships:** Milestone achievements are key revenue and cash flow drivers for Evotec. Accordingly, the development of milestone payments is an indicator of the success of Evotec's programmes and the performance of Evotec in its risk-shared alliances.

Research and development

The core of Evotec's business is research and development ("R&D") activities to support Pharma and biotech companies, venture capital groups, academic institutions as well as foundations and not-for-profit organisations. The Company offers project-driven solutions and customised business arrangements via a highly comprehensive pre-clinical discovery and development platform. Evotec's partners may select either individual components of the platform or fully integrated solutions for their projects. Research collaborations pursued by Evotec range from strict fee-for-service arrangements to risk and reward-sharing models. Internal R&D projects are platform-, target- or therapeutic area-driven.

- Evotec's project pipeline

Over the last six years, Evotec has built a broad and deep pipeline of a multitude of projects bearing significant financial upside in form of potential development milestone and royalty payments. All expenses for formal pre-clinical and clinical development as well as marketing of product candidates generated in these partnerships are usually covered by Evotec's Pharma and biotech partners. This pipeline of potential product opportunities spans various stages of clinical and pre-clinical development and discovery as well as various indications with high unmet medical need.

EVT Execute contributes projects to Evotec's pipeline by entering into partnerships based on the clients' target or intellectual property and receiving research fees and upside including milestones and royalties. In contrast, EVT Innovate contributes projects, which are funded by Evotec itself, namely its Cure X and Target X initiatives. These projects form the

basis of future partnerships with the potential for upfront payments, high margin research payments and significant upside potential in the form of milestones and royalties.

- Internal research activities at Evotec

Cure X and Target X initiatives are carefully selected discovery-stage projects that are either pursued as internal R&D projects or in collaboration with leading academic laboratories or biotech companies. Cure X and Target X initiatives that are carried out in collaboration with academia or biotech predominantly work on the principle of risk and reward sharing, i.e. both partners contribute to the project and share potential financial rewards according to the respective contributions. The focus is on developing product opportunities with first-in-class potential in indications of high unmet medical need and significant markets. Preferably, these initiatives pursue drug product opportunities with disease-modifying potential, i.e. mechanisms that may slow or even reverse progression of disease. The aim is to first advance and then to partner these projects to tangible value inflection points and thereby expand Evotec’s proprietary pre-clinical pipeline.

Pre-clinical and discovery-stage pipeline

Evotec has built a broad and deep pipeline of partnered product opportunities at pre-clinical and discovery stages over the last few years.

R&D projects initiated within EVT Innovate

2011	2012	2013	2014	2015	2016
<p>CureBeta ✓ (Harvard Stem Cell Institute)</p>	<p>CureNephron ✓ (Harvard, BWH, USC, AstraZeneca, Bayer)</p> <p>TargetASIC ✓ (BMBF/undisclosed Pharma partner)</p> <p>TargetPicV ✓ (Haplogen)</p> <p>TargetFibrosis ✓ (Pfizer)</p>	<p>TargetImmuniT ✓ (Apeiron/Sanofi)</p> <p>TargetDBR ✓ (Yale)</p> <p>CureMN ✓ (Harvard)</p> <p>TargetEEM ✓ (Harvard)</p> <p>TargetAD ✓ (NBB/J&J)</p>	<p>TargetCytokine ✓ (DRFZ/BMBF)</p> <p>Fraunhofer Initiative</p>	<p>TargetαSN (Internal)</p>	<p>Target αSN ✓ (MJFF)</p> <p>TargetMus81 ✓ (Yale)</p>

✓ *Innovate Pharma partnerships signed since 2011*

- Update on EVT Innovate activities in 2016

Partnership with Michael J. Fox Foundation in Parkinson’s disease

In February 2016, Evotec announced that it has been awarded a research grant from The Michael J. Fox Foundation (“MJFF”) to further develop Evotec’s TargetαSN (alpha-synuclein) programme for the treatment of Parkinson’s disease. The grant from MJFF supports the development of a highly sensitive assay to quantify the amount of the alpha-synuclein protein in human nerve cells. Mutations in the alpha-synuclein gene are known to cause Parkinson’s disease and aggregates of alpha-synuclein, also called Lewy bodies, are the hallmark pathology of the disease. Reducing the levels of mutated alpha-synuclein protein in the brain of Parkinson’s disease patients is believed to be a promising treatment approach.

Spin-offs and equity investments

In October 2016, Evotec announced an investment of up to \$ 6 m in Carrick Therapeutics' \$ 95 m funding round, thereby deepening its already existing relationship with Carrick Therapeutics. In addition to its equity stake in Carrick Therapeutics, Evotec provides its full range of discovery and oncology services to Carrick Therapeutics' projects. Carrick Therapeutics will progress multiple programmes through hit-to-lead and lead optimisation with the goal of delivering multiple development candidates.

In December 2016 Evotec, together with a consortium of investors including Epidarex, VC Fonds Technologie Berlin, managed by IBB Beteiligungsgesellschaft mbH, and two renowned family offices, participated in Eternygen's latest funding round of € 8 m (approx. \$ 8.3 m). The financing round was completed at the beginning of 2017. Eternygen, a privately owned metabolic diseases company based in Berlin, Germany, is focused on the sodium coupled citrate transporter ("NaCT"), a novel target which is also known as INDY ("I am Not Dead Yet"). INDY is a key regulator of energy metabolism involved in the pathogenesis of non-alcoholic fatty liver disease, non-alcoholic steatohepatitis, diabetes and obesity. Eternygen will use the proceeds of the Series A funding to accelerate its NaCT targeting small molecule therapy towards the selection of a pre-clinical lead candidate through access to Evotec's discovery platform.

Further information regarding these strategic ventures can be found in the "Corporate objectives and strategy" chapter on page 4 of this Management Report.

Clinical-stage pipeline

Evotec's clinical-stage development partnerships are fully funded and progressed by Evotec's partners with no further financial obligations for Evotec but potential financial upside in the form of milestones and royalty payments.

An update on their progress in 2016 is listed below.

Bayer – Various Background

Bayer and Evotec entered into a five-year multi-target strategic alliance in October 2012 with the goal of identifying three small molecule clinical candidates for the treatment of endometriosis. The project portfolio has been built based on projects originating either at Bayer, at Evotec or started jointly. Both partners share the joint responsibility for early research and pre-clinical characterisation of potential clinical candidates in the disease area of endometriosis, Bayer will be responsible for any subsequent clinical development and commercialisation. Evotec received € 12 m as an upfront payment. Further financial incentives are included with pre-clinical, clinical and sales milestones of potentially up to approximately € 580 m, plus potential royalties of up to low double-digit percent of net sales.

Status

To date, the alliance has delivered five preclinical candidates. In August 2016, a first compound entered into Phase I clinical trials. Several additional opportunities to reach clinical candidate status remain, demonstrating exceptional productivity and fulfilling the expectations of both partner organisations. Due to the success and output achieved so far and based on the solid portfolio developed to this point the initial five-year contract term of the alliance is currently considered to be extended until December 2018.

- Update on EVT Execute activities in 2016

New alliances

In October 2016, one of Evotec's subsidiaries and UCB entered into a collaboration in the field of CNS pharmacology. Under the agreement, Evotec supports a broad range of *in vitro* pharmacology services. Key activities include assay development, compound profiling and mechanistic studies.

In November 2016, Evotec Group announced the signing of a set of collaboration agreements with the life science business of Merck, which combine Merck's portfolio of genome editing technologies with Evotec's versatile screening platforms and disease expertise. Evotec Group leverages Merck's comprehensive collection of genetic reagents such as viral clustered regularly interspaced short palindromic repeats ("CRISPR") and short hairpin RNA ("shRNA") libraries to enable new target discovery programmes using its capabilities for phenotypic screening in primary and iPS cells, as well as its *in vivo* disease models. Bringing together the complementary offerings, the two companies aim to provide fast and validated workflows to clients seeking to explore a new target space within complex disease models. Together with the recent licensing of the CRISPR-Cas9 gene editing technology by one of Evotec's subsidiary which is mentioned below, these agreements with Merck further strengthen Evotec's offering in the area of target identification and validation for its partners.

Milestone achievements

In 2016, EVT Execute's strong operational performance was underlined by important milestones achievements in its collaborations with Bayer and Boehringer Ingelheim. Within its strategic alliance with Bayer in the field of endometriosis, Evotec was able to announce the progression of a first Bayer programme into Phase I clinical development, triggering a milestone payment to Evotec.

Others

Consistent with the Company's strategy to offer its clients the most advanced technological platforms, Evotec continued to expand its drug discovery platform in 2016, e.g. by accessing an Evotec Group non-exclusive license to the leading technology on the market for gene editing (CRISPR-Cas9 licence) and Trianni's next-generation transgenic technology.

Evotec acquired Cyprotex PLC in December 2016, which adds world-leading high-quality ADME-Tox and DMPK services and strengthens Evotec's leadership in drug discovery. At the date of the acquisition, the company's employees were working from sites at Macclesfield and Alderley Park in the UK, and at Watertown, MA, and Kalamazoo, MI, in the USA. Cyprotex will continue to operate and serve its loyal client base in all currently existing segments under its brand name "Cyprotex" whilst employees, capabilities and capacities will be integrated into Evotec's global drug discovery group.

- Intellectual property

Evotec actively manages a significant patent portfolio. The Company seeks, where appropriate, patent protection for its technologies, product candidates and other proprietary information.

Evotec reviews its patent portfolio regularly and decides whether to maintain or withdraw its patent applications and patents based on the importance of such intellectual property to maintain its competitive position and deliver on its strategy. As of 31 December 2016,

besides two patent families jointly filed with third parties, Evotec has several patent families under its full control. All of these are on file or pending through national and/or foreign applications, such as patent applications filed under the Patent Cooperation Treaty or applications filed with the United States Patent Office, the European Patent Office or the Japanese Patent Office.

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

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

II. Report on economic position

General market and healthcare environment

– Global economic development

Global economic development remained subdued in 2016. According to a publication by the World Bank in January 2017, the global economy is expected to decelerate its growth from 2.7% in 2015 to 2.3% in 2016. The World Bank states that 2016 was characterised by stagnant global trade, damped investments and increasing policy uncertainty. Overall growth in emerging market economies is estimated to reach 3.4% in 2016 and remains subdued. The Eurozone is expected to again only show moderate growth in 2016 of 1.6% (2015: 2%) mainly due to both domestic demand and exports losing momentum and political uncertainty following the UK Brexit vote. In the Eurozone, serious problems in the banking sector as well as growth problems in many of its member countries persisted throughout the year. In countries like Italy, France, the Netherlands and Germany, political risks emerged which could spill out during 2017 if political parties gain power who are more Euro sceptic and demand referendums on EU membership. In 2016, the US economy was relatively healthy and growing, also fuelled by hopes that after the election of Donald Trump as US president in November 2016 policies would further stimulate the economy in the years to follow. However, the USA is estimated to see a slow-down of growth from 2.6% in 2015 to 1.6% in 2016 caused by weak export and investments. According to the Federal Statistical Office, the German economy continued its upward trend in 2016 with a growth rate of 1.9% of its price-adjusted gross domestic product (2015: 1.7%).

– Recent trends in the pharmaceutical and biotechnology sector

Evotec's business model depends on mid- and long-term trends rather than on short-term economic developments. Therefore, the following paragraphs do not focus only on the year under review, but take into consideration the overall trends within the pharmaceutical and biotechnology sector.

Like many other sectors, the pharmaceutical and biotechnology industry is facing industry-specific changes combined with developments in the general economic environment. The

demand for new therapies continues to see steady growth, a favourable trend for the long-term industry dynamics. However, there are significant challenges for the industry such as the productivity and cost of research and development, innovative developments, changing relationships with patients and providers, continued patent expiration, regulatory hurdles and access as well as pricing and reimbursement. Pharmaceutical companies of all sizes have been re-evaluating their business strategies to remain competitive in their business environment.

Diverse strategic approaches include:

- The pursuit of specialty medicine and biologics,
- Asset-swapping to focus on leadership businesses and to exit non-aligned portfolios,
- Geographic expansion and regional consolidation,
- R&D restructuring, and
- Bolt-on acquisitions and partnerships.

Ageing populations in developed countries continue to demand better drugs, improved patient outcomes and diagnostics, innovative approaches and advanced technologies that are clearly differentiated from existing treatments. The result of these ongoing developments is that the pharmaceutical industry requires innovation in drug discovery in a capital-efficient manner.

Key emerging aspects of innovation include biomarkers, human genetic testing to match patients with treatments, new and exciting breakthroughs in immuno-oncology, stem cell therapies, patient-derived disease models (e.g. iPSC), technology platforms such as CRISPR and ribonucleic acid ("RNA") therapeutics. All these approaches could pave the way for effective novel drug development. The evolution of development incentives – including fast-track approval for innovative breakthroughs, continued pre-competitive collaborations, patient pooling of data and large real-world evidence collaborations – are also expected to stimulate research and development activities in the next decade.

Overall, the pharmaceutical and biotech industry is in a strong position and continued growth for the coming years is expected. According to IMS Health, the worldwide spending on medicines is forecasted to reach nearly \$ 1.4 trillion by 2020, up 29 - 32% from 2015, driven by population growth, an ageing population and improved access in emerging markets. Pharmaceutical and biotechnology companies are continuously looking for ways to benefit from this positive trend and increase the size of their product pipelines, stimulate innovation and accelerate the route of products to the market.

– 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 could 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 or its partners and customers could also impact Evotec's funding and business.

New drugs for human use are subject to approval by the European Medicines Agency ("EMA") in the European Union, the U.S. Food & Drug Administration ("FDA") in the USA

and other national regulatory and supervisory authorities. Evotec focuses on the early stages of drug discovery with development and commercialisation conducted and funded by the Company's Pharma partners. Consequently, any changes in the regulatory environment could 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 Animal Welfare Act relating to pre-clinical animal studies or any changes in the regulation of pre-clinical research in general. In particular, any easing of policy relating to stem cell research in Europe, for example, could have a positive impact on Evotec's business as stem cell-based research is one of the promising technologies in drug discovery.

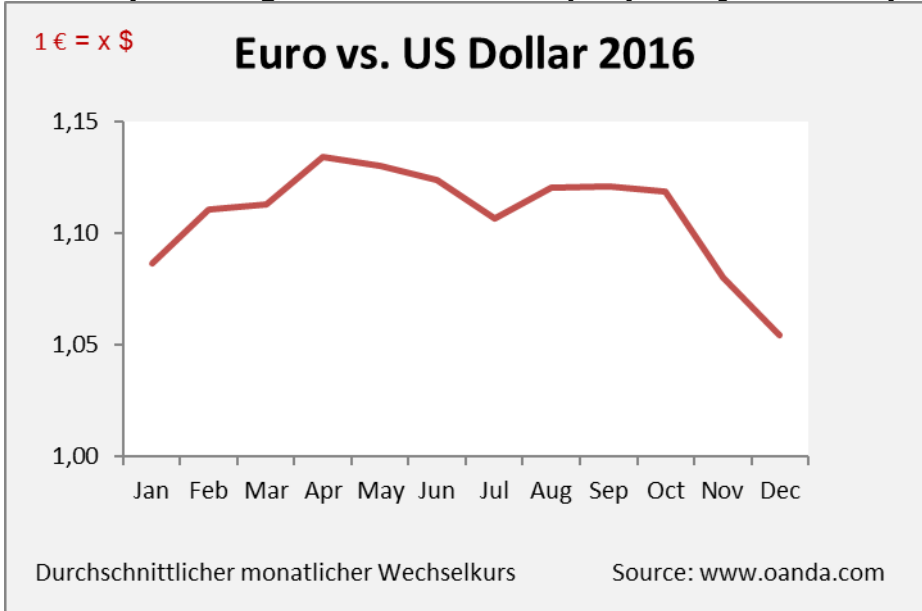
In 2016, legal factors affecting Evotec were largely unchanged and the Group's operating business was not materially affected.

– 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 Euro (€) to USD dollar (\$) exchange rate fluctuated between \$ 1.04 and \$ 1.15 to the Euro. On average, the US dollar remained constant against the Euro with \$ 1.11 per Euro. Year-on-year, the Euro weakened from \$ 1.09 at the end of 2015 to \$ 1.05 at the end of 2016.

– Average monthly exchange rates for the Company's major currency



In Europe, the European Central Bank's ("ECB") inter-bank interest rate (3-month Euribor) remained negative in 2016 and decreased to a new historic low of (0.32)% at the end of the year. In March 2016, the ECB cut deposit rates by a further 10 basis points, included

corporate debt in its bond-buying programme, and cut its marginal and refinancing rates. In December 2016, the ECB announced to extend its asset purchase programme, which was due to end in March 2017, for nine more months. However, at the same time the ECB reduced its monthly purchase volume.

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.

Significant corporate development events 2016

In 2016, the following important corporate developments occurred. Information on significant events regarding progress in research and development within the business segments EVT Execute and EVT Innovate is found in the "Research and development" chapter on page 9 of this Management Report.

Accelerating innovation via spin-offs and equity investments

In 2016, Evotec announced an expansion of its relationship with Carrick Therapeutics by participating together with other renowned investors in Carrick Therapeutics's latest funding round which totalled \$ 95 m. As of 31 December 2016, Evotec's equity stake in Carrick Therapeutics amounts to 4.57%. Carrick Therapeutics is building an innovative portfolio of first-in-class treatments that target multiple mechanisms of the most aggressive forms of cancer.

At the end of 2016, Evotec expanded its existing relationship with Eternygen by participating in Eternygen's latest funding round totalling € 8 m. As of 31 December 2016, Evotec's stake in Eternygen amounts to 22.02%. Eternygen, a privately owned metabolic diseases company based in Berlin, Germany, is focussed on a novel target with significant potential for metabolic diseases such as NASH, diabetes and obesity.

These investments enable Evotec to accelerate its business model as they provide an optimal risk-reward profile up to clinical proof-of-concept stage in selected fields of high strategic medical relevance. Further information on Evotec's strategy can be found in the "Corporate objectives and strategy" chapter on page 4 of this Management Report.

Acquisition of Cyprotex expanding existing drug discovery platform

Effective 14 December 2016, Evotec acquired Cyprotex. The company is the world's largest contract research organisation specialising in pre-clinical ADME-Tox and DMPK serving the pharmaceutical, chemical, agrochemical and cosmetics markets. Cyprotex, headquartered in the UK, had been publicly traded on AIM (CRX) prior to the acquisition. In 2017, Evotec will integrate Cyprotex' four sites in Macclesfield and Alderley Park in the UK as well as Watertown, MA, and Kalamazoo, MI, in the USA into its current operations. This acquisition underlines Evotec's commitment to offering a comprehensive, unbiased and systematic drug discovery platform to its customers encompassing all stages from early drug discovery up to pre-clinical development candidate. It will further support Evotec's growth trend of prior years.

Impact of general market and healthcare environment on Evotec's business

Evotec's business environment is still in a period of significant transition and adjustment. In the face of constant financial pressure, resulting primarily from the patent cliff leading to the loss of blockbuster products and their strong cash flows, pharmaceutical companies of all sizes continue to re-evaluate and adjust their business strategies. This results in significant restructuring and consolidation in the industry including diversification, large-

scale mergers, downsizing of research and development efforts, cost reduction programmes as well as the pursuit of biotech acquisitions, partnering deals and alliances. At the same time, ageing populations in developed countries continue to demand better drugs, improved patient outcomes and diagnostics, innovative approaches and advanced technologies that are clearly differentiated from existing treatments. As a consequence, the pharmaceutical industry requires innovation in drug discovery in a capital-efficient manner.

Evotec believes that these market dynamics will continue to lead towards greater outsourcing opportunities. In 2016, Evotec saw an increasing number of projects and demand from newly founded US and European companies. This trend will increase the likelihood of strategic integrated long-term collaborations in order to foster innovation and accelerate the development of novel drug candidates with first- or best-in-class potential. To meet the market requirements and trends, Evotec continues to invest heavily in upgrading its platforms. For this reason, effective 14 December 2016, Evotec acquired the world-leading ADME-Tox contract research organisation Cyprotex. This transaction adds significant stand-alone ADME-Tox capabilities and capacities to Evotec's drug discovery platform and further strengthens Evotec's position as a world leader in strategic solutions for the pharmaceutical and biotech industries. Furthermore, Evotec selectively invests in asset-centric start-up companies at a pre-seed stage.

The fact that many promising drug candidates fail during clinical development underlines the limited predictive and translational value of pre-clinical disease models currently being used in the drug discovery process and the need to develop technologies that more predictably translate discovery opportunities into clinical realities. This is especially true for neurodegenerative diseases, such as Alzheimer's disease and Parkinson's disease. To address this, in 2016, Evotec continued to focus on the iPSC field. Here Evotec initiated a groundbreaking, strategic collaboration with Celgene in neurodegeneration based on the Company's unique iPSC platform. Evotec therefore commits extensive resources, both financial and scientific, to discover new paths in drug discovery which have the potential to result in new much needed therapies.

Comparison of 2016 financial results with forecast

	Forecast report 2015	Final result
Revenues	On a par with 2015	+14%
Adjusted EBITDA	Positive result in form of a one-digit million range	€ 28.6m
Investing volume	€ 1.5 - 2.5m	€ 2.1m
Liquidity	Above € 60.0m	€ 31.6m

EBITDA is defined as earnings before interest, taxes, depreciation of tangible assets and amortisation of intangible assets. The adjusted EBITDA excludes impairments and reversal of impairments on intangible assets, tangible assets and financial assets (shares in affiliates).

Evotec ended the financial year 2016 with revenues of € 71.4 m. This corresponds to an increase of 14% in comparison to the guidance, due to increase in base revenues and higher milestones achieved in 2016. The adjusted EBITDA was € 28.6 m and therefore higher than 2015 as expected. This is attributable mainly to an increase of other operating income due to a partial write up of an intercompany loan to a subsidiary of € 22.4 m.

Capital expenditures amounted to € 2.1 m and in line with guidance. Liquidity amounted to € 31.6 m and was below expectation due to the acquisition of Cyprotex PLC in the fourth quarter 2016 as well as several smaller equity investments.

III. Financial report

Results of operations

The prior year figures were adjusted due to the revised version of §277 Sec. 1 HGB in the context of BilRUG. To make the figures comparable the below analysis is referring to the adjusted prior year figures.

– Revenues

Evotec's total revenues in 2016 amounted to € 71.4 m, an increase of € 8.5 m or 14% compared to the previous year (€ 62.9 m). Revenues are composed of drug discovery service revenues, milestone revenues, deferred upfront payments, rent income and inter-company revenues.

Third party revenue increased from € 40.5 m in 2015 to € 48.1 m in 2016. The increase in external revenues is a result of an increase of TOP 10 Customer revenues and higher milestone achievements. The number of customers with a volume over € 1.0 m increased by one customer to a total of nine customers at the end of 2016. Milestone revenues of € 8.9 m were generated in 2016. In the previous year these figures amounted to € 3.8 m for milestones and € 0.8 m for licence income. The milestones in 2016 and 2015 were predominantly due to the collaboration with Bayer.

The geographical spread of external revenues for Evotec continues to be global. Europe represents the most important market with revenue contribution of 56% (previous year: 50%). The USA represents the second most important market with 42% (previous year: 48%). The number of customer decreased in comparison to the previous year. This is mainly due to the fact that Evotec Group customers' old contracts, signed with Evotec AG, have expired and been replaced by new contracts closed with the subsidiary Evotec International GmbH. The total revenue contribution of the three largest customers including Evotec International amounted to 58% in 2016 and has therefore increased against the previous year (54%).

– Net result

The Company ends the year 2016 with a net income of € 27.6 m. This represents an increase of € 38.0 m against the net loss of € 10.4 m reported in the previous year.

Overall, the result was mainly influenced by an increase of other operating income due to a write-up of a loan to Evotec International GmbH in the amount of € 22.4 m.

In 2016, an adjusted EBITDA of € 28.6 m was reported (2015: € (9.5) m). Excluding revaluations of the intercompany loans the adjusted EBITDA would amount to € 6.2 m, an improvement of 41% compared to last year € 4.4 m.

in k EUR	2015	2016
Net income	(10,368)	27,614
- Taxes on income	434	661
- Interest income	(2,470)	(2,621)
- Interest expenses	474	368
- Depreciation	2,227	2,343
- Amortisation	179	206
Adjusted EBITDA	(9,524)	28,571

Changes in the net result are due to the following effects:

Other operating income increased by € 20.4 m from € 3.1 m in 2015 to € 23.5 m in 2016. This is mainly due to a write-up of a loan to Evotec International GmbH in the amount of € 22.4 m being partly offset by a decrease of € 1.6 m in foreign exchange gains.

The cost of materials increased from € 26.6 m in 2015 to € 30.4 m in 2016 mainly due to increased cost of purchased services. Costs of purchased services increased by a total of € 3.2 m to € 23.4 m in 2016 (2015: € 20.2 m). This is due to an increase in customer and R&D projects services performed by the subsidiaries for Evotec AG.

The Company increased the number of staff during the year by 5 to 303 employees as of 31 December 2016 (2015: 298 employees). Personnel expenses increased by € 1.0 m from € 19.2 m in 2015 to € 20.2 m in the 2016 financial year. This is mainly due to an increase in salaries and higher bonus accruals.

Depreciation of tangible assets amounted to € 2.3 m in 2016, an increase of € 0.1 m against the previous year (€ 2.2 m). Amortisation of intangible assets remain unchanged at € 0.2 m in 2016.

Other operating expenses decreased by € 13.9 m from € 29.4 m to € 15.5 m. Included in other operating expense in 2015 was the write-off of a loan to Evotec International with € 13.9 m. Expenses from exchange rate effects amounted to € 2.8 m in 2016, an increase against the previous year (2015: € 1.9 m). The expenses in 2016 are mainly driven by FX losses from currency swaps compared to € 0.5 m in 2015.

The interest result increased by € 0.2 m against the previous year to € 2.2 m in 2016.

Expenses for trade and corporation tax amounted to € 0.7 m in 2016 (2015: € 0.4 m).

Financing and financial position

– Cash and financing

As of 31 December 2016, Evotec's cash and cash equivalents together with bonds and investment funds recognised under other securities amounted to € 31.6 m. This equates to a decrease of € 29.4 m against the end of 2015 (€ 61.0 m) which is mainly a result of the acquisition of Cyprotex PLC in the fourth quarter 2016.

Assets and liabilities

– Capital structure

Total share capital increased by € 0.5 m, as a result of stock options exercised during the year. In 2016, 258,584 stock options and 209,073 LTI awards were exercised by Evotec Group employees and members of the Management Board, as well as former Evotec Group employees and members of the Management Board (2015: 873,206 stock options) and converted into Evotec shares by using conditional capital. No stock options nor LTI awards were exercised by Evotec Group employees and members of the Management Board as well as former Evotec Group employees and members of the Management Board in 2016 which were serviced by own shares (2015: 22,400 stock options). As of 31 December 2016, Evotec holds 249,915 of its own shares (31 December 2015: 249,915).

Total equity increased by a total of € 28.4 m to € 120.3 m (2015: € 91.9 m) mainly as a result of the net income of € 27.6 m. Evotec reports a strong but decreased equity ratio at the end of 2016 of 59.8% against the previous year (2015: 67.1%).

– Net assets and liabilities

Intangible assets include licences and patents as well as capitalised development costs. Intangible assets remain unchanged at € 0.9 m.

Evotec's tangible assets consist of leasehold improvements and technical equipment, mainly fixtures and fittings in laboratories and other lab equipment. The Company also holds office and IT equipment for administrative purposes. Tangible assets decreased by € 0.3 m over the prior year to € 11.8 m at the end of 2016. Evotec invested € 2.1 m in tangible assets in 2016 (2015: € 2.0 m). Investments in lab equipment were mainly made to maintain equipment in order to plants up-to-date. Investments were also made in IT and office equipment.

Financial assets include shares in affiliated companies and investments. These are increased by € 55.3 m and amounted to € 87.0 m in 2016. The increase is mainly driven by the acquisition of Cyprotex PLC in the fourth quarter 2016.

Receivables and other assets increased by € 39.0 m against the previous year to € 67.6 m. Trade accounts receivables fell by € 1.0 m to € 7.2 m (2015: € 8.2 m). Adjusted on milestones (2015: € 2.5 m Bayer) trade accounts receivables rise by € 1.5 m mainly according to revenue increase. At the end of 2016, receivables due from associated companies amounted to € 56.0 m, representing an increase of € 37.9 m against the previous year (2015: € 18.1 m). This increase is largely due to a write-up of a loan to Evotec International GmbH of € 22.4 m and a new loan to Cyprotex PLC of € 17.3 m.

Other assets increased by € 2.1 m to € 4.4 m (2015: € 2.3 m). The main reason for the increase were prepayments to Apeiron.

Investments decreased by € 13.6 m to € 23.3 m at the end of 2016 primarily to fund the acquisition of Cyprotex PLC.

The prepaid expense reduced by € 0.2 m to € 0.4 m at the end of 2016.

Other accrued liabilities increased in the 2016 financial year by € 0.5 m from € 4.0 m to € 4.5 m. This increase is primarily the result of € 0.8 m increase in the provisions for bonuses to € 2.3 m at the end of 2016.

Evotec AG's liabilities towards financial institutions increased by € 5.7 m against the previous year to € 28.6 m, which is also a result of the Cyprotex acquisition.

Liabilities to affiliated companies increased by € 34.9 m to € 36.0 m due to an intercompany loan received from Evotec UK and Evotec International to partial fund the acquisition of Cyprotex PLC.

Deferred income decreased by € 7.7 m from € 14.5 m to € 6.8 m at the end of 2016. This decrease is largely due to completion of three customer projects.

– Authorisation of management to repurchase stock

The Company is authorised by resolution of the AGM 2015 to acquire own shares with a computed proportion of the share capital totalling up to € 13,171,087.00. Together with other own shares, which are in the possession of the Company or are attributable to the Company pursuant to section 71a and as per the German Stock Corporation Act (Aktiengesetz, "AktG"), the own shares acquired on the basis of these authorisations may at no time exceed 10% of the Company's current share capital. Trading in own shares are not allowed under the AGM authorisation. The respective authorisation is effective until 08 June 2020. As of 31 December 2016, Evotec has not used its authorisation to acquire own shares.

– Shareholders exceeding 10% of voting rights

On 23 August 2016, Evotec was last notified that the direct shareholdings of Roland Oetker plus his shareholdings via ROI Verwaltungsgesellschaft mbH, Königsallee 20, 40212 Düsseldorf, Germany, amounted to 10.09%.

The Company is not aware of any other direct or indirect shareholdings exceeding 10% of its share capital.

– Amendment to the Company's Articles of Association/Appointment of the 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 of Association, 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 at an AGM. The appointment and dismissal of the members of the Management Board are governed by sections 84 and 85 of the German Stock Corporation Act (AktG).

IV. Employees

Attracting and retaining highly skilled, motivated and dedicated employees and supporting them to perform at consistently high levels is vital to Evotec's success. This applies even more in times of significant growth as experienced in 2016.

– Headcount

As of 31 December 2016, the Evotec AG employed a total of 303 people. This is an absolute increase of 5 or nearly 2% compared to the prior year, which mainly reflects the expansion of the Company's drug discovery resources.

Approximately 42% 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 2016 was approximately 39 years.

– Diversity

Evotec operates in a global industry with an international customer base. Therefore, the Company seeks the most suitably qualified talent regardless of gender, nationality or age. At the end of 2016, Evotec employed individuals from 22 nationalities. This diversity brings a range of perspectives and ideas to the workplace. Women account for more than 66% of employees in Evotec AG.

– Work-life balance

As an employer, Evotec is fully aware that offering a good balance between work and private life is not only important for achieving corporate success and job satisfaction but is also a significant aspect when recruiting new talent to the Company. Therefore, where appropriate, Evotec offers the possibility of part-time employment arrangements as well as flexible and work-at-home options.

– Education and training

In 2016, the Company continued to offer training programmes in different areas. One focus was on continuing Lean Green Belt training but in addition, Evotec also trained employees as Yellow Belts. Lean is a structured intuitive problem-solving methodology that relies on a collaborative team effort to continuously improve quality and performance for the benefit of the customer. Green Belt and Yellow Belt training courses provide employees with the tools and the skills to lead Lean improvement projects with the goal of making business processes at the Company as effective and efficient as possible. 7 employees have been accredited in 2016 as green or yellow belts. In total they now form an Evotec Improvement Network that is comprised of approximately 31 employees that have all had Lean training.

An additional crucial part of the Company's trainings in 2016 was the further development of a professional feedback culture, improving the interaction between employees as well as between employees and their respective leaders. The Company trained its employees on giving and receiving meaningful feedback during the course of 2016.

– Performance management

Evotec has been applying a standardised performance management process and incentive schemes for many years. A global improvement project was initiated in 2016 in order to make the current performance management including incentive schemes more relevant, effective and rewarding to the Evotec workplace in 2017. The focus will be on frequent and engaging performance dialogues with the managers rather than on annual or semi-annual ones in order to create a forum for regular attention, encouragement and guidance of the employees. The implementation of the new scheme and processes is planned for full roll-out in 2017.

Procurement and facility management in 2016

In 2016, the procurement and logistics function at Evotec continued to implement the mid-term ONE Procurement strategy roadmap established in 2013. The main pillars of this strategy are the further development of an efficient supply chain, development of strategic partners and disciplined cost control while maintaining the highest level of product quality. Lean projects focused on efficiency were set up and developed. A further optimised use of the resources added value for the Company, enhancing service levels and ultimately customer satisfaction.

2016 saw the further development and fit-out of the Manfred Eigen Campus, the Company's headquarters in Hamburg, Germany, to support the continued growth of the business.

V. Post-balance sheet events

On the 09. February Evotec announced that it resolved on a capital increase from its authorized capital against cash. Evotec will issue 13,149,019 new shares to Novo A/S (Denmark). In this private placement capital increase, Novo A/S will invest € 90.3 m to subscribe shares of Evotec at a price of € 6.87 per share.

VI. Risk and opportunity management

Risk and opportunities management principles

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

Evotec's risk management system comprises all the controls that ensure a structured management of opportunities and risks throughout the Company. 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. The close coordination between the Company's strategic, commercial and operating functions allows Evotec to recognise risks and opportunities at an early stage. Where possible,

Evotec's Management Board responds to these risks and opportunities by implementing corrective or supportive measures.

Risk and opportunities management system

Evotec's risk and opportunities management process is a centrally managed, activity, which utilises critical regular insight from business units and functions.

The Management Board is supported by the Risk Manager who is in charge of the risk and opportunities management process on behalf of the Management Board. The Supervisory Board is responsible for monitoring the effectiveness of the Company's risk management system. These duties are undertaken by the Supervisory Board's Audit Committee.

According to the Company's risk management policy, Evotec engages in businesses and incurs risks only when the business activities 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. The management engages in monthly financial reviews with a strong emphasis on key financial performance drivers such as revenues, order book status and gross margins as well as careful cost analysis, cash analysis and cash forecasts. 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 only made in products that have an investment grade rating. The Management Board is directly involved in all key decisions concerning financial assets and manages all business activities and transactions considered to be material for the Company.

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

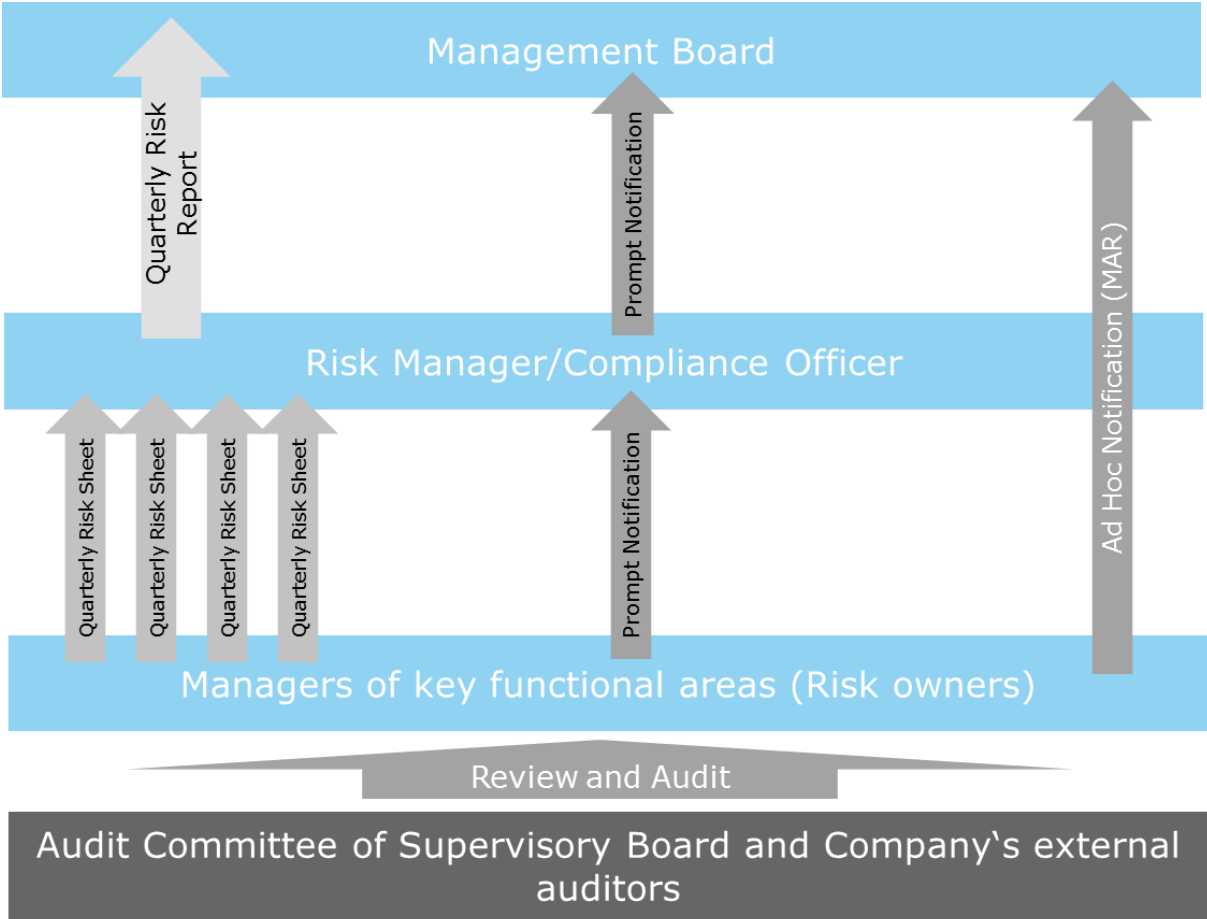
Evotec's risk and opportunities management system is regularly reviewed by the Company's Compliance Officer, the Management Board and the Supervisory Board's Audit Committee in order to quickly adjust it to changing environments, risk profiles and business opportunities.

The risk management system comprises the following elements:

(i) An **early detection system** to identify risks as soon as possible, to precisely describe them, quantify them and estimate their probability of occurrence and to report them immediately to the management to enable the management to deal with them in a timely

manner. The Risk Owners have primary responsibility for the identification of risks and opportunities. Through *Prompt notifications* and *Quarterly risk reports* any risks that are either outside the normal course of business or might have a material impact on the Company’s financial performance are raised and reported to the Risk Manager together with a summary and assessment of the specific risk and the countermeasures to be taken by the Risk Owners. The Risk Manager, together with the Chief Financial Officer, evaluates and summarises these risk reports in 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 simultaneously. To date, Evotec has always passed this cash stress test.

In addition, any triggering information for an ad hoc notification required pursuant to the European Market Abuse Regulation (“MAR”) 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. This means that all internal reports are formally included in the Company’s risk management system and are provided to the responsible managers regularly. This procedure increases general alertness to risk and risk management and also emphasises the principle of risk prevention across the Group.

Internal controls over financial reporting

Section 91 paragraph 2 of the German Stock Corporation Act (AktG) in conjunction with section 289 paragraph 5 of the German Commercial Code (HGB) requires the Management Board to take responsibility for adhering to and reporting on an internal control system for reliable financial reporting. The internal control system is part of the risk management system and primarily ensures 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 assess the effectiveness of internal controls over financial reporting annually. In order to ensure the utmost effectiveness of the control environment, Evotec has decided to maintain most of the key controls from the processes defined to comply with the Sarbanes-Oxley Act, despite the formal deregistration of the Company from the US Securities and Exchange Commission ("SEC") in March 2011. These controls are checked on an ongoing basis and are subject to testing by an independent third party expert annually. These assessments identified no material weaknesses in 2016 and all detected deficiencies were addressed and either remediated immediately or remediation processes were initiated. The effectiveness of Evotec's internal controls over the processes relating to the preparation of the financial statements is also audited during the year-end audit by its independent registered public accounting firm. The Supervisory Board's Audit Committee is informed regularly and reviews and discusses the auditing activities.

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

- Various automated and manual preventive and detective controls
- A clear segregation of financial-related duties
- Strict adherence to Evotec's policies.

Among other things, Evotec regularly checks whether:

- 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.

The 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"), are effective in both their design and operation.

Evotec routinely engages external specialists in order to minimise the risk related to specific issues, for example to value pension provisions.

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

Risks

Evotec 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.

Evotec has summarised the most important of these risks in the following categories: business environment and industry risks, performance-related risks, commercial risks, strategic risks, financial risks, IP risks, legal risks, human resources ("HR") risks, IT risks and other risks.

Unless stated otherwise, the risks mentioned below are unchanged in comparison to 2015.

Management Board's assessment of the risk situation

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

Probability of occurrence

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

Potential financial impact

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

Corporate risks overview

	Probability of occurrence	Potential financial impact	Comparison to prior year
Business environment and industry risks			
a. Risk inherent to drug discovery alliances			
Pricing pressure	medium	medium	unchanged
b. Risk inherent to proprietary drug discovery and development			
Risk of failure	high	medium/high	unchanged
Risk of extensive regulation	medium	low	unchanged
Product liability claims	low	high	unchanged
Performance-related risks			
Fluctuating capacity and resource allocation	medium	medium	unchanged
Dependence on individual larger customer	medium	high	unchanged
Scientific or technical delivery risks	medium	medium	unchanged
Maintenance of customer recognition and branding	low	medium	unchanged
Commercial risks			
Changing market environment	low	medium	unchanged
Dependence on individual out-licensing events	medium	medium	unchanged
Outperformance by competitors	low	medium	unchanged
Strategic risks			
Implementation and achievement of strategic goals	medium	high	unchanged
Risk from M&A	low/medium	medium/high	unchanged
Risk from investment strategy	low/medium	medium	new risk

	Probability of occurrence	Potential financial impact	Comparison to prior year
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	low	unchanged
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 changes to risks were identified compared to 2015.

– Business environment and industry risks

Risks inherent to drug discovery alliances

Evotec's discovery alliance platform is well established within the industry and has generated a growing revenue stream over the past years. A satisfied customer base, increased efficiency and superior service quality allow Evotec to generate value through its leveraged research platform and positive gross margin contributions. However, there are significant challenges for the industry such as the productivity and cost of research and development, innovative developments, changing relationships with patients and providers, continued patent expiration, regulatory hurdles and access as well as pricing and reimbursement. Pharmaceutical companies of all sizes have been re-evaluating their business strategies to remain competitive in their business environment. Therefore, judicious cost management, continuous enhancement of capabilities and technologies, careful market positioning and sales from high-value results-based contracts are critical for Evotec's success.

Risks inherent to proprietary drug discovery and development

Evotec has a clear strategic focus on drug discovery alliances and engages in limited proprietary discovery activities only in order to kick-start such alliances. Later-stage clinical development projects are currently only undertaken if a partner is funding the development costs.

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

The associated risks are those inherent to the biotechnology and drug development industry in general:

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

> Research and development activities as well as the approval and marketing of a pharmaceutical product are subject to extensive regulation by the USA FDA, the EMA and similar regulatory agencies. The approval of the relevant authorities is required before a product can be tested in humans and later sold in a given market. The regulatory approval process is intensive and time-consuming and the timing of receipt of regulatory approval is difficult to predict. Therefore, even if the further development of Evotec's drug candidates is successful, regulatory approval might not be received, might be restricted to certain geographical regions or indications or might later be withdrawn or significantly delayed. This could significantly impact the receipt of product revenues, if any. Evotec seeks early discussions with the regulatory bodies at all stages of development to ensure that research and development activities are in conformity with legal and ethical requirements.

– Performance-related risks

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

> Even with a stable revenue stream, fluctuating capacity utilisation and requirements as well as resource allocation between different parts of the business can significantly impact profitability and therefore need to be managed carefully. In addition, dependence on individual large customer contracts needs to be closely monitored. In 2016, Evotec's largest

customer accounted for 28% of third party revenues (see the "Top 10 collaborations" table on page 8 of this Management Report).

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

> Evotec's past success was built in part on customer recognition and branding. It is therefore of utmost importance to maintain this good reputation and avoid any negative impact on its branding which could lead to a loss of customers due to bad reputation. Evotec has protected its trade name in all countries with business operations and has increased its market awareness to strengthen and protect its global market position.

– Commercial risks

Commercial risks include the following:

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

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

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

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

Evotec's business, however, is sustainable even in the absence of any product commercialisation.

– Strategic risks

Implementation and achievement of strategic goals

The implementation of a company strategy bears the risk of misjudgements concerning future developments. Evotec continued to focus its internal R&D activities on its most valuable and promising assets. At present, the Company continues to build an extensive pipeline, by concentrating its efforts on bringing proprietary products from its existing portfolio and from collaborations with scientific institutions to important value inflection points ready for partnering. Investments might be made in the wrong products, wrong partnerships, inappropriate technologies or sub-optimal acquisitions. In addition, commercialisation strategies might be unsuccessful or a lack of market acceptance for newly discovered products could impact Evotec's market position, which could lead to significant negative impact on business objectives and financial goals.

Risks from M&A

Evotec's market position is well established and the Company is acknowledged by its customers for its first-class services. However, the Company is pursuing ambitious growth targets both organically and also via acquisitions of complementary service capacities and capabilities, as exemplified in the acquisition of all shares in UK-based Cyprotex in December 2016. However, such merger and acquisition activities contain specific risks that need to be managed.

Transactions inevitably present challenges to Evotec's management, including the integration of operations and personnel into the Evotec Group. In addition, mergers and acquisitions may present specific risks, including unanticipated liabilities, unexpected costs, management attention being diverted, the loss of personnel and invalidation of technologies and science.

Risks from investment strategy

In 2016, Evotec expanded its EVT Innovate segment through equity participation in selected companies. These investments enable Evotec to accelerate its business model as they provide an optimal risk-reward profile up to clinical proof-of-concept stage in selected fields of high strategic medical relevance. Typically, Evotec's equity stake after the financing round amount to 5%-40%. Based on its minority shareholdings Evotec has only limited control regarding the development of such investments.

– Financial risks and risk management in relation to financial instruments (IFRS 7)

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

Liquidity risks

> Revenue fluctuations and expenditures on internal discovery and early development programmes might negatively impact Evotec's short- to mid-term profitability and cash reserves. To actively address any related risk, Evotec's management has defined minimum liquidity levels and regularly undertakes scenario planning in order to safeguard its cash position. Evotec believes that existing liquidity reserves are sufficient to cope with the cumulative impact of all identified risks. Evotec is currently well-financed, however, the possibility of further increasing capital is reviewed on an ongoing basis. Such 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.

Default risks

> As a service provider, Evotec always faces the risk of bad debt losses. However, Evotec's customers are generally financially stable pharmaceutical companies, foundations and larger biotech companies. There have been no significant doubtful receivables in 2016.

> The general risk of losing a significant amount of cash in cash investments is continuously mitigated by spreading the investments across several different banks in high-quality credit instruments in full compliance with the Company's approved investment policy. Evotec monitors its banks and investments on an ongoing basis. The selected instruments are used exclusively to secure the underlying transactions, but not for trading or speculation.

Currency risks

> Evotec's business and reported profitability are affected by fluctuations in foreign exchange rates between the US dollar and the Euro. The Company manages this exposure via, close market monitoring, natural hedges and selective hedging instruments. The hedging instruments used do not expose the Company to any material additional risk. Hedging transactions are entered directly in relation to existing underlying transactions and/or future reliably anticipated transactions. The purpose of this strategy is to manage the Company's current and upcoming currency requirements and is intended to reduce the exchange rate risks of future financial periods.

> Currency exchange movements also impact Evotec's reported liquidity primarily through the translation of liquid assets held in US dollars into Euros.

– Intellectual property risks

The risks associated with intellectual property include the following:

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

> Evotec holds licences relating to certain of its proprietary pre-clinical and clinical research projects. Any termination of these licences could result in the loss of significant rights and endanger existing partnering collaborations. However, Evotec maintains long-term and trusting relationships with its partners and is therefore confident that such licence agreements will remain unaffected.

– Legal risks

In 2016, Evotec has not encountered any legal risks that are considered to be significant.

– HR risks

> Evotec, like many biotechnology companies, is highly dependent on the key members of its management and scientific staff. The loss of any of Evotec's key employees or key consultants could impede the achievement of Evotec's business objectives. However, Evotec has set up its organisation such that the Company's knowledge is shared amongst key employees. Furthermore, recruiting and retaining qualified scientific personnel to perform research and development work in the future is critical to Evotec's success. If Evotec is unable to attract and 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 serious difficulties in attracting and retaining qualified employees despite strong growth in recent years and no change in this area is currently foreseen.

– IT risks

> IT services are essential to the Company's success and the Company recognises that a loss of data or service may result in a financial loss as well as a loss in reputation.

Evotec invests in resilient systems, makes upgrades to security systems, backs up data to different geographical locations, enhances IT policies and consolidates user awareness and thereby mitigates hazards such as cyber-attacks, natural disasters, power failures, system upgrade failures, theft and data corruption. Guidelines relating to data protection, which also regulate the assignment of access rights, are required to be observed.

> The Company performs regular risk assessments to identify and rectify weaknesses. In addition to these, an IT Security Committee was created which meets each week to analyse threats, investigate reported incidences and make recommendations to the management. Where weaknesses are identified, remediation measures are initiated immediately. In 2016, a training was provided to the members of the finance team to enable them to recognise fraudulent emails as this has been identified as a significant risk.

– Other risks

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

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

Opportunities

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

– Business environment and industry opportunities

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

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

– Strategic opportunities

One major pillar of Evotec's strategic plan is the creation of an extensive, long-term pharmaceutical pipeline without taking the financial risk of clinical exposure. Evotec and its subsidiaries have out-licensed a number of clinical assets for development in partnerships with pharmaceutical companies. These development programmes do not carry any financial risks for Evotec, but only significant upside potential in case of clinical and commercial success. In addition to these late-stage assets, Evotec continues to build this pipeline through partnering its proprietary products from its existing portfolio and from collaborations with scientific institutions. These efforts are called Cure X and Target X initiatives. A number of Pharma alliances were generated based on these programmes.

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

– Performance-related opportunities

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

– Commercial opportunities

The total number, growth and size of alliances, the percentage of repeat business, average contract duration, new customer acquisition and the status of the Company's sales and order book are, either directly or through intercompany support work, key indicators of Evotec's business. These key indicators have improved significantly during the last five years. During its more than 20-year history, Evotec has continued to deliver excellent results in its collaborations and has expanded its customer base and its global network of partnerships. The Company is now working directly with approximately 21 Pharma and biotech companies on a global basis. The excellent track record and the Company's extensive network is an excellent basis for creating additional business opportunities that would have an impact on the performance and results of the Company.

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

As Evotec's financial planning does not assume any product commercialisation and subsequent commercial milestone and royalties payments, any successful product commercialisation would provide a significant upside to Evotec's business planning.

– HR opportunities

Since the biotechnology and pharmaceutical industry is very people dependent, employees are a critical asset for companies in this industry. As stated in the "Employees" chapter on page 22 of this Management Report, approximately 42% of Evotec's employees have worked for the Company for more than five years. The Company believes that its success in alliances and partnerships is attributable to its key personnel to a large extent. Thus, retaining employees who have outstanding expertise and skills in the long term could have a positive impact on the Company's business, results of operations and financial position.

Furthermore, employees with new ideas, expertise in future key indication areas and knowledge of innovative technologies are essential in developing new branches or initiatives such as the Cure X and Target X initiatives the Company is pursuing, since they result in new business opportunities for the Company. Thus, Evotec sees itself well positioned to attract key personnel which provide the opportunity of outperformance due to enhanced knowledge accumulation and innovation.

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 could cause actual results to differ materially from those contemplated in these forward-looking statements.

Expected general market and healthcare development

– Economic development

According to the World Bank, global growth is projected to rise to 2.7% in 2017 and 2.9% in 2018-19, showing a moderate recovery to the estimated 2016 growth rate of 2.3%. Economic growth in the USA is expected to amount to 2.2% in 2017, up from an estimated 1.6% in 2016. Eurozone growth in 2017 is projected to amount to 1.5% (2016: 1.6%). However, due to the heightened level of political uncertainty in major economies, protectionist tendencies, slower potential growth and elevated vulnerabilities in emerging markets, these projections can be subject to change during 2017. Evotec is confident that these factors will not have a major impact on the Company's expected corporate development or performance.

– The market for drug discovery alliances

The global drug discovery market is expected to experience continued growth. According to Visiongain (2015), the global drug discovery market including later-stage *in vivo* work is expected to reach \$ 27.1 bn in 2019 and to continue to grow. The growth in outsourcing will be stimulated by Pharma, foundations and biotech companies focusing on more efficient drug discovery solutions and switching to a variable cost model. More importantly, expertise in specialist areas will be accessed externally, avoiding the need to build additional infrastructure and capabilities internally. This demand for innovation efficiency will be met increasingly by companies such as Evotec.

The pharmaceutical industry will increasingly favour larger strategic research contracts due to their lower perceived commercial risk and ease of management. This presents a challenge for the highly fragmented drug discovery outsourcing industry. However, Evotec is ideally positioned to take full advantage of these market developments. The Company is one of the largest and financially stable drug discovery service providers, able to undertake large strategic and integrated drug discovery projects.

– Trends in research and development

The trend of increasing numbers of novel drug approvals in recent years has been interrupted in 2016. With 22 new molecule entities ("NME") approved, the novel agent approval in 2016 was significantly lower than in previous years (2015: 45 NME). This could be an indication that Pharma companies will need access to significant numbers of new innovative medicines in order to ensure their sustainable growth. Against this backdrop, Pharmaceutical companies are still willing to invest large sums in the development of innovative and promising product candidates.

Business direction and strategy

Evotec's strategy is to continuously increase the value of the Company by expanding its leadership position in high-quality drug discovery solutions as well as building an ever-growing project portfolio of innovative first- and best-in-class assets.

Evotec continues to manage its drug discovery activities under the business segments EVT Execute and EVT Innovate. EVT Execute represents all partnerships in which the partner brings the underlying intellectual property to the collaboration. EVT Innovate comprises all partnerships derived from Evotec's internally developed intellectual property and Evotec's participations in certain companies. Further information on Evotec's two business segments can be found in the "Corporate objectives and strategy" chapter on page 4 of this Management Report.

Specific objectives for the segments EVT Execute and EVT Innovate for 2017 were defined at the end of 2016.

EVT Execute	EVT Innovate
<ul style="list-style-type: none">• Extensions of long-term deals with large and mid-sized Pharma• Increased support of new deals through Evotec's subsidiaries.• New performance-based integrated technology/disease alliance• Milestones from existing alliances	<ul style="list-style-type: none">• Good progress of clinical pipeline within partnerships• Strong R&D progress within Cure X/Target X initiatives• Strong focus on iPSC (induced pluripotent stem cells) platform

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 or the acquisition of assets, e.g. companies. Evotec is continually upgrading its capabilities to maintain the best infrastructure and skills to meet its partners' needs in drug discovery like for example the implementation of the iPSC platform. This trend is expected to continue in 2017 and beyond.

The Company will continue to invest in a selected number of highly innovative approaches to address key medical areas. The cornerstones of this approach are the Company's Cure X and Target X initiatives, whereby Evotec accesses and accelerates early academic or research initiatives in innovative areas of disease biology and develops and positions such assets for commercial partnering. For 2017, Evotec sees a significant opportunity to accelerate selected projects, e.g. in its diabetes, endometriosis, kidney disease activities as well as in its iPS cell initiative.

Financial outlook for 2017

As the Company has further progressed also from a financial perspective, Liquidity and Capital Expenditures are no longer regarded as primary indicators, and as such will no longer be provided in the guidance provided by management.

– Expected operating results

The achievement of individual milestones are single events which bear a certain level of uncertainty and risk not under Evotec's full control. However, due to an increasing number of milestone-bearing projects and factoring in a probability of success, total milestone based revenues become more predictable and contribute more and more to the Company's total revenue and profitability.

In 2017, Evotec expects **revenues** to be on a similar level compared to the successful financial year 2016. Growth is not expected due to capacity limitations at the site in Hamburg. This assumption is based on the current order situation, expected milestones, foreseeable new intercompany work and contract extensions.

Adjusted EBITDA will depend on the productivity of its drug discovery business. A positive adjusted EBITDA in the one-digit million range is expected for 2017.

Adjusted EBITDA 2016 was predominately affected by a partial write-up of a loan receivable with Evotec International GmbH. This was not forecasted in 2016 and will not be foreseeable in 2017.

Actual results may deviate considerably from these projections.

– Expected financing and financial position

Evotec continued to finance some of its subsidiaries during 2016. In 2017, financing for the expansion of Evotec's US sites are expected.

Evotec is sufficiently well financed to support its ongoing business and operations. All strategic moves to further strengthen Evotec's growth, its competitive positioning or increase of critical mass such as potential company or product acquisitions, equity investments or extended R&D efforts will need to be considered separately, e.g. in the form of capital increases.

A successful partnering event may influence the threshold positively.

	Results 2016	Guidance 2017
Revenues	€ 71.4 m	Similar level as 2016
Adjusted EBITDA	€ 28.6 m	Positive result in form of a one-digit million range

– 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's further growth strategy. It has to be noted that Evotec needs to record positive retained earnings before being able to pay out dividends to its shareholders.

– Opportunities

The most important opportunities for the Company are summarised in the "Opportunities" section of the "Risk and opportunities management" chapter on page 35 of this Management Report.

- General statement of expected development by the Management Board

Evotec continues to strengthen and expand its business as the leading global provider in the provision of drug discovery solutions. Evotec is well-positioned to deliver value to the pharmaceutical, biotechnology industry as well as foundations, addressing the industry's growing demand for innovation.

The Management Board is convinced that Evotec will benefit from the continued outsourcing trend in the pharmaceutical industry and partner with an increasing number of customers. On this basis, the Management Board expects the Company to show in 2017 firm revenues and EBITDA excluding one-time effects such as revaluation of the inter-company loan. The Company's strong cash position will provide a firm foundation to further strengthen the business and increase shareholder value.

VIII. 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 of the German Commercial Code (HGB) in the Investor Relations section on Evotec's website at www.evotec.com.

IX. 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 Code (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 "Employees" chapter on page 22 of this Management Report.

Remuneration of the Management Board

The total annual compensation of the individual members of the Management Board, which is fixed by the Supervisory Board and agreed with every individual Management Board member, is composed of fixed and variable components. It is guided by section 87 of the German Stock Corporation Act (AktG) and the 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. Moreover, the Supervisory Board considers the relationship between the compensation of the Management Board and that of senior management as well as the staff overall, particularly in terms of its development over time. The Supervisory Board determines how senior managers and the relevant staff are differentiated.

Following section 4.2.3 of the Code, the amount of compensation is capped, both overall and for individual compensation components. It should be noted, however, that the variable long-term incentive compensation is based on issuance of share-based awards under the Share Performance Plans 2012 and 2015 as approved by the AGMs in 2012 and 2015. There is a cap for the number of awards upon allocation, but no cap for the value of the allocated shares after the expiration of the vesting period.

The German Law on the Appropriateness of Management Board Compensation (VorstAG) of 31 July 2009 allows the AGM to approve the system of remunerating members of the Management Board (section 120 paragraph 4 AktG). The Management Board and the Supervisory Board of Evotec AG proposed such an approval at the AGM in 2012. The shareholders and shareholder representatives voted in favour of this item of the agenda with a majority of 92.22% of the votes. Following section 4.2.3 of the Code, this item was put to none of the subsequent AGMs as the remuneration system for the Management Board has not changed.

Under the aforementioned system, new Management Board contracts were concluded with all four Management Boards members in the year under review.

In 2016, the fixed and one-year variable remuneration of the active members of the Management Board totalled kEUR 2,346, of which the variable part amounted to kEUR 796. The remuneration for Dr Mario Polywka was not paid by Evotec but is rather recharged as management fee by another Group company.

Fixed remuneration includes base salaries paid in 12 monthly instalments at the end of each month and fringe benefits such as contributions to retirement insurance policies, premiums for accident and accidental death insurance policies as well as the benefit derived from the private use of an upper mid-range company car. In addition, to the aforementioned remuneration, business-related payments, expenditure and expenses are reimbursed.

One-year 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 2016 was based on the achievement of certain strategic targets for the financial year 2015. The variable portion of the remuneration for the achievement of strategic targets for the financial year 2016 will be paid out in March 2017. In 2016, the bonus paid to Dr Werner Lanthaler, Colin Bond, Dr Cord Dohrmann and Dr Mario Polywka was based on the achievement of corporate milestones and objectives. As per 31 December 2016, the Company had accrued a total of kEUR 992 for the variable portion of the remuneration paid to the members of the Management Board, thereof kEUR 407 for Dr Werner Lanthaler, kEUR 211 for Dr Cord Dohrmann, kEUR 214 for Dr Mario Polywka, kEUR 78 for Enno Spillner after joining Evotec on 18 July 2016 and kEUR 82 for Colin Bond for a period of 6 months (January to June 2016). The remuneration for Dr Mario Polywka was not paid by Evotec but is rather recharged as management fee by another Group company.

The 2015 and 2016 corporate objectives related to general 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 for both business segments and the preparation of the Company for sustainable future growth. Beyond that, specific targets included the closing and integration of the acquisition of Evotec (France) SAS in Toulouse in 2015 and the ramp-up of an iPSC initiative in 2016.

In addition to their fixed and variable remuneration, the members of the Management Board received 396,291 SPAs in 2016 (2015: 338,382) under the Company's share performance plan. These SPAs vest after four years according to the achievement of defined key performance indicators over a three-year performance measurement period. SPAs can only be exercised, if and when key performance indicators are achieved. Key performance indicators for each individual tranche of the SPAs are determined by the Supervisory Board. The key performance indicators for the grant in both 2016 and 2015 are "Group Revenues", "Operating Income before Impairment" also related to Evotec group figures and "Share Price". The fair values of all Share Performance Awards granted as of the grant date amounted to a total of kEUR 1,534 in 2016 (2015: kEUR 910).

The following tables present for each Management Board member:

- The benefits granted for the year under review including fringe benefits (such as car allowance, contributions made towards health insurance, a pension, accident/life insurance and accommodation costs) and including the maximum and minimum achievable compensation for variable compensation components
- The allocation of fixed compensation, short-term variable compensation and long-term variable compensation for the year under review, broken down into the relevant reference years

a	b	Dr Werner Lanthaler				Enno Spillner				Dr Cord Dohrmann				Dr Mario Polywka				Colin Bond				
		CEO				CFO				CSO				COO				CFO				
						joined the Management Board on 18 July 2016												left the Management Board as of 30 June 2016				
c	Benefits granted (in TC)																					
d	2015	2016	2016 (min)	2016 (max)	2015	2016	2016 (min)	2016 (max)	2015	2016	2016 (min)	2016 (max)	2015	2016	2016 (min)	2016 (max)	2015	2016	2016 (min)	2016 (max)		
1	Fixed compensation	340	406	406	406	-	141	141	141	300	333	333	333	337	342	342	342	275	130	130	130	
2	Fringe benefits	73	97	97	97	-	17	17	17	15	15	15	15	60	58	58	58	35	11	11	11	
3	Total	413	503	503	503	-	158	158	158	315	348	348	348	397	400	400	400	310	141	141	141	
4	One-year variable compensation*	256	289	-	510	-	-	-	-	0	224	153	-	180	229	214	-	241	221	140	-	165
5	Multi-year variable compensation	381	840	-	1,680	-	206	-	412	173	248	-	495	198	240	-	480	158	-	-	-	-
5a	Long-term incentive ("SPA", as described in the text above) (Plan term until 5 years after grant) (Number of SPA x fair market value)	381	840	-	1,680	-	206	-	412	173	248	-	495	198	240	-	480	158	-	-	-	-
6	Total	1,050	1,632	503	2,693	-	364	158	570	712	749	348	1,023	824	854	400	1,121	689	281	141	306	
7	Service cost	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Total	1,050	1,632	503	2,693	-	364	158	570	712	749	348	1,023	824	854	400	1,121	689	281	141	306	

Notes:

- a Name of the Management Board member
- b Function of the Management Board member, e.g. CEO, CFO
- c Date on which the member joined/left the Management Board, if in the financial year under consideration n (year under review) or n-1
- d Financial year under consideration n (year under review) or n-1
- I Benefits granted in financial year n-1
- II Benefits granted in financial year n (year under review)
- III Minimum value of granted compensation components that can be achieved in financial year n (year under review), e.g. Zero
- IV Maximum value of granted compensation components that can be achieved in financial year n (year under review)
- Non-performance-related components, e.g. fixed salary, fixed annual pay-off payments (amounts correspond to amounts in "Allocation" table); values in columns II, III and IV are identical
- Non-performance-related components, e.g. benefits in kind and fringe benefits (amounts correspond to amounts in "Allocation" table); values in columns II, III and IV are identical
- Total of non-performance-related components (1+2) (amounts correspond to amounts in "Allocation" table); values in columns II, III and IV are identical
- 4 One-year variable compensation, e.g. bonus, short-term incentive (STI), share in profits, without deferred components
- Multi-year variable compensation (total of rows 5a - ...), e.g. multi-year bonus, deferred components from one-year variable compensation, long-term incentive (LTI), subscription rights, other share-based compensation
- 5a Multi-year variable compensation, broken down into plans and stating the period of time
- 6 Total of non-performance-related components and variable components (1+2+4+5)
- Service cost in accordance with IAS 19 from pension schemes and other benefits (amounts correspond to amounts in "Allocation" table); values in columns II, III and IV are identical
- 8 Total of non-performance-related components and variable components and service cost (1+2+4+5+7)
- In 2015, an additional transaction bonus was granted to each Management Board member for the successful acquisition of Evotec (France).

a	Allocation (in TC)	Dr Werner Lanthaler		Enno Spillner		Dr Cord Dohrmann		Dr Mario Polywka		Colin Bond	
		CEO		CFO		CSO		COO		CFO	
		2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
b											
c											
d											
1	Fixed compensation	406	340	141	-	333	300	342	337	130	275
2	Fringe benefits	97	73	17	-	15	15	58	60	11	35
3	Total	503	413	158	-	348	315	400	397	141	310
4	One-year variable compensation*	289	256	-	-	153	224	214	229	140	221
5	Multi-year variable compensation	219	392	-	-	-	166	-	582	239	245
5a	Share Performance Programme 2012 (term until 2019)	-	-	-	-	-	-	-	-	176	-
5b	Stock Option Programme 1999 (term until 2021)	50	-	-	-	-	-	-	13	32	-
5c	Stock Option Programme 2000 (term until 2016)	-	-	-	-	-	-	-	-	-	-
5d	Stock Option Programme 2001 (term until 2021)	-	-	-	-	-	-	-	13	31	-
5e	Stock Option Programme 2005 (term until 2017)	-	-	-	-	-	-	-	-	-	-
5f	Stock Option Programme 2007 (term until 2016)	-	-	-	-	-	-	-	-	-	-
5g	Stock Option Programme 2008 (term until 2016)	169	392	-	-	-	71	-	-	-	-
5h	Stock Option Programme 2011 (term until 2019)	-	-	-	-	-	95	-	556	-	245
6	Other	-	-	-	-	-	-	-	-	-	-
7	Total	1.011	1.061	158	-	501	705	614	1.208	520	776
8	Service cost	-	-	-	-	-	-	-	-	-	-
9	Total	1.011	1.061	158	-	501	705	614	1.208	520	776

Notes:

- a Name of the Management Board member
- b Function of the Management Board member, e.g. CEO, CFO
- c Date on which the member joined/left the Management Board, if in the financial year under consideration n (year under review) or n-1
- d Financial year under consideration n (year under review) or n-1
- Non-performance-related components, e.g. fixed salary, fixed annual pay-off payments (amounts correspond to amounts in "Benefits granted" table)
- 1 Non-performance-related components, e.g. benefits in kind and fringe benefits (amounts correspond to amounts in "Benefits granted" table)
- 2 Total of non-performance-related components (1+2) (amounts correspond to amounts in "Benefits granted" table)
- 3 One-year variable compensation, e.g. bonus, short-term incentive (STI), share in profits, without deferred components
- 4 Multi-year variable compensation (total of rows 5a - ...), e.g. multi-year bonus, deferral, long-term incentive (LTI)
- 5a-h Multi-year variable compensation, broken down into plans and stating the period of time
- 6 Other, e.g. clawbacks, which are entered as a negative amount with reference to previous disbursements
- 7 Total of non-performance-related components and variable components (1+2+4+5+6)
- Service cost in accordance with IAS 19 from pension schemes and other benefits (amounts correspond to amounts from row 4 of the "Benefits granted" table and row 7 of the "Allocation table"); this is not an allocation in the financial year
- 8 Total of non-performance-related components and variable components and service cost (1+2+4+5+6+8)
- 9 In 2015, an additional transaction bonus was granted to each Management Board member for the successful acquisition of Evotec (France).

The members of the Management Board of Evotec AG have only customary rights in the 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. Should 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 his base salary; for Dr Mario Polywka, the payment shall be equal to 18 months of his base salary; and for both Dr Cord Dohrmann and Enno Spillner, the payment shall be equal to 18 months of their base salary plus bonuses. 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 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 provision for a pension for one former Management Board member amounting to kEUR 204 (2015: kEUR 182). No such further provisions are due for other former Management Board members or their surviving dependants.

Remuneration of the Supervisory Board

The remuneration of the members of the Supervisory Board is stipulated in the Company's Articles of Association.

According to section 113 AktG, Supervisory Board remuneration is to be appropriate to the task of the Supervisory Board members and the situation of the Company. The members of Evotec's Supervisory Board are entitled to fixed payments as well as out-of-pocket expenses. In accordance with the recommendations of the Code, the Chairman and the Vice Chairman positions on the Supervisory Board as well as the Chair positions and membership on committees are considered when determining the remuneration of individual members. Consequently, as last amended following the approval of the AGM 2014, the fixed compensation is kEUR 30 per Supervisory Board member. The Chairman of the Supervisory Board shall be paid kEUR 75 and the Vice Chairman shall be paid kEUR 45. Supervisory Board members serving on its committees shall be paid kEUR 5 per committee membership; the chairman of a committee shall be paid kEUR 20.

For their contributions in 2016, the individual members of the Evotec Supervisory Board receive the following compensation:

Remuneration of the Supervisory Board 2016	
	Total remuneration in T€ ¹⁾
Prof. Dr Wolfgang Plischke	95
Bernd Hirsch	70
Dr Claus Braestrup	35
Prof. Dr Paul Linus Herrling	35
Prof. Dr Iris Löw-Friedrich	35
Dr Elaine Sullivan	35
Total	305

¹⁾ Cash remuneration

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 cover for its Management and Supervisory Board members, its senior management and the directors of its subsidiaries at a cost to the Company of kEUR 75 in 2016 (2015: kEUR 91). 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.

Hamburg, 14 March 2017

Dr Werner Lanthaler

Dr Cord Dohrmann

Dr Mario Polywka

Enno Spillner

Audit opinion

The audit opinion was rendered in German. The translation of this audit opinion reads as follows:

"We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system and the management report of Evotec AG, Hamburg, for the fiscal year from 1 January to 31 December 2016. 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 Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the 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 German 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, complies with the legal requirements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks relating to future development."

Berlin, 14 March 2017

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Schepers
Wirtschaftsprüfer
German Public Auditor

Machner
Wirtschaftsprüfer
German Public Auditor