Translation of

Financial Statements as of
31 December 2018
and Management Report

Evotec AG
Hamburg

Evotec AG, Hamburg

Statement of financial position as of 31 December 2018

Assets	EUR	31.12.2017 EUR
A. Fixed assets		
I. Intangible assets		
Purchased franchises, industrial and similar rights and assets, and licenses in such rights and assets	4,312,500.13	745,885.51
II. Property, plant and equipment		
1. Land, land rights and buildings, including buildings on third-party land	1,905,625.55	1,721,388.11
2. Plant and machinery	11,304,209.06	10,334,879.07
3. Other equipment, furniture and fixtures	863,017.87	768,464.19
4. Prepayments and assets under construction	503,679.66	328,852.54
	14,576,532.14	13,153,583.91
III. Financial assets		
Shares in affiliates	366,688,041.44	358,616,819.92
	385,577,073.71	372,516,289.34
B. Current assets		
I. Inventories		
1. Raw materials, consumables and supplies	895,587.42	1,197,454.17
2. Work in process	268,145.13	994,942.06
	1,163,732.55	2,192,396.23
II. Receivables and other assets		
1. Trade receivables	7,189,341.08	9,413,054.08
2. Receivables from affiliates	47,087,523.54	48,835,158.24
3. Other assets	1,031,542.62	4,889,108.50
	55,308,407.24	63,137,320.82
III. Securities		
Other securities	15,529,825.20	17,960,631.07
IV. Cash on hand, central bank balances, bank balances and checks	13,622,660.40	25,172,901.43
	85,624,625.39	108,463,249.55
C. Prepaid expenses	1,420,530.21	1,774,395.13
	472,622,229.31	482,753,934.02

Equity and liabilities	EUR	31.12.2017 EUR
A. Equity		
I. Subscribed capital	149,062,794.00	147,532,681.00
./. nominal value treasury shares	-249,915.00	-249,915.00
	148,812,879.00	147,282,766.00
II. Capital reserves	243,525,664.27	243,477,451.27
III. Reserve for treasury shares	249,915.00	249,915.00
IV. Accumulated loss	-103,511,137.67	-166,986,094.29
	289,077,320.60	224,024,037.98
B. Provisions		
1. Provisions for pensions and similar obligations	147,264.67	73,572.10
2. Tax provisions	0.00	57,255.41
3. Other provisions	6,189,139.63	5,031,648.62
	6,336,404.30	5,162,476.13
C. Liabilities		
1. Liabilities to banks	107,691,644.15	182,886,887.86
2. Trade payables	2,773,972.86	2,338,701.54
3. Liabilities to affiliates	61,730,497.79	61,538,891.38
4. Other liabilities	2,009,064.53	1,949,079.88
thereof for taxes: EUR 1,473,279.43 (prior year: EUR 329,185.86)		
	174,205,179.33	248,713,560.66
D. Deferred income	3,003,325.08	4,853,859.25
	472,622,229.31	482,753,934.02

Evotec AG, Hamburg

Income statement for the period from 1 January 2018 to 31 December 2018

			2017
		EUR	EUR
1.	Revenues	77,630,555.59	75,183,664.81
2.	Increase or decrease in finished goods and work in process	-726,796.93	668,241.64
3.	Other operating income thereof income from currency translation: EUR 1,068,905.17 (prior year: EUR 1,076,778.41)	52,362,440.97	7,704,209.55
		129,266,199.63	83,556,116.00
4.	Cost of materials		
	a) Cost of raw materials, comsumables and supplies and of purchased merchandise	8,471,573.92	9,202,384.42
	b) Cost of purchased services	23,810,646.50	21,290,491.43
5.	Personnel expenses		
	a) Wages and salaries	22,411,017.11	19,455,531.79
	b) Social security, pension and other benefit costs thereof for old-age pensions: EUR 4,195.55 (prior year: EUR 7,018.45)	3,568,045.07	3,124,153.60
6.	Amortization, depreciation and write-downs of intangible assets and property, plant and equipment	3,398,781.92	2,693,933.24
7.	Other operating expenses thereof expenses from currency translation: EUR 2,025,800.90 (prior year: EUR 3,101,096.05)	20,540,987.38	20,991,810.46
		82,201,051.90	76,758,304.94
8.	Income from equity investments	17,521,436.75	3,622,885.49
9.	Other interest and similar income thereof from affiliates: EUR 1,916,662.02 (prior year: EUR 1,712,437.80)	2,188,238.71	2,418,511.60
10.	Write-downs of financial assets and securities classified as current assets	565,455.87	0.00
11.	Interest and similar expenses thereof to affiliates: EUR 780,786.38 (prior year: EUR 544,694.33)	2,743,883.00	1,253,216.27
		16,400,336.59	4,788,180.82
12.	Income taxes	-9,472.30	217,100.00
13.	Income after tax/net income	63,474,956.62	11,368,891.88
14.	Net loss carried forward	166,986,094.29	178,354,986.17
15.	Accumulated loss	-103,511,137.67	-166,986,094.29

Evotec AG, Hamburg

Notes to the Financial Statements for the year 2018

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).

Since 28 October 2009, the company is listed on the Frankfurt Stock Exchange's TecDAX index and additionally on the MDAX at the Frankfurt stock exchange since 24 September 2018.

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 with place of business in Hamburg in the Commercial Registry of Hamburg with HRB 68223.

III. 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.

Other 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.

Provision for pension accruals and similar obligations have been estimated using the Projected Unit Credit-method with an interest rate of 3.21% p. a. (2017: 3.68% p. a.) and under consideration of Prof. Dr. Klaus Heubeck's reference tables ("Richttafeln") issued in July 2018. 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% (2017: 1.5%).

Other provisions and tax 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 assets** 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.

The thereof-comments declared in the Statement of Operations relating to currency results include both realized and unrealized foreign exchange effects.

IV. 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 2018, Evotec held equity investments in the following companies:

		Total equity	Share interest	Net income/loss-
		kEUR	%	kEUR
1.	Evotec (Hamburg) GmbH, Hamburg*	12,681	100.00	-1
2.	Evotec International GmbH, Hamburg (indirectly through 1.)	-66,914	100.00	20,354
3.	Evotec (UK) Ltd., Abingdon, UK	32,532	100.00	-3,487
4.	Evotec (US) Inc.,Princeton, USA*	-10,411	100.00	1,258
5.	Evotec (India) Private Limited, Maharashtra (Thane), India **	2,198	100.00	-45
6.	Evotec (München) GmbH, Munich*	73	100.00	741
7.	Evotec (France) SAS, Toulouse, France	13,021	100.00	22,753
8.	Evotec ID (Lyon) SAS, Marcy l'Etoile, France	15,638	100.00	2,900
9.	Cyprotex PLC, Manchester, UK	-6,163	100.00	1,293
10.	Aptuit Global LLC, Princeton, USA	30,856	100.00	189
11.	Aptuit (Switzerland) AG, Basel, Switzerland	453	100.00	-77
12.	Aptuit (Potters Bar) Limited, Abingdon, UK	2,653	100.00	-973
13.	Eternygen GmbH, Berlin*	648	22.86	-1,396
14.	FSHD Unlimited Coorp, Leiden, Netherlands	6,426	19.91	3,183
15.	ExScientia Ltd., Dundee, UK	29,878	23.70	-4,561

*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 2018 for the annual profit or loss statement.

Statement of changes in fixed assets for fiscal year 2018

	Acquisition and production cost					Accumulated amortization, depreciation and write-downs				Net book values	
	1 Jan 2018	Additions	Disposals	Reclassifications	31 Dec 2018	1 Jan 2018	Additions	Disposals	31 Dec 2018	31 Dec 2018	31 Dec 2017
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	kEUR
I. Intangible assets											
Purchased franchises, industrial and similar rights and assets, and licenses in such rights and assets	6,094,611.90	3,733,765.25	0.00	26,796.75	9,855,173.90	5,348,726.39	193,947.38	0.00	5,542,673.77	4,312,500.13	746
II. Property, plant and equipment											
1. Land, land rights and buildings, including buildings on third-party land	3,224,617.84	383,242.16	0.00	154,356.16	3,762,216.16	1,503,229.73	353,360.88	0.00	1,856,590.61	1,905,625.55	1,721
2. Plant and machinery	26,412,629.86	2,985,145.46	786,124.92	88,577.38	28,700,227.78	16,077,750.79	1,997,528.39	679,260.46	17,396,018.72	11,304,209.06	10,335
3. Other equipment, furniture and fixtures	3,743,393.61	894,983.90	38,852.79	59,122.25	4,658,646.97	2,974,929.42	853,945.27	33,245.59	3,795,629.10	863,017.87	768
4. Prepayments and assets under construction	328,852.54	503,679.66	0.00	-328,852.54	503,679.66	0.00	0.00	0.00	0.00	503,679.66	329
	33,709,493.85	4,767,051.18	824,977.71	-26,796.75	37,624,770.57	20,555,909.94	3,204,834.54	712,506.05	23,048,238.43	14,576,532.14	13,153
III. Financial assets											
Shares in affiliates	364,846,522.87	8,071,221.52	0.00	0.00	372,917,744.39	6,229,702.95	0.00	0.00	6,229,702.95	366,688,041.44	358,617
	404,650,628.62	16,572,037.95	824,977.71	0.00	420,397,688.86	32,134,339.28	3,398,781.92	712,506.05	34,820,615.15	385,577,073.71	372,516

3. Inventories

	kEUR 31.12.2018	kEUR 31.12.2017
Raw materials, consumables and supplies	896	1,197
Work in progress	268	995
	1,164	2,192

The raw materials mainly include compound libraries amounting to kEUR 745 (2017: kEUR 967) as at 31 December 2018.

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

4. Trade receivable and other assets

Trade receivables

As in 2017, the trade receivable are completely due within one year.

Receivables from affiliates

	Maturity					
	< 1 year	> 1 year	total	< 1 year	> 1 year	total
		31.12.2018			31.12.2017	
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Evotec (India) Private Ltd.	561	0	561	544	0	544
Evotec International GmbH	3,829	0	3,829	2,737	0	2,737
Evotec (München) GmbH	0	500	500	0	1,200	1,200
Evotec (US) Inc.	0	16,824	16,824	0	16,960	16,960
Evotec ID (Lyon) SAS	6	0	6	0	0	0
Cyprotex PLC	78	8,820	8,898	0	15,278	15,278
Cyprotex LLC	24	0	24	2	258	260
Aptuit (Verona) SRL	373	691	1,064	30	3,649	3,679
Aptuit Global LLC	23	3,595	3,618	7	1,273	1,280
Aptuit (Oxford) Ltd.	385	9,068	9,453	420	6,078	6,498
Aptuit (Switzerland) AG	34	2,269	2,303	0	399	399
Aptuit (Potters Bar) Ltd.	8	0	8	0	0	0
	5,321	41,767	47,088	3,740	45,095	48,835

Receivables from affiliates include trade receivables in an amount of kEUR 4,821 (2017: kEUR 3,240). The remaining kEUR 42,267 (2017: kEUR 45,595) include loans which were granted by Evotec.

Due to the indebtedness of Evotec International GmbH in previous years, the receivable were impaired. In 2018, an appreciation in value to the amount of kEUR 51,069 was recorded. The accumulated depreciation amounts to kEUR 25,180 (2017: kEUR 76,249).

Other assets

	Maturity			
	< 1 Year	> 1 Year	< 1 Year	> 1 Year
	31.12.2018		31.12.2017	
	kEUR	kEUR	kEUR	kEUR
Tax authorities				
- Value added tax	284	0	34	0
- Corporate tax	235	0	0	0
Rights	0	0	515	3,700
Prepayments	71	0	0	0
Accounts payable with debit balances	12	0	13	0
Deposits	0	420	3	417
Others	10	0	207	0
	612	420	772	4,117

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.

6. Cash and cash equivalents

As at 31 December 2018 cash on hand was kEUR 1 (2017: kEUR 1) and the cash equivalents amounted to kEUR 13,622 (2017: kEUR 25,172) (thereof kEUR 6,211 (2017: kEUR 3,868) in US Dollar and kEUR 163 (2017: kEUR 1,781) in Pound Sterling).

7. Prepaid Expenses

Prepaid expenses mainly relate to ongoing maintenance contracts.

8. Equity

The share capital of the company is classified into 149,062,794 shares with a par value of EUR 1.00 made out to bearer.

In 2017, an increase of nominal capital occurred due to the exercise of stock options of EUR 1,334,923.00 and was registered in the Commercial Registry in 2018. In 2018, the nominal capital increased due to the exercise of stock options of EUR 1,530,113.00.This entry in the Commercial Registry will be made in 2019.

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 2018, 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 149,062,794.00 including the capital increases and excluding the own shares. As at 31 December 2018, 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 2018 consists of 11,788,047 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 2018 amounts to 38,304,863 shares.

The accumulated loss represents EUR 103,511,137.67 on 31 December 2018.

The capital reserves rose due to the exercised stock options by EUR 48,213.00 to EUR 243,525,664.27

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

According to section 33 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**
15.01.2018	Deutsche Asset Management Investment GmbH, Frankfurt, Germany	Acquisition/Disposal of instruments	5%	5.02%
11.04.2018	JPMorgan Asset Management (UK) Limited., London, United Kingdom	Acquisition/Disposal of instruments/Acting in Concert	3%	3.01%
11.04.2018	J.P.Morgan Investment Management Inc., Wilmington, Delaware, USA	Acquisition/Disposal of instruments/Acting in Concert	3%	3.01%
11.04.2018	JPMorgan Chase Bank, National Association, Columbus, Ohio, USA	Acquisition/Disposal of instruments/Acting in Concert	3%	3.01%
12.04.2018	JPMorgan Asset Management (UK) Limited., London, United Kingdom	Acquisition/Disposal of instruments/Acting in Concert	3%	2.96%
12.04.2018	J.P.Morgan Investment Management Inc., Wilmington, Delaware, USA	Acquisition/Disposal of instruments/Acting in Concert	3%	2.96%
12.04.2018	JPMorgan Chase Bank, National Association, Columbus, Ohio, USA	Acquisition/Disposal of instruments/Acting in Concert	3%	2.96%

Date	Notifier	Triggering event	Threshold crossed or reached	Total amount of voting rights
09.08.2018	Allianz Global Investors GmbH, Frankfurt/Main, Germany	Exceeding threshold/Acquisition/Disposal of instruments	None	5.06%
10.08.2018	Allianz Global Investors GmbH, Frankfurt/Main, Germany	Acquisition/Disposal of instruments	5%	4.96%
23.08.2018	BlackRock, Inc., Wilmington, Delaware, USA	Acquisition/Disposal of instruments	3%	3.31%
24.08.2018	BlackRock, Inc., Wilmington, Delaware, USA	Acquisition/Disposal of instruments	None	3.01%
27.08.2018	BlackRock, Inc., Wilmington, Delaware, USA	Acquisition/Disposal of instruments	None	3.39%
31.08.2018	BlackRock, Inc., Wilmington, Delaware, USA	Acquisition/Disposal of instruments	None	3.05%
05.09.2018	DWS Investment GmbH, Frankfurt, Germany	Acquisition/Disposal of instruments	5%	4.92%
21.09.2018	BlackRock, Inc., Wilmington, Delaware, USA	Acquisition/Disposal of instruments	None	2.75%
24.09.2018	BlackRock, Inc., Wilmington, Delaware, USA	Acquisition/Disposal of instruments	None	3.64%
02.10.2018	BlackRock, Inc., Wilmington, Delaware, USA	Acquisition/Disposal of instruments	None	3.62%

Date	Notifier	Triggering event	Threshold crossed or reached	Total amount of voting rights
02.10.2018	The Goldman Sachs Group, Inc., Wilmington, Delaware, USA	Acquisition/Disposal of instruments	5%	5.40%
02.10.2018	BlackRock, Inc., Wilmington, Dela-ware, USA	Correction of notification dd. 02.10.2018 on 05.10.2018/ Acquisition/Disposal of instruments	None	3,62%
03.10.2018	The Goldman Sachs Group, Inc., Wilmington, Delaware, USA	Acquisition/Disposal of instruments	5%	4.56%
04.12.2018	BlackRock, Inc., Wilmington, Delaware, USA	Acquisition/Disposal of instruments	None	3.46%
05.12.2018	BlackRock, Inc., Wilmington, Delaware, USA	Acquisition/Disposal of instruments	None	3.46%
10.12.2018	BlackRock, Inc., Wilmington, Delaware, USA	Acquisition/Disposal of instruments	None	3.44%
13.12.2018	BlackRock, Inc., Wilmington, Delaware, USA	Acquisition/Disposal of instruments	None	3.53%
17.12.2018	BlackRock, Inc., Wilmington, Delaware, USA	Acquisition/Disposal of instruments	None	3.46%
18.12.2018	BlackRock, Inc., Wilmington, Delaware, USA	Acquisition/Disposal of instruments	None	3.48%
19.12.2018	BlackRock, Inc., Wilmington, Delaware, USA	Acquisition/Disposal of instruments	None	3.48%

9. Provisions for pensions and similar obligations

Pension accruals were set up according to a valuation by Mercer Germany GmbH, Hamburg 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 147 on 31 December 2018 (2017: kEUR 156). In 2017 the provisions for pensions were netted against an insurance cover, constituting as plan asset, amounting to kEUR 85.

The difference according to section 253 paragraph 3 HGB amounts kEUR 12 and is subject to a restriction in profit distribution.

10. Other provisions

	31.12.2018 kEUR	31.12.2018 kEUR
Bonus	2,643	2,160
Outstanding invoices	1,993	1,679
Unclaimed vacation	581	519
Supervisory board remuneration	305	305
Year-End audit expenses	217	126
Overtime Hours	128	0
Partial retirement	97	186
Interest derivatives	26	49
Others	200	8
	6,190	5,032

11. Liabilities

Liabilities to banks

As of 31 December 2018, the liabilities to banks mainly comprise ten loans in the total amount of kEUR 107,692 (2016: kEUR 182,887). They comprise no interests in 2018 (2017: kEUR 159). No loans are secured.

Maturity							
31.12.2018				31.12.2017			
< 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
53,993	53,699	0	107,692	164,608	18,279	0	182,887

Trade payables

As in 2017, the trade payable are completely due within one year.

Liabilities to affiliates

	Maturity			
	< 1 year	> 1 year	< 1 year	> 1 year
	31.12.2018		31.12.2017	
	kEUR	kEUR	kEUR	kEUR
Evotec (UK) Ltd.	667	22,583	557	24,880
Evotec International GmbH	0	0	7,593	0
Evotec (US) Inc.	226	0	451	0
Evotec (München) GmbH	203	0	606	0
Evotec (France) SAS	473	27,378	295	27,111
Evotec ID (Lyon) SAS	0	10,000	0	0
Cyprotex Discovery Ltd.	200	0	9	0
Aptuit (Switzerland) AG	0	0	36	0
	1,769	59,961	9.547	51.991

As in the prior year the balances mainly consist of loan liabilities against Evotec (France) SAS in the amount of kEUR 27,378, Evotec (UK) Ltd. in the amount of kEUR 22,583 and against Evotec Lyon (SAS) in the amount of kEUR 10,000 and trade payables. The trade payables amount to kEUR 1,769 (2017: kEUR 1,954). None of the Liabilities are due more than 5 years.

The offsetting of receivables from affiliates and liabilities to affiliates includes kEUR 172 receivables from Evotec (UK) Ltd., kEUR 514 from Evotec (US) Inc. and kEUR 57 from Evotec (München) GmbH. Liabilities to affiliates include kEUR 391 liabilities from Evotec International GmbH, kEUR 6 from Evotec Lyon (SAS) and kEUR 1 from Aptuit (Switzerland).

Other Liabilities

The other liabilities mainly consist of a wage tax liability to the amount of kEUR 1,473 (2017: kEUR 329). As in 2017, all other liabilities are due within one year.

13. Deferred revenue

Deferred revenue mainly relate to current customer projects.

V. Comments on the Statement of Operations

1. Revenues

The company recorded revenues of kEUR 77,631 (2017: kEUR 75,184) through research and development services, thereof kEUR 37,365 with affiliated companies (2017: kEUR 30,778).

The external revenues amounted to kEUR 40,266 (2017: kEUR 44,406) including revenues from milestones of kEUR 6,513 (2017: kEUR 10,500) and rental income of kEUR 311 (2017: kEUR 305).

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

	2018 kEUR	2017 kEUR
United States of America	25,825	21,730
Germany	9,641	13,528
Austria	1,725	1,833
United Kingdom	794	101
Switzerland	583	92
Belgium	209	2,183
France	83	3,759
Rest of the world	910	279
Rest of Europe	496	901
Total	40,266	44,406

2. Other operating income

	2018 kEUR	2017 kEUR
Appreciation in value receivable loan	51,072	5,865
Currency gains	1,069	733
Insurance reimbursement	0	0
Income from reversal of accruals	99	164
Subsidies	97	71
Others	25	27
	52,362	7,704

The other operating income includes income for other accounting periods to the amount of kEUR 51,163, which are mainly related to the appreciation in value of receivable loan.

3. Cost of Materials

The costs of materials in 2018 amounted to kEUR 32,282 (2016: kEUR 30,493) including mainly costs of purchased services with affiliated companies to the amount of kEUR 23,155 (2017: 20,811).

4. Other operating expenses

	2018	2017
	kEUR	kEUR
Legal and consultancy expenses	2,626	4,989
Rental expenses including related costs	2,279	1,811
Incidental wage costs	2,152	1,452
Currency losses	2,026	3,101
IT consumables and software	1.602	738
Service and maintenance	1.289	1.176
Reconstruction / moving expenses	1.001	886
Cost for services	774	549
Royalty costs	574	631
Insurance	486	399
Others	5.732	5.260
	20,541	20,992

5. Currency result

In 2018, the company recorded income relating to unrealised FX effects to the amount of kEUR 0 (2017: kEUR 0) and expenses relating to unrealised foreign exchange effects amounting to kEUR 110 (2017: kEUR 2,427).

V. Other Information

Audit Fees

Concerning the audit fees, reference is made to the consolidated financial statements of Evotec.

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 2018 was 378 (2017: 316). Thereof 70 employees serve in sales and administration functions (2017: 58).

Other financial obligations

The other financial obligations for 2018 mainly relate to obligations from service contracts, rent and leasing and add up to kEUR 3,865. The total amount of all existing obligations for the period 2020 to 2023 is kEUR 8,365. The other obligations for later periods add up to kEUR 0.

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.

Derivative financial instruments

	Nominal amount kEUR	Fair value kEUR	Book value kEUR	Balance sheet item
Interest rate transactions	8,000	7,974	n.a.	n.a.
Currency transactions	24,236	23,962	n.a.	n.a.

The interest rate transactions relate solely to interest rate swaps. The currency transactions comprise forward exchange contracts in USD and GBP.

A provision for potential losses of kEUR 300 was recognized for open positions.

Guarantees and Other Commitments

In order to mitigate the legal consequence of over-indebtedness of Evotec International GmbH (kEUR 66,914) Evotec 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.

In order to also mitigate the legal consequence of over-indebtedness of Cyprotex PLC (kEUR 6,163) Evotec 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.

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) (until 31.12.2018);

Dr Craig Johnstone, Chemist, Castillon-Savès, Frankreich (Chief Operating Officer) (since 01.01.2019)

The remuneration paid to the members of the Management Board in the financial year of 2018 totalled kEUR 4,147 (2017: kEUR 5,202) of which kEUR 1,301 (2017: kEUR 896) is a variable remuneration and of which kEUR 1,266 (2016: kEUR 2,724) is a remuneration with long-term incentive effect. The remuneration includes kEUR 1,041 for Dr Mario Polywka, which was not paid by the company 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 2018, payable on the achievement of certain strategic targets in the business year 2017, 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

On 31 December 2018, the company has an accrual for the variable remuneration, which will paid to the Management Board in March 2019, amounted to kEUR 829 (2017: kEUR 1,066). This accrual includes kEUR 420 (2017: kEUR 420) for Dr Werner Lanthaler, kEUR 238 (2017: kEUR 238) for Dr Cord Dohrmann and kEUR 171 (2017: kEUR 171) for Enno Spillner. The variable remuneration for Dr. Mario Polywka was paid in 2018 due to his retirement.

In addition to their fixed and variable remuneration, the members of the Management Board received 103,861 Share Performance Awards (SPA) in 2018 under the Company's share performance plan. These Share Performance Awards vest after four years according to achievement versus defined key performance indicators over a three-year performance measurement period. The fair values of all Share Performance Awards granted as of the grant date amounted to a total of kEUR 1,266.

	2018 Fixed kEUR	2018 Variable kEUR	2018 Stock options pcs	2018 Fair value kEUR	2018 Total remuneration kEUR
Dr Werner Lanthaler	519	420	57,065	696	1,635
Dr Cord Dohrmann	355	235	16,828	205	795
Dr Mario Polywka	371	475	15,978	195	1,041
Enno Spillner	335	171	13,990	170	676
Total	1,580	1,301	103,861	1,266	4,147

The members of the Management Board of Evotec 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 Craig Johnstone, 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 82 in 2018 (2017: kEUR 74) 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 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, AC Immune SA, Lausanne, Switzerland, and Topas Therapeutics GmbH, Hamburg, Germany.

Dr Mario Polywka is Member of the Board of Directors of Forge Therapeutics, Inc., San Diego, USA, and of Exscientia Ltd., Dundee, United Kingdom.

Dr Cord Dohrmann is Member of the Supervisory Board of Eternygen GmbH, Berlin, Germany, and FSHD Unlimited Coorp, Leiden, Netherlands.

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 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;

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 (2017: 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
Penguin Random House LLC, New York/US

Member of the Supervisory Board:
Symrise AG, Holzminden/DE

Dr Claus Braestrup

Non-Executive Member of the Board of Directors:
Bavarian Nordic A/S, Kvistgaard/DK
Saniona AB, Malmö/SE
Kastan ApS, Frederiksberg/ DK

Prof Dr Iris Löw-Friedrich

Member of the Supervisory Board:
Fresenius SE & Co. KGaA, Bad Homburg/DE
TransCelerate BioPharma Inc, King of Prussia/US

Michael Shalmi

<u>Member of the Supervisory Board:</u>
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
ENV HoldCo A/S, Hellerup/DK
Sonion HoldCo A/S, Roskilde/DK

Elaine Sullivan

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

Subsequent events

No subsequent events occurred that require recognition or disclosure in the financial statements.

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.

Hamburg, 19th March 2019

Dr. Werner Lanthaler   Dr. Cord Dohrmann   Dr. Craig Johnstone   Enno Spillner

EVOTEC AG

MANAGEMENT REPORT FOR 2018

Table of contents

I. Operations and business environment

Organisational structure and business activities

– Business model

Evotec is a drug discovery and development solutions provider for 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, first-class scientific operations and key therapeutic area expertise, Evotec creates and connects innovative, proprietary technology platforms to identify and develop best-in-class and first-in-class differentiated therapeutics for collaborators and for its own internal pipeline.

Evotec has a unique business model that allows the Company to act as a service provider for the life science industry (EVT Execute) while also running its own discovery and development projects in co-owned (i.e. risk-and-reward-sharing) models (EVT Innovate). Both segments operate on the same scientific platforms and share a common workforce.

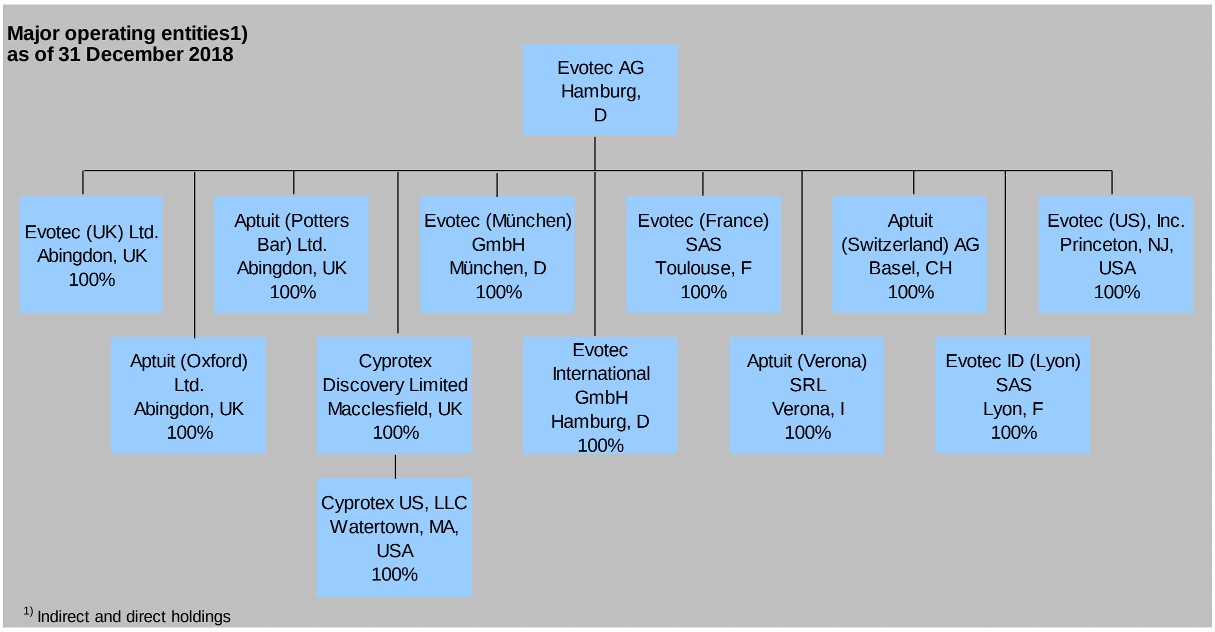
Evotec's services (EVT Execute) comprise stand-alone or integrated drug discovery and development solutions tailored to the customers' needs. Through continuous investments in its cutting-edge technology platforms, Evotec is able to offer its customers a unique portfolio of first-class scientific services for the discovery and development of innovative therapeutics protected by the partners' intellectual property. Evotec provides these services through a range of commercial structures, most of them FTE-based.

In its EVT Innovate segment, Evotec leverages its proprietary technology platforms to develop new drug discovery projects, assets and platforms, both internally or through academic collaborations to create 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 dual business model can be found in the section "Corporate objectives and strategy" on page 6 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. At Evotec's Annual General Meeting ("AGM") 2018, it was decided to convert Evotec AG into Evotec SE. Preparation for this switch are currently ongoing and the conversion is expected to be completed in the first half of 2019.



Effective 01 July 2018, Evotec AG took over Sanofi's infectious disease unit including a team based in Marcy l'Étoile (France) along with a portfolio of R&D assets licenced to its affiliate Evotec International.

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

Evotec employed 390 people at the end of 2018 (2017: 340).

– Evotec's products and services

Alliances and partnerships

Evotec's partners include directly or through Evotec International many of the Top 20 pharmaceutical companies, as well as biotechnology and mid-sized pharmaceutical companies, academic institutions, foundations and not-for-profit organisations. In 2018, Evotec continued to deliver on established, long-term partnerships. An overview of Evotec's Top customers in 2018 is given in the table "Development of Top 10 collaborations" on page 10 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 10 of this Management Report.

Integrated 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 EVT Execute > Drug Discovery Services section on Evotec's website (www.evotec.com).

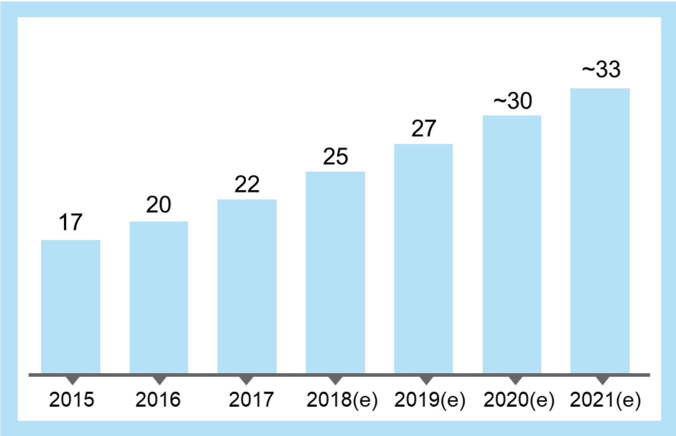
– Market and competitive position

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 2018, this macro trend continued. Through access to flexible external innovation, significant 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, expertise and infrastructure, thereby reducing their timeline to entry as well as development risk.

Based on research by Visiongain, the drug discovery outsourcing market generated $ 14.5 bn in global revenues in 2014. The market is expected to increase to $ 27.1 bn by 2019 and to $ 41.2 bn by 2025, representing an annual average 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, while at the same time continuing to consolidate mainly through M&A activity. 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.

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 West, 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 record of accomplishment in successful innovation and delivery. The Company's unique discovery and development platforms as well as the opportunity to manage discovery and development projects in an integrated way under one roof gives Evotec a competitive edge over traditional contract research organisations ("CROs") which can only offer selective services. Through the acquisition of the Sanofi site in Lyon, Evotec has in addition assumed a global leadership position in anti-infectives R&D, a market with both significant medical need and potential for further expansion. Evotec's growth continues to track the growth in outsourcing in both discovery and development.

Corporate objectives and strategy

Evotec and its affiliates are striving to become the world-leading innovation partner in drug discovery and development for biotechnology and pharmaceutical companies, not-for-profit organisations and academic institutions. Revenue-generating partnerships provide near-term growth and profitability, while an ever-growing co-owned pipeline of first-in-class products is expected to generate additional substantial financial upside through potential achievement of success-based development milestones and royalties on product sales. This unique business model aims to continuously increase the value of Evotec for its shareholders.

Evotec's strategy is based on a clear focus on highest quality science, superior platforms, and highly efficient processes that will lead to significant, long-term productivity improvements in the industry. In order to achieve this goal, the Company has been implementing strategic action plans: Action Plan 2012 – Focus and Grow, Action Plan 2016 – Leadership in Drug Discovery Solutions, and most recently Action Plan 2022 – Leading External Innovation, which was launched at the beginning of 2018. Three key cornerstones of these action plans are (i) to build a diverse and financially de-risked portfolio of co-owned, first-in-class clinical drug product opportunities with a broad range of partners in the pharmaceutical and biotech industry, (ii) to develop the next generation of drug discovery platforms that especially support the mega trend towards more personalised and precision medicine, and (iii) to selectively participate in high-potential ventures through strategic investments and company formations.

In order to support patient-centric approaches, Evotec is accessing large patient data sets to re-define patient populations according to molecular phenotypes. Evotec has built an industrialised induced pluripotent stem cells ("iPSC") infrastructure that represents one of the largest and most sophisticated iPSC platforms in the industry.

Today, Evotec has established together with its affiliates a leadership position in the 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 state-of-the art platform capabilities, Evotec and its affiliates have built a deep internal knowledge base in a large number of therapeutic areas such as neuronal diseases, diabetes and complications of diabetes, pain and inflammation, oncology, and infectious. In 2018, Evotec continued to operate through its two business segments: EVT Execute and EVT Innovate. These segments effectively comprise various project types operating from a shared drug discovery and development platform. A description of both business segments can be found in the "Organisational structure and business activities chapter" on page 4 of this Management Report.

In 2018, Evotec consistently delivered on its strategy by accelerating the further expansion of its co-owned product pipeline, growing the Company's industrial drug discovery platform and driving efficiencies across the drug discovery and development value chain as indicated in the table below. In-depth information on Evotec's activities in R&D as well as on corporate events in the course of 2018 is available in the chapters "Research and Development" and "Significant corporate development events 2018" on pages 11 and 19, respectively, of this Management Report.

The Company's 2018 specific objectives for its two business segments as well as for corporate and major achievements in 2018 are summarised in the following table:

	Specific objectives 2018	Major achievements 2018
EVT Execute	• Increased support of new deals through Evotec's subsidiaries • Continuation of performance-based integrated technology/ disease alliances • Milestones from existing alliances	• Extended and new alliances with CHDI, Forge, Dermira, C4X, Blackthorn, and Katexco partly through Evotec's subsidiaries • Successful continuation of Bayer endometriosis alliance • Milestones in Bayer endometriosis/chronic cough alliance
EVT Innovate	• Further expansion of iPSC (induced pluripotent stem cells) platform to support Evotec's subsidiaries	• Successful support of Evotec's subsidiaries in the Celgene collaboration in neurodegenerative diseases using the iPSC-platform • Acquisition of Evotec ID (Lyon) and new strategic efforts in infectious diseases
Corporate	• Continued integration of Cyprotex and Aptuit • Corporate investing initiatives	• Strong performance of high-throughput ADME-tox testing at Cyprotex; integration of Cyprotex completed; Aptuit integration on track • Investments in Carrick, Eternygen, Exscientia, FSHD Unlimited

Evotec is well-positioned to continue delivering 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 biotech and Pharma R&D;
- Expanding critical mass through highly experienced drug discovery and development expertise across various indications;
- Accelerating innovative projects along the drug discovery and development value chain to better serve industry needs and ultimately patients;
- Continuing its efforts to ensure to be industry leader in the iPSC-based drug discovery platform; and
- Investing strategically in game-changing platforms, company formations and new approaches to expand its co-owned pipeline

The Company's objectives defined for 2019 can be found in the "Business direction and strategy" section of the "Outlook" chapter on page 48 of this Management Report.

Performance measurement

– Financial performance indicators

As set out in the "Corporate objectives and strategy" chapter on page 6 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). Liquidity consists of cash on hand and bank balances as well as other securities. 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") and interest 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

A multiple-year overview of the performance of Evotec's current financial key performance indicators for the years 2015-2018 is shown in the table below.

in k EUR	2015	2016	2017	2018
Revenues	62,875	71,414	75,184	77,631
Adjusted EBITDA	(9,524)	28,571	13,114	67,986
Liquidity	61,014	31,639	43,134	29,152

A reconciliation of adjusted EBITDA with operating result can be found on page 23 of this Management Report

The Company's 2018 performance compared to planned figures can be found in the "Comparison of 2018 financial results with forecast" chapter on page 22 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**

	2015	2016	2017	2018
Total customers	37	26	31	31
Number of external customers	32	21	26	23
Number of external customers > € 1m revenues	8	9	7	7
New external customers in the year	7	4	0	0

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

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

In k EUR	2015	2016	2017	2018
TOP 3	33,174	41,173	49,925	56,255
TOP 4 – 10	20,490	24,702	21,318	17,785
Total TOP 10 revenues	**53,663**	**65,875**	**71,243**	**74,040**
Growth in %	*-1%*	*23%*	*8%*	*4%*

** TOP 3 Customer overview is based on 2018 revenue rating*

The number of external customers decreased in 2018 to 23 external customers (2017: 26 external customers). This slight decrease is because new external contracts are mainly closed with Evotec's subsidiary Evotec International GmbH. The number of external customers with which Evotec AG generates more than € 1m of revenues per year is unchanged compared to 2017 with a total of seven customers. Evotec's number one customer in 2018 was Evotec International with € 33.1 m revenues. Revenues with the Top 3 customers increased by 12% to € 56.3 m compared to 2017. Evotec's repeat business, as defined by the percentage of 2018 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. Based on this highly comprehensive platform, Evotec and its affiliates offer standalone services, fully integrated drug discovery and development solutions as well as first-in-class projects. The business structure of such collaborations is highly diverse, ranging from fee-for-service arrangements, through risk- and reward-sharing models, to fully funded R&D partnerships based on Evotec projects and platforms.

Strong expansion of Evotec's project pipeline in 2018

Over the last years, Evotec has built a broad and diverse pipeline of partnered projects bearing 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 these projects internally and then to partner these projects at 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. The EIB will essentially co-fund all of Evotec's EVT Innovate R&D projects and equity investments over a period of four years. This co-financing substantially reduces Evotec's cost of capital for innovation. In 2018, € 16.4 m of additional funding was drawn down from this EIB loan facility, totalling to a funding of € 33 m until the end of 2018, to support ongoing and new EVT Innovate projects.

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.

New strategic efforts in infectious diseases via acquisition of Evotec ID (Lyon)

Effective 01 July 2018, Evotec acquired Sanofi's R&D infectious disease unit in Lyon. This acquisition provides Evotec Group with the largest global footprint in infectious disease capabilities in the industry and a broad pipeline of drug candidates and discovery projects. Evotec intends together with its subsidiaries to accelerate the infectious disease research pipeline development and initiate new open innovation R&D initiatives in anti-infectives.

Evotec's partner Haplogen enters into Bayer collaboration in pulmonary diseases

Since the beginning of their partnership in 2012, Evotec and Haplogen have been building a robust portfolio of pulmonary therapeutic programmes based on the industry-leading drug discovery platforms and knowhow of both companies. In August 2018, Haplogen entered into a multi-year drug discovery and development collaboration with Bayer AG to identify new therapeutics with applications in pulmonary diseases such as chronic obstructive pulmonary disease ("COPD"). As part of the new Haplogen collaboration, Bayer receives an exclusive licence to worldwide rights to programmes developed within the collaboration between Haplogen and Evotec. Evotec participated in an undisclosed upfront as well as potential milestone and royalty-based payments from Haplogen.

Strong focus on induced pluripotent stem cell ("iPSC") platform in 2018

Over the course of 2018, 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.

Participating in equity investments

As part of Evotec's EVT Innovate strategy, Evotec continued to participate in strategic investments in 2018 with the aim of developing assets to key value inflection points.

In August and December 2018, Evotec contributed in total € 1.5 m to two financing rounds of FSHD Unlimited Coorp. ("FSHD Unlimited"), resulting in an overall Evotec investment of € 3.1 m and an equity stake of 19.91% in the company. FSHD Unlimited solely focuses on finding a safe, effective, and affordable cure for FSHD, a progressive muscle-wasting disease, for which there is currently no treatment option available. In October 2018, achieved an important pre-clinical proof-of-concept milestone in an animal model of FSHD.

In October 2018, Evotec contributed $ 1.4 m to a financing round of Carrick Therapeutics ("Carrick"), resulting in an overall Evotec investment of € 3.1 m equity stake of 4.29% in the company. Carrick is building a portfolio that targets multiple mechanisms that drive cancer.

In October 2018, Evotec contributed € 0.27 m to a financing round of Eternygen GmbH ("Eternygen"), resulting in an overall Evotec investment of € 1.8 m and an equity stake of 22.86% in the company. Eternygen is targeting metabolic diseases.

In December 2018, Evotec contributed approximately $ 6 m to a financing round of Exscientia Ltd ("Exscientia"), resulting in an overall Evotec investment of € 20.0 m and an equity stake of 23.70% in the company. Exscientia, the world-leading Artificial Intelligence (AI)-driven drug discovery company, has raised $ 26 m in this Series B financing round. Celgene Corporation and GT Healthcare Capital Partners joined as new investors and Evotec, previously the only large external investor, fully participated in this round. The company will use the proceeds of this financing round to grow its 'full stack' AI drug discovery capability and to expand its pipeline, with a target of establishing an expansive portfolio of projects, both in-house and with partners.

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 selected projects and their progress is listed below.

Bayer – BAY-1817080 (Chronic cough)

Background

Bayer and Evotec entered into a 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

In 2017, an existing asset from the endometriosis collaboration was progressed into pre-clinical development in an additional indication (chronic cough). Following positive results from a clinical Phase I study in healthy volunteers, this asset has been advanced into Phase II clinical development for the treatment of chronic cough in the course of 2018.

Bayer – Endometriosis (various)

Background

Bayer and Evotec entered into a 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 2018, the alliance with Bayer continued its strong performance of the previous years and further promising small molecules for the treatment of endometriosis advanced into Phase I clinical studies. Since the beginning of the collaboration in 2012, six first-in-class/best-in-class pre-clinical candidates have been generated, from which three programmes have progressed into Phase I. Additionally, an existing asset from this alliance progressed into Phase II clinical studies in chronic cough (see above). After meeting all of its initial goals, this FTE collaboration ended as planned at the end of 2018. Bayer continues the programmes into clinical development and Evotec participates in future upside potential.

Carrick – CT7001

Background

In 2016, Evotec deepened its existing relationship with Carrick by participating in Carrick's financing round. CT7001 originated from Cancer Research UK funded scientists at Imperial College London and was licensed to Carrick by the charity's Commercial Partnerships Team. CDK7 inhibition has emerged as a promising strategy in a range of cancer indications. CT7001 was found to be effective in pre-clinical models of breast cancer, both hormone receptor positive and triple-negative, and transcriptionally driven cancers such as acute myeloid leukaemia and small-cell lung cancer (SCLC). Due to its differentiated mechanism, CT7001 is also predicted to be efficacious where resistance has developed to current therapies.

Status

At the end of 2017, Carrick announced that the first patient has been dosed in a Phase I clinical programme of CT7001. In 2018, this study was ongoing. In October 2018, Evotec contributed $ 1.4 m to a financing round of Carrick.

Update on EVT Execute activities in 2018

<u>Contract extensions and milestone achievements</u>

In 2018, Evotec's long-term agreement with CHDI Foundation in Huntington's disease was extended for another 5 years to 2023.

In 2018, EVT Execute's strong operational performance was underlined by important milestone achievements in its collaborations with Bayer in the field of Endometriosis (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 for delivering on its strategy. As of 31 December 2018, 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 its EVT Innovate research 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

In 2018, the global economy grew at prior year levels. According to a World Bank publication in January 2019, the global economy is expected to grow at a rate of 3.0% in 2018 (2017: 3.1%). Global economic growth is expected to edge down to 2.9% in 2019. The World Bank states that 2018 was characterised by withdrawal of monetary policy in advanced economies and a resulting tightening of the global financing conditions. In emerging market economies, however, overall growth was estimated to have reached 4.2% in 2018 and is expected to remain on that level in 2019 (4.2%). The Eurozone is expected to show a decelerated growth of 1.9% in 2018 (2017: 2.4%), mainly due to uncertainties regarding the BREXIT and the European Union's ("EU") budget dispute with Italy. The growth of the US economy is projected to reach 2.9% in 2018 after 2.2% in 2017. This increase is mainly driven by the Bipartisan Budget Act signed on 09 February 2018, which increases US government spending over three years. According to the Federal Statistical Office, the German economy grew at a rate of 1.5% of its price-adjusted gross domestic product in 2018 (2017: 2.2%), reflecting a reduced momentum in exports as well as uncertainties regarding international trade barriers.

– Recent trends in the pharmaceutical and biotechnology sector

Evotec's business model is aligned with mid- and long-term economic trends, rather than short-term economic developments. Therefore, the following outline does not only focus on the year under review, but also takes future trends within the pharmaceutical and biotechnology sector into consideration. In 2018, the Company observed many trends in the pharmaceutical and biotechnology sectors that affect elements of its business model and that it must be aware of to execute on its goals.

Today, the pharmaceutical and biotechnology sectors are entering a new era called the consumer era. Since Evotec's inception in 1993, the drug discovery and development industry has moved through two phases, one where the doctors were the target market and the second where the insurance companies or payers were the target. Nowadays, the consumer becomes the target for all companies seeking to commercialise a drug. The driving force behind the shift to the consumer era is the rise of individual or personalised medicines, with the ultimate goal to deliver the right drug to the right patient through the understanding of disease biomarkers and the use of targeted therapies. Cutting-edge examples of these types of medicines are cell therapies, gene therapies, immunotherapies, and predictive diagnostic tests with known disease biomarkers. Personalised immuno-oncology drugs are also advancing. This approach mobilises the patient's own immune system to fight and destroy the cancer from within. Examples include CAR-T cell therapies and PD1/PD-L1 checkpoint inhibitors, which remove the cloak that tumour cells use to prevent immune detection. By 2024, EvaluatePharma predicts the two top checkpoint inhibitors, Merck's Keytruda and Bristol-Myers Squibb's Opdivo, will generate more than $ 11 bn in annual sales.

2018 was a record year for U.S. Food & Drug Administration ("FDA") approvals: Of the 59 new molecular entities approved in 2018, 14 had breakthrough designation. Combined, the FDA has now approved more personalised medicines than ever before, bringing the total to ~150 FDA-approved drugs with biomarker information on their drug label. A steadily growing portion of these new personalised medicine drugs originate from biotech companies, confirming the trend that the biotechnology industry is focused on individual patients. While more of these medicines are being approved by the FDA, a number of significant challenges have emerged. These include the cost of research and development, ongoing patent expirations, regulatory hurdles, and drug pricing and reimbursement issues.

The pharmaceutical industry continues to seek more capital-efficient ways to accelerate the discovery and development of new therapeutics, including many types of personalised medicines. These come with expensive development and manufacturing costs that biotechnology companies themselves cannot manage successfully. Instead, companies forge new partnerships and collaborations in drug discovery to deliver these important innovative personalised therapies to the patients. Research partnership companies like Evotec stand to benefit from this trend.

There are several key aspects of innovation influencing the development of more personalised medicines through partnerships and collaborations. All these approaches could pave the way for more effective drug development:

- Artificial intelligence, machine learning, deep learning techniques
- Patient-derived disease models (e.g. iPSC)
- Technology platforms such as CRISPR and ribonucleic acid ("RNA") therapeutics and mRNA technologies
- Broader human genetic testing to match patients and treatments

At the other end of the spectrum, 2018 witnessed the continued migration of Big Pharma out of infectious disease research and development, with e.g. Novartis, AstraZeneca, and Allergan abandoning their antibacterial programmes. This R&D trend runs counter to the urgent global need for new classes of antimicrobials to fight multi-drug resistant infections. As a result, more and more incentives are being offered to companies working in this field. In the USA, the government offers extended patent exclusivity, along with subsidies that could be worth hundreds of millions of dollars. CARB-X, a non-profit public-private partnership, is investing $ 500 m in antibacterial research. With its longstanding expertise in infectious diseases, Evotec is now uniquely placed to support the progress of novel antimicrobial programmes through partnerships and to advance its own pipeline of drugs. These capabilities received a major boost in 2018 with Evotec's acquisition of Sanofi's infectious disease unit and most of its research portfolio and initiatives. With now more than 180 scientists, the deal more than doubled Evotec's employee presence in infectious diseases.

Overall, the global pharmaceutical and biotech sector is in a very strong position, with a worldwide spending on medicines forecasted to reach nearly $ 1.4 trillion by 2020. The biotechnology market is estimated to be worth $ 727 bn by 2025, with an annual growth rate of 7.4%.

– Development of legal factors

Companies involved in drug discovery and development operate in highly regulated environments. 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 engage 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 EU, the FDA in the USA and other national regulatory and supervisory authorities. Evotec focuses on drug discovery and development and, in some specific cases, also supports commercial products 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 changes to 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.

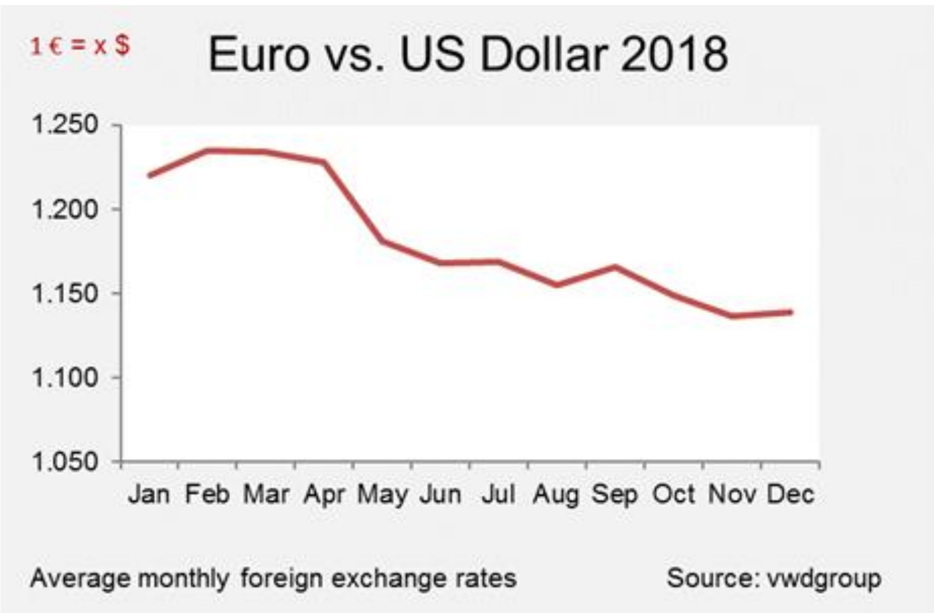
In 2018, legal factors affecting Evotec were largely unchanged, and the Company's operating business was not materially affected. However, on 25 May 2018 the General Data Protection Regulation ("GDPR"), the new European data protection law, came into effect. It superseded the Data Protection Directive 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. Evotec is fully committed to developing and maintaining its own as well as supporting its customers' compliance with the GDPR in relation to services provided by Evotec. In preparation for BREXIT, Evotec is closely monitoring developments and is committed to preparing and implementing measures needed in order to comply with applicable laws.

– Exchange rate development, interest rates and financing

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

The biggest impact from currency movements on Evotec's financial position in 2018 resulted from the Euro (€) to Dollar ($) exchange rate. The Euro (€) to US dollar ($) exchange rate fluctuated between $ 1.12 and $ 1.25 to the Euro. On average, the US dollar weakened against the Euro from $ 1.13 per Euro in 2017 to $ 1.18 per Euro in 2018, to the disadvantage of Evotec, as Dollar denominated revenues and assets result in lower values after conversion into our reporting currency Euro. Trading in the range of $ 1.20 to $ 1.25 from January through April 2018, the Euro then weakened significantly to $ 1.15 in May and continued with a downward tendency for the rest of the year, fluctuating between $ 1.13 and $ 1.18, and closing at $ 1.15 at the end of 2018 (end of 2017: $ 1.20).

– 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 2018 but increased slightly from (0.33)% to (0.31)% during the year. The ECB continued its bond-buying programme and extended Quantitative Easing ("QE") with a reduced volume of € 30 bn per month into 2018. In June 2018, the ECB announced that the bond-buying activities would likely phase out by the end of 2018 with a reduced volume of € 15 bn per month for the last three months of 2018.

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 2018

2018 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 11 of this Management Report.

- Acquisition of Evotec ID (Lyon)

Effective 01 July 2018, Evotec acquired 100% of the shares of Evotec ID (Lyon), the former Sanofi infectious disease unit in Lyon. The collaboration resulted in upfront payments to Evotec's subsidiaries of € 61 m (€ 43 m in cash plus € 18 m cash of the acquired company). Furthermore, Evotec's subsidiaries are eligible for significant further long-term funding from Sanofi in order to ensure support and progression of the portfolio and to cover certain employee-related expenses. Sanofi retained certain option rights on the development, manufacturing, and commercialisation of anti-infective products.

This acquisition provides Evotec Group with the largest global footprint in infectious disease capabilities in the industry and a broad pipeline of drug candidates and discovery projects. Evotec together with its subsidiaries aims to accelerate infectious disease research and development through a new open innovation platform together with academic partners, biotech and pharmaceutical companies, foundations, and government agencies. At the time of the acquisition, this unit had more than 100 employees to be integrated into Evotec Group's global drug discovery and development operations.

- Repayment of major part of the Aptuit acquisition loan

During the course of 2018, Evotec was able to repay a major part (€ 110 m) of the debt bridge facility being granted in the context of the Aptuit acquisition in 2017 (total of € 140 m). This repayment was enabled mainly through the received repayments of intercompany loans, through dividend payments from subsidiaries and because parts of the loan could be re-financed at highly attractive terms.

- Conversion into European Company (SE) initiated

At the Annual General Meeting 2018 in Hamburg, Evotec's shareholders voted in favour of the conversion of the Company into a European Company with a majority of 99.96%. Following this resolution, Evotec entered into mandatory negotiation processes with a Special Negotiation Board ("SNB"), which are ongoing regarding the future arrangements for employee involvement. After conclusion of these negotiations, Evotec AG will be transferred into Evotec SE with the registered seat and headquarters remaining in Hamburg, Germany. This conversion reflects the continuing international focus of the

Evotec Group, which has grown considerably in recent years with subsidiaries in France, Germany, Italy, Switzerland, the United Kingdom and the USA.

- Evotec AG share listed in MDAX

Following the rule changes of Deutsche Börse regarding the inclusion of companies in the MDAX, SDAX and TecDAX, the Evotec shares were included in the MDAX effective 24 September 2018, triggering a dual listing of the Evotec shares in both TecDAX and MDAX, and, subsequently resulting in a higher visibility of the share to the financial community. Evotec was able to meet the relevant criteria of the MDAX index regarding market capitalisation of the free float as well as trading volume.

- Evotec Group profitability guidance increased

On 19 December 2018, Evotec increased the Evotec Group profitability guidance for 2018. In this updated guidance, the Company expects the adjusted Group EBITDA to increase by more than 45% (previously: approx. 30%) in 2018 compared to 2017 following a strong Evotec Group business performance leading to increased margin contribution, important scientific milestone achievements in Evotec Group in the fourth quarter of 2018 as well as increased Evotec Group other operating income due to e.g. R&D tax credits in the second half of 2018.

- Dr Mario Polywka retiring as Chief Operating Officer as of 31 December 2018

Effective 31 December 2018, Dr Mario Polywka retired as Chief Operating Officer of Evotec after having served on the Evotec Management Board for 13 years and having headed the EVT Execute segment since its inception in January 2014. Dr Craig Johnstone succeeded Dr Polywka as Chief Operating Officer as of 01 January 2019. Dr Johnstone is a successful drug discovery leader with over 20 years' experience. He joined Evotec in 2012.

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 continued financial pressure, resulting primarily from patent expiries 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, including investments in new emerging trends in healthcare (e.g. personalised medicines). In recent years, this has resulted in significant restructuring and consolidation in the industry including diversification, large-scale mergers, increasing research and development efforts, cost reduction programmes and the pursuit of biotech acquisitions. 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 different from existing treatments. As a consequence, the pharmaceutical industry requires innovation in drug discovery in a capital-efficient manner at a good pace and increasingly relies on new partnership and collaboration deal structures to access innovation and accelerate the discovery and development of new drugs.

Evotec believes that these market dynamics will continue to lead towards greater outsourcing opportunities. In 2018, the number of projects and demand from newly founded US and European companies grew further, thus continuing the trend from previous years. 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 have become an important customer group for Evotec. As these companies often tend to operate virtually rather than with their own operational infrastructure, Evotec can provide the entire drug discovery and development platform required to deliver on their projects and help them accelerate their products to further milestones of value generation. To meet these market requirements and trends, Evotec continued to invest heavily in upgrading its platforms and recorded capital expenditures of € 4.8 m in 2018, again increasing its spend on its platforms compared to previous years. Furthermore, Evotec selectively invests in asset-centric start-up companies at a pre-seed and seed stage.

The fact that many promising drug candidates fail during clinical development underlines the current technical limits of pre-clinical models for efficacy and safety, which are currently used in the drug discovery process, and emphasises 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 its activities on the iPSC field. Evotec also continued to invest in the further development and expansion of its iPSC platform in 2018.

Comparison of 2018 financial results with forecast

	Forecast report 2017	Final result
Revenues	Similar Level as 2017	+3%
Adjusted EBITDA	Positive result in form of a one-digit million range	€ 68.0m

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).

As written in the outlook section of the Management report 2017, Evotec expected revenues for the financial year 2018 to be on similar level compared to 2017. Evotec ended the financial year 2018 with revenues of € 77.6 m. This corresponds to an increase of 3% in comparison to 2017 and to the guidance. The increase in base revenues is mainly driven by a revenue increase with the affiliated Evotec International in 2018. The adjusted EBITDA was € 68.0 m and significantly higher than expected. The improved profitability resulted mainly from an increase in other operating income which included a partial write up of an intercompany loan to Evotec International of € 51.1 m (2017: € 5.9 m). This write up was necessary as Evotec International repaid a large portion of its existing intercompany loan.

III. Financial report

Results of operations

– Revenues

Evotec's total revenues in 2018 amounted to € 77.6 m, an increase of € 2.4 m or 3% compared to the previous year (€ 75.2 m). Revenues are composed of drug discovery service revenues, milestone revenues, deferred upfront payments, rent income and intercompany revenues.

Third party revenue including milestones decreased from € 44.4 m in 2017 to € 40.3 m in 2018, a decrease of € 4.1 m. Milestone revenues of € 6.5 m were generated in 2018, a decrease of 38% to previous year (2017: € 10.5 m). The milestones in 2018 and 2017 were achieved predominantly in the Endometriosis collaboration with Bayer. The number of customers with a volume over € 1.0 m is unchanged compared to the previous year with seven customers at the end of 2018. At the same time the intercompany revenues increased by € 5.7 m to € 33.9 m. This is a result that new contracts and contract extensions have been preferably closed with the subsidiary Evotec International GmbH. Additional € 0.9 m resulted from higher intercompany charges to subsidiaries for other services.

The geographical spread of external revenues for Evotec continues to be global with Europe and USA as most important markets. The European market with revenue contribution in 2018 of 34% (previous year: 51%) and the USA market with 65% (previous year: 49%). The shift from Europe to US is mainly based on reduced milestone revenues with Bayer compared to previous year as well as increased revenues with Merck in the US. The number of external customers decreased in comparison to the previous year. The total revenue contribution of the three largest customers including Evotec International amounted to 72% in 2018 (2017: 66%).

– Net result

The Company ended the year 2018 with a net income of € 63.5 m. This represents an increase of € 52.1 m compared to the net income of € 11.4 m reported in the previous year.

Overall, the result was mainly influenced by a € 44.7 m increase in other operating income of versus previous year. The deviation is mainly driven by a partial write-up of an intercompany loan to Evotec International GmbH in the amount of € 51.1 m in 2018 (2017: € 5.9m). The adjusted EBITDA was also positively affected by dividend payments of Evotec UK and Evotec France in the amount of € 17.5m in 2018.

In 2018, an adjusted EBITDA of € 68.0 m was reported (2017: € 13.1 m). Excluding dividend payments and revaluations of intercompany loans the adjusted EBITDA would amount to € (0.6) m, a reduction of € 4.2 m compared to last year (2017: € 3.6 m).

in k EUR	2017	2018
Net income	11,369	63,475
- Taxes on income	217	(9)
- Interest income	(2,419)	(2,188)
- Interest expenses	1,253	2,744
- Depreciation	2,515	3,205
- Amortisation	179	194
- Amortisation of financial assets	0	565
Adjusted EBITDA	**13,114**	**67,986**

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

The other operating income increased by € 44.7 m from € 7.7 m in 2017 to € 52.4 m in 2018, mainly due to a 2018 partial write-up of a loan to Evotec International GmbH in the amount of € 51.1 m. Last year a write up of € 5.9 m was recorded, resulting in an overall effect of € 45.2 m compared to the previous year.

The cost of materials increased by € 1.8 m from € 30.5 m in 2017 to € 32.3 m in 2018. This results mainly from an increase in purchased services from Evotec's subsidiaries which increased by € 2.5 m to € 23.8 m in 2018 (2017: € 21.3 m). This increase was partly off-set by decreased expenses for raw materials, supplies and purchased goods which decreased by € 0.7 m to € 8.5 m in 2018 (2017: € 9.2 m).

In order to meet the strong customer demand for research services and to reflect the overall company growth, the Evotec AG increased the number of operational and administrative staff during the year by 50 employees to 390 employees as of 31 December

2018 (2017: 340 employees). Personnel expenses therefore increased by € 3.4 m from € 22.6 m in 2017 to € 26.0 m in the 2018.

Depreciation of tangible assets amounted to € 3.2 m in 2018, an increase of € 0.7 m against the previous year (2017: € 2.5 m). This increase is largely due to depreciation of plant and machinery, but also due to new office space rented and furnitured. Amortisation of intangible assets remained unchanged at € 0.2 m in 2018.

Other operating expenses decreased by € 0.5 m from € 21.0 m to € 20.5 m. The decrease is mainly driven by a reduction of consultancy expenses by € 1.8 m to € 2.1 m in 2018 (2017: € 4.0 m) as well as lower legal fees for 2018 of € 0.5 m (2017: € 1.0 m). This decrease was partly off-set by an increase in costs for contract workers, IT consumables as well as increased BAFin fees in 2018 due to the significantly higher trading volumes of Evotec shares.

The interest result decreased by € 1.7 m against the previous year to an expense of € 0.5 m in 2018 (2017: income of € 1.2 m). The interest expense increased by € 1.5 m to € 2.7 m (2017: € 1.2 m). This is mainly a related to a € 140m bridge loan received in relation to the acquisition of Aptuit in August 2017. The bridge loan was repaid by € 110m during 2018 so that only € 30 m remain outstanding as per 31 December 2018. Interest expense related also to the EIB (European Investment Bank) loan facility which increased by € 16.4 m during 2018. The interest income decreased by € 0.2 m to € 2.2 m as matured investments were also used to repay the bridge loan facility.

Dividends increased by € 13.9 m from € 3.6 m in 2017 to € 17.5 m in 2018. The dividend payments in 2018 resulted from the affiliate companies Evotec France € 12.0 m and Evotec UK € 5.5 m (2017: Evotec UK € 3.6 m).

Financing and financial position

– Cash and financing

As of 31 December 2018, Evotec's cash and cash equivalents together with bonds and investment funds recognised under other securities amounted to € 29.2 m, a decrease of € 13.9 m compared to the end of 2017 (€ 43.1 m). The decrease in liquidity resulted mainly from investing and financing activities.

The cash flow provided by operating activities amounted to € 1.2m.

The cash flow used in investing activities amounted to € 13.3 m and consisted mainly of € 4.8 m capital expenditures and € 8.0 m purchase of investments in associated companies and other long-term investments. These long-term investments related to the second round financing of Exscientia, FSHD Unlimited, Carrick and Eternygen.

The cash flow used in financing activities amounted to € 1.8 m. This is mainly a result of the significant repayment of the Deutsche Bank bridge loan in 2018 of € 110.0 m. This was partially funded by received repayments of loans from affiliated companies (net € 57.7 m), dividend payments from Evotec France (€ 12.0 m) and Evotec UK (€ 5.5 m) as well as new bank loans (€ 35.0 m) and from proceeds from matured investments. Proceeds from employee option exercise amounted to € 1.6 m.

Assets and liabilities

– Capital structure

Total share capital increased by € 1.5 m. In 2018, 29,220 stock options and 1,500,893 LTI awards were exercised by Evotec Group employees and members of the Management Board, as well as former Evotec Group employees and former members of the Management Board (2017: 597,594 stock options and 1,160,236 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 2018 and 2017 which were serviced by own shares. As of 31 December 2018, Evotec holds 249,915 of its own shares (31 December 2017: 249,915).

Total equity increased by € 65.1 m to € 289.1 m (2017: € 224.0 m) mainly due to the positive net result in 2018. Evotec hence reported a strong and increased equity ratio of 61.2% as per end of the year 2018 (2017: 46.4%).

– Net assets and liabilities

Intangible assets include licences and patents as well as capitalised development costs. Intangible assets increased by € 3.6 m to € 4.3 m due to rights to potential future revenues of Haplogen of € 3.7 m being reclassified from other assets.

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 € 1.4 m to € 14.6 m at the end of 2018 as Evotec increasingly invested in tangible assets € with 4.8 m in 2018 (2017: € 3.8 m). Investments in laboratory equipment in 2018 mainly focused on upgrades and investments in instrumentation and equipment of the Hamburg site to support and extend the Company's state-of-the-art platform offering. Investments were also made in IT and office equipment as a consequence of the increase in the number of employees and due to the partial move into a new office building.

Financial assets include shares in affiliated companies and investments. These increased by € 8.1 m and amounted to € 366.7 m at 31 December 2018. The increase in investments is mainly driven by a participation with € 5.0 m in Exscientia's Series B funding round, in Facio's second and third funding round with € 1.6 m in total and an in Carrick Therapeutics' founding round A3 with € 1.2 m.

Receivables and other assets decreased by € 7.8 m to € 55.3 m compared to end of 2017. Trade accounts receivables decreased by € 2.2 m to € 7.2 m (2017: € 9.4 m). At the end of 2018, receivables due from related companies amounted to € 47.1 m, representing a decrease of 1.7 m against the previous year (2017: € 48.8 m). This decrease resulted mainly from reduced intercompany loans to Evotec's subsidiaries. Other assets decreased by € 3.9 m to € 1.0. m (2017: € 4.9 m). This decrease is mainly due to a reclassification of the € 3.7m Haplogen investment to intangible assets.

Investments decreased by € 2.4 m to € 15.5 m at the end of 2018. Cash and cash equivalents decreased by € 11.6 m to € 13.6 m (2017: € 25.2m). These decreases are primarily a result of the major repayment of the Deutsche Bank loan in 2018.

Prepaid expense decreased by € 0.4 m to € 1.4 m at the end of 2018.

Other accrued liabilities increased by € 1.2 m in the financial year 2018 from € 5.0 m to € 6.2 m. This increase is partly resulting from a € 0.5 m increase in bonus provisions at the end of 2018.

Evotec AG's liabilities towards financial institutions decreased significantly by € 75.2 m to € 107.7 m in 2018. Bank loans were decreased due to a partial repayment of the € 140m bridge loan of € 110.0 m, funded through received repayments of intercompany loans, dividend payments from subsidiaries and new bilateral bank loans. In addition, the EIB loan from the "European fund for strategic investments" was increased by € 16.4m to € 32.8m to support the financing of Evotec group's Innovate strategy.

Trade accounts payable increased by € 0.5 m to € 2.8 m (2017: € 2.3 m).

Liabilities to affiliated companies increased by € 0.2 m to € 61.7.

Deferred income decreased by € 1.9 m from € 4.9 m to € 3.0 m at the end of 2018. This decrease is largely due to revenues recognised within Evotec's collaborations.

Management Board's general assessment of Evotec's economic situation

In 2018, Evotec recorded a very solid top-line performance with 3% revenue growth driven by a strong performance in the base business. Revenues from milestones, upfronts and licences amounted to € 6.5 m and although lower than 2017 (€ 10.5 m) remained on a high level. Milestone revenues were earned in Evotec's collaborations with Bayer in endometriosis/chronic cough. In addition, Evotec AG supported the successful iPSC-based collaboration with Celgene in neurodegeneration.

Adjusted EBITDA for 2018 recorded a significant step-up to € 68.0 m, but included extraordinary effects from dividend payments and revaluations of intercompany loans. Excluding these extraordinary effects, the adjusted EBITDA would amount to € (0.6) m, a reduction of € 4.2 m compared to last year (2017: € 3.6 m).

Evotec's year-end liquidity continued to be strong at € 29.2 m. In 2018, Evotec utilised its strong liquidity position to repay the majority of the bridge loan granted in the context of the Aptuit acquisition in 2017. Furthermore, the financial position allows the possibility for the Company's strategy to be accelerated not only through organic growth but also through potential acquisition of technologies or assets. In addition, it allows the Company to selectively participate in company formations and equity investments.

In 2019 and beyond, Evotec's management expects base revenues at a similar level as in 2018. Evotec's adjusted EBITDA is expected to be positive in the low single digit million range.

IV. Employees

Evotec's success depends upon the expertise of its 390 employees, who embody the Evotec culture consisting of three values: Entrepreneurship, Innovation and Collaboration. Thus, attracting and retaining those highly skilled and motivated employees is of highest importance. It is vital for Evotec to provide an environment where employees feel valued so that they can reach their full potential. This applies even more in times of significant growth as experienced again in 2018.

Evotec has established a globally aligned recruitment process with professional recruitment teams in order to attract experienced candidates and promising talents. To further engage and retain its talents, an employee referral programme has been implemented: Employees that contribute to the recruitment process by recommending candidates are rewarded for their contribution.

– Headcount

As of 31 December 2018, the Evotec AG employed a total of 390 employees. This is a total increase of 15% 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. Overall, Evotec AG has grown by 50 (absolute number) employees in 2018.

Evotec has a highly skilled workforce with 73% 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 2018 was 39 years.

– Diversity

Evotec operates in a global industry with a broad international customer base. Therefore, the Company seeks the most suitable, 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 individuals and benefit from the subsequent high cultural diversity. At the end of 2018, Evotec employed 390 individuals from 28 nationalities. Women account for 65% of all employees in Evotec AG.

- Workday – Evotec’s new HRI System

Workday has been chosen as the global Human Resource Information System (“HRIS”) for Evotec Group going forward. The global roll-out will take place in three phases starting in 2018 until 2020 with a roll-out in Evotec AG scheduled for 2019. With globally aligned underlying HR processes and due to the way that Workday is designed, Evotec will also be able to even better integrate new acquisitions in the future.

In an intensive design phase, all existing and new HR processes have been reviewed and globally aligned. This gives employees and managers clarity and security on how processes are working and, in addition, ensures a consistent user experience. All relevant employees and line managers of Evotec AG will be trained in 2019 on how to utilise the system.

Further modules will be rolled out through 2019 and 2020 and will enable Evotec and its affiliates to harmonise additional HR processes.

With Workday, Evotec and its affiliates is now able to build an internal global talent pool within the system. It will improve the recruitment of new candidates as well as the development of its existing workforce.

- Employee welfare

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 employee engagement. It 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.

Evotec is also benchmarking itself against common market practices to be competitive with the local markets.

- Employee development

Evotec continues to offer training programmes in different skill areas and coaching support on an individual need basis.

In addition, intense training modules on SBI feedback, as well as language training have been delivered.

Procurement and facility management in 2018

In 2018, 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. A further optimised use of the resources added value for the Company, enhancing service levels and, ultimately, project delivery and customer satisfaction.

To gain additional lab space in Hamburg, 2018 saw the further development and fit-out of Evotec's headquarters in Hamburg (Germany), the Manfred Eigen Campus. In addition, Evotec leased additional premises next door to its headquarters from February 2018 onwards to support the continued growth of the business in Hamburg. These premises are 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 "Invest" section under Financial Publications.

VI. Information pursuant to section 289a paragraph 1 of the German Commercial Code and explanatory report

Evotec's management focuses on value creation. For that reason, any change-of-control or takeover offer that would realise some of the Company's embedded value for the benefit of current shareholders would be carefully analysed with regard to the synergies proposed and the future value creation claimed. A change in control is generally considered to have occurred if, as a result of any takeover, exchange or other transfer, a single shareholder or a group of shareholders acting in concert acquires more than 30% of the outstanding voting rights in Evotec or if as a result of a merger or reverse merger, the shareholders of Evotec from the effective date of such transaction cease to own more than 30% of the outstanding voting shares in the merged entity. Evotec has no specific takeover defence measures in place.

– Composition of capital stock, voting rights and authorisation to issue shares

As of 31 December 2018, the share capital of Evotec AG amounted to € 149,062,794.00 and was divided into 149,062,794 non-par value shares. All shares are bearer shares and have equal voting rights. The Company's management is not aware of any restriction on the voting rights or the right to transfer. No binding lock-up agreements have been made by the Company with any shareholder, and neither stock loans nor pre-emptive stock purchase rights are known to the Company. The Company does not control voting rights of any shares owned by employees.

No shareholder holds the right to have representatives on the Company's Supervisory Board, or is restricted or bound to specific votes at the Annual General Meeting ("AGM"). Existing stock option schemes do not allow for immediate vesting or additional issuance in the case of a takeover offer.

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

Authorised capital: Pursuant to section 5 paragraph 4 of the Articles of Association of the Company, the Management Board, with the approval of the Supervisory Board, is authorised to increase the Company's share capital by up to € 29,332,457.00 in one or more tranches until 13 June 2022 by issuing new shares against cash or non-cash consideration. Any shares to be issued on this basis will be subject to the statutory subscription rights of Evotec's shareholders. With the approval of the Supervisory Board, the Management Board may, however, exclude the pre-emptive rights of its shareholders on one or several occasions under certain well-defined conditions.

Conditional capital: As of 31 December 2018, the remaining conditional capital of the Company amounted to € 38,304,863.00. Conditional capital in the amount of € 11,788,047.00 shall be used only to the extent that holders of stock options and Share Performance Awards ("SPA"), granted by Evotec on the basis of the shareholders' resolutions from 07 June 1999, 26 June 2000, 18 June 2001, 07 June 2005, 30 May 2007, 28 August 2008, 16 June 2011, 14 June 2012, 09 June 2015 and 14 June 2017, exercise their rights to subscribe for new shares in the Company. In 2018, conditional capital in the total amount of € 1,530,113.00 was used for holders of stock options and SPAs to exercise their rights to subscribe for new shares in the Company. Additional conditional capital in the amount of € 26,516,816.00 exists to issue no-par-value bearer shares to owners or creditors of convertible bonds and/or warrant-linked bonds, participation rights and/or income bonds (or a combination of such instruments) that may be issued by Evotec on the basis of the authorisation passed by the AGM on 14 June 2016. Any such contingent capital increase shall only be used to the extent that option or conversion rights are utilised, or the owners or creditors are obligated to carry out their duty of conversion, and to the extent that no treasury shares or new shares from an exploitation of authorised capital are utilised for servicing.

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

– 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%.

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

– 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 2018, Evotec has not used its authorisation to acquire own shares.

– 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).

– Change-of-control provisions

The Management Board of the Company has only customary rights in the case of a change of control. The contracts of the members of the Management Board contain a change-of-control clause which would allow the management to terminate their current contracts in the event of a change of control. Further information regarding the respective severance payments is reported in Note 34e to the Financial Statements and in the "Remuneration report" section on page 51 of this Management Report.

VIII. Risk and opportunities management

Risk management overview

Understanding and ensuring transparency in risk-taking are key elements of the Evotec business strategy. The Company's ambition is to exceed high standards and strives to become a leader in the industry. Therefore, taking and managing certain risks is integral part of the business.

Comprehensive risk management is a continuous process, building on the active participation and awareness of the Management Board, Senior Management and all levels of employees. Evotec applies a forward-looking risk identification strategy in which various scenarios are taken into account and the possible magnitude of identified risks are evaluated.

Evotec faces increasing and ever-changing conditions of internal and external risk. The Company aims to continually strengthen its risk management framework, risk identification, stakeholder reporting and mitigation efforts for risk prevention.

The Company is currently in the process of optimising its internal rating system, expanding its risk register and educating employees on forward-looking risk awareness as well as risk identification, mitigation and reporting. The Management Board continues to invest in risk identification and mitigation capabilities, particularly regarding cyber and data security.

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 an 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 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 takes on additional risks only when certain conditions are fulfilled. For example, when such activities are in line with its strategy, when they have a risk profile consistent with industry norms, when there is a corresponding opportunity for an increase in 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. As in previous years, 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 'Invest' section on Evotec's website.

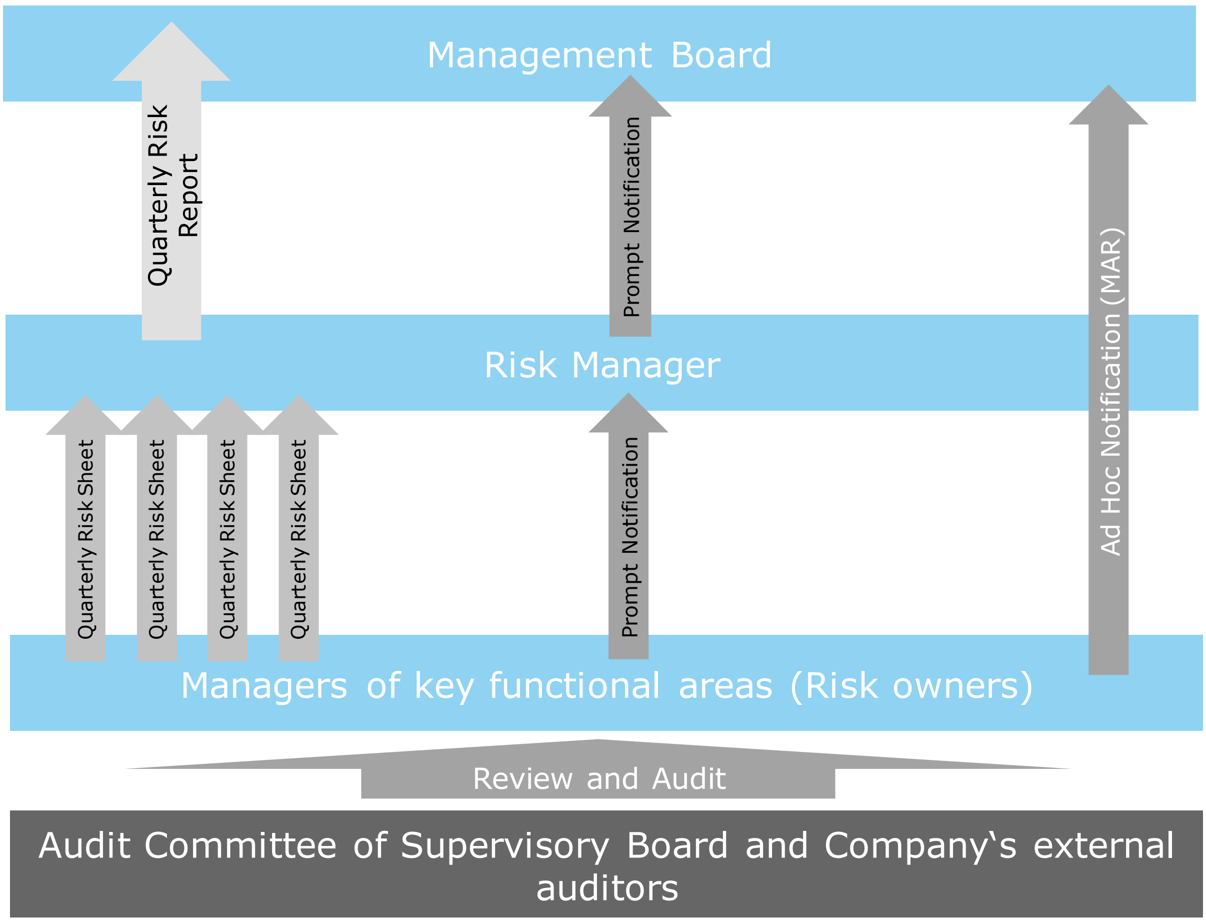
Evotec's risk and opportunities management system is regularly reviewed by the Company's Risk Manager, the Management Board and the Supervisory Board's Audit

Committee in order to be able to adjust it to changing environments, changes within the organisation and changing 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 potential 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 relevant 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.

(iii) In addition to the existing framework and procedures, Evotec's Risk Management has initiated forward-looking scenario risk reporting to better capture emerging risks such as political, regulatory and emerging risks, e.g. cyber-risks.

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. These controls are checked on an ongoing basis and are subject to annual testing by an independent third party. As an exemption of this rule, the annual testing in 2018 was focused on the design effectiveness of internal controls over financial reporting to ensure the right and appropriate controls being applied and rolled out, in particular in the course of the integration of the acquisitions of Cyprotex and Aptuit in 2016 and 2017, respectively. No material weaknesses were identified. All detected deficiencies were addressed and 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; and
- 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 can significantly reduce the risk of negative impacts on the Company's financial results and its financial reporting. They enable the Company to recognise specific Company-related issues in the financial statements as appropriate. 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 wide range of risks entirely consistent with its business undertaking and the industry in which it operates. The business, financial condition and results of Evotec may be materially adversely affected by any of these risks.

Evotec has summarised the most important risks in the following categories: Business environment and industry, performance-related, commercial, strategic, financial, statutory/legal, compliance, intellectual property ("IP"), human resources ("HR"), IT/Technology and operational.

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 key individual risks in the following tables. 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 regularly monitors the effectiveness of Evotec's risk management in order to be able to swiftly identify and assess potential risks, to implement appropriate countermeasures, and to enhance its system and procedures.

The Company's risk profile keeps changing for various reasons such as its commercial success, the complexity of its multi-jurisdictional operations, industry trends, regulatory and political uncertainty and industry trends with regard to M&A activities.

However, the Company has not made changes in its risk exposure and risk classification rating (amounts) during 2018 with regard to financial impact to follow a conservative approach.

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

Based on the described principles for estimating risk factors, the Management Board believes that at present no risks have been identified that either individually or in foreseeable combination could endanger the continued existence of the Company.

COMPANY'S RISK OVERVIEW	Probability of occurrence	Prior year Probability of occurrence	Potential financial impact	Prior year Potential financial impact	Comparison to prior year
Business environment and industry					
a. Risk inherent to drug discovery alliances					
Pricing pressure	Medium	Medium	Medium	Medium	**Unchanged**
b. Risk inherent to proprietary drug discovery and development					
Risk of failure	High	High	Medium/High	Medium/High	**Unchanged**
Risk of extensive regulation	Medium	Medium	Medium	Low	**Changed**
Product liability claims	Low	Low	High	High	**Unchanged**
Risks involving quality control in R&D	Low/Medium	NA	Medium	NA	**New1)**
Performance-related					
Fluctuating capacity and resource allocation	Medium/High	Medium	Medium	Medium	**Changed**
Dependence on individual large customers	Medium	Medium	High	High	**Unchanged**
Scientific or technical delivery risks	Medium	Medium	Medium	Medium	**Unchanged**
Maintenance of customer recognition and branding	Low	Low	Medium	Medium	**Unchanged**
Commercial					
Changing market environment	Low	Low	Medium	Medium	**Unchanged**
Dependence on individual out-licensing events	Medium	Medium	Medium	Medium	**Unchanged**
Outperformance by competitors	Low	Low	Medium	Medium	**Unchanged**
Strategic					
Implementation and achievement of strategic goals	Medium	Medium	High	High	**Unchanged**
Risk from M&A	Medium	Medium	High	High	**Unchanged**
Political	High	NA	Medium	NA	**New[1)]**
Risk from investment strategy	Low/Medium	Low/Medium	Medium	Medium	**Unchanged**
Financial					
Liquidity	Low/Medium	Low/Medium	Medium	Medium/High	**Changed**
Default risks	Low	Low	Medium/High	Medium/High	**Unchanged**
Foreign exchange uncertainty	Medium	Medium	High	Medium	**Changed**
Legal					
Litigation	Low/Medium	Low	Low/Medium	Low	**Changed**
Contractual	Low	NA	Low/Medium	NA	**New[1)]**
Compliance					
Regulatory	Medium	NA	Low/Medium	NA	**New[1)]**
General Legal Compliance	Low	NA	Medium	NA	**New[1)]**
IP					
Dependence on patents and proprietary technology	Medium	Low/Medium	Medium/High	Medium/High	**Changed**
Dependence on licences granted for partnered assets	Low	Low	Medium/High	Medium/High	**Unchanged**
HR					
Industrial action/labour dispute	Low	Low	Low	Low	**Unchanged**
Dependence on key personnel	Medium	Low	Medium	Medium	**Changed**
IT / Technology					
Loss of Data	Medium	Low	Medium/High	Medium/High	**Changed**
Data integrity and protection	Medium	Low	Medium	Medium	**Changed**
Cyber-attacks	High	High	High	Medium	**Changed**
Operational					
Environmental, Health and Safety	Medium	NA	Low	NA	**New[1)]**
Risks involving production	Low	Low	Low	Low	**Unchanged**
Major disasters on sites	Low	NA	High	NA	**New[1)]**

[1)] Newly reported in the company's risk overview

Business environment and industry risks

Risks inherent to drug discovery alliances

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

Risks inherent to proprietary drug discovery and development

Evotec has a clear strategic focus on drug discovery and development alliances and engages in limited proprietary discovery activities, generally in order to initiate 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 with market approval, 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 that may impact Evotec's financial position.

The Company's risk profile has changed with respect to the potential financial impact for the risk of extensive regulations due to the regulatory uncertainty/impact resulting from current political risks.

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

> Evotec acts prudently 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 terminated due to negative results. Typically, the earlier the stage of a programme, the higher 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 in other regions. The approval of the relevant authorities is required before a product can be tested in humans and later sold within a given market. The regulatory approval process is intensive, costly 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 affect product revenues. Evotec seeks early discussions with the regulatory bodies at all stages of development to ensure that research and development activities conform with relevant legal and ethical requirements.

> Evotec mitigates the risks in quality of its R&D activities based on its quality management system under the supervision of the quality management council ("QMC") as outlined in its

global quality policy ("GQP"). The QMC prepares and submits periodic reports to the Management Board and defines quality requirements. Furthermore, it is responsible to monitor, assess and report on compliance as well as perform quality improvement activities.

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 demand as well as resource allocation among multiple sites can significantly impact Evotec's profitability. Therefore these factors need to be continually managed and calibrated. The Company has increased the probability of occurrence risk to Medium/High due to the additional research sites acquired which is increasing the complexity for embedding the Company's services within the Evotec Group. In addition, dependence on individual large customers attracts special attention due to the possible short- and long-term impact of any change. In the current fiscal year, Evotec's Top 3 largest customer accounted for 72% of total revenues (see the "Top 10 collaborations" table on page 10 of this Management Report), compared to 66% in 2017.

> Some of the service contracts contain scientific or technical delivery risks, which can be mitigated only in part by high-quality project work. It is the objective of Evotec to further grow and diversify in order to reduce the potential impact of such risks.

> Evotec's past success is built in part on customer recognition and its brand. It is therefore of utmost importance to maintain this good reputation and avoid any negative impact on its brand, as this could lead to a loss of customers and reduced employer attractiveness for the most highly skilled employees. Evotec has protected its trade name in all countries which host business operations and has increased its brand awareness and value 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, but where Evotec may not be able to achieve this goal. Furthermore, the continuation of such established collaborations and partnerships during the further development along the value chain contain commercial risk. In addition, a significant portion of Evotec's service business depends on the Company's partners and customers continuing to develop their own programmes, which were 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 might change during the lifetime of individual projects. The actual timing and commercial values of individual projects, 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 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 partners 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 mitigate 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

Decisions made by management or unforeseen external factors may cause substantial loss to the Company's economic value. Factors generally associated with implementation of strategic goals include business continuity, the market and regulatory environment, political risk, competitors, investments, succession and technological innovation.

Implementation and achievement of strategic goals

The implementation of a company strategy bears the risk of misjudgement concerning potential 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/or technologies or sub-optimal acquisitions. In addition, commercialisation strategies might be unsuccessful, or a lack of market acceptance for newly discovered products could influence Evotec's market position, which could lead to significant negative impact on its business objectives, financial goals and future upside potential.

Risks from M&A

Evotec pursues ambitious growth targets both organically and through acquisitions of complementary service capacities and research capabilities. In order to address the risk that the integration of those transactions poses to the Company, 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 potential loss of key personnel and invalidation of technologies, IP, contracts and science.

Evotec has expanded its infectious disease capabilities with the acquisition of Sanofi's infectious disease unit in Lyon (France). Pursuant to the agreement, the Evotec Group has also licenced-in the majority of Sanofi's infectious disease research portfolio. There is a risk that some or all of the assets may lead to an undesired outcome in further research or loose funding, general IP risk, objections from business partners and general integration risks that will also impact the Company.

Political risk

The Company monitors political uncertainty and actively works with stakeholders to evaluate and mitigate a potential negative impact on the Company where possible. Scenario planning is used to make the necessary decisions for potential events such as a "hard BREXIT", a "soft BREXIT" or the impact of a trade war.

The Company evaluated several risk fields, which might exert significant influence on Evotec:

> Supply chain and production: Delays in customs clearance followed by delays in delivery and transit of goods needed for the processing of customer orders may occur due to the absence of regulations to date. In particular cases, this may result in delays in the provision of services to execute customer orders. To mitigate the risk, Evotec temporarily increased its stock at its UK sites with the essential components.

> Distribution and logistics: Evotec regularly ships test compounds between its UK sites, its international customers, and other European Evotec sites in order to fulfill its customer orders. Following the uncertainties regarding customs clearance for goods being shipped into and from the UK, delays in customer projects are possible, which potentially may lead to loss of sales or even termination of contracts. However, Evotec may use its affiliates to cover the majority of its range of services in the UK. Deployment of Evotec's affilitates enables the Company to compensate for any interruptions in the UK and thus to mitigate this risk.

> Personnel: The BREXIT may limit the free movement of persons between the UK and the EU member states and their return and their stay could be State regulated. This may lead to some positions not being staffed temporarily. Evotec employs UK citizens in the EU Evotec currently evaluates any potential effects on those individuals in order to be able to provide consulting and list possible individual alternatives.

> Data protection and free movement of data: Due to the absence of regulations, the UK could be declared a third country without an adequate level of data protection and the exchange of personal data between the UK and other countries could be limited according to GDPR. However, Evotec included standard contractual clauses regarding any processing activities (so-called SCCs) in a contract with the UK affiliates to mitigate this risk.

> Payment transactions and exchange rates: Due to some provisions regarding the exchange of payment-transaction data between banks in the UK and the rest of Europe becoming invalid, there may be delays in payment transactions.

> Distribution of profit and tax-related issues: Dividends from the UK affiliates to the Company are only distributed when needed or at an economically attractive point in time. Currently, Evotec does not plan any distribution of dividends. Currently, it is not possible to predict any tax effects on Evotec following the BREXIT.

Political risk can also negatively impact employee mobility, the Company's ability to hire the best qualified candidates for all its sites, free movements of funds or goods and logistics within the Group or between Evotec and its customers, e.g. to be tested compounds or manufacturing materials. However, due to the uncertain overall situation it is hard to depict those effects and safeguard the Company via preventive countermeasures.

Risks from investment strategy

The Company has a strict investment policy. The Company's Audit Committee of the Supervisory Board (the "Audit Committee") must approve changes. No changes have been made in the past fiscal year.

In 2018, Evotec continued to expand its EVT Innovate business strategy through equity participation and funding rounds in selected companies. These investments enable Evotec to accelerate its business model as they provide a beneficial risk-reward profile potentially through to clinical stage in selected fields of high strategic medical relevance. The probability of occurrence risk has been increased to Medium due to Evotec's increased investment volume. Typically, Evotec's equity stake after the financing round amounts to 4%-30%. Based on its minority shareholdings, Evotec has only limited control regarding the development of such investments and is exposed to the risks inherent in drug discovery and development (see "Business environment and industry risks" paragraph in this chapter).

Financial risks and risk management in relation to financial instruments

Although economic hedging relationships exist, the Company opted not to create a separate valuation unit according to section 254 HGB.

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

Liquidity risks

> Revenue fluctuations, expenditures, external events and changes in the business environment 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 impact of all relevant risks. Evotec is currently well-financed; however, the Company regularly reviews options for capital increases and for the use of other refinancing tools. 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 can be secured.

The Company has successfully enhanced its funding ability due to Evotec Group's market position, growth and commercial record of accomplishment. Evotec believes that in the current environment of economic and political uncertainty the likelihood of such risk has increased. However, the potential impact has decreased due to the Company's prudent management.

> 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 mitigated by spreading 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 mainly between the US dollar and the Euro. The Company manages 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 transaction that can be reliably anticipated. 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. Due to the high political uncertainty and potential strong market reaction in the coming months, the probability of occurrence has been increased.

Legal risks

Evotec operates in a competitive market, in which legal compliance, solid agreements and intellectual property rights are of significant importance.

Evotec does not expect any material warranty or future liability claims from its existing agreements. Due to the Evotec Group's growth resulting in a higher complexity for the business of the Company, the probability of occurrence and the potential financial impact has been increased to Low/Medium.

Due to the increased complexity of some contracts and performance-related risks, the Company included contractual risks in the corporate risk overview.

In 2018, Evotec did not encounter any additional or significant legal risks.

Compliance risks

In the research and development space in which the Company operates, there is a trend towards stricter regulations. In the event that these regulations are further tightened, there is a possibility that the use of certain technologies can be limited and additional expenses could arise, which could have an adverse influence on the Company's financial position or results.

Regulatory compliance is of utmost importance within the Company. In 2018, the Company allocated additional resources to ensure full compliance with all relevant regulations. Internal compliance with company policies is paramount to the Company's success and ensures a safe work environment for its employees and early detection of potential risks. It is essential for Evotec to ensure that the Company in general and its employees individually conduct business in a legal, ethical and responsible manner.

Employees are obliged to immediately report any incidents they suspect of having breached the ethical guidelines laid out in the Companies Code of Conduct to their manager or to the Company's Compliance Officer.

Intellectual property risks

If Evotec's business activities conflict with patents or other intellectual property rights of other parties, it is possible that activities could be suspended or that there could be a legal dispute. Also, in the event that Evotec believes that its patents or other intellectual property rights have been infringed upon by another party, the Company might file lawsuits. As a result of these actions, there could be an influence on Evotec's financial position or results.

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. The probability has increased in 2018 due to the Evotec Group's increased R&D focus and licensing activity as well as the 2018 acquisition of the former Sanofi site in Lyon which also impacts the risk for the Company.

> 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 or freedom to operate. However, Evotec strives to maintain long-term and trusting relationships with its partners and is therefore confident that such licence agreements will remain unaffected.

HR risks

HR risks concerning industrial action/labour disputes exist. However, maintaining a constructive, close dialogue and relationship between management and employee representatives remains the best mitigation strategy.

> 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 as a key risk mitigation and business strategy. Furthermore, recruiting and retaining qualified scientific personnel to perform research and development work in the future is critical to Evotec's success and its top scientific staff is in great demand. 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.

The current uncertainty and scenario of a hard BREXIT has the potential to hinder the hiring of qualified staff and makes transfer of employees to and from other Evotec affiliates more difficult. Furthermore, finding qualified employees is a challenge due to the overall economic growth. In the recent past, Evotec has not encountered serious difficulties in attracting and retaining qualified employees despite its strong personnel growth.

IT and technology risks

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

Evotec invests in resilient systems, makes upgrades to security systems, backs up data to different geographical locations, enhances IT policies and consolidates user awareness. These measures mitigate the effect of hazards such as natural disasters, power failures, system upgrade failures, theft and data corruption as much as reasonably possible.

> Compliance with guidelines relating to data protection, which also regulate the assignment of access rights, is mandatory. The Company performs regular IT risk assessments to identify and rectify weaknesses. In addition, the Company participates at a groupwide IT Security Committee which meets weekly to analyse threats, investigate reported incidences and make recommendations to management. Where weaknesses are identified, remediation measures are initiated immediately.

Due to the increased transaction volume and complexity in IT interactions, the probability of occurrence has been increased to Medium.

> In 2018, the exposure to cyber-attacks further increased in the industry as a whole. The related risks are: loss, destruction, unauthorised encryption or corruption of data arising from 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 has increased resources and investments in order to further secure its IT and data on all it sites.

Despite the Company's efforts and in light of rapid technology changes and the evolving sophistication of attack methods used to infiltrate systems globally, there is a possibility that a cyber-attack event could occur that would adversely affect the Company's business and reputation. As a consequence, the potential financial impact has been increased to High.

Operational risk management

Evotec continuously enhances its operational risk management and refines the risk management accountability and performance assessment mechanism of all departments and divisions. The Company actively gathers new statistics on operational risk to enable proactive mitigation efforts and opportunities. The long-term objective is to monitor the level of operational risk in all its divisions and departments on a monthly basis to have a preventive effect, to help minimise the Company's operational risk, and to contribute to long-term cost savings.

Compared to the prior year, the Company summarised operational risks in the corporate risk overview to adjust for the current risk profiles. Additionally, risks from major potential disasters on sites were added to the risk overview due to the growth of the Company.

Environmental, Health and Safety

Evotec has strengthened its team responsible for Environmental, Health and Safety ("EHS") and works closely with employee representatives to ensure relevant compliance and best performance for both its employees and clients.

The feedback and suggestions from a recent Healthy Workplace survey are being used to further improve and measure success.

Risks involving production

Production risks are not considered to be significant and remained stable in relation to the previous year.

Risks related to major disasters on sites

In the event of a major or secondary disaster that results in stoppages at the Company's activity, or in damages and/or interruptions to the operations of key material suppliers, Evotec may be forced to suspend or incur significant delays in parts or all of its activities. In each case, the potential exists for the Company's financial position and operating results to be substantially affected. In 2018, the Company started to plan for an upgrade of the alternate power supply to back up the municipal electricity supply and mitigate the risk of a power supply failure.

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 patent expiries, higher burden of approval, reimbursement and cost pressure that many Pharma companies are currently experiencing. This has led to a decreasing number of research-based pharmaceutical companies taking the full financial risk of drug R&D. New strategies are being developed leading to an increase in the appetite to outsource 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 suboptimal utilised capabilities and infrastructure. Evotec's position enables it to leverage 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 broad customer base that Evotec can use as an opportunity to generate additional business.

– Strategic opportunities

A 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 various 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 offer superior service and quality, thereby generating new business possibilities in the future.

– Commercial opportunities

The total number, growth and size of alliances, the high 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 is a core building block for sourcing additional business opportunities that may have a significant impact on the performance and results of the Company.

Furthermore, the Company continues to operate 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 royalty's payments, any successful product commercialisation would provide a significant upside to Evotec's business planning and profitability.

– HR opportunities

Human resources is the most 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 27 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.

IX. 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 amount to 2.9% in 2019 and on average 2.8% in 2020-21, showing a similar, yet slightly lower growth compared to the estimated global growth rate of 3.0% in 2018. Economic growth in the USA is expected to amount to 2.5% in 2019, down from an estimated 2.9% in 2018. Eurozone growth in 2019 is projected to amount to 1.6% (2018: 1.9%). Continued trade tensions and slowing industrial activities, tightening of global financing conditions, political uncertainties (e.g. BREXIT) and protectionist tendencies are expected to influence global economic development in 2019. 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 5 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 together with its subsidiaries is ideally positioned to take full advantage of these market developments.

– Trends in research and development

In 2018, the number of novel drug approvals by the FDA amounted to 59 and thus increased from its prior-year level of 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. Pharma companies continue to need access to significant numbers of new innovative medicines and approaches in order to ensure their sustainable growth. As a result, pharmaceutical companies are expected to 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. With its approach of partnered drug discovery and development and its track record of partnerships with Pharma companies, Evotec's management regards the Company as well positioned to benefit from this trend going forward.

Business direction and strategy

Following its strategic framework Action Plan 2022 – "Leading External Innovation", Evotec's management focuses on growing the Company and increasing its value 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 4 of this Management Report.

Specific objectives for the segments EVT Execute and EVT Innovate as well as Corporate goals for 2019 were defined at the end of 2018.

EVT Execute	EVT Innovate	Corporate
• Continued support of strong growth and new integrated service alliances through Evotec's subsidiaries. • Milestones from existing alliances	• Further development of iPSC (induced plu-ripotent stem cells) platform to support Evotec's subsidiaries	• 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 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. This trend is expected to continue in 2019 and way beyond.

Financial outlook for 2019

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 2019, Evotec expects **revenues** to be on a similar level compared to the past financial year 2018. 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 2019. The projection of the adjusted EBITDA is without any intercompany loan write up's that the Company may or may not record in 2019.

Actual results may deviate considerably from these projections. The adjusted EBITDA in 2018 was predominately affected by a write up of an intercompany loan with Evotec International GmbH and dividends received. This is not foreseeable for 2019.

	Results 2018	Guidance 2019
Revenues	€ 77.6 m	Similar level as 2018
Adjusted EBITDA	€ 68.0 m	Positive result in one-digit million range

– Expected financing and financial position

Evotec continued to finance some of its subsidiaries during 2018. In 2019, financing for the development and growth of affiliated companies are expected, on the other site this will be off-set by scheduled repayments from existing intercompany loans.

Evotec is well financed to support its ongoing business and operations. The Company may selectively utilise debt financing and raise capital through the issuance of new shares when appropriate. As of 31 December 2018, the liquidity of Evotec amounted to € 29.2 m (2017: € 43.1 m). This liquidity position supports the Company in further investing in EVT Innovate R&D projects, in maintaining and augmenting its drug discovery platform. In order to accelerate its strategy, Evotec selectively considers M&A opportunities or equity participations in financing rounds of early-stage biotech companies. This leveraging of Evotec's strategy may lead to additional cash requirements in the future.

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 45 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. On this basis and due to capacity limitations at the site in Hamburg, the Management Board expects Evotec to show in 2019 revenues at a similar level as 2018 and a positive adjusted EBITDA in a positive one-digit million range.The Company's strong cash position will provide a solid foundation to further strengthen the strategic role in the drug discovery and development market and increase shareholder value.

X. 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 'Invest' section on Evotec's website www.evotec.com.

XI. 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 is fixed by the Supervisory Board and is composed of performance-unrelated and performance-related components.

As a principle, Management Board 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 of the Company, 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 Management Board compensation relative to that of senior management as well as the staff overall, particularly in terms of its development over time.

Following section 4.2.3 of the Code, there is a monetary cap for the total compensation, both for overall and for individual compensation components. Deviating from that, the Share Performance Plans 2012 and 2015 as approved by the AGMs in 2012 and 2015 include a maximum regarding the number of share-based awards (Share Performance Awards, "SPA") upon allocation. The monetary value of the allocated shares is determined by the share price after the expiration of the vesting period. The Share Performance Plan 2017 has a monetary cap with a maximum level of 350% of the contractual SPA issue value and therefore complies with the Code in all respects.

It should be further noted that a benchmarking against other biotech companies and members of the TecDAX index is conducted on a periodic basis and prior to each renewal of the management contracts. Such benchmarking includes monetary aspects and current corporate governance best practices. Based on this benchmarking, the Supervisory Board considers the current remuneration system and its fixed and variable components with regards to the duties and responsibilities of the Management Board members and then decides on potential adjustments as part of the renewed management contracts. As an example of the consequence of this practice, a clawback clause has been added to those Management contracts that have been recently renewed.

In accordance with good corporate practice, the Supervisory Board of Evotec AG proposed the system of remunerating members of the Management Board for approval to the AGMs in 2012 and again in 2017 ("say on pay"). At both AGMs, the majority of the shareholders and shareholder representatives voted in favour of this agenda item.

Performance-unrelated remuneration

Performance-unrelated remuneration includes base salaries as fixed compensation paid in 12 monthly instalments at the end of each month and fringe benefits such as pension allowances, contribution to commuting expenses, contributions to certain premiums for insurance policies as well as the benefit derived from the private use of a company car or a car allowance. In addition to the aforementioned remuneration, business-related private payments, expenditures and expenses are reimbursed.

Performance-related remuneration

The performance-related remuneration components consist of a one-year variable compensation ("STI") determined by a bonus scheme and a long-term Share Performance Plan, which was approved by the AGMs 2012, 2015 and 2017. The one-year variable remuneration is determined by a bonus scheme based on the achievement of certain targets specified by the Remuneration and Nomination Committee of the Supervisory Board and subsequently approved by the Supervisory Board for each financial year. The Share Performance Plans are based on a forward-looking, multi-year assessment period.

The target bonuses for the one-year variable compensation for 2017 and for 2018 for the Chief Executive Officer are capped at 100% of the fixed remuneration, for the Chief Operating Officer at 75% of the fixed remuneration, for the Chief Scientific Officer at 70% and for the Chief Financial Officer at 55% of the fixed remuneration.

Based on the decision of the Supervisory Board, the bonus paid to Dr Werner Lanthaler, Dr Cord Dohrmann, Dr Mario Polywka and Enno Spillner in March 2018 was based on the achievement of clearly measurable corporate objectives for 2017 equally set for each Management member rather than individual objectives. The 2017 corporate objectives related to growth in total revenues, adjusted EBITDA and R&D expenses set in accordance with the guidance set for 2017. This was, among other things, to be achieved by strengthening EVT Execute via integration and expansion of the Cyprotex business that was acquired in December 2016 and via increased leveraging of the capacities of Evotec (France) in Toulouse. For EVT Innovate, the first milestone in the collaboration with Celgene that was signed in December 2016 was to be achieved in 2017 and to build one new academic BRIDGE. In its March 2018 meeting, the Supervisory Board reviewed the achievement of these corporate objectives 2017 and considered them as 100% achieved. This led to a 100% bonus pay-out in March 2018.

The bonus for the achievement of the targets set for the financial year 2018 will be paid out to the Management Members in March 2019. Corporate objectives for 2018 have been set by the Supervisory Board in its December 2017 meeting and finally confirmed in March 2018. As in the previous years, the objectives for 2018 primarily were the growth in total revenues and adjusted EBITDA, the execution of at least one significant integrated collaboration with more than € 25 m in transaction value as well as the achievement of at least two significant milestones (total >€ 10 m) in the Company's iPSC collaborations. Further targets included building at least two new academic BRIDGEs and preparing the Company for sustainable growth.

As per 31 December 2018, the Company had accrued a total of T€ 829 for the variable portion of the remuneration to be paid to the members of the Management Board, thereof T€ 420 for Dr Werner Lanthaler, T€ 238 for Dr Cord Dohrmann, and T€ 171 for Enno Spillner. An amount of T€ 235 as bonus for 2018 has been paid to Dr Mario Polywka in December 2018, as Dr Mario Polywka retired from the Management Board of Evotec AG with effect as of 31 December 2018.

In addition to their one-year variable compensation, the members of the Management Board received 103,861 SPAs in 2018 (2017: 186,984) under the Company's Share Performance Plan. The reduced amount of SPAs in 2018 compared to 2017 is due to the increased share price in 2018 and the resulting increase in fair market value recognised per SPA. To obtain the fair market value, the target value based on the share price is converted into share rights granted. The target value may deviate from the share price. The fair market value then determines how many SPAs will be granted per year to each member of the Management Board. These 2018 SPAs vest after four years depending on the achievement of the key performance indicators over a four-year performance measurement period. The key performance indicators "Share Price" and "Total Shareholder Return". Detailed information on the grant and exercise of SPAs can be found in the agenda of the AGM 2017, which is the basis for this AGM resolution. This document can be found on the Company's website.

The multi-year variable target compensation in 2018 for the Chief Executive Officer reflects 50% of the total target direct compensation (sum of fixed compensation, one-year variable target compensation and multi-year variable compensation), and for the other Management Members 30% of total target direct compensation.

Remuneration tables

In 2018, the performance-unrelated and granted one-year variable compensation of the active members of the Management Board totalled T€ 2,646, of which the variable part amounted to T€ 1,066. The fair values of all SPAs granted as of the calculation date on 01 January 2018 amounted to a total of T€ 1,529 in 2018.The compensation for Dr Mario Polywka was not paid by Evotec but is rather recharged as management fee by another Group company.

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, fringe benefits, short-term variable compensation and long-term variable compensation for the year under review, broken down into the relevant reference years

		Dr Werner Lanthaler				Enno Spillner				Dr Cord Dohrmann				Dr Mario Polywka*			
d		CEO				CFO				CSO				COO			
c	**Benefits granted (in T€)**																
b		**2017**	**2018**	**2018 (min)**	**2018 (max)**	**2017**	**2018**	**2018 (min)**	**2018 (max)**	**2017**	**2018**	**2018 (min)**	**2018 (max)**	**2017**	**2018**	**2018 (min)**	**2018 (max)**
1	Fixed compensation	420	420	420	420	310	310	310	310	340	340	340	340	320	316	316	316
2	Fringe benefits	100	99	75	125	22	25	17	34	15	15	15	15	55	55	55	55
3	**Total**	**520**	**519**	**495**	**545**	**332**	**335**	**327**	**344**	**355**	**355**	**355**	**355**	**375**	**371**	**371**	**371**
4	One-year variable compensation	407	420	-	420	78	171	-	171	211	235	-	238	200	240	-	240
5	Multi-year variable compensation	840	840	-	2,940	206	206	-	721	248	248	-	867	241	235	-	823
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	241	235	-	823
6	**Total**	**1,767**	**1,779**	**495**	**3,905**	**616**	**712**	**327**	**1,232**	**814**	**838**	**355**	**1,460**	**816**	**846**	**371**	**1,434**
7	Service cost	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	**Total**	**1,767**	**1,779**	**495**	**3,905**	**616**	**712**	**327**	**1,232**	**814**	**838**	**355**	**1,460**	**816**	**846**	**371**	**1,434**
		I	II	III	IV												

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€)	Dr Werner Lanthaler		Enno Spillner		Dr Cord Dohrmann		Dr Mario Polywka*	
b		CEO		CFO		CSO		COO	
c									
d		2017	2018	2017	2018	2017	2018	2017	2018
1	Fixed compensation	420	420	310	310	340	340	320	316
2	Fringe benefits	100	99	22	25	15	15	55	55
3	**Total**	**520**	**519**	**332**	**335**	**355**	**355**	**375**	**371**
4	One-year variable compensation	407	420	78	171	211	235	200	475
5	Multi-year variable compensation	9,409	-	-	-	1,604	515	996	5,398
5a	Share Performance Programme 2012 (term until 2019)	3,951	-	-	-	1,351	-	996	5,398
5b	Stock Option Programme 1999 (term until 2021)	-	-	-	-	-	515	-	-
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**	**10,336**	**939**	**410**	**506**	**2,170**	**1,105**	**1,571**	**6,244**
8	Service cost	-	-	-	-	-	-	-	-
9	**Total**	**10,336**	**939**	**410**	**506**	**2,170**	**1,105**	**1,571**	**6,244**

Notes:

* T€ 235 as bonus for 2018 has been paid to Dr Mario Polywka in December 2018 as Dr Mario Polywka retired from the Management Board of Evotec AG with effect as of 31 December 2018.

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)*

Term of contract and early termination clauses

In accordance with a suggestion of the Code, new members of the Management Board are appointed for three years. Prolongations of existing contracts might be up to five years as has been agreed with the Chief Executive Officer for his current contract and with the Chief Scientific Officer for his contract extension from 2019 onwards.

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; and for Dr Cord Dohrmann, Dr Craig Johnstone and Enno Spillner, the payment shall be equal to 18 months of their base salary plus target bonuses for this time period. 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.

Pension provisions for former Management Board members

The Company has made a provision for a pension for one former Management Board member amounting to T€ 147 (2017: T€ 202). 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 prescribed 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 2018, the individual members of the Evotec Supervisory Board received the following compensation in 2018:

Remuneration of the Supervisory Board 2018	Total remuneration in T€[1)]
Prof. Dr Wolfgang Plischke	95
Bernd Hirsch	70
Dr Claus Braestrup	35
Prof. Dr Iris Löw-Friedrich	35
Michael Shalmi	35
Dr Elaine Sullivan	35
Total	**305**

[1)] *Cash remuneration*

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

Directors’ and Officers’ Liability Insurance (D&O Insurance)

In 2018, 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€ 82 (2017: T€ 74). 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, 19 March 2019

Dr Werner Lanthaler Dr Cord Dohrmann Dr Craig Johnstone Enno Spillner

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 2018, the income statement for the fiscal year from 1 January to 31 December 2018 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 2018. In accordance with the German legal requirements, we have not audited the content of the non-financial statement contained in section "Reporting pursuant to section 289c and section 315c of the German Commercial Code" of the management report or the statement on corporate governance contained in section "Declaration of corporate management" 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 2018 and of its financial performance for the fiscal year from 1 January to 31 December 2018 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 content of the statement on corporate governance or the non-financial statement referred to above.

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 2018. 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 a key audit matter:

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, the company 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. Due to its financial impact according to amount milestone payments are often individually material and indicative of the likelihood to generate future revenues under existing collaboration agreements. This may also entail a significant participation of the company in future market share. It qualifies milestones as a significant financial upside potential, while failure to achieve milestones would likely have an adverse impact on the company's 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 company but also be significantly misleading in assessing the company's future 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 company 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 milestones payments, refer to "V. Comments on the Statement of Operations" within the notes.

Other information

The management board is 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" 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 management board and the supervisory board for the annual financial statements and the management report

The management board is 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 management board is responsible for such internal control as it, in accordance with German legally required accounting principles, has 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 management board is responsible for assessing the Company's ability to continue as a going concern. It also has the responsibility for disclosing, as applicable, matters related to going concern. In addition, it is responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the management board is 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 management board is responsible for such arrangements and measures (systems) as it has 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 management board and the reasonableness of estimates made by the management board and related disclosures.
- Conclude on the appropriateness of the management board's 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 management board in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the management board 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 20 June 2018. We were engaged by the supervisory board on 7 December 2018. 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 group entities the following services that are not disclosed in the consolidated financial statements or in the group management report:

- Review of the interim group financial statements of Evotec AG as of 31 March 2018, 30 June 2018 and 30 September 2018
- Conversion audit in connection with conversion of the entity into a Societas Europaea
- People advisory services in connection with international employee assignments
- Tax advisory services with regard to the acquisition of Aptuit Global LLC, Princeton, New Jersey/USA

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Dirk Machner.

Hamburg, 19 March 2019

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Machner Wirtschaftsprüfer	Middelhoff Wirtschaftsprüferin