evotec

'RESEARCH NEVER STOPS'

QUARTERLY REPORT Evotec AG, *Manfred Eigen Campus, Essener Bogen 7, 22419 Hamburg (Germany), www.evotec.com*

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Report as of First Quarter 2012

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I. Management Report of the First Quarter 2012

EVOTEC REPORTS CONTINUED STRONG REVENUE GROWTH; IMPLEMENTATION OF ACTION PLAN 2016 LEADS TO UPFRONT INVESTMENTS IN LONG-TERM COLLABORATIONS; GUIDANCE 2012 CONFIRMED

RECENT HIGHLIGHTS:

— **Growth trend continues; implementation of Action Plan 2016 reflected in Q1 financial results**
 - Group revenues +33% to €20.1 m
 - Marginal operating loss of €1.3 m due to high upfront investments and ramp up of EVT Execute
 - Continued strong liquidity position of €57.1 m excluding milestone payment from Andromeda/ Teva (€3.9 m)

— **EVT Execute: Business growth demands upfront investments with temporary effect on gross margin; Evotec's Drug Discovery platform significantly expanded with state of-the-art protein production capabilities and capacity**
 - Extension of proteomics agreement with Janssen Pharmaceutica
 - Multi-year agreement with the United States Environmental

Protection Agency (EPA) for Compound Management (after period-end)

- EVT Integrate: Expanding portfolio of discovery alliances and good progress in on-going collaborations

- Evotec and Active Biotech extend and expand medicinal chemistry collaboration (after period-end)
- Evotec and IR Pharma establish drug discovery alliance in the field of respiratory diseases

— **EVT Innovate: Development partnerships and focused research investments in innovation provide upside potential**
  - DiaPep277 programme delivers €3.9 m from Andromeda/Teva
  - EVT 401 partnered in China with Conba especially for inflammation (after period-end)
  - Evotec and Harvard University build strategic alliance in Kidney Diseases (‘Cure*Nephron*’)
  - Evotec and 4-Antibody form strategic alliance to innovate antibody identification and selection (after period-end)
  - €0.5 m option fee achieved under the beta cell regeneration collaboration with MedImmune

— **Squeeze-out process for DeveloGen completed**

— **Financial guidance for 2012 confirmed**
  - Continued double-digit revenue growth to €88 to 90 m
  - Further increase in operating result compared to 2011
  - Strong liquidity position above €60 m, despite significant investments in upgrading capabilities and capacity

1. OPERATIONAL PERFORMANCE

Growth trend continues; implementation of Action Plan 2016 reflected in Q1 financial results

Evotec’s operational performance for the first quarter of 2012 reflected the continued strong growth path of the Company as well as the investments necessary to support and sustain long-term collaborations following the implementation of Evotec Action Plan 2016.
Total Group revenues for the first quarter of 2012 increased by 33% to €20.1 m (2011: €15.1 m) including a milestone earned in Evotec’s development partnership with Andromeda/ Teva with DiaPep277 (€3.9 m) as well as contributions from the acquisitions of Evotec Munich and Evotec San Francisco totalling €2.9 m. As anticipated, higher cost of revenues and higher operating expenses resulted in an operating loss for the first quarter of 2012 of €(1.3) m (2011: €(0.8) m). As has been repeatedly stated, the operating result of Evotec varies significantly between quarters as a result of the specific timing of performance based milestones and partnering events having a major impact on specific quarterly reporting periods. Overall, the Company is on track to achieve increased full-year profitability over 2011 (before impairment and changes in contingent consideration, if any). Liquidity including cash, cash equivalents and investments at the end of March 2012 amounted to €57.1 m excluding the milestone payment for DiaPep277 that was recorded as a receivable at 31 March 2012.

2. EVOTEC ACTION PLAN 2016 - INNOVATION EFFICIENCY

UPDATE ON DISCOVERY ALLIANCES, DEVELOPMENT PARTNERSHIPS AND STATUS OF PRE-CLINICAL PROGRAMMES

A. EVT Execute: Business growth leads to upfront investments with temporary effect on gross margin; Evotec's Drug Discovery platform further expanded with state-of-the-art protein production capabilities and capacity

The need to improve R&D productivity is increasing pressure on pharmaceutical companies to outsource drug discovery and development. There is a clear trend towards large, multi-year contracts. EVT Execute delivers an increasingly industrialised high-tech infrastructure to Evotec's partners in long-term relationships. The goal is to optimise the capital and innovation efficiency of the resources dedicated to each target that our partners are working on. Partners working with Evotec can access the latest science, and globally the best-in-class technology infrastructures.

Extension of proteomics agreement with Janssen Pharmaceutica

In March 2012, Evotec extended its long-term collaboration with Janssen Pharmaceutica. The alliance was originally signed in 2007 with Kinaxo (Evotec Munich), and further extended in 2009. Under the agreement Evotec will apply its proprietary high-end proteomics technologies to enable comprehensive cellular analyses of Janssen's oncology drugs under development. Evotec's unique proteomics platform dissects cancer signal transduction processes and their response to drug treatment, delivering unrivalled cellular mode of action information.

Multi-year agreement with the United States Environmental Protection Agency (EPA) for Compound Management (after period-end)

In April 2012, Evotec entered into a multi-year compound management agreement with the United States EPA. The contract covers a period of five years and has a total value of up to €7.7 m (approximately $10 m). Under the agreement Evotec, through its San Francisco operations, will provide chemical procurement, analysis, sample preparation, and management services in support of the EPA's National Computational Centre for Toxicology (NCCT). Services provided will support bioactivity profiling of the EPA's ToxCast™ (Prioritisation of Environmentally Relevant Chemicals) Compound Library.

B. EVT Integrate: Expanding portfolio of discovery alliances and good progress in on-going collaborations

Evotec is one of the few drug discovery businesses that can execute a comprehensive outsourcing strategy. EVT Integrate represents the most comprehensive and systematic integrated drug discovery process for drug targets in Evotec's key areas of expertise. In this process, Evotec does not simply lower costs for its customers; most importantly, the Company significantly reduces the time to go no-go decision points for these projects. Evotec continues to expand its core business expertise around metabolic disease, pain, oncology, and CNS drug targets. In these integrated approaches, Evotec shares some discovery risks with its partners in exchange for future returns.

Evotec and Active Biotech extend and expand medicinal chemistry collaboration (after period-end)

In April 2012, Evotec extended and expanded its medicinal chemistry collaboration with Active Biotech to further advance an existing programme, which has entered the lead optimisation phase after successful hit identification activities. The programme aims to find novel small molecule modulators of a priority biological target, selected by Active Biotech, involved in immune disorders and cancer. The programme was initiated in 2010 with a high throughput screen followed by extensive hit validation and hit-to-lead activities, leveraging Evotec's hit identification and integrated medicinal chemistry platforms.

Evotec and IR Pharma establish drug discovery alliance in the field of respiratory diseases

In February 2012, Evotec and IR Pharma entered into an exclusive strategic alliance to provide integrated drug discovery solutions to pharmaceutical and biotech companies in the field of respiratory diseases. IR Pharma has outstanding expertise in respiratory pharmacology including a range of highly validated models, focusing on Asthma, Cough and Chronic Obstructive Pulmonary Disease (COPD), which ideally complement Evotec's powerful drug discovery platform. As part of this exclusive collaboration, Evotec is now positioned to offer a seamless, fully integrated respiratory and inflammation focused drug discovery process to its partners, from target to nomination of pre-clinical development candidates.

C. EVT Innovate: Development partnerships and focused research investments in innovation provide upside potential

Evotec is committed to delivering solutions for some of the largest and most pressing global medical needs. With EVT Innovate the Company brings forward the most promising scientific ideas to make a difference in key medical areas. As part of Evotec's ongoing research initiatives, certain pre-clinical assets (e.g. BetaCell relevant molecules, etc.) are progressed to potential entry points for drug discovery alliances. Evotec's partners its proprietary assets to pharmaceutical companies for upfront payments, ongoing research fees and significant milestones and royalties. Through this strategy Evotec is building a pipeline without bearing the digital risk normally involved in such projects. To reduce Evotec's risk profile the Company continues to seek strategic product development partnerships to fund the further development of its clinical assets. Evotec's current clinical stage portfolio comprises several development partnerships fully funded by its partners.

DiaPep277 programme delivers €3.9 m milestone from Andromeda/Teva

The first Phase III study conducted by Andromeda Biotech and Teva Pharmaceutical (Andromeda/ Teva) with DiaPep277, a synthetic peptide in development for the treatment of type 1 diabetes, was largely completed in 2011 and met all primary endpoints. A €3.9 m milestone was triggered upon completion of the report of this Phase III study and continued clinical development in Q1 2012. The clinical data fully supports the continuation of the development programme.

EVT 401 partnered in China with Conba especially for inflammation (after period-end)

In April 2012, Evotec granted Zhejiang Jinhua Conba Bio-pharm. Co., Ltd. (Conba Pharmaceutical) a development and marketing license for its P2X7 antagonist, EVT 401, in China for human indications with exception of ophthalmological, chronic obstructive pulmonary disease (COPD) and endometriosis pain. Evotec will obtain a small upfront payment and is eligible for development and commercial milestone payments in excess of €60 m, and tiered double-digit royalties on net sales. The agreement grants Conba Pharmaceutical exclusive rights to develop and commercialise the compound for the Chinese market. Evotec will have the right to reference clinical data produced by Conba Pharmaceutical to support potential further development of EVT 401 in other territories.

P2X7 receptor antagonism may provide a novel approach for the treatment of inflammatory conditions. Evotec completed the first Phase I, single dose study of EVT 401 in 2010. Conba Pharmaceutical will initiate further clinical trials with EVT 401 in China in inflammatory diseases.

Evotec and Harvard University build Strategic Alliance in Kidney Disease (‘Cure*Nephron*’)

In January 2012, Evotec announced a second strategic alliance with Harvard University, this time including Brigham and Women's Hospital aimed at discovering and developing new biomarkers and treatments in the field of kidney disease ('Cure*Nephron*'). The first collaboration ('Cure*Beta*') was established in March 2011 to develop new diabetes therapies targeting beta cell regeneration.

The alliance will pursue systematic and unbiased approaches towards the identification of kidney disease relevant mechanisms with particular interest in mechanisms with disease modifying potential. This programme is designed to deliver and exploit novel therapeutic targets as well as biomarkers that allow more accurate diagnosis, monitoring and treatment of chronic and acute kidney disease, conditions associated with high morbidity and mortality. This new collaboration is a great example of joining forces across traditional academic and industrial boundaries to rapidly advance ground-breaking science into medicines.

Evotec and 4-Antibody form strategic alliance to innovate antibody identification and selection (after period-end)

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

€0.5 m option fee achieved under the beta cell regeneration collaboration with MedImmune

In March 2012, a small €0.5 m expansion option fee was achieved under the beta cell regeneration collaboration with MedImmune, which was signed in 2010. This clearly underlines the strategic commitment of both parties for this project.

3. ACQUISITION UPDATE

Squeeze-out process for DeveloGen completed
In January 2012, Evotec completed the squeeze-out process for DeveloGen AG, which has been renamed to Evotec (Göttingen) AG, by formal registration at the trade register. This triggered payments to the former minority shareholders of DeveloGen of €12.75 per share, summing up to a total of €176,217.75.

In addition, all tranches of shares from the acquisition of Kinaxo in April 2011 are no longer subject to any lock-up provisions as of 17 April 2012.

4. GUIDANCE

Financial guidance for 2012 confirmed
All financial targets published on 20 March 2012 in Evotec’s 2011 Annual Report (page 64) remain unchanged. In 2012, Evotec forecasts double-digit growth of Group revenues to reach €88 to 90 m. R&D expenses in 2012 will remain broadly in line with 2011 levels at approximately €10 m. The Company will continue to focus on first-in-class innovation. Evotec's Group operating result before impairment and changes in contingent consideration, if any, for the year 2012 is expected to further improve over 2011. However, operating result may vary significantly between quarters and prior year periods as the timing of performance based milestones and partnering events cannot be predicted within specific quarterly reporting periods.

2012 will be another year of significant investment in capital expenditures, even exceeding the high levels of 2011. More than €10 m are planned to be invested in the long-term upgrading of Evotec's capacities. As a significant proportion of the cash generated from operations is thus reinvested, the Company expects to maintain its liquidity above €60 m at the end of 2012, at constant year-end 2011 currencies, excluding any potential cash outflow for M&A transactions and related payments.

A. OPERATIONS

CHANGES IN GROUP STRUCTURE, CORPORATE STRATEGY AND OBJECTIVES, PRODUCT OFFERING AND BUSINESS ACTIVITIES

During the first quarter of 2012, Evotec’s Group **structure** remained unchanged and the Company continued to be managed in line with the **corporate objectives and strategy** described in Evotec’s Annual Report 2011 on pages 30 and 31. The implementation of Evotec Action Plan 2016 is fully on track and updates to the individual building blocks (EVT Execute, EVT Integrate, EVT Innovate) are described in detail in the highlights section on pages 3 to 6 of this quarterly report
After period end, in May, Evotec continued to strengthen its integrated drug discovery **offering**, establishing a new high-content screening platform for early antibody functionality testing in collaboration with 4-Antibody AG (see page 5).

In addition, Evotec continues to invest in its significant infrastructure upgrading programme. In 2012, more than €10 m will be invested in the long-term upgrading of Evotec's capabilities with a focus on protein production, screening, *in vitro* and *in vivo* Drug Metabolism and

Pharmacokinetics (DMPK) and in vivo pharmacology.

For updates on the **research and development activities** please refer to the highlights section (EVT Innovate) on page 4 of this report.

B. REPORT ON THE FINANCIAL SITUATION AND RESULTS

Note: The 2011 and 2012 results are not fully comparable. The difference results from the acquisitions of Kinaxo Biotechnologies GmbH (Evotec Munich) effective 18 April 2011 and of Compound Focus, Inc. (Evotec San Francisco) effective 1 June 2011.
While the results of Evotec Munich and Evotec San Francisco are fully included in the accompanying consolidated interim statements of operation for the first three months of 2012, they were not included in the comparable period of the previous year.

COMPARISON OF Q1 2012 FINANCIAL RESULTS WITH FORECAST

Evotec is not providing forecasts on a quarterly basis.

1. RESULTS

Revenues

Evotec's **revenues** for the first quarter of 2012 increased 33% over the same period of the previous year to €20.1 m (2011: €15.1 m). Growth was driven by a continued strong performance within the Company's drug discovery alliances, a milestone achieved in Evotec's development partnership with Andromeda/Teva with DiaPep277 (€3.9 m) as well as contributions from acquisitions totalling €2.9 m. Excluding the revenue contribution from the acquired businesses of Evotec Munich and Evotec San Francisco, like-for-like revenues for the first quarter of 2012 increased by 14.2% over the same period of the previous year.

Geographically, 31% of revenues were generated with customers in Europe, 36% in the US, and 33% in Japan and the Rest of the World. This compares to 47%, 39% and 14%, respectively, in the same period of the previous year. The higher contribution of Japan and the Rest of the World revenues to the Group revenues reflects the contribution from the DiaPep277 milestone from Andromeda/Teva.

Operating cost structure

Costs of revenue for the first quarter of 2012 amounted to €13.6 m (2011: €9.2 m) yielding a **gross margin** of 32.5% (2011: 39.4%). The margin difference in 2012 compared to 2011 is mainly attributable to the ramp up of capacities in EVT Execute, lower margin compound management revenues from the Evotec San Francisco business and the move into the new "Manfred Eigen Campus" in Hamburg.

Gross margins in the future may continue to be volatile, and significantly depend on the amount and timing of potential milestone and out-licensing revenues.

R&D expenditure for the first quarter of 2012 amounted to €1.9 m (2011: €2.3 m). The difference is mainly due to the cost of manufacture of EVT 501 in 2011.

SG&A expenses for the first quarter of 2012 increased by 17.0% to €4.4 m (2011: €3.8 m), this is primarily due to the higher cost base following the acquisitions of Evotec Munich and Evotec San Francisco and an increase in the size of the Business Development team to support future growth.

In the first quarter of 2012, **amortisation** increased to €0.5 m compared to €0.3 m in the previous year. This was mainly due to the amortisation of the customer list of Evotec San Francisco.

Other operating income and expenses resulted primarily from two effects:
1. Parallel rental for the old facility in Hamburg and the new "Manfred Eigen Campus" in Hamburg and the resulting planned underutilisation of parts of those buildings during the transition period. This was an other operating expense of approximately €0.6 m.
2. An expense of €0.3 m relating to the fair value adjustment in the context of the contingent consideration (earn-out) due to the sellers of Evotec (Göttingen).

Financial results

Due to higher operating expenses compared to the previous year Evotec's **operating loss** for the first quarter of 2012 increased to €(1.3) m (2011: €(0.8) m). The operating result before changes in contingent consideration amounted to €(1.0) m in the first three months 2012 (2011: €(0.8) m). In accordance with the business model, the operating result can vary significantly between quarters and prior year periods due to the timing of performance based milestones and partnering events. Overall, the Company remains on track to achieve increased full-year profitability over 2011 (before impairment and changes in contingent consideration, if any).

Net result amounted to €(2.0) m (2011: €(0.4) m). In the first quarter of the previous year, the net result was positively impacted by a foreign exchange gain of €1.0 m in accordance with IAS 21 as a result of the reduction in the capital reserve of one subsidiary paid to Evotec AG.

Earnings per share for the first quarter of 2012 were €(0.02) (2011: €0.00).

2. FINANCING AND FINANCIAL POSITION

Cash flow and liquidity

Cash used in operating activities for the first quarter of 2012 increased to €(4.7) m from €(0.8) m in the same period of 2011. This mainly resulted from an increase in working capital. The change in working capital was primarily driven by the Andromeda/Teva milestone that was invoiced in March but not paid by the end of the first quarter of 2012 as well as payments in the first quarter 2012 for bonuses and the move into the new facility in Hamburg.
The line item in the cash flow statement "adjustments to reconcile net loss to net cash used in operating activities" amounting to €2.3 m consisted mainly of depreciation of property, plant and equipment (€1.3 m), amortisation (€0.5 m), accrued interest expense (€0.3 m), non cash compensation expenses (€0.3 m).
Cash used in investing activities for the first quarter of 2012 was €(5.1) m. The proceeds from sale of current investments amounted to €25.4 m and Evotec purchased current investments in the amount of €28.0 m. Capital expenditures increased to €2.5 m from €0.6 m in 2011. This was due to Evotec's planned infrastructure upgrade and capacity expansion programme.
Cash flow from financing activities for the first quarter of 2012 was €2.0 m as a result of a loan taken by Evotec.
Liquidity, which includes cash and cash equivalents (€9.8 m) and investments (€47.3 m) at the end of March 2012 amounted to €57.1 m (31 Dec 2011: €62.4 m). The milestone payment from Andromeda/Teva had not been received at the end of the quarter.

3. ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY

There were only a few material changes to assets and liabilities during the first quarter of 2012. Most notably, trade accounts payable decreased to €7.5 m (31 Dec 2011: €10.1 m) as invoices at year end in the context of the move to the new Manfred Eigen Campus were paid during the first quarter. In addition, current provisions decreased to €9.7m (31 Dec 2011: €11.0 m) due to the payment of annual management board and employee bonuses in March 2012 and long-term loans increased to €4.3 m (31 Dec 2011: €2.4 m) mainly due to a €2.0 m loan taken by Evotec. More details are described in the Notes to the Unaudited Condensed Consolidated Interim Financial Statements. The changes in the liquidity position are explained in "Financing and Financial Position" above. The Company is not involved in any off-balance sheet financing transactions.
As of 31 March 2012 Evotec's capital structure remained unchanged compared to the end of 2011. The total number of ordinary shares outstanding amounted to 118,315,864.
Evotec's equity ratio as of 31 March 2012 continued to be high at 67.8% (31 December 2011: 67.5%).

4. HUMAN RESOURCES

Employees and Management
At the end of March 2012, 646 people were employed within the Evotec Group (31 December 2011: 610 employees). During the first three months 50 people were hired to support the growth of Evotec's discovery alliances.

Stock-based compensation
In the first three months of 2012, no options were granted to Evotec employees and a total of 22,431 options were exercised. As of 31 March 2012, the total number of options available for future exercise amounted to 7,130,569 (approximately 6% of shares in issue). Options have been accounted for under IFRS 2 using the fair value at the measurement date.

In connection with the acquisition of Renovis, Evotec issued shares to a trust. These shares were meant to replace outstanding options and similar share-based compensation arrangements for Renovis employees. In the first three months of 2012, these shares were released from the trust and are now available for other use. In the first quarter of 2012 a total of 22,431 of these shares were used to support the stock option plans of Evotec and at the end of March 2012 a total of 1,306,193 shares were remaining.

Directors' Holdings of Evotec AG

Number of shares

	1 Jan 12	Additions	Sales	31 Mar 12
Management Board				
Dr Werner Lanthaler	496,494	0	0	496,494
Colin Bond	0	0	0	0
Dr Cord Dohrmann	27,226	0	0	27,226
Dr Mario Polywka	60,000	0	0	60,000

Supervisory Board				
Dr Flemming Ørnskov	32,954	0	0	32,954
Dr Walter Wenninger	23,131	0	0	23,131
Dr Hubert Birner	41,711	0	0	41,711
Roland Oetker	17,427,355	0	0	17,427,355
Prof Dr Andreas Pinkwart	0	0	0	0
Mary Tanner	68,005	0	0	68,005

Number of share options

	1 Jan 12	Additions	Exercise	31 Mar 12
Management Board				
Dr Werner Lanthaler	1,540,000	0	0	1,540,000
Colin Bond	390,000	0	0	390,000
Dr Cord Dohrmann	390,000	0	0	390,000
Dr Mario Polywka	1,195,000	0	0	1,195,000
Supervisory Board				
Dr Flemming Ørnskov	0	0	0	0
Dr Walter Wenninger	0	0	0	0
Dr Hubert Birner	0	0	0	0
Roland Oetker	0	0	0	0
Prof Dr Andreas Pinkwart	0	0	0	0
Mary Tanner	0	0	0	0

Pursuant to §15a of the German Securities Trading Act (Wertpapierhandelsgesetz), the above tables lists separately for each member of our Management and Supervisory Board, the number of Company shares held, and rights for such shares granted to each board member as of 31 March 2012.

C. RISKS AND OPPORTUNITIES REPORT

The risks and opportunities described in Evotec's 2011 Annual Report on pages 59 to 62 and on page 65 remain unchanged.
At present, no risks have been identified that either individually or in combination could endanger the continued existence of Evotec AG.

D. IMPORTANT EVENTS AFTER THE END OF THE FIRST QUARTER OF 2012

There are no significant events to be reported, that are not yet highlighted in this report.

E. BUSINESS ENVIRONMENT

GLOBAL ECONOMY

Despite global macroeconomic issues and the fear of a double dip recession still a possibility in much of the developed world, the first quarter of 2012 proved to be positive for the global economy. Although the global growth rate is still rather anaemic and remains heavily dependent on emergency support from the central banks, economic activity has not yet shown any signs of turning negative. Even in China

the slow down is now looking gradual rather than crashing.
In Germany, business confidence continues to grow. The Munich-based Ifo institute said its business sentiment indicator had risen from 109.7 in February to 109.8 in March – the highest since July 2011. The index rise reflects German companies taking a more positive view on the outlook for the next six months. Similarly, the Center for European Economic Research survey in April indicated that economic expectations have stabilised. This shows that financial market experts surveyed by the Center for European Economic Research expect further positive development of the German economy during the next six months.

HEALTHCARE ENVIRONMENT AND OUTLOOK

In the first quarter, every life science index in Europe and the US was up, reversing some of the losses from 2011. At March close, it appeared the markets still had momentum and investors still had an appetite for risk. In fact, bankers, investors and technical analysts were expecting the market rally to continue into the second quarter, especially in the small-cap sector. Adding to positive sentiment for the second quarter is the potential for good news with over 60 Phase III clinical trial and regulatory events expected in that period.
In addition, for small cap companies, according to sector observers; investors, who over the last few years have shied away from small and micro-cap stocks, now view them as undervalued. These stocks include winners from Q4 2011, ASCO-related cancer companies and European value names. This is the first time investors have expressed so much enthusiasm for smaller cap plays since the biotech bull market of summer 2009. Regardless of market cap, buy-siders continue to favour many of the investments that made them money last quarter in areas such as infectious diseases, metabolic diseases, and cancer.
In this environment Evotec is well positioned with a business model that is based on a growing alliance business and an exciting development pipeline supported by funding from partners.
There continues to be strong evidence that pharma's R&D strategies include outsourcing; big pharma, such as Pfizer, Merck, AstraZeneca, Roche and GlaxoSmithKline, continue in their efforts to scale back on internal R&D costs and improve efficiency through further external partnerships. Furthermore, here is a clear trend towards large, multi-year contracts within a full-service outsourcing model.

F. FINANCIAL OUTLOOK

2012 financial guidance confirmed

Evotec confirms financial targets for the financial year 2012

All financial targets published on 20 March 2012 in Evotec's 2011 Annual Report (page 64) remain unchanged.
In 2012, double-digit growth of Group revenues are expected to reach €88 to 90m. This assumption is based on a strong order book, expected new contracts and contract extensions as well as good milestone opportunities. R&D expenses in 2012 to remain broadly in line with 2011 levels at approximately €10 m with the Company continuing to focus on first-in-class innovation. On that basis Evotec's Group operating result before impairment and changes in contingent consideration, if any, for the year 2012 is expected to further improve over 2011.

2012 will be another year of significant investment in capital expenditures, even exceeding the high levels of 2011. More than €10 m are planned to be invested in the long-term upgrading of Evotec's capacities. As top-line growth is also expected to generate a positive operating cash flow at constant year-end 2011 currency rates, the

Company expects to maintain its liquidity above €60 m at the end of 2012, excluding any potential cash outflow for M&A transactions and related payments.

The statements on **business direction and strategy, expected research and development, business opportunities** and **dividends** continue to be valid as published in Evotec's 2011 Annual Report on pages 63 and 65.

G. SHARE PRICE PERFORMANCE AND FINANCIAL CALENDAR

PERFORMANCE OF EVOTEC SHARES OVER THE PAST TWELVE MONTHS

In Germany, stock market activity reflected the positive economic sentiment. In the three months to 31 March 2012 the DAX Index closed the quarter up 17.8%. In a similar fashion, the German technology index TecDAX gained 14.9%. Evotec's shares jumped 21.2% on the quarter.

FINANCIAL CALENDER 2012

Q1 2012 Interim Report: 10 May 2012
Annual Stockholders' Meeting 2012: 14 June 2012
Q2 2012 Interim Report: 08 August 2012
Q3 2012 Interim Report: 08 November 2012

II. Consolidated Interim Financial Statements

Evotec AG and Subsidiaries -
Condensed consolidated interim income statement for the period from 1 January to 31 March 2012

in T€ except share and per share data	*Three months ended 31 March 2012*	*Three months ended 31 March 2011*
Revenues	20,110	15,106
Costs of revenue	13,580	9,155
Gross profit	**6,530**	**5,951**
Operating expenses (income)		
Research and development expenses	1,912	2,314
Selling, general and administrative expenses	4,432	3,789
Amortisation of intangible assets	526	275
Other operating income	(234)	(1,600)
Other operating expenses	1,183	1,983
Total operating expenses	**7,819**	**6,761**
Operating loss	**(1,289)**	**(810)**
Other non-operating income (expense)		
Interest income	42	53
Interest expense	(514)	(397)
Other income from financial assets	-	-
Other expense from financial assets	-	(22)
Foreign currency exchange gain (loss), net	(271)	741
Other non-operating income	43	181
Other non-operating expense	-	-
Total non-operating income (expense)	**(700)**	**556**
Loss before taxes	**(1,989)**	**(254)**
Current tax expense	(84)	(263)
Deferred tax income	78	129
Net loss	**(1,995)**	**(388)**
thereof attributable to:		
Shareholders of Evotec AG	(1,995)	(362)
Non-controlling interest	-	(26)
Weighted average shares outstanding	**116,987,597**	**114,262,216**
Net loss per share (basic and diluted)	**(0.02)**	**(0.00)**

Evotec AG and Subsidiaries -
Consolidated statements of comprehensive income for the period from 1 January to 31 March 2012

in T€	*Three months ended 31 March 2012*	*Three months ended 31 March 2011*
Net loss	**(1,995)**	**(388)**
Other comprehensive income		
Foreign currency translation	(369)	(2,557)
Revaluation and disposal of available-for-sale securities	(7)	-
Other comprehensive income	**(376)**	**(2,557)**
Total comprehensive income (loss)	**(2,371)**	**(2,945)**
Total comprehensive income (loss) attributable to:		
Shareholders of Evotec AG	(2,371)	(2,919)
Non-controlling interest	-	(26)

Evotec AG and Subsidiaries -
Consolidated interim statement of financial position as of 31 March 2012

in T€ except share data	*footnote reference*	*as of 31 March 2012*	*as of 31 Dec. 2011*
ASSETS			
Current assets:			
Cash and cash equivalents		9,840	17,777
Investments		47,306	44,651
Trade accounts receivables		10,138	10,393
Inventories		3,428	3,556
Current tax receivables		130	201
Deferred tax asset		2,373	2,373
Other current financial assets		1,628	1,355
Prepaid expenses and other current assets	6	4,123	2,965
Assets classified as held for sale		12	62
Total current assets		**78,978**	**83,333**
Non-current assets:			
Long-term investments		10	10
Property, plant and equipment		26,280	24,946
Intangible assets, excluding goodwill	7	66,849	67,652
Goodwill		42,055	42,202
Other non-current financial assets		70	70
Total non-current assets		**135,264**	**134,880**
Total assets		**214,242**	**218,213**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Current loan liabilities		13,176	13,174
Current portion of finance lease obligations		18	32
Trade accounts payable	8	7,452	10,134
Advanced payments received		674	782
Provisions	9	9,667	11,045
Deferred revenues		5,605	5,875
Current income tax payables		176	492
Other current financial liabilities		1,405	1,147
Other current liabilities		297	152
Total current liabilities		**38,470**	**42,833**
Non-current liabilities:			
Non-current loan liabilities		4,312	2,359
Long-term finance lease obligations		-	1
Deferred tax liabilities		9,783	9,904
Provisions	9	15,253	14,618
Deferred revenues		5	9
Other non-current liabilities		1,206	1,244
Total non-current liabilities		**30,559**	**28,135**
Stockholders' equity:			
Share capital		118,316	118,316
Treasury shares		-	(1)
Additional paid-in capital		664,158	663,820
Accumulated other comprehensive income		(26,371)	(25,995)
Accumulated deficit		(610,890)	(608,895)
Equity attributable to shareholders of Evotec AG		**145,213**	**147,245**
Non-controlling interest		-	-
Total stockholders' equity		**145,213**	**147,245**
Total liabilities and stockholders' equity		**214,242**	**218,213**

Evotec AG and Subsidiaries -
Condensed consolidated interim statements of cash flows for the three months ended 31 March 2012

in T€	*Three months ended 31 March 2012*	*Three months ended 31 March 2011*
Cash flows from operating activities:		
Net loss	(1,995)	(388)
Adjustments to reconcile net loss to		
net cash used in operating activities	2,339	551
Change in assets and liabilities	(5,028)	(976)
Net cash used in operating activities	**(4,684)**	**(813)**
Cash flows from investing activities:		
Purchase of current investments	(28,049)	(20,806)
Purchase of property, plant and equipment	(2,497)	(604)
Proceeds from sale of current investments	25,425	40,662
Net cash provided by (used in) investing activities	**(5,121)**	**19,252**
Cash flows from financing activities:		
Proceeds from option exercise	52	-
Proceeds from issuance of loans	2,000	194
Repayment of loans	(48)	(144)
Net cash provided by financing activities	**2,004**	**50**
Net increase (decrease) in cash and cash equivalents	**(7,801)**	**18,489**
Exchange rate difference	(136)	218
Cash and cash equivalents at beginning of year	17,777	21,091
Cash and cash equivalents at end of the period	**9,840**	**39,798**

Evotec AG and Subsidiaries -
Consolidated interim statements of changes in stockholders' equity
for the three months ended 31 March 2012

	Share capital				Accumulated other comprehensive income					
in T€ except share data	Shares	Amount	Additional paid-in capital	Treasury shares	Foreign currency translation	Revaluation reserve	Accumulated deficit	Equity attributable to shareholders of Evotec AG	Non-controlling interest	Total stockholders' equity
Balance at 1 January 2011	**115,595,729**	**115,596**	**658,888**	**-**	**(33,634)**	**6,955**	**(615,644)**	**132,161**	476	**132,637**
Stock option plan	-	-	149	-	-	-	-	149	-	149
Total comprehensive income (loss)					**(2,557)**	**-**	**(362)**	**(2,919)**	**(26)**	**(2,945)**
Balance at 31 March 2011	**115,595,729**	**115,596**	**659,037**	**-**	**(36,191)**	**6,955**	**(616,006)**	**129,391**	**450**	**129,841**
Balance at 1 January 2012	**118,315,864**	**118,316**	**663,820**	**(1)**	**(33,350)**	**7,355**	**(608,895)**	**147,245**	**-**	**147,245**
Exercised stock options	-	-	52	-	-	-	-	52	-	52
Stock option plan	-	-	286	-	-	-	-	286	-	286
Transfer of treasury shares	-	-	-	1	-	-	-	1	-	1
Total comprehensive income (loss)					**(369)**	**(7)**	**(1,995)**	**(2,371)**	**-**	**(2,371)**
Balance at 31 March 2012	**118,315,864**	**118,316**	**664,158**	**-**	**(33,719)**	**7,348**	**(610,890)**	**145,213**	**-**	**145,213**

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated interim financial statements of Evotec have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations as issued by the International Accounting Standards Board (IASB) as adopted by the European Union (EU) in conjunction with IAS 34. The consolidated financial statements have been prepared on the cost basis except for derivative financial instruments as well as available-for-sale financial instruments, which are measured at fair value. The accounting policies used to prepare interim information are the same as those used to prepare the audited consolidated financial statements for the year ended 31 December 2011. Income tax expense is recognised in interim periods based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

The interim consolidated financial statements do not include all of the information and footnotes required under IFRS for complete financial statements according to IAS 1. As a result, these interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended 31 December 2011.

In the opinion of management, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation have been included.

2. BASIS OF CONSOLIDATION

Evotec acquired all shares in Compound Focus, Inc., South San Francisco, US as of 1 June 2011 as well as all shares in Kinaxo Biotechnologies GmbH, Munich as of 18 April 2011. Both acquisitions were fully consolidated from the respective closing dates onwards. Due to those acquisitions the consolidated interim financial statements for 2011 and 2012 are not fully comparable.

3. BASIS OF ESTIMATION

In the consolidated interim financial statements for the three months ended 31 March 2012, the Company has used the same estimation processes as those used to prepare the audited consolidated financial statements for the year ended 31 December 2011.

4. SEGMENT INFORMATION

Pursuant to IFRS 8 Evotec does not report segment information (see page 95 of Evotec's 2011 Annual Report).

5. ACQUISITIONS

Evotec acquired the remaining 0.6% of the shares of Evotec (Göttingen) AG (formerly DeveloGen AG) effective 8 November 2011 due to the Evotec (Göttingen) AG shareholders vote in favour of the squeeze out.

Effective 5 October 2011, Evotec acquired the remaining 30% interest in Evotec (India) Private Limited for T€ 1,700. Evotec (India) was already fully consolidated before this transaction therefore the acquisition of the remaining 30% interest was not a business combination and had only an impact on equity.

Effective 1 June 2011, the Company acquired 100% of the shares in Compound Focus, Inc., South San Francisco, US (Compound Focus). The purchase price of T€ 11,625 in cash includes a potential earn out. The earn out before unwind of discount in the amount of T€ 2,146 as contingent consideration was calculated based on estimated achievement of defined future milestones as of the date of acquisition with a discount rate of 2.734%.

The fair values of the acquired assets and liabilities were estimated based on the recognised amounts as of the date of the acquisition. Fair value adjustment has been recorded for a customer list in the amount of T€ 4,547 which has been estimated based on net present value modelling. Related deferred tax liabilities in the net amount of T€ 1,853 were also recorded. The resulting goodwill from the acquisition amounted to T€ 7,711.
The net loss of Evotec for the three months ended 31 March 2012 included a net income of T€ 61 from Compound Focus as well as revenues of T€ 1,968.

The following unaudited pro forma information is based on the assumption that the investment in Compound Focus occurred as of 1 January 2011:

	Three months ended March 2011 T€
Pro-forma revenues	16,736
Pro-forma net loss	(260)
Pro-forma basic and diluted loss per share	(0.00)

Evotec acquired 100% of the shares of Kinaxo Biotechnologies GmbH, Munich (Evotec Munich). The acquisition was effective as of 18 April 2011 and included a share as well as a cash component. The purchase price of T€ 14,746 comprises the fair value of the shares issued from authorised capital (2,597,403 shares) of € 3.05 per share which was based on the stock price of Evotec at the date of acquisition as well as a cash component of T€ 3,000 and the fair values determined for the potential earn out. The earn out in the amount of T€ 3,824 as contingent consideration was calculated based on estimated achievement of defined future milestones as of the date of acquisition with a discount rate of 8.0%.
The fair values of the acquired assets and liabilities were estimated based on the recognised amounts as of the date of the acquisition. Fair value adjustments have been recorded for developed technologies in the amount of T€ 7,070 which have been estimated based on net present value modeling. Related deferred tax liabilities (netted with deferred tax assets on the tax loss carry forwards) in the net amount of T€ 1,335 were also recorded. The resulting goodwill from the acquisition amounted to T€ 7,983.
The net loss of Evotec for the three months ended 31 March 2012 included a net income of T€ 40 from Evotec Munich as well as revenues of T€ 891.

The following unaudited pro forma information is based on the assumption that the investment in Evotec Munich occurred as of 1 January 2011:

	Three months ended March 2011 T€
Pro-forma revenues	15,579
Pro-forma net loss	(732)
Pro-forma basic and diluted loss per share	(0.01)

6. INTANGIBLE ASSETS

In the first quarter of 2012, the milestone for DiaPep277 was reached which was included in the net present value model of the developed technology from the acquisition of DeveloGen. Based on this milestone the Company reviewed the relating developed technologies for impairment and concluded that no impairment has to be recorded in the first three months of 2012.

7. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets as of 31 March 2012 consisted primarily of prepaid expenses in the amount of T€ 2,743 (31 December 2011: T€ 2,092) and value added tax (VAT) in the amount of T€ 1,029 (31 December 2011: T€ 561).

8. TRADE ACCOUNTS PAYABLE

The trade accounts payable primarily decreased from 31 December 2011 to 31 March 2012 due to the payment of invoices relating to the construction work and subsequent move to the new facility at the Manfred Eigen Campus.

9. PROVISIONS

The provisions as of 31 March 2012 decreased in comparison to 31 December 2011 mainly due to the payment of annual management board and employee bonuses. Further, due to the fair value accounting of the earn out relating to the business combination with Evotec (Göttingen) the provisions have increased by the amount of T€ 315. Earn out liabilities totaling T€ 14,451 are estimated to be due in the next twelve months.

10. TRANSACTIONS WITH RELATED PARTIES

Except for the transactions described in the 2011 Annual Report on page 101, no other material transactions with related parties have been entered into in the first three months of 2012.

FORWARD-LOOKING STATEMENTS

Information set forth in this report contains forward-looking statements, which involve a number of risks and uncertainties. The forward-looking statements contained herein represent the judgement of Evotec as of the date of this report. Such forward-looking statements are neither promises nor guarantees, but are subject to a variety of risks and uncertainties, many of which are beyond our control, and which could cause actual results to differ materially from those contemplated in these forward-looking statements. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any such statements to reflect any change in our expectations or any change in events, conditions or circumstances on which any such statement is based.