Translation of

Financial Statements as of 31 December 2017 and Management Report

Evotec AG Hamburg

Evotec AG, Hamburg
Statement of financial position as of 31 December 2017

Assets	EUR	31.12.2016 EUR
A. Fixed assets		
I. Intangible assets		
Purchased franchises, industrial and similar rights and assets, and licenses in such rights and assets	745,885.51	871,449.06
II. Property, plant and equipment		
1. Land, land rights and buildings, including buildings on third-party land	1,721,388.11	1,861,257.97
2. Plant and machinery	10,334,879.07	8,912,947.28
3. Other equipment, furniture and fixtures	768,464.19	545,136.29
4. Prepayments and assets under construction	328,852.54	522,274.23
	13,153,583.91	11,841,616
III. Financial assets		
Shares in affiliates	358,616,819.92	86,974,459.99
	372,516,289.34	99,687,525
B. Current assets		
I. Inventories		
1. Raw materials, consumables and supplies	1,197,454.17	1,406,293.25
2. Work in process	994,942.06	326,700.42
	2,192,396.23	1,732,994
II. Receivables and other assets		
1. Trade receivables	9,413,054.08	7,247,166
2. Receivables from affiliates	48,835,158.24	55,964,969.64
3. Other assets	4,889,108.50	4,402,860.02
	63,137,320.82	67,614,995.18
III. Securities		
Other securities	17,960,631.07	23,283,796
IV. Cash on hand and bank balances	25,172,901.43	8,355,102.21
	108,463,249.55	100,986,887.32
C. Prepaid expenses	1,774,395.13	435,358
	482,753,934.02	201,109,770.19

Equity and liabilities	EUR	31.12.2016 EUR
A. Equity		
I. Subscribed capital	147,532,681.00	133,051,739.00
./. nominal value Treasury shares	-249,915.00	-249,915.00
	147,282,766.00	132,801,824.00
II. Capital reserves	243,477,451.27	165,602,115.48
III. Revenue reserves		
Reserve for treasury shares	249,915.00	249,915.00
IV. Accumulated loss	-166,986,094.29	-178,354,986.17
	224,024,037.98	120,298,868
B. Provisions		
1. Provisions for pensions and similar obligations	73,572.10	68,413
2. Tax provisions	57,255.41	502,600.00
3. Other provisions	5,031,648.62	4,498,791.23
	5,162,476.13	5,069,804.33
C. Liabilities		
1. Liabilities to banks	182,886,887.86	28,606,959
2. Prepayments received on account of orders	0.00	253,545.16
3. Trade payables	2,338,701.54	2,228,945.96
4. Liabilities to affiliates	61,538,891.38	36,039,315.87
5. Other liabilities	1,949,079.88	1,788,322.88
thereof for taxes: EUR 329,185.86 (prior year: EUR 280,665.17)		
	248,713,560.66	68,917,089
D. Deferred income	4,853,859.25	6,824,009
	482,753,934.02	201,109,770.19

Evotec AG, Hamburg

Income statement for the period from 1 January 2017 to 31 December 2017

		EUR	2016 EUR
1.	Revenues	75,183,664.81	71,414,032.89
2.	Increase or decrease in finished goods and work in process	668,241.64	-182,676.00
3.	Other operating income thereof income from currency translation: EUR 1,076,778.41 (prior year: EUR 1,117,343.07)	7,704,209.55	23,513,694.18
		83,556,116.00	94,745,051.07
4.	Cost of materials		
	a) Cost of raw materials, comsumables and supplies and of purchased merchandise	9,202,384.42	6,988,014.82
	b) Cost of purchased services	21,290,491.43	23,408,097.57
5.	Personnel expenses		
	a) Wages and salaries	19,455,531.79	17,555,487.83
	b) Social security, pension and other benefit costs thereof for old-age pensions: EUR 7,018.45 (prior year: EUR 7,378.00)	3,124,153.60	2,667,780.82
6.	Amortization, depreciation and write-downs of intangible assets and property, plant and equipment	2,693,933.24	2,548,781.18
7.	Other operating expenses thereof expenses from currency translation: EUR 3,101,096.05 (prior year: EUR 7,763,111.76)	20,991,810.46	15,540,724.34
		76,758,304.94	68,708,886.56
8.	Income from investments	3,622,885.49	0.00
9.	Other interest and similar income thereof from affiliates: EUR 1.942.842,54 (prior year: EUR 2.113.087,32)	2,418,511.60	2,620,615.72
10.	Write-downs of financial assets and securities classified as current assets	0.00	13,500.00
11.	Interest and similar expenses	1,253,216.27	367,617.04
		4,788,180.82	2,239,498.68
12.	Income taxes	217,100.00	661,479.47
		217,100.00	661,479.47
13.	Income after tax/net income for the year	11,368,891.88	27,614,183.72
14.	Withdrawals from reserve for treasury shares	0.00	0.00
15.	Net loss carried forward	178,354,986.17	205,969,169.89
16.	Accumulated loss	-166,986,094.29	-178,354,986.17

Evotec AG, Hamburg

Notes to the Financial Statements for the year 2017

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 6.0% 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 1.5%. The average market interest rate over the last seven years was 2.8%.

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 2017, Evotec held direct equity investments in the following companies:

		Total equity	Share interest	Net income/loss-
		kEUR	%	kEUR
1.	Evotec (Hamburg) GmbH, Hamburg*	12,678	100.00	-1
2.	Evotec International GmbH, Hamburg (indirectly through 1.)	-87,267	100.00	5,697
3.	Evotec (UK) Ltd., Abingdon, UK	43,290	100.00	-1,821
4.	Evotec (US) Inc.,Princeton, USA*	-12,586	100.00	-4,803
5.	Evotec (India) Private Limited, Maharashtra (Thane), India **	27	100.00	-74
6.	Evotec (München) GmbH, Munich*	1,456	100.00	581
7.	Evotec (France) SAS, Toulouse, France	59,415	100.00	19,718
8.	Cyprotex PLC, Manchester, UK	-6,481	100.00	-266
9.	Aptuit Global LLC, Greenwich, USA	30,868	100.00	227
10.	Aptuit (Switzerland) AG, Basel, Switzerland	347	100.00	-90
11.	Aptuit (Potters Bar) Limited, Abingdon, UK	473	100.00	20
12.	Eternygen GmbH, Berlin*	255	22.02	-2,307
13.	FSHD Unlimited Coorp, Leiden, Netherlands	2,563	21.51	334
14.	ExScientia Ltd.; Dundee, UK	16,704	24.54	885

*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 2017 for the annual profit or loss statement.

Statement of changes in fixed assets for fiscal year 2017

	Acquisition and production cost						Accumulated amortization, depreciation and write-downs					Net book values	
	1 Jan 2017	Additions	capitalized interests on borrowed capital	Disposals	Reclassifications	31 Dec 2017	1 Jan 2017	Additions	Disposals	Reclassifications	31 Dec 2017	31 Dec 2017	31 Dec 2016
	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	6,151,272.72	53,716.72	0.00	110,377.54	0.00	6,094,611.90	5,279,823.66	179,280.27	110,377.54	0.00	5,348,726.39	745,885.51	871
II. Property, plant and equipment													
1. Land, land rights and buildings, including buildings on third-party land	3,084,053.60	80,906.74	0.00	29,691.67	89,349.17	3,224,617.84	1,222,795.63	310,125.77	29,691.67	0.00	1,503,229.73	1,721,388.11	1,861
2. Plant and machinery	23,666,770.69	2,822,000.92	0.00	464,307.13	388,165.38	26,412,629.86	14,753,823.41	1,780,494.79	456,567.41	0.00	16,077,750.79	10,334,879.07	8,913
3. Other equipment, furniture and fixtures	4,031,530.04	604,421.45	0.00	937,317.56	44,759.68	3,743,393.61	3,486,393.75	424,032.41	935,496.74	0.00	2,974,929.42	768,464.19	545
4. Prepayments and assets under construction	522,274.23	328,852.54	0.00	0.00	-522,274.23	328,852.54	0.00	0.00	0.00	0.00	0.00	328,852.54	522
	31,304,628.56	3,836,181.65	0.00	1,431,316.36	0.00	33,709,493.85	19,463,012.79	2,514,652.97	1,421,755.82	0.00	20,555,909.94	13,153,583.91	11,841
III. Financial assets													
1. Shares in affiliates	93,204,162.94	271,642,359.93	0.00	0.00	0.00	############	6,229,702.95	0.00	0.00	0.00	6,229,702.95	############	86,974
	130,660,064.22	275,532,258.30	0.00	1,541,693.90	0.00	############	30,972,539.40	2,693,933.24	1,532,133.36	0.00	32,134,339.28	############	99,686

3. Inventories

	kEUR 31.12.2017	kEUR 31.12.2016
Raw materials	1.197	1.406
Work in progress	995	327
	2.192	1.733

The raw materials mainly include compound libraries amounting to kEUR 967 (2016: kEUR 1,219) as at 31 December 2017.

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
	31.12.2017			31.12.2016		
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Evotec (India) Private Ltd.	544	0	544	527	0	527
Evotec International GmbH	2,737	0	2,737	0	23,798	23,798
Evotec (München) GmbH	0	1,200	1,200	0	1,900	1,900
Evotec (US) Inc.	0	16,960	16,960	0	12,033	12,033
Evotec (France) SAS	0	0	0	395	0	395
Cyprotex PLC	0	15,278	15,278	0	17,312	17,312
Cyprotex LLC	2	258	260	0	0	0
Aptuit (Verona) SRL	30	3,649	3,679	0	0	0
Aptuit Global LLC	7	1,273	1,280	0	0	0
Aptuit (Oxford) Ltd.	420	6,078	6,498	0	0	0
Aptuit (Switzerland) AG	0	399	399	0	0	0
	3,740	45,095	48,835	922	55,043	55,965

Accounts receivables from affiliates include trade accounts receivables in an amount of kEUR 3,240 (2016: kEUR 422). The other kEUR 45,595 (2016: kEUR 55,543) 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 2017, an appreciation in value to the amount of kEUR 5,865 was recorded. The accumulated depreciation amounts to kEUR 76,249 (2016: kEUR 82,114).

Other assets

	Maturity			
	< 1 Year	> 1 Year	< 1 Year	> 1 Year
	31.12.2017		31.12.2016	
	kEUR	kEUR	kEUR	kEUR
Tax authorities				
- Value added tax	34	0	195	0
Rights	515	3,700	0	2,512
Prepayments	0	0	1,065	0
Accounts payable with debit balances	13	0	19	0
Deposits	3	417	2	417
Others	207	0	193	0
	772	4,117	1,474	2,929

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.

	31.12.2017	31.12.2016
	kEUR	kEUR
Hamburger Sparkasse Bearer Bonds	12,961	5,307
HSBC Bond	5,000	2,150
Deutsche Bank Bond	0	2,489
BMW Finance Bond	0	2,090
Metro Finance Bond	0	2,088
Mercedes Benz Bond	0	1,972
GE Capital Bond	0	1,915
Others	0	5,273
	17,961	23,284

6. Cash and cash equivalents

As at 31 December 2017 cash on hand was kEUR 1 (2016: kEUR 3) and the cash equivalents amounted to kEUR 25,172 (2016: kEUR 8,352) (including kEUR 3,868 (2016: kEUR 2,398) in US Dollar and kEUR 1,781 (2016: kEUR 3,276) 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 147,532,681 shares with a par value of EUR 1.00 made out to bearer.

In 2016, an increase of nominal capital occurred due to the exercise of stock options of EUR 467,657.00 and was registered in the Commercial Registry in 2017. In 2017, the nominal capital increased due to the exercise of stock options of EUR 1,334,923.00.This entry in the Commercial Registry will be made in 2018.

In 2017, due to a capital increase from its authorized capital against cash from Novo A/S (Denmark), the nominal capital was increased additionally by EUR 13,146,019.00. This entry in the Commercial Registry was made in 2017.

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 2017, the shares represented 0.02% of the share capital. As at 31 December 2017, 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 147,282,766.00 including the capital increases and excluding the own shares. As at 31 December 2017, these shares represented 0.17% of the share capital.

The remaining approved capital amounted to EUR 29,332,457.00 equal to 29,332,457 shares as at 31 December 2017.

The conditional capital as of 31 December 2017 consists of 13,318,160 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 2017 amounts to 39,834,976 shares.

The accumulated deficit represents EUR 178,354,986.17 on 31 December 2017.

The capital reserves rose due to the exercised stock options by EUR 773,243.26 and due to the capital increase by EUR 77,102,092.53 to EUR 243,477,451.27.

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**
14.02.2017	Novo Nordisk Fonden, Hellerup, Denmark	Exceeding threshold	3%, 5%	8.99%
27.02.2017	Novo Nordisk Fonden, Hellerup, Denmark	Exceeding threshold	10%	10.10%
15.02.2017	Roland Oetker	Change of total voting rights	10%	9.16%
06.04.2017	Allianz Global Investors GmbH, Frankfurt/Main, Germany	Exceeding threshold	5%	5.05%

Date	**Notifier**	**Triggering event**	**Threshold crossed or reached**	**Total amount of voting rights**
26.05.2017	J.P. Morgan Investment Management Inc., Wilmington, Delaware, USA	Exceeding threshold	3%	3.32%
26.05.2017	JPMorgan Chase Bank, National Association, Columbus, Ohio, USA	Exceeding threshold	3%	3.32%
26.05.2017	JPMorgan Asset Management (UK) Limited, London, United Kingdom	Exceeding threshold	3%	3.32%
26.06.2017	Deutsche Bank Aktiengesellschaft, Frankfurt, Germany	Exceeding threshold/Acquisition/Disposal of instruments	3%, 5%	5.09%
27.06.2017	Deutsche Bank Aktiengesellschaft, Frankfurt, Germany	Falling below threshold	3%, 5%	0%
Date	**Notifier**	**Triggering event**	**Threshold crossed or reached**	**Total amount of voting rights**
08.12.2017	The Goldman Sachs Group, Inc., Wilmington, Delaware, USA	Acquisition/Disposal of instruments	3%, 5%	5.05%
12.12.2017	The Goldman Sachs Group, Inc., Wilmington, Delaware, USA	Acquisition/Disposal of instruments	5%	4.83%
22.12.2017	JPMorgan Asset Management (UK) Limited, London, United Kingdom	Falling below threshold	3%	2.75%

Date	Notifier	Triggering event	Threshold crossed or reached	Total amount of voting rights
22.12.2017	JPMorgan Chase Bank, National Association, Columbus, Ohio, USA	Falling below threshold	3%	2.75%
26.05.2017	J.P. Morgan Investment Management Inc., Wilmington, Delaware, USA	Falling below threshold	3%	2.75%

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 156 on 31 December 2017 (2016: kEUR 151). At the same time, the accruals for pensions were netted against an insurance cover, constituting as plan asset, amounting to kEUR 85 (2016: kEUR 83).

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

11. Other accruals

	31.12.2017 kEUR	31.12.2016 kEUR
Bonus	2,160	2,286
Outstanding invoices	1,679	1,023
Unclaimed vacation	519	372
Supervisory board remuneration	305	305
Consultancy expenses	0	200
Partial retirement	186	0
Interest derivatives	49	107
Others	134	206
	5,032	4,499

12. Liabilities

Liabilities to banks

As of 31 December 2017, the liabilities to banks mainly comprise eight loans in the total amount of kEUR 182,887 (2016: kEUR 28,607). Furthermore they comprise interests to the amount of kEUR 159 (2016: kEUR 0). No loans are secured.

Loan in kEUR	Interest Rate
140,159	0.8 percentage points above 3-Month-EURIBOR
16,392	1.6 percentage points
6,500	1.25 percentage points above 3-Month-EURIBOR
6,500	1.25 percentage points above 1-Month-EURIBOR
6,172	2.75 percentage points
4,000	1.2 percentage points above 3-Month-EURIBOR
2,319	1.25 percentage points
845	1.5 percentage points above 3-Month-LIBOR

Maturity

31.12.2017				31.12.2016			
< 1 year	1 to 5 years	> 5 years	total	< 1 year	1 to 5 years	> 5 years	total
kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
164,608	18,279	0	182,887	21,412	7,195	0	28,607

Customer deposits and advances

In contrast to prior year, the customer deposits and advances amounted to kEUR 0 (2016: kEUR 254).

Accounts payables

The accounts payable are completely due within one year.

Liabilities to affiliated companies

	Maturity			
	< 1 year	> 1 year	< 1 year	> 1 year
	31.12.2017		31.12.2016	
	kEUR	kEUR	kEUR	kEUR
Evotec (UK) Ltd.	557	24,880	897	24,527
Evotec International GmbH	7,593	0	10,444	0
Evotec (US) Inc.	451	0	25	0
Evotec (München) GmbH	606	0	147	0
Evotec (France) SAS	295	27,111	0	0
Cyprotex Discovery Ltd.	9	0	0	0
Aptuit (Switzerland) AG	36	0	0	0
	9.547	51.991	11.513	24,527

As in the prior year the balances mainly consist of loan liabilities against Evotec (France) SAS to the amount of kEUR 27,111, Evotec (UK) Ltd. to the amount of kEUR 24,880 and against Evotec International GmbH to the amount of kEUR 7,593 and trade account payables.

In offsetting accounts receivables with liabilities of affiliated companies, kEUR 168 accounts receivables from Evotec (UK) Ltd, kEUR 26 from Evotec (US) Inc., kEUR 26 from Evotec (France) SAS, kEUR 20 from Evotec (München) GmbH and kEUR 4 from Aptuit (Switzerland) AG were included. Furthermore, kEUR 233 liabilities from Evotec International GmbH were included.

Other Liabilities

The other liabilities mainly consist of a Milestone agreement to the amount of kEUR 1,500 and a wage tax liability to the amount of kEUR 329 (2016: kEUR 281). As in 2016, 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

The company recorded revenues of kEUR 75,184 (2016: kEUR 71,414) through research and development services, thereof kEUR 30,778 with affiliated companies (2016: kEUR 23,293).

The external revenues amounted to kEUR 44,406 (2016: kEUR 48,121) including revenues from milestones of kEUR 10,500 (2016: kEUR 8,900) and rental income of kEUR 305 (2016: kEUR 302).

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

	2017 kEUR	2016 kEUR
United States of America	21,730	20,530
Germany	13,528	14,160
France	3,759	4,930
Belgium	2,183	2,368
Austria	1,833	2,820
Rest of Europe	1,002	1,261
Rest of the world	279	264
Switzerland	92	1,788
Total	44,406	48,121

2. Other operating income

	2017 kEUR	2016 kEUR
Appreciation in value receivable loan	5,865	22,353
Currency gains	1,077	733
Insurance reimbursement	500	0
Income from reversal of accruals	164	205
Subsidies	71	204
Others	27	19
	7,704	23,514

3. Cost of Materials

The costs of materials in 2017 amounted to kEUR 30,493 (2016: kEUR 30,396) including mainly costs of purchased services with affiliated companies to the amount of kEUR 20,811 (2016: 22,792).

4. Other operating expenses

	2017	2016
	kEUR	kEUR
Legal and consultancy expenses	4,989	1,835
Currency losses	3,101	2,763
Rental expenses including related costs	1,811	2,007
Service and maintenance	1,176	1.060
Reconstruction/ moving expenses	886	646
Royalty costs	631	664
Costs for Services	549	499
Recruitment	449	248
Patent costs	329	291
Others	7,071	5,528
	20,992	15,541

5. Currency result

In 2017, the company recorded income relating to unrealised FX effects to the amount of kEUR 0 (2016: kEUR 113) and expenses relating to unrealised FX effects amounting to kEUR 2,427 (2016: kEUR 37).

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 (2016: 249,915) treasury shares which the company held as of 31 December 2017. These treasury shares have a nominal value of EUR 249,915.00 (2016: 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 2017 was 316 (2016: 300). Thereof 58 employees serve in sales and administration functions (2016: 55).

Other financial obligations

The other financial obligations for 2017 mainly relate to obligations from service contracts, rent and leasing and add up to kEUR 4,209. The total amount of all existing obligations for the period 2019 to 2022 is kEUR 10,090. The other obligations for later periods add up to kEUR 2,100.

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 87,267) 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.

In order to also mitigate the legal consequence of over-indebtedness of Cyprotex PLC (kEUR 6,481) Evotec AG issued a letter of comfort. The company does not expect this liability to be claimed either, 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);

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 2017 totalled kEUR 5,202 (2016: kEUR 3,880) of which kEUR 896 (2016: kEUR 796) is a variable remuneration and of which kEUR 2,724 (2016: kEUR 1,534) is a remuneration with long-term incentive effect. The remuneration includes kEUR 1,003 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 2017, payable on the achievement of certain strategic targets in the business year 2016, was based on the following criteria:

	Achievement of defined corporate milestones %	Achievement of defined corporate financial milestones %
Dr Werner Lanthaler	30	70
Dr Cord Dohrmann	30	70
Dr Mario Polywka	30	70
Enno Spillner	30	70

The variable portion of the remuneration in 2018 will be payable on the achievement of certain strategic targets in the business year 2017 and will be based on the criteria mentioned.

On 31 December 2017, the company has an accrual for the variable remuneration, which will paid to the Management Board in March 2018, amounted to kEUR 1,066 (2016: kEUR 992). This accrual includes kEUR 420 (2016: kEUR 407) for Dr Werner Lanthaler, kEUR 238 (2016: kEUR 211) for Dr Cord Dohrmann, kEUR 237 (2016: kEUR 214) for Dr Mario Polywka and kEUR 171 (2016: kEUR°78) for Enno Spillner.

In addition to their fixed and variable remuneration, the members of the Management Board received 186,984 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 2,724.

	2017 Fixed kEUR	2017 Variable kEUR	2017 Stock options pcs	2017 Fair value kEUR	2017 Total remuneration kEUR
Dr Werner Lanthaler	520	407	102,314	1,491	2,418
Dr Cord Dohrmann	355	211	30,172	440	1,006
Dr Mario Polywka	375	200	29,415	428	1,003
Enno Spillner	332	78	25,083	365	775
Total	1,582	896	186,984	2,724	5,202

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 74 in 2017 (2016: kEUR 75) 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 and Topas Therapeutics GmbH, Hamburg, Germany.

Dr Mario Polywka is Member of the Board of Directors of Forge Therapeutics, Inc., San Diego, USA (since May 2017) and of Exscientia Ltd., Dundee, United Kingdom (since September 2017) 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 and FSHD Unlimited Coorp, Leiden, Netherlands (since June 2017).

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

Supervisory Board

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

Bernd Hirsch, Neuler, DE, CFO of Bertelsmann SE & Co. KGaA;

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 (until June 2017);

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

Michael Shalmi, Hellerup, DK, Managing Director / Head of Principal Investments of Novo Holdings A/S (since June 2017);

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

The remuneration paid to the members of the Supervisory Board in the financial year amounted to kEUR 305 (2016: kEUR 305). The members of the Supervisory Board were members of the following other Supervisory Boards, Committees and Bodies according to section 125 paragraph 1 sentence 5 AktG.

Prof. Dr. Wolfgang Plischke

Member of the Supervisory Board:
Bayer AG, Leverkusen/DE

Bernd Hirsch

Director
Bertelsmann Inc., New York/US
RTL Group S.A., Luxembourg/LU

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/USA (until March 2017)
Bavarian Nordic A/S, Kvistgaard/DK
Evolva SA, Basel/CH (until May 2017)
Kastan ApS, Frederiksberg/ DK (since Januar 2017)

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

Vice president of the Rat:
Eidgenössiche Technische Hochschule, Bern/CH

Prof Dr Iris Löw-Friedrich

Chairman of the Supervisory Board:
TransCelerate BioPharma Inc, King of Prussia/US (until September 2017)

Member of the Supervisory Board:
Fresenius SE & Co. KGaA, Bad Homburg/DE

Michael Shalmi

Member of the Supervisory Board:
Orexo AB, Uppsala/SE
Synlab Ltd., Marylebone/UK
Momentum Gruppen A/S, Rosklide/DK
ERT Inc., Philadelphia/USA
ERT HoldCo A/S, Hellerup/DK
Xellia HolCo A/S, Kopenhagen/DK
Novo Invest 1 A/S, Hellerup/DK

Elaine Sullivan

Non- Executive Member of the Board of Directors:
IP Group plc, London/UK

Proposal for appropriation of net income

The management of Evotec AG proposes to carry forward the net income 2017 amounting to EUR 11,368,891.88.

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, 22nd March 2018

Dr Werner Lanthaler Enno Spillner

Dr Cord Dohrmann Dr Mario Polywka

Evotec AG, Hamburg
MANAGEMENT REPORT for 2017
Contents

I. Operations and business environment

Organisational structure and business activities

– Business model

Evotec is a drug discovery and development company providing project solutions to a large network of partners in the life science industry, e.g. pharmaceutical and biotechnology companies, academic institutions, 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 area expertise, 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 two business segments: EVT Execute and EVT Innovate.

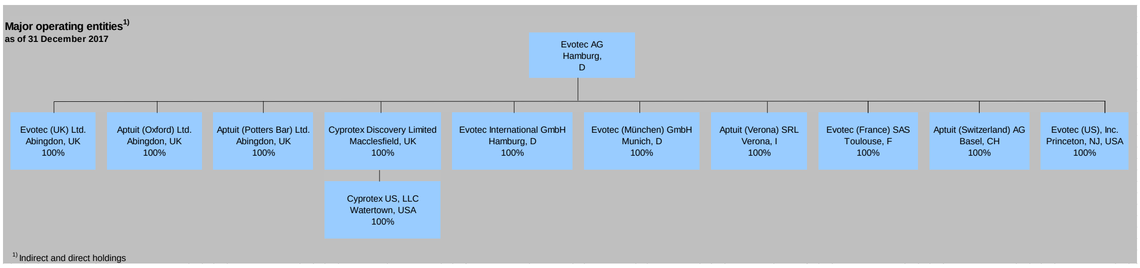
EVT Execute provides stand-alone or integrated drug discovery and development solutions based on the Company's customers' intellectual property. These projects are provided on a fee-for-service basis or commercial structures may also selectively include performance-based components, such as milestones and royalties.

EVT Innovate develops drug discovery projects, assets and platforms, both internally or through academic collaborations. EVT Innovate projects, assets and platforms are starting points for strategic partnerships with Pharma and leading biotech companies 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 5 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 11 August 2017, Evotec acquired all operational sites of Aptuit (Verona, Italy; Abingdon, UK; and Basel, Switzerland), whose operations are currently in the process of being integrated into the Evotec Group.

Evotec employed 340 people at the end of 2017 (2016:303).

Including the newly acquired Aptuit sites, operating sites are located in Toulouse (France), Hamburg, Göttingen and Munich (Germany), Verona (Italy), Basel (Switzerland), Abingdon and Alderley Park (UK), and Branford, Princeton and Watertown (USA).

– Evotec's products and services

Alliances and partnerships

Evotec's partners include many of the Top 20 pharmaceutical companies, biotechnology and mid-sized pharmaceutical companies, academic institutions, foundations and not-for-profit organisations. In 2017, Evotec continued to deliver on established, long-term partnerships and also entered into new significant collaborations. An overview of Evotec's Top customers in 2017 is given in the table "Development of Top 10 collaborations" on page 7 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 6 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. More detailed information on Evotec's and their affiliates' offering can be found in the Services section on Evotec's website (www.evotec.com).

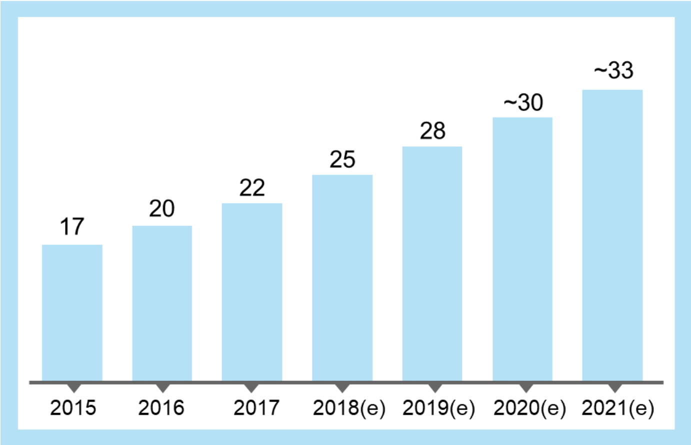
– Market and competitive position

The drug discovery outsourcing market and Evotec's competitive position

For 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 internal departments in many large Pharma companies and to an increased need and willingness to outsource activities traditionally performed in-house. In 2017, this trend continued. Through the use of external innovation solution providers, fixed costs can be converted into variable external costs. This outsourcing model also provides expertise in selected areas without the clients having 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 to \$ 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. Based on research by Grand View Research, the global pre-clinical CRO market generated \$ 3.25 bn in 2016 in revenues. It is estimated that this number is going to reach \$ 6.6 bn in 2025. Evotec entered into this market following the acquisitions of Cyprotex in 2016 and Aptuit in 2017.

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



(Source: "Drug Discovery Outsourcing Market Forecast 2015-2025" report, Visiongain)

Over the years, contract service providers have expanded their service offerings to better meet the need for 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 and development providers with a unique hybrid model, critical mass and a long-standing track-record of success. The recent acquisition of Aptuit has further improved the advantageous position of the Company to exploit the expected increase in strategic outsourcing opportunities. Evotec's growth continues to track the growth in outsourcing in both discovery and development.

Corporate objectives and strategy

Evotec's objective is to be the global leader in providing drug discovery and development solutions to the life science industry. Revenue-generating partnerships provide near-term growth and profitability, while a co-owned broad and deep pipeline of first-in-class products is expected to generate additional significant long-term upside. Through this unique business model, Evotec aims to continuously increase the value of the Company for its shareholders.

Evotec's strategy is transparent, long-term oriented and supported by the Company's action plans: Action Plan 2012 – Focus and Grow, Action Plan 2016 – Leadership in Drug Discovery Solutions, and Action Plan 2022 – Leading External Innovation. The Company translates first-in-class innovation into high-potential projects ready for partnering. Evotec aims to bring drugs to the patient via its broad range of partners in the pharmaceutical and biotech industry. In addition, Evotec very selectively participates in strategic investments and company formations to accelerate innovation and value creation from a different angle.

Today, Evotec has established together with its affiliates a global leadership position in the high-quality drug discovery and development outsourcing and external innovation space. The Company has an industrialised, cutting-edge drug discovery platform, which enables it to meet the industry's need for innovation and efficiency in drug discovery.

On top of its outstanding platform capabilities, Evotec and its affiliates have 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. The Company partners with Pharma and biotech companies, not-for-profit organisations, and distinguished academic institutions. Evotec operates through two business segments: EVT Execute and EVT Innovate. These segments effectively comprise various project types operating from one common drug discovery and development platform. A description of both business segments can be found in the "Organisational structure and business activities" chapter on page 2 of this Management Report.

In 2017, Evotec consistently delivered on its strategy by expanding the Company's industrial drug discovery platform and driving efficiencies across the drug discovery and development value chain. This strategy was supported in 2017 through the acquisition of Aptuit, a partner research organisation for integrated drug discovery and development solutions. This addition substantially grows the Evotec Group's business and extends the value chain offering through to IND submission and beyond to integrated drug substance and drug product manufacture. Also, Evotec continued to invest in the further development and expansion of its iPSC platform. In addition, alongside its EVT Innovate strategy, Evotec invested in companies, e.g. FSHD Unlimited Coorp ("FSHD Unlimited"), and Exscientia Ltd ("Exscientia").

The Company's 2017 objectives for its two business segments and major achievements are summarised in the following table:

	Specific objectives 2017	Major achievements 2017
EVT Execute	• 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	• Extensions of long-term deals with large and mid-sized Pharma (e.g. Bayer) • Increased support of new deals through Evotec's subsidiaries (as reflected in the intercompany revenues increase) • Milestones from existing alliances (e.g. start of second clinical Phase I study in endometriosis alliance with Bayer)
EVT Innovate	• 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	• Strong focus on iPSC (induced pluripotent stem cells) platform

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

- Understanding the needs of the industry for innovative new medicines,
- Serving the macro trend of externalisation of Pharma R&D,
- Expanding critical mass through highly experienced drug discovery and development expertise, and
- Accelerating innovative projects along the drug discovery and development value chain to better serve industry needs and ultimately patients.

The Company's objectives defined for 2018 can be found in the "Business direction and strategy" section of the "Outlook" chapter on page 38 of this Management Report.

Performance measurement

– Financial performance indicators

As set out in the "Corporate objectives and strategy" chapter on page 5 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 defined to support these goals.

The Company's performance is measured against budgeted financial targets and the prior-year performance. Evotec's management performs monthly financial reviews with a strong emphasis on performance drivers such as revenues, order book status, EBITDA and margins against these targets. In addition, the management reviews comprehensive cost data and analysis. Liquidity levels are monitored in comparison to the forecast and against 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 and net present value models are the most important financial evaluation and control criterion for Evotec's investment decisions regarding merger and acquisition projects, equity investments and in-licensing opportunities.

– Development of financial key performance indicators

in k EUR	2014	2015	2016	2017
Revenues	63,327	62,875	71,414	75,184
Adjusted EBITDA	(2,085)	(9,524)	28,571	13,115
Liquidity	54,171	61,014	31,639	43,134

A reconciliation of adjusted EBITDA with operating result can be found on page 16 of this Management Report

The Company's 2017 performance compared to planned figures can be found in the "Comparison of 2017 financial results with forecast" chapter on page 16 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 through 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 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, new customer acquisition 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**

	2014	2015	2016	2017
Total customers	50	37	26	31
Number of external customers	46	32	21	26
Number of external customers > € 1m revenues	11	8	9	7
New external customers in the year	12	7	4	0

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

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

In k EUR	2014	2015	2016	2017
TOP 1: Evotec International	10,008	16,340	19,444	27,114
TOP 2: Bayer	10,808	8,729	13,296	12,555
TOP 3: Merck	6,117	8,104	8,433	10,256
TOP 4 – 10	27,319	20,490	24,702	21,318
Total TOP 10 revenues	**54,252**	**53,663**	**65,875**	**71,243**
Growth in %	*27%*	*-1%*	*23%*	*8%*

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

The number of external customers increased in 2017, even though new contracts are mainly closed with the subsidiary Evotec International GmbH. The increase to 26 external customers (2016: 21 external customers) is based on customers the company already had in the previous years, but 2016 had no revenues contribution by these customers. The number of external contracts with which Evotec generates more than €1 m of revenues per year decreased slightly by two customers to a total of seven customer. Evotec's number one external customer by revenues in 2017 was again Bayer AG with € 12.6 m revenues. Evotec's repeat business, as defined by the percentage of 2017 revenues coming from customers that the Company already had in the previous years, amounted to 100%.

Research and development

The core of Evotec's business is research and development ("R&D") in partnership with Pharma and biotech companies, venture capital groups, academic institutions, foundations and not-for-profit organisations. The Company offers project-driven solutions and services from a comprehensive pre-clinical discovery and development platform and through customised business arrangements. Evotec's partners can choose standalone services from the platform or fully integrated drug discovery and development solutions for their projects. Such research collaborations 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 seven years, Evotec has built a broad and deep pipeline of a multitude of partnered projects bearing significant financial upside in the form of potential development milestone and royalty payments dependent on pre-clinical and clinical progress. Generally, expenses for formal pre-clinical and clinical development as well as marketing of product candidates generated in these partnerships are covered by Evotec's Pharma and biotech partners.

EVT Execute contributes projects to Evotec's pipeline by entering into partnerships based on the clients' intellectual property. In contrast, EVT Innovate develops projects based on internally derived intellectual property initially funded by Evotec, namely its Cure *X* and Target *X* initiatives. These projects form the basis for 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 reflect the principle of risk and reward sharing, i.e. both partners contribute to the project and share potential financial rewards according to their respective contributions. The focus is on developing product opportunities with first-in-class potential in indications with high unmet medical need. 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 thereby expanding Evotec's proprietary pre-clinical pipeline.

In September 2017, the European Investment Bank ("EIB") granted Evotec an unsecured loan facility of up to € 75 m to support Evotec's EVT Innovate R&D strategy. This innovative and flexible financing structure includes a reward-sharing component for those projects co-financed by the EIB. Financing by the EIB will be matched with Evotec's funding and will be invested in EVT Innovate R&D projects over a period of four years. The loan facility will be drawn down in tranches according to project progress. The maturity of each tranche is seven years. This long-term character of the financing substantially reduces Evotec's cost of capital for innovation.

Clinical and discovery-stage pipeline

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

Strong focus on induced pluripotent stem cell ("iPSC") platform in 2017

Over the course of 2017, Evotec maintained a strong focus on further developing its iPSC-based drug discovery platform with the goal to industrialise iPSC-based drug screening in terms of throughput, reproducibility and robustness.

Spin-offs and equity investments

As part of Evotec's EVT Innovate strategy, Evotec continued to participate in strategic investments in 2017 with the aim of developing assets to key value inflection points.In June 2017, Evotec announced a strategic investment as part of FSHD Unlimited Coorp.'s ("FSHD Unlimited") 2017 funding round together with Australian, European and North American members of the Facioscapulohumeral Dystrophy ("FSHD") community (Total volume: € 4.8 m), thereby extending its ongoing drug discovery partnership with FSHD Unlimited. Evotec will carry out all discovery work. This investment results in an equity stake of 21.51% in the company. FSHD Unlimited solely focuses on finding a safe, effective, and affordable cure for FSHD. FSHD is a progressive muscle-wasting disease, for which there is currently no treatment option available. Since 2015, FSHD Unlimited and Evotec have collaborated to identify DUX4 protein-repressing small-molecule compounds as a potential treatment to stop the progression of FSHD.

In September 2017, Evotec made a € 15 m investment for a 24.54% minority stake in Exscientia, thereby extending its ongoing partnership with Exscientia. Through this investment, Evotec becomes the first strategic shareholder in the UK-based company. Exscientia is focused on Artificial Intelligence ("AI")-driven drug discovery and design. Exscientia and Evotec have cooperated since early 2016 to advance small molecules and bispecific small molecules in immuno-oncology. Exscientia's approach fuses the power of AI with the discovery experience of seasoned drug hunters and chemistry experts. This investment enables Exscientia to drive higher value partner programmes and expand discovery on its automated design platform.

Further information regarding these strategic ventures can be found in the "Corporate objectives and strategy" chapter on page 5 of this Management Report.

First milestone achievement in immuno-oncology alliance with Sanofi and APEIRON
At the end of 2017, Evotec and APEIRON Biologics received the first milestone payment from Sanofi under a three-party alliance signed in August 2015. The milestone payment of € 3 m was split equally between Evotec and APEIRON Biologics and was triggered when the partners successfully advanced an undisclosed, novel immuno-oncology small molecule into late-stage pre-clinical development. The strategic collaboration was initiated in 2015 and has a potential value of over € 200 m in milestone payments and significant royalties.

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

An update on their progress in 2017 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 from both Bayer and Evotec, or that were started jointly. Both partners have joint responsibility for early research and pre-clinical characterisation of potential clinical candidates. Bayer is responsible for any subsequent clinical development and commercialisation. Evotec received € 12 m as an upfront payment. Potential payments from pre-clinical, clinical and sales milestones could total up to approximately € 580 m, plus potential royalties of up to low double-digit percent of net sales.
Status
During the course of 2017, the alliance with Bayer has gone from strength to strength with a further compound progressed into pre-clinical development, bringing the total to six during the course of the past five years. In addition, a second compound successfully entered into Phase I clinical trials. Evotec continues to progress a strong portfolio of targets with several options for further clinical progression in the coming year. This collaboration was also extended by one year until 2018. Additionally, an existing asset progressed into pre-clinical development in a new indication (Chronic cough).

Update on EVT Execute activities in 2017

<u>Acquisition</u>

Effective 11 August 2017, Evotec acquired Aptuit, a partner research organisation for integrated outsourced drug discovery and development solutions, for € 253.2 m in cash. The one-time transaction costs related to this acquisition were approx. € 3.3 m in 2017. The acquisition strengthens Evotec's position as the leading global player in the external innovation marketplace. Furthermore, it grows Evotec's business substantially and extends the value chain offering through to IND submission and beyond to integrated drug substance and drug product manufacture.

<u>Milestone achievements</u>

In 2017, EVT Execute's strong operational performance was underlined by important milestone achievements in its collaborations with Bayer, Sanofi and UCB (see above).

– Intellectual property

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

Evotec reviews its patent portfolio regularly and decides whether to maintain or to withdraw its patent applications and patents. These decisions are based on the importance of such intellectual property for maintaining Evotec's competitive position and deliver on its strategy. As of 31 December 2017, 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 platform, Evotec owns a patent estate for molecular detection and other platform technologies. Furthermore, Evotec has developed a number of patent-protected biological assays, e.g. methods to measure the chemical or biological activity of any combination of targets and compounds.

The Company monitors intellectual property resulting from its EVT Innovate activities in order to identify patentable drug candidate series with 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

The global economy grew more than expected in 2017. According to a publication by the World Bank in January 2018, the global economy is expected to increase its growth rate from 2.4% in 2016 to 3.0% in 2017. The World Bank states that 2017 was characterised by significantly strengthened global trade, growing investments and favourable financing costs. Overall growth in emerging market economies was estimated to have reached 4.3% in 2017 and is expected to reach 4.5% in 2018. The

Eurozone is expected to show accelerated growth of 2.4% in 2017 (2016: 1.8%) mainly driven by policy stimulus and strengthened global demand. In the Eurozone, especially the private sector credit responded to the stimulative stance of the European Central Bank with both domestic demand and import growth showing robust developments. Despite some major hurricane landfalls in September, the US economy was relatively healthy and growing in 2017. Growth picked up from 1.5% in 2016 to an estimated 2.3% in 2017 due to rising profits, a weakening dollar, robust external demand, and a diminished drag from capacity adjustments in the energy sector. According to the Federal Statistical Office, the German economy continued its upward trend in 2017 with a growth rate of 2.2% of its price-adjusted gross domestic product (2016: 1.9%).

– Recent trends in the pharmaceutical and biotechnology sector

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

The demand for new therapies continues to see steady growth, a favourable trend for the long-term industry dynamics. In 2017, the U.S. Food & Drug Administration ("FDA") approved 46 new drugs, more than twice compared to 2016. A steadily growing proportion of these new drugs originates from Biotech companies, confirming the trend that the biotechnology industry is a key innovation driver. 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.

As a result of these ongoing developments, the pharmaceutical industry continues to seek more capital-efficient ways to accelerate the discovery and development of new therapeutics for indications with an unmet or underserved medical need. With constant demand for new therapies on one side and patent expiration on the other, the Pharma and biotech sector operates under a large pressure for innovation.

Key emerging aspects of innovation include:

- Broader human genetic testing and push for personalised medicine to match patients and treatments,
- Exciting breakthroughs and new therapeutics in the immuno-oncology market. For example, the approval of Novartis' Kymriah and Gilead's Yescarta in 2017 marked the potential beginning of a new wave of cancer therapies products that are re-engineered versions of a patient's own immune cells.
- Stem cell therapies,
- Patient-derived disease models (e.g. iPSC),
- Technology platforms such as CRISPR and ribonucleic acid ("RNA") therapeutics,
- Public/private efforts to meet the global challenge of anti-microbial resistance (CARB-X). In March 2017, the WHO issued an unprecedented warning listing the 12 resistant bacteria that pose the greatest threat to human health.
- Artificial intelligence, machine learning, deep learning techniques. FDA has recognised this approach with the first FDA-approved application of deep learning for diagnosing heart conditions in early 2017 ("Arterys").

All these approaches could pave the way for a more 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 is expected for the coming years. 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 a growing, yet aging 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. Moreover, academic institutes are of growing importance for the innovative capabilities of the Pharma and biotech sector. The prospect of a faster reaction to a highly competitive, diverse and evolving market has led many Pharma companies to start looking for external innovation to further their own pipeline development. Starting from the acquisition of single-discovery-project start-ups, this outsourcing trend has grown and covers all steps of drug development – even including validation and CMC manufacturing. Research partnership companies like Evotec stand to benefit from this trend.

– 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 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 FDA in the USA and other national regulatory and supervisory authorities. Evotec focuses on drug discovery and development and also supports commercial products in some cases although commercialisation is predominantly conducted and funded by the Company's Pharma partners. Consequently, any changes in the regulatory environment could 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 could have a positive impact on Evotec's business as stem cell-based research is one of the promising technologies in drug discovery.

In 2017, legal factors affecting Evotec were largely unchanged, and the Group's operating business was not materially affected. However, in 2017 the General Data Protection Regulation ("GDPR") became visible, a new European data protection law that will take effect on 25 May 2018. It supersedes the Data Protection Directive as well as national implementations of the Data Protection Directive (95/46/EC) in all

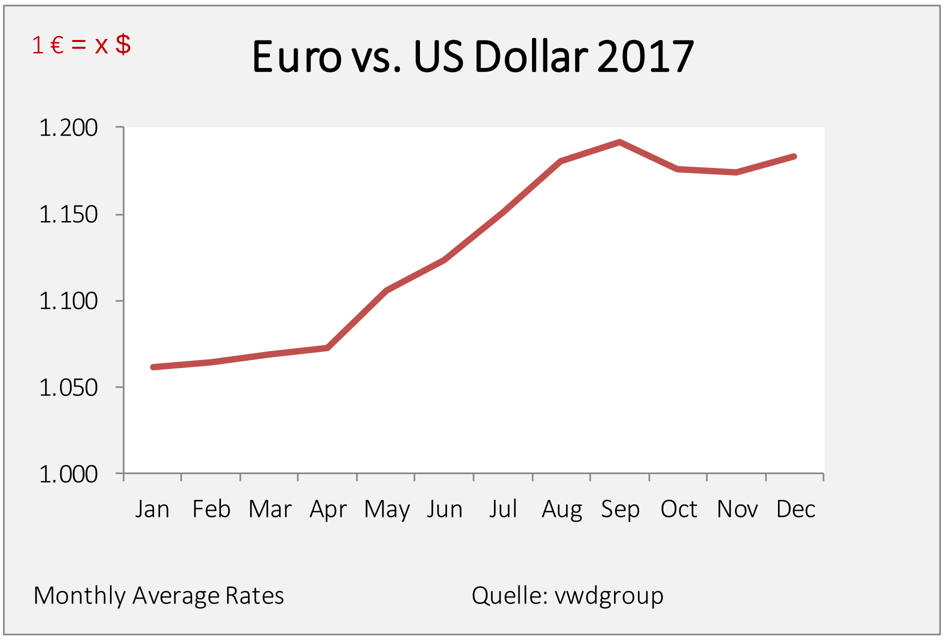
European member states. As a general rule, the GDPR applies to companies based in the EU as well as non-EU based companies that offer goods and services to individuals in the EU. While Evotec is fully committed to supporting its customers' compliance with the GDPR in relation to services provided by Evotec, the GDPR will bring additional complexity and requirements for Evotec's data processes.

– 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 $ 1.20 to the Euro. On average, the US dollar slightly depreciated against the Euro from $ 1.11 per Euro in 2016 to $ 1.13 per Euro in 2017. Year-on-year, the Euro strengthened steadily from $ 1.05 at the end of 2016 to $ 1.20 at the end of 2017.

– 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 2017 and decreased slightly to (0.33)% at the end of the year. The ECB continued its bond-buying programme and extended quantitative easing into 2017. In October 2017, the ECB announced that it intends to reduce its bond-buying to € 30 bn per month, down from the previous level of € 60 bn per month. The reduction came into force in January 2018, and Quantitative Easing ("QE") will continue until September 2018, nine months longer than previously announced.

Evotec is affected by low interest rates in two ways. On the one hand, it receives less interest income on its cash deposits and short-term investments. On the other hand, Evotec benefited from lower variable interest rates for the short-term borrowings from banks.

Significant corporate development events 2017

2017 saw a number of important corporate developments. Information on significant events regarding progress in research and development within the business segments EVT Execute and EVT Innovate are found in the "Research and development" chapter on page 8 of this Management Report.

- Novo Holdings A/S new strategic investor in Evotec holding >10%

On 09 February 2017, Evotec announced that Novo Holdings A/S invested € 90.2 m, through a private placement capital increase, to subscribe to 8.99% shares of Evotec at a price of € 6.87 per share. The placement was at a zero discount to the XETRA closing auction price of the Evotec stock on 09 February 2017. Subsequent to this initial investment, Novo Holdings A/S increased its shareholding in Evotec to above 10% by acquisition of additional shares through public markets. This investment from Novo Holdings A/S supports Evotec in its efforts to become the global leading science-driven drug discovery and development company. On 14 June 2017, Michael Shalmi, Managing Director, Head of Principal Investments, Novo Holdings A/S, was elected as a member to Evotec's Supervisory Board at Evotec's Annual General Meeting 2017.

- Upside participation in first-in-class innovation via equity investments

Complementary to its EVT Innovate strategy, Evotec continued to participate in strategic investments and company formations. Further information on Evotec's strategy can be found in the "Corporate objectives and strategy" chapter on page 5 of this Management Report.

In June 2017, Evotec made a strategic investment as part of FSHD Unlimited 2017 funding round together with Australian, European and North American members of the Facioscapulohumeral dystrophy ("FSHD") community (Total volume: € 4.8 m), thereby extending its ongoing drug discovery partnership with FSHD Unlimited. As of 31 December 2017, Evotec's stake in FSHD Unlimited amounted to 21.51%. FSHD Unlimited focuses solely on finding a safe, effective, and affordable cure for FSHD. FSHD is a progressive muscle-wasting disease, for which there is currently no treatment available.

In September 2017, Evotec made a € 15 m investment to take a minority stake in Exscientia, thereby expanding its ongoing joint venture partnership. Through this investment, Evotec became the first strategic shareholder in the UK-based company. As of 31 December 2017, Evotec's stake in Exscientia amounted to 24.54%. Exscientia focuses on Artificial Intelligence ("AI")-driven drug discovery and design to develop new and better drug candidates in a faster and more cost-effective manner.

- Acquisition of Aptuit: Expanding Evotec's position as the leading player in external drug discovery and development innovation

Effective 11 August 2017, Evotec acquired Aptuit, a partner research organisation for integrated outsourced drug discovery and development, for € 253.2 m in cash. This acquisition was financed through a mix of existing cash reserves and an additional new € 140 m senior debt bridge facility at highly attractive terms. The one-time transaction costs related to this acquisition amounted to approx. € 3.3 m in 2017. At the time of the acquisition, Aptuit had approx. 750 employees and three main operating sites in Europe (Verona, Italy; Abingdon, UK; and Basel, Switzerland). Aptuit provides a complete set of integrated early discovery to clinical phase drug development services, including INDiGO®, an integrated and highly efficient pre-clinical set of capabilities and processes to IND submission, complemented by high-end integrated CMC. The acquisition strengthens Evotec's position as the leading global player in the external innovation marketplace. Furthermore, it grows the Company's business substantially and extends the value chain offering through to IND submission and beyond to drug substance and drug product manufacture.

- Loan facility issued by European Investment Bank to support EVT Innovate R&D strategy

In September 2017, the EIB granted Evotec an unsecured loan facility of up to € 75 m to fund and support Evotec's EVT Innovate R&D strategy through a unique, innovative and flexible financing structure including a moderate long-term reward-sharing component for the EIB. Evotec intends to invest the total loan financing of € 75 m in EVT Innovate R&D projects and equity investments over a period of four years. After draw down of respective tranches, these will mature over seven years. The long-term character of this financing reduces substantially the cost of capital for innovation.

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 has resulted in significant restructuring and consolidation in the industry including diversification, large-scale mergers, increasing 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 2017, the number of projects and demand from newly founded US and European companies grew further. 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. These newly founded companies form an important customer group for Evotec. As these companies often tend to operate virtually rather than with an own operational infrastructure, Evotec can provide the drug discovery and development platform required to deliver on their projects. To meet these market requirements and trends, Evotec continues to invest heavily in upgrading its platforms. As part of this effort, effective 11 August 2017, Evotec acquired Aptuit, a partner research organisation for integrated outsourced drug discovery and development solutions, including INDiGO®, a highly efficient set of pre-clinical capabilities and processes to support IND submission, complemented by high-end integrated CMC. This acquisition strengthens the position of Evotec Group's position as the leading global player in the external innovation marketplace. 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 issue, Evotec continued to focus on the iPSC field. Also, Evotec continued to invest in the further development and expansion of its iPSC platform.

Comparison of 2017 financial results with forecast

	Forecast report 2016	Final result
Revenues	Similar Level as 2016	+5%
Adjusted EBITDA	Positive result in form of a one-digit million range	€ 13.1m

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 2017 with revenues of € 75.2 m. This corresponds to an increase of 5% in comparison to 2016 and to the guidance. The increase in base revenues is mainly driven by a revenue increase with the affiliated Evotec International as well as higher milestones achieved in 2017. The adjusted EBITDA was € 13.1 m and therefore as expected lower than 2016. This is attributable mainly to a decrease of other operating income compared to the previous year. The other operating income includes a partial write up of an intercompany loan to Evotec International of € 5.9 m (2016: € 22.4 m).

III. Financial report

Results of operations

– Revenues

Evotec's total revenues in 2017 amounted to € 75.2 m, an increase of € 3.8 m or 5% compared to the previous year (€ 71.4 m). Revenues are composed of drug discovery service revenues, milestone revenues, deferred upfront payments, rent income and intercompany revenues.

Third party revenue decreased by € 3.7 m from € 48.1 m in 2016 to € 44.4 m in 2017. The drop in external revenues is a result of a decrease of base revenues from TOP 10 external customers. The number of customers with a volume over € 1.0 m also decreased by two customers to a total of seven customers at the end of 2017. At the same time the intercompany revenues with Evotec International increased by € 7.8 m to € 27.2 m as a result that new contracts and contract extensions mainly closed with the subsidiary Evotec International GmbH. Milestone revenues of € 10.5 m were generated in 2017, an increase of 18% compared to 2016 of € 8.9 m. Like 2016, the milestones in 2017 were predominantly due to the collaboration with Bayer.

The geographical spread of external revenues for Evotec continues to be global with Europe and USA as main markets. Both markets are representing a close-to-balance share in 2017.The European market with revenue contribution of 51% (previous year: 56%) and the USA market with 49% (previous year: 42%). The number of customer increased in comparison to the previous year. The increase is based on customers the company already had in the previous years. These customers had no revenue contribution in 2016 and therefore the comparison shows an increase of customers to the previous year.. However, the main volume of 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 66% in 2017 and is therefore continually increasing (2016: 58%).

– Net result

The Company ends the year 2017 with a net income of € 11.4 m. This represents a decrease of € 16.2 m against the net income of € 27.6 m reported in the previous year.

Overall, the result was mainly influenced by a decrease of other operating income of € 15.8m versus previous year. The deviation is mainly driven due to a write-up of an intercompany loan to Evotec International GmbH in the amount of € 5.9 m in 2017 (2016: € 22.4m).

In 2017, an adjusted EBITDA of € 13.1 m was reported (2016: € 28.6 m). Excluding revaluations of the intercompany loans the adjusted EBITDA would amount to € 7.2 m, an improvement of 17% compared to last year adjusted EBITDA of € 6.2 m.

in k EUR	2016	2017
Net income	27,614	11,369
- Taxes on income	661	217
- Interest income	(2,621)	(2,419)
- Interest expenses	368	1,253
- Depreciation	2,343	2,515
- Amortisation	206	179
Adjusted EBITDA	**28,571**	**13,115**

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

The other operating income decreased by € 15.8 m from € 23.5 m in 2016 to € 7.7 m in 2017. This is mainly due to a 2017 write-up of a loan to Evotec International GmbH in the amount of € 5.9 m, which is decreased compared to last year's write up of € 22.4 m, resulting in a difference of € 16.5 m to the previous year. Additionally, the other non-operating income includes a € 0.5 m insurance payment for damage caused covered by insurance.

The cost of materials changed insignificant and increased from € 30.4 m in 2016 to € 30.5 m in 2017. The expenses for raw materials, supplies and for purchased goods increased by € 2.2 m to € 9.2 m in 2017. This is mainly due to an increased cost for General Chemicals and Disposables/Consumables settled by a decrease of purchased services by a total of € 2.1 m to € 21.3 m in 2017 (2016: € 23.4 m). This is due to the decrease in customer and R&D projects services performed by the subsidiaries for Evotec AG.

The Evotec AG increased the number of staff during the year by 37 employees to 340 employees as of 31 December 2017 (2016: 303 employees). Personnel expenses increased by € 2.4 m from € 20.2 m in 2016 to € 22.6 m in the 2017. This is mainly due to an increase in salaries and associated NHI costs as well as an increase of employees during the year.

Depreciation of tangible assets amounted to € 2.5 m in 2017, an increase of € 0.2 m against the previous year (€ 2.3 m). Amortisation of intangible assets remain unchanged at € 0.2 m in 2017.

Other operating expenses increased by € 5.5 m from € 15.5 m to € 21.0 m. The increase is mainly driven by an increase of consultancy by € 2.4 m to € 4.0 m (2016: € 1.6 m), bank commissions of € 0.4 m to € 0.4 m and legal fees by € 0.8 m to € 1.0 m (2016: € 0.2 m) due to the acquisition of the Aptuit entities. Expenses from exchange rate effects slightly increased to € 3.1 m in 2017 compared to last year.

The interest result decreased by € 1.0 m against the previous year to € 1.3 m in 2017 (2016: € 2.3 m). The interest expense increased by € 0.9 m to € 1.3 m (2016: € 0.4 m). This in mainly a result of an increase in intercompany interests paid to subsidiaries related to intercompany loans received in relation to the acquisition of Aptuit. The interest received decreased by € 0.2 m to € 2.4 m due to the liquidation of other securities, which was also related to the acquisition of Aptuit.

Expenses for trade and corporation tax amounted to € 0.2 m in 2017 (2016: € 0.7 m).

Financing and financial position

– Cash and financing

As of 31 December 2017, Evotec's cash and cash equivalents together with bonds and investment funds recognised under other securities amounted to € 43.1 m. This equates to an increase of € 11.5 m against the end of 2016 (€ 31.6 m) which is mainly a result of a loan payment from the European Investment Bank (EIB).

Assets and liabilities

– Capital structure

Total share capital increased by € 14.5 m, as a result of a capital increase by Novo AS of € 13.1 m as well as stock options exercised during the year. In 2017, 597,594 stock options and 1,160,236 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 (2016: 258,584 stock options and 209,073 LTI awards) 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 2017 and 2016 which were serviced by own shares. As of 31 December 2017, Evotec holds 249,915 of its own shares (31 December 2016: 249,915).

Total equity increased by a total of € 103.7 m to € 224.0 m (2016: € 120.3 m) mainly as a result of the capital increase by Novo AS of € 90.2 m and the net income of € 11.4 m in 2017. Evotec reports a strong but decreased equity ratio at the end of 2017 of 46.4% against the previous year (2016: 59.8%).

– Net assets and liabilities

Intangible assets include licences and patents as well as capitalised development costs. Intangible assets decreased by € 0.1 m to € 0.7 m due to amortisation as well as decreased capitalised software costs in 2017.

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 increased by € 1.3 m to € 13.2 m at the end of 2017. Evotec invested € 3.8 m in tangible assets in 2017 (2016: € 2.1 m). Investments in lab equipment were mainly made to maintain equipment in order to keep 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 € 271.6 m and amounted to € 358.6 m in 2017. The increase is mainly driven by the acquisition of Aptuit Global LLC., Aptuit (Switzerland) AG and Aptuit (Potters Bar) Ltd. in August 2017.

Receivables and other assets decreased by € 4.5 m against the previous year to € 63.1 m. Trade accounts receivables increased by € 2.2 m to € 9.4 m (2016: € 7.2 m). At the end of 2017, receivables due from related companies amounted to € 48.8 m, representing a decrease of € 7.1 m against the previous year (2016: € 56.0 m). This decrease is mainly due to the repayment of a loan from Evotec International GmbH to Evotec. This was partly offset by the write up of the respective loan as well as new loans to several Aptuit entities and other affiliated companies.
Other assets increased by € 0.5m to € 4.9 m (2016: € 4.4 m).

Securities decreased by € 5.3 m to € 18.0 m at the end of 2017 primarily to fund the acquisition of the Aptuit entities.

Cash and cash equivalents increased by € 16.8 m to € 25.2 m (2016: € 8.4 m) due to a loan payment from the European Investment Bank (EIB) of € 16.4 m at the end of 2017.

The prepaid expense increased by € 1.4 m to € 1.8 m at the end of 2017.

Other accrued liabilities increased in the 2017 financial year by € 0.5 m from € 4.5 m to € 5.0 m.

Evotec AG's liabilities towards financial institutions increased by € 154.3 m against the previous year to € 182.9 m. Bank loans were increased to support the financing of the Aptuit acquisition through a € 140 m bridge loan and to support the financing of Evotec's Innovate strategy through the EIB.

Liabilities to affiliated companies increased by € 25.5 m to € 61.5 m due to an intercompany loan received from Evotec France, Evotec UK and Evotec International to partial fund the acquisition of the Aptuit entities.

Deferred income decreased by € 1.9 m from € 6.8 m to € 4.9 m at the end of 2017. This decrease is largely due to project progress of the target fibrosis collaboration with Pfizer.

– Authorisation of management to repurchase stock

The Company is authorised by resolution of the AGM 2015 to acquire its 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 (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 is not allowed under the AGM authorisation. The respective authorisation is effective until 08 June 2020. As of 31 December 2017, Evotec has not used its authorisation to acquire own shares.

– Shareholdings exceeding 10% of voting rights

On 27 February 2017, Evotec was last notified that the direct shareholdings of Novo Holdings A/S, Hellerup, Denmark, amounted to 10.10%.

On 15 February 2017, Evotec was last notified that the direct shareholdings of Roland Oetker plus his shareholdings via ROI Verwaltungsgesellschaft mbH, Königsallee 20, 40212 Düsseldorf (Germany) decreased from 10.09% to 9.16%.

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 again in 2017.

– Headcount

As of 31 December 2017, the Evotec AG employed a total of 340 people. This is an absolute increase of 37 or over 12% compared to prior year's end. This growth reflects both the Company's organic growth as well as a raised demand for administrative support, especially in the light of the recent acquisitions.

The workforce at Evotec is highly skilled with 70% of all employees having at least one academic qualification. Almost 36% of Evotec AG's employees have worked for the Company for more than five years. The average age of Evotec's employees at the end of 2017 was 38 years.

– Diversity

Evotec operates in a global industry with a broad international customer base. Therefore, the Company seeks the most suitably qualified talent regardless of gender, nationality or age. By embracing diversity, Evotec can better adjust to changing markets, secure access to a broader pool of highly qualified, talented people and benefit from the subsequent high cultural diversity. At the end of 2017, Evotec employed individuals from 23 nationalities. Women account for 64% of all employees in Evotec AG.

– Work-life balance

As an employer, Evotec is fully aware that offering a good balance between work and personal 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 2017, the Company continued to offer training programmes in different areas. One focus was on Lean trainings. 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, the employees or the organisation. Lean training courses provide employees with the tools and the skills to lead improvement projects with the goal of making business processes at the Company as effective and efficient as possible. Since 2013, more than 30 employees have had lean training.

An additional crucial part of the Company's trainings in 2017 was the further development of a professional feedback culture, improving the interaction between employees. The Company continued to train its employees on giving and receiving regular meaningful feedback by using the SBI model. SBI stands for Situation, Behaviour, Impact. It is considered an ideal way to present feedback in a constructive and motivational manner. This year's SBI trainings were scheduled to bring all employees to a higher performance level and provide a cooperative working environment.

– Performance management

Based on the approval of the AGM, in 2017, Evotec designed and launched a new global long-term incentive scheme ("LTI"). This LTI is a Share Performance Plan in which participants are allocated shares, the vesting of which is subject to the actual performance versus two equally weighted Key Performance Indicators ("KPIs") – absolute share price development and total shareholder return – vesting over a four calendar year period. These two KPIs were carefully selected on the basis of being the indicators that will focus the Company's performance on shareholder value and ensure the future success of Evotec. The launch of the LTI was a crucial step to ensure alignment of the interests of the Management Board and Senior Management with shareholders' interests. Evotec made awards to the members of the Management Board and Senior Management in 2017.

Procurement and facility management in 2017

In 2017, the procurement and logistics function at Evotec extended the mid-term ONE Procurement strategy roadmap. The main pillars of this strategy are the further development of an efficient supply chain, the establishment of strategic partnerships and disciplined cost control while maintaining the highest level of product quality. Lean projects focussing on efficiency were implemented and rolled out. A further optimised use of the resources added value for the Company, enhancing service levels and, ultimately, project delivery and customer satisfaction.

2017 saw the further development and fit-out of Evotec's headquarters in Hamburg (Germany), the Manfred Eigen Campus. Evotec leased new additional premises next door to its headquarters from February 2018 onwards to support the continued growth of the business in Hamburg. These premises will be used to outplace the administration and management team.

V. Reporting pursuant to section 289c and section 315c of the German Commercial Code

Evotec AG publishes a separate Non-financial Group Report in accordance with section 289c and section 315c of the German Commercial Code. This report can be found on Evotec's website in the Investor Relations section under Financial Publications.

VI. Post-balance sheet events

On 08 March 2018, Evotec announced that Evotec and Sanofi have entered into exclusive negotiations to accelerate infectious disease research and development through a new open innovation platform led by Evotec. Under the agreement, Sanofi would licence its infectious disease research and early-stage development portfolio and transfer its infectious disease research unit in Lyon, France, which includes more than 100 employees to Evotec Group. Sanofi will pay Evotec Group an initial one-time cash upfront payment of € 60 m and provide further significant long-term funding to ensure support and progression of the portfolio. This transaction is expected to close in the first half of 2018, subject to finalization of definitive agreements and completion of the appropriate social process.

VII. Risk and opportunities management

Risk and opportunities management principles

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

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, operating and financial 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 the necessary 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. 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 such activities are in line with its strategy, when they have a risk profile consistent with industry norms, and when there is a corresponding opportunity for an increase in business 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 ("IT") security throughout the Company and regularly reviews its insurance cover. Compliance with the regulatory environment, for example regarding environment, health and safety, has a high priority, and appropriate training programmes are in place. The Company also takes its Corporate Governance responsibilities 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.

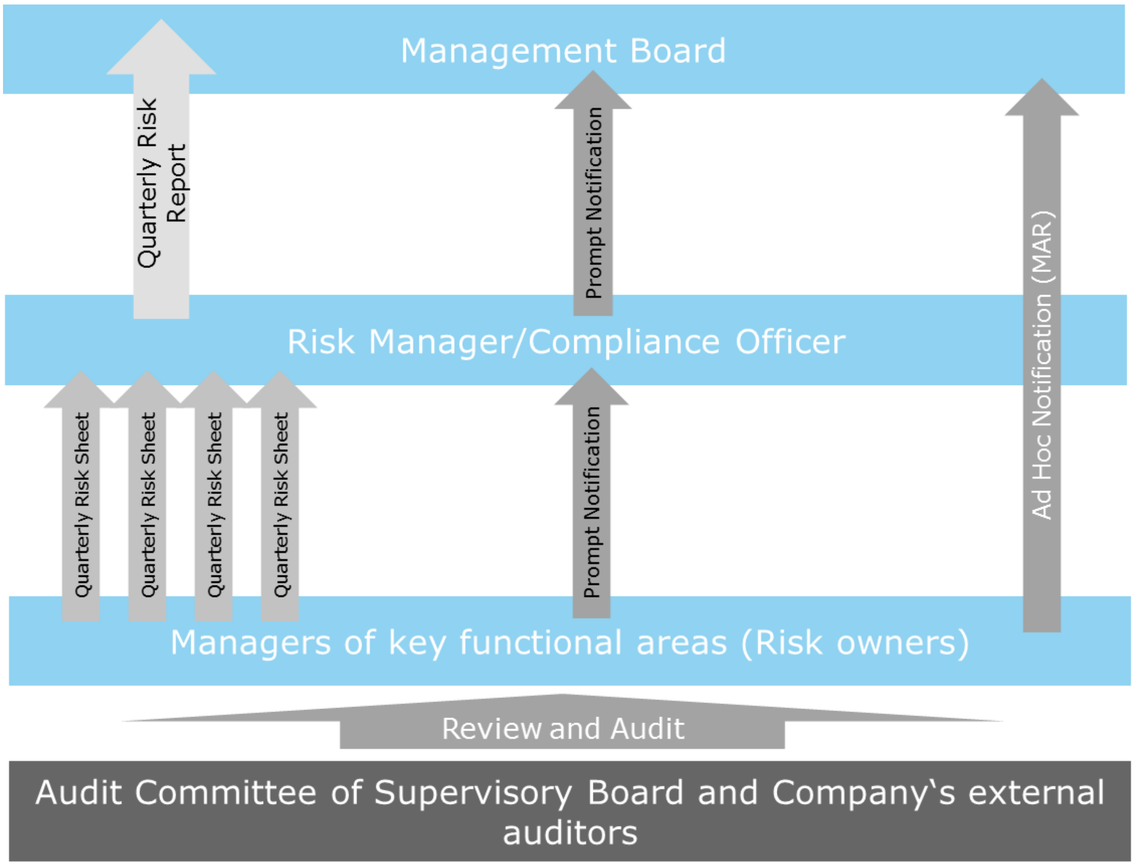
Evotec's risk and opportunities management system is regularly reviewed by the Company's Risk Manager, the Management Board and the Supervisory Board's Audit

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 early as possible, to precisely describe and quantify them, to estimate their probability of occurrence, and to report them immediately to the management so that it can deal with them in a timely manner. The Risk Owners have the 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 that 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 these cash stress tests.

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.



(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 Company.

Internal controls over financial reporting

Section 91 paragraph 2 of the German Stock Corporation Act (Aktiengesetz, "AktG") in conjunction with section 289 paragraph 4 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 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 effectiveness of the control environment, Evotec maintains 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 subject to annual testing by an independent third party expert. These assessments identified no material weaknesses in 2017, and all detected deficiencies were addressed and remediated immediately where possible. For all remaining deficiencies, 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 to avoid risks from fraud and 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. The Company's control system is based upon:

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

Among other things, Evotec regularly checks 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 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.

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 may also generate accounting-related risks. To this end, 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 comprehensive information.

Evotec is confident that the systems and processes implemented significantly reduce the risk of negative impacts on the Company's financial results and its financial reporting. They enable the Company to appropriately recognise specific Company-related issues in the financial statements. However, due to the very nature of business activity, discretionary decision-making, faulty checks, following criminal acts or other 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 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 the 2016 Annual Report.

– 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 to implement appropriate countermeasures.

Probability of occurrence

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

Potential financial impact on liquidity

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

– Corporate risks overview

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

	Probability of occurrence	Potential financial impact	Comparison to prior year
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
Cyber-attacks	high	medium	new risk
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 at present no risks have been identified that either individually or in combination could endanger the continued existence of Evotec AG. In reflection of the size of the Aptuit acquisition, the risk from M&A compared to 2016 was changed to a medium probability of occurrence and high potential impact regarding the amount. In addition, cyber-attacks become a more and more constant threat for companies like Evotec which need to be addressed adequately.

Business environment and industry risks

<u>Risks inherent to drug discovery alliances</u>

Evotec's discovery alliance platform is well established within the industry and has generated a growing revenue stream over the past years. 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 <u>pricing</u> 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.

<u>Risks inherent to proprietary drug discovery and development</u>

Evotec has a clear strategic focus on drug discovery and development 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 funds 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 may only 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 and may impact Evotec's financial position.

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 high failure rates. At each stage, there is an inherent risk that developments are delayed or even need to be aborted due to undesired results. The earlier the stage of a programme, the higher is the rate of failure. However, the cost of failure tends to increase in the later stages 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 may not be received, may 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 monitored closely. In 2017, Evotec's Top 3 largest customer accounted for 66% of total revenues (see the "Top 10 collaborations" table on page 7 of this Management Report).

> Some of the service contracts contain scientific or technical delivery risks, which can be only partly mitigated by 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 importance to maintain this good reputation and avoid any negative impact on its branding which could lead to a loss of customers. 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 number of active drug discovery and early development programmes that it intends to license to pharmaceutical companies for clinical development and commercialisation. Furthermore, commercial risks also include the continuation of such established collaborations and partnerships during the further development along the value chain. In addition, also a significant portion of Evotec's service business is dependent of the Company's partners and customers continuing to develop their programmes, which are developed with Evotec's support during drug discovery and early development stages.

However, the market environment and competitive landscape for licensing and licensed projects or individual drug candidates, in general or for individual treatments, might change while engaging in individual projects. The 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 continues 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 academic or research institutions to important value inflection points for partnering. Investments might be allocated to the development of ultimately unsuccessful products partnerships and 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 high-quality services. However, the Company is pursuing ambitious growth targets both organically and also via acquisitions of complementary service capacities and capabilities, as exemplified by the acquisition of Aptuit in August 2017 and Cyprotex in December 2016. The Aptuit acquisition has added sites in Verona, Italy, Abingdon, UK, and Basel, Switzerland with approximately 750 employees. In order to address the risk of integration, dedicated staff will handle the harmonisation of business critical processes and systems.

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 2017, Evotec continued to expand its EVT Innovate business strategy through equity participation in selected companies. These investments enable Evotec to accelerate its business model as they provide an optimal risk-reward profile through to potentially clinical stage in selected fields of high strategic medical relevance. Typically, Evotec's equity stake after the financing round amounts to 5%-40%. Based on its minority shareholdings, Evotec has only limited control regarding the development of such investments and is exposed to the risks inherent to drug discovery and development (see "Business environment and industry risks" paragraph in this chapter).

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 or applying other refinancing tools is reviewed on an ongoing basis. Such additional financing might also be required if new opportunities arise for 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.

> 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 tries to manage this exposure via close market monitoring, forwards, natural hedges and selective hedging instruments. The hedging instruments used do not expose the Company to any material additional risk. Hedging transactions are entered into 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. Despite active currency management this risk cannot be fully eliminated due to unpredictable volatility within the mentioned currencies.

> 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 some 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 2017, Evotec did not encounter any significant legal risks.

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 its strong personnel growth.

IT risks

> IT services are essential to the Company's success, and the Company recognises that a <u>loss of data</u> 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 natural disasters, power failures, system upgrade failures, theft and data corruption. Complying with guidelines relating to <u>data protection</u>, which also regulate the assignment of access rights is mandatory.

> The Company performs regular IT risk assessments to identify and rectify weaknesses. In addition to these, an IT Security Committee 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 2017, the exposure to <u>cyber-attacks</u> further increased in the industry. The related risks are: loss, destruction, unauthorised encryption or corruption of data arising out of captured passwords, virus attacks, physical access to Evotec's servers by non-authorised people or other unauthorised modifications to the Company's systems. Evotec's own and/or client data required for the day-to-day operations might be inaccessible or destroyed and might prevent Evotec from day-to-day management and delivery of its business. To protect the Company from virus attacks and cybercrime activities, Evotec employs antivirus and antimalware software, as well as firewalls running at relevant points of entry. In addition, systems are updated as often as possible, enabling the installation of new versions or patches with better secured authorised access, improved protection against malware and viruses to all systems possible. Systems that cannot be updated for technical reasons (e.g. due to lack of technical support) are – where feasible – isolated from the main network or replaced. In addition, relevant employees (e.g. in the financial and IT departments) are educated and regularly reminded of the risks and kinds of potential attacks that may occur. Evotec will increase resources and investments to further secure its IT in 2018.

Compliance risks

Since February 2016, Evotec has repeatedly experienced unsuccessful fraud attacks by criminals using a technique called 'Fake President', whereby cyber criminals use social networks such as LinkedIn to understand the Company's organisation structure in order to target employees in the finance/treasury departments. These criminals then try to induce payments to false accounts or to trigger separate payments. Although various countermeasures have been implemented, Evotec's management is repeatedly sensitising both its IT and finance departments to be extremely cautious with emails that look unusual or suspicious, or that ask for payments to be made to an unknown account.

Other risks
Other risks, such as environmental risks or 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 outsourcing their research and development activities. Such outsourcing enables Pharma companies to convert fixed costs into variable costs, gives them access to expertise in selected areas and spares them the need to build internal capabilities and infrastructure. Evotec is aware of this trend and consequently pursues 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 a broad and deep co-owned pharmaceutical pipeline without taking the financial risk of clinical development. Currently, Evotec participates in the potential success of a number of clinical assets through development partnerships with pharmaceutical companies. These clinical development programmes are financed by Evotec's partners and thus do not carry any cash-related financial risks for Evotec but only significant commercial upside potential. Within the EVT Innovate business segment, the Company continuously invests into Cure *X*/Target *X* projects that are either based on highly innovative academic or internal R&D projects. Cure *X*/Target *X* projects are positioned as starting points for future strategic Pharma partnerships with significant commercial upside.

The Company's liquidity and profitability 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. For more than 20 years, Evotec has continued to deliver excellent results in its collaborations and has expanded its customer base and its global network of partnerships. The network and the excellent record of accomplishment 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 conservative 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

Human resource is the critical asset for companies in the Pharma and biotech industry. The Company believes that its success in alliances and partnerships is attributable to its key personnel. As stated in the "Employees" chapter on page 21 of this Management Report, approximately 36% of Evotec's employees have worked for the Company for more than five years. Retention of employees who have outstanding expertise and skills in the long term will have a positive impact on the Company's business, results of operations and financial position.

Expertise in key therapeutic indication areas and knowledge of innovative technologies are essential in developing new platforms or research initiatives – such as the further development of the iPSC drug discovery platform that may result in new business opportunities for the Company. Evotec is well positioned to attract key personnel to drive the company's scientific and business strategy which provides the opportunity for outperformance due to enhanced knowledge accumulation and innovation.

VIII. 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 3.1% in 2018 and on average 3% in 2019-20, showing only a similar growth compared to the estimated growth rate of 3.0% in 2017. Economic growth in the USA is expected to amount to 2.5% in 2018, up from an estimated 2.3% in 2017. Eurozone growth in 2018 is projected to amount to 2.1% (2017: 2.4%); although the cyclical upturn is expected to continue, it is estimated that it will happen at a more restrained pace following this strong increase in 2017. However, due to the heightened level of political uncertainty in major economies, protectionist tendencies, and the possibility of disorderly financial market movements (e.g. tightening of global financing conditions), these projections can be subject to change during 2018. 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 and development alliances

The global drug discovery and development market is expected to experience continued growth as described earlier. This demand for efficient external innovation will be met increasingly by companies such as Evotec together with its subsidiaries. Detailed market data of the global drug discovery and development market can be found in the "Organisational structure and business activities" chapter on page 2 of this Management Report.

The pharmaceutical industry will increasingly favour larger strategic research contracts that are easy to manage and that carry commercial risks, which are perceived to be low. This presents a challenge for the highly fragmented drug discovery and development outsourcing industry. However, Evotec is ideally positioned to take full advantage of these market developments. The acquisition of Aptuit in 2017 supports and confirms Evotec's position as one of the largest and financially stable drug discovery and development service providers.

– Trends in research and development

Following a dip in the number of novel drug approvals in 2016 (22 new medical entities ("NME")), the FDA approved 46 new drugs in 2017. Of these, a steadily growing proportion originates from biotech companies, demonstrating their importance as a key innovation driver in this field. However, Pharma companies continue to need access to significant numbers of new innovative medicines in order to ensure their sustainable growth. Against this backdrop, pharmaceutical companies will continue to make significant investments into the development of innovative and promising drug candidates and are turning to external innovation sources and partners to replenish their pipelines.

Business direction and strategy

Following the strategic frameworks Action Plan 2012 – "Focus and Grow", and Action Plan 2016 – "Innovation Efficiency", Evotec implemented Action Plan 2022 – "Leading External Innovation" at the end of 2017. This plan supports the increase in growth and value of the Company by expanding its leadership position in high-quality drug discovery and development solutions. Evotec's strategy is to become together with its affiliates the external innovation partner of choice in drug discovery and development for large Pharma and biotech companies as well as foundations. Via its hybrid business model, consisting of its two operating business segments EVT Execute and EVT Innovate, Evotec is able to engage in service alliances as well as tailor-made risk-based collaborations.

Evotec continues to manage its drug discovery and development activities under the business segments EVT Execute and EVT Innovate. EVT Execute represents all collaborations in which the customer brings the underlying intellectual property to the collaboration. EVT Innovate comprises all collaborations derived from Evotec's intellectual property (developed either internally or through academic collaborations) and Evotec's equity participation in certain companies. Further information on Evotec's two business segments can be found in the "Corporate objectives and strategy" chapter on page 5 of this Management Report.

Specific objectives for the segments EVT Execute and EVT Innovate as well as Corporate goals for 2018 were defined at the end of 2017.

EVT Execute	EVT Innovate	Corporate
• Increased support of new deals through Evotec's subsidiaries. • Continuation of performance-based integrated technology/disease alliances • Milestones from existing alliances	• Further expansion of iPSC (induced pluripotent stem cells) platform to support Evotec's subsidiaries	• Continued integration of Cyprotex and Aptuit • Corporate investing initiatives

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, and companies. Evotec is upgrades its capabilities continually to maintain the best infrastructure and skills. This is essential for meeting the expectations of its partners in drug discovery and development, like the iPSC platform described earlier, as well as the extension of its value chain following the acquisition of Aptuit in 2017. This trend is expected to continue in 2018 and beyond.

Financial outlook for 2018

As in the previous year, the main performance indicators for the company are revenues and adjusted EBITDA.

– Expected operating results

Evotec conducts a business model in which revenues and adjusted EBITDA are highly depending on the achievement and the timing of individual milestones. The achievement of milestones 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 the consideration of a probability of success, total milestone based revenues become more predictable.

In 2018, Evotec expects **revenues** to be on a similar level compared to the successful financial year 2017. Growth is currently 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 2018.

Actual results may deviate considerably from these projections.

	Results 2017	**Guidance 2018**
Revenues	€ 75.2 m	Similar level as 2017
Adjusted EBITDA	€ 13.1 m	Positive result in form of a one-digit million range

– Expected financing and financial position

Evotec continued to finance some of its subsidiaries during 2017. In 2018, financing for the development of Evotec's US sites are expected as well as some financing to other affiliated companies.

With the exemption of a potential take-out financing of the € 140 m bridge loan established in context of the Aptuit transaction, the Company's mid-term financial plan does not require any additional external financing. Evotec is sufficiently well financed to support its ongoing business and operations. All strategical 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 or equity-linked tools.

Dividends

Payment of dividends is dependent upon Evotec AG'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.

Opportunities

The most important opportunities for the Company are summarised in the "Opportunities" section of the "Risk and opportunities management" chapter on page 39 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 and development solutions. Evotec is well-positioned to deliver value to the pharmaceutical and biotechnology industry as well as to 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. Furthermore, following the acquisition of Aptuit in 2017, the Evotec Management Board believes that it can create the premier drug discovery and development innovation partner by leveraging Evotec Groups' and Aptuit's extensive partner networks, platforms and maximising commercial synergies. On this basis, the Management Board expects Evotec to show in 2018 firm revenue growth and a positive adjusted EBITDA of a one-digit million range. The Company's strong cash position will provide a firm foundation to further strengthen the business and increase shareholder value.

IX. Declaration of corporate management

More information on Company management practices can be found in the Company's "Declaration of Corporate Management" according to section 289f of the German Commercial Code (HGB) in the Investor Relations section on Evotec's website www.evotec.com.

X. 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 Consolidated Financial Statements and the Corporate Governance 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. Variable remuneration components consist of a one-year variable remuneration determined by a bonus scheme and a long-term scheme, the so-called Share Performance Plan, which was approved by the AGM 2012, 2015 and 2017. The Share Performance Plans have a multiple-year assessment basis that has essentially forward-looking characteristics, whereas the bonus scheme is based on the achievement of certain targets set by the Supervisory Board for a certain financial year. 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. That value will only be determined by the share price at that time. The Share Performance Plan 2017 has introduced a cap with a maximum level of 350% of the contractual issue value and therefore complies with the Code in all respects.

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). In accordance with this regulation, the Management Board and the Supervisory Board of Evotec AG proposed such an approval at the AGM in 2012 and again in 2017. At the AGM 2017, the shareholders and shareholder representatives voted in favour of this item of the agenda with a majority of 58.60% of the votes. As outlined to the AGM, it should be noted that prior to the renewal of the management contracts in 2016, a benchmarking against biotech companies and other members of the TecDAX index has been conducted based on which both the Supervisory Board and the Management Board consider the current remuneration system and its fixed and variable components as appropriate with regards to the duties and responsibilities of the Management Board members. It should be noted that the Supervisory Board uses a performance metric to determine whether the set targets have been achieved by the Management Board members. The respective objectives are specified every year by the Remuneration and Nomination Committee of the Supervisory Board and subsequently approved by the Supervisory Board.

In 2017, the fixed and one-year variable remuneration of the active members of the Management Board totalled T€ 2,478, of which the variable part amounted to T€ 896. 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, expenditures and expenses are reimbursed.

One-year variable remuneration is determined by a bonus scheme.

The variable portion of the remuneration paid out in March 2017 was based on the achievement of certain targets for the financial year 2016. The variable portion of the remuneration for the achievement of strategic targets for the financial year 2017 will be paid out in March 2018. In 2017, the bonus paid to Dr Werner Lanthaler, Colin Bond, Dr Cord Dohrmann, Dr Mario Polywka and Enno Spillner was based on the achievement of corporate milestones and objectives. As per 31 December 2017, the Company had accrued a total of T€ 1,066 for the variable portion of the remuneration paid to the members of the Management Board, thereof T€ 420 for Dr Werner Lanthaler, T€ 238 for Dr Cord Dohrmann, T€ 237 for Dr Mario Polywka, and T€ 171 for

Enno Spillner. The remuneration for Dr Mario Polywka was not paid by Evotec but is rather recharged as management fee by another Group company.

The 2016 and 2017 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 ramp-up of an iPSC initiative in 2017 and the integration and expansion of the Cyprotex business as well as the achievement of the first milestone in the collaboration with Celgene in 2017.

In addition to their fixed and variable remuneration, the members of the Management Board received 186,984 Share Performance Awards ("SPA") in 2017 (2016: 396,291) under the Company's Share Performance Plan. These 2017 SPAs vest after four years depending on the achievement of defined key performance indicators over a four-year performance measurement period. SPAs can only be exercised if and when the key performance indicators are achieved. The key performance indicators for the grant in 2017 are "Share Price" and "Total Shareholder Return", as approved by the AGM. The fair values of all SPAs granted as of the grant date amounted to a total of T€ 2,724 in 2017 (2016: T€ 1,534).

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

	Benefits granted (in T€)	I	II	III	IV												
a		Dr Werner Lanthaler				Enno Spillner				Dr Cord Dohrmann				Dr Mario Polywka			
b		CEO				CFO				CSO				COO			
c																	
d		2016	2017	2017 (min)	2017 (max)	2016	2017	2017 (min)	2017 (max)	2016	2017	2017 (min)	2017 (max)	2016	2017	2017 (min)	2017 (max)
1	Fixed compensation	406	420	420	420	141	310	310	310	333	340	340	340	342	320	320	320
2	Fringe benefits	97	100	75	125	17	22	22	34	15	15	15	15	58	55	55	55
3	**Total**	**503**	**520**	**495**	**545**	**158**	**332**	**332**	**344**	**348**	**355**	**355**	**355**	**400**	**375**	**375**	**375**
4	One-year variable compensation*	289	407	-	609	-	78	-	78	153	211	-	200	214	200	-	241
5	Multi-year variable compensation	840	840	-	2,940	206	206	-	721	248	248	-	867	240	241	-	845
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)	840	840	-	2,940	206	206	-	721	248	248	-	867	240	241	-	845
6	**Total**	**1,632**	**1,767**	**495**	**4,094**	**364**	**616**	**332**	**1,142**	**749**	**814**	**355**	**1,422**	**854**	**816**	**375**	**1,462**
7	Service cost	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	**Total**	**1,632**	**1,767**	**495**	**4,094**	**364**	**616**	**332**	**1,142**	**749**	**814**	**355**	**1,422**	**854**	**816**	**375**	**1,462**

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)*

1 *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*

2 *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*

3 *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*

5 *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)*

7 *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)*

	Allocation (in T€)									
a			Dr Werner Lanthaler		Enno Spillner		Dr Cord Dohrmann		Dr Mario Polywka	
b			CEO		CFO		CSO		COO	
c										
d			2016	2017	2016	2017	2016	2017	2016	2017
1	Fixed compensation		406	420	141	310	333	340	342	320
2	Fringe benefits		97	100	17	22	15	15	58	55
3	**Total**		**503**	**520**	**158**	**332**	**348**	**355**	**400**	**375**
4	One-year variable compensation*		289	407	-	78	153	211	214	200
5	Multi-year variable compensation		-	9,409	-	-	-	1,604	-	996
5a		Share Performance Programme 2012 (term until 2019)	-	3,951	-	-	-	1,351	-	996
5b		Stock Option Programme 1999 (term until 2021)	-	-	-	-	-	-	-	-
5c		Stock Option Programme 2000 (term until 2016)	-	-	-	-	-	-	-	-
5d		Stock Option Programme 2001 (term until 2021)	-	3,782	-	-	-	-	-	-
5e		Stock Option Programme 2005 (term until 2017)	-	-	-	-	-	-	-	-
5f		Stock Option Programme 2007 (term until 2016)	-	-	-	-	-	-	-	-
5g		Stock Option Programme 2008 (term until 2016)	-	-	-	-	-	-	-	-
5h		Stock Option Programme 2011 (term until 2019)	-	1,676	-	-	-	253	-	-
6	Other		-	-	-	-	-	-	-	-
7	**Total**		**792**	**10,336**	**158**	**410**	**501**	**2,170**	**614**	**1,571**
8	Service cost		-	-	-	-	-	-	-	-
9	**Total**		**792**	**10,336**	**158**	**410**	**501**	**2,170**	**614**	**1,571**

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*

1 *Non-performance-related components, e.g. fixed salary, fixed annual pay-off payments (amounts correspond to amounts in "Benefits granted" table)*

2 *Non-performance-related components, e.g. benefits in kind and fringe benefits (amounts correspond to amounts in "Benefits granted" table)*

3 *Total of non-performance-related components (1+2) (amounts correspond to amounts in "Benefits granted" table)*

4 *One-year variable compensation, e.g. bonus, short-term incentive (STI), share in profits, without deferred components*

5 *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)*

8 *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*

9 *Total of non-performance-related components and variable components and service cost (1+2+4+5+6+8)*

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 allows 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 a provision for a pension for one former Management Board member amounting to T€ 202 (2016: T€ 204). 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 memberships in 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 T€ 30 per Supervisory Board member. The Chairman of the Supervisory Board is paid T€ 75, and the Vice Chairman is paid T€ 45. Supervisory Board members serving on its committees shall be paid T€ 5 per committee membership; the chairman of a committee shall be paid T€ 20.

For their contributions in 2017, the individual members of the Evotec Supervisory Board received the following compensation in 2018:

Remuneration of the Supervisory Board 2017	Total remuneration in T€[1)]
Prof. Dr Wolfgang Plischke	95
Bernd Hirsch	70
Dr Claus Braestrup	35
Prof. Dr Paul Linus Herrling (until 14 June 2017)	16
Prof. Dr Iris Löw-Friedrich	35
Michael Shalmi (from 14 June 2017)	19
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)

In 2017, 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 T€ 74 (2016: T€ 75). An appropriately sized deductible was agreed upon for the members of the Supervisory board. The deductible agreed upon for the members of the Management Board is in line with the stipulations of the legal provisions of the VorstAG.

Hamburg, 22 March 2018

Dr Werner Lanthaler Dr Cord Dohrmann Dr Mario Polywka Enno Spillner

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

"Independent auditor's report

To Evotec AG

Report on the audit of the annual financial statements and of the management report

Opinions

We have audited the annual financial statements of Evotec AG, Hamburg, which comprise the balance sheet as at 31 December 2017, and the income statement for the fiscal year from 1 January to 31 December 2017 and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of Evotec AG for the fiscal year from 1 January to 31 December 2017. In accordance with the German legal requirements, we have not audited the declaration of corporate management contained in section "Declaration of corporate management" and information contained in section "Remuneration report" of the management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2017 and of its financial performance for the fiscal year from 1 January 2017 to 31 December 2017 in compliance with German legally required accounting principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the information contained in sections "Declaration of corporate management" and "Remuneration report".

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the annual financial statements and of the management report" section of our auditor's report.

We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the fiscal year from 1 January to 31 December 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

Revenue Recognition from Milestone payments

Reasons why the matter was determined to be a key audit matter

In addition to income from services and from licenses and royalties, Evotec AG generates revenues from the receipt of milestone payments. Those payments from contractual collaborations become due as soon as medical compounds achieve different scientific results ('milestones') as part of the overall development and regulatory approval process. Milestone payments are often individually material according to amount and indicative of the likelihood to generate future revenues under existing collaboration agreements. This may also entail a significant participation of Evotec AG in future market share. Management discloses and comments on revenue from milestones separately in the notes to the financial statements and management report. It qualifies milestones as a significant financial upside potential, while failure to achieve milestones would likely have an adverse impact on the entities financial position, results of operations and cash flows. Improper revenue recognition in relation to milestone payments (e.g. recording fictitious milestones) may not only be individually material to the entity but also be significantly misleading in assessing the entity’s financial position and result from operations, which is why we have determined revenue recognition from milestone payments to be a key audit matter.

Auditor’s response

In order to form an opinion on the appropriateness of revenue recognition in conjunction with milestone payments we obtained confirmations for the achievement of milestones reached, which the entity receives from its respective contractual partners. For all revenues from milestone collaborations we further compared the confirmation with the underlying contracts and with subsequent payments received.

Our audit procedures did not lead to any reservations relating to the revenue recognition of milestone payments.

Reference to related disclosures

With regard to the accounting and measurement policies applied in accounting for revenue recognition of milestone payments, refer to "III. Basis of Presentation, Accounting and Valuation Practices" within the notes.

Other information

The executive directors are responsible for the other information. The other information comprises the non-financial statement included in section "Reporting pursuant to section 289c and section 315c of the German Commercial Code" of the management report and the statement on corporate governance included in section "Declaration of corporate management" as well as the section “Remuneration report” of the management report.

Our opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the executive directors and the supervisory board for the annual financial statements and the management report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German legally required accounting principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company’s ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that, as a whole, provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's responsibilities for the audit of the annual financial statements and of the management report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Company.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on 14 June 2017. We were engaged by the supervisory board on 18 December 2017. We have been the auditor of Evotec AG without interruption since fiscal year 2014.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

In addition to the financial statement audit, we have provided to the Company or entities controlled by it the following services that are not disclosed in the annual financial statements or in the management report:

- Assisting in the development and implementation of a new performance management system.

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Eckehard Schepers."

Berlin, 22 March 2018

Ernst & Young GmbH

Wirtschaftsprüfungsgesellschaft

Schepers	Machner
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]