evotec

#RESEARCHNEVERSTOPS

HALF-YEAR REPORT 2019

Half-year Interim REPORT '19

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I. MANAGEMENT REPORT

- *SIGNIFICANT EXPANSION, PROGRESS, AND ACCELERATION OF BUSINESS*
- *STRONG FINANCIAL PERFORMANCE IN H1 2019*
- *VERY GOOD PROGRESS WITHIN PARTNERED DRUG DISCOVERY AND DEVELOPMENT PORTFOLIO*
- *GUIDANCE 2019 UPDATED*

HIGHLIGHTS

VERY STRONG FINANCIAL PERFORMANCE REFLECTING GROWTH ACROSS ALL BUSINESS LINES

- 16% increase in Group revenues from contracts with customers to € 207.1 m (H1 2018: € 178.9 m)
- Strong revenue growth in both segments: EVT Execute revenues up 20% to € 196.8 m; EVT Innovate revenues up 29% to € 41.2 m
- Adjusted Group EBITDA increased by 51 % to € 58.2 m (H1 2018: € 38.6 m); adjusted EBITDA of € 60.1 m for EVT Execute (H1 2018: € 36.3 m)
- Unpartnered R&D expenses of € 18.7 m (H1 2018: € 10.0 m)
- Very important strategic expansion into biologics through closing of the acquisition of Just.Bio – Evotec Biologics effective 02 July 2019
- Issue of debut promissory note (Schuldschein) worth € 250 m completed end of June 2019 resulting in very strong liquidity position of € 341.8 m

EVT EXECUTE & EVT INNOVATE – STRONG OPERATIONAL PERFORMANCE

- New and extended drug discovery and development agreements (e.g. Astex, Dermira, Exscientia, STORM Therapeutics) and a new partnership with The Bill & Melinda Gates Foundation
- Strong pipeline progress with positive Phase II proof-of-concept results in Bayer chronic cough alliance (after period-end); Phase II start in Carrick alliance; Termination of SGM-1019 programme with Second Genome – all rights returned back to Evotec
- Strong performance across all business lines
- Important milestone and licence revenues (e.g. Celgene iPSC alliance in neurodegeneration, Boehringer Ingelheim pain alliance)
- New partnerships in EVT Innovate (e.g. Galapagos, Indivumed, GARDP, Helmholtz Centre for Infection Research (“HZI”), The Mark Foundation)
- Continued expansion of iPSC platform and internally developed patient-centric approaches; acquisition of IP portfolio, iPSC-based cellular products and experienced stem cell biology team from Ncardia AG (after period-end)
- Further acceleration of science via academic BRIDGEs (LAB150, new BRIDGE LAB10x), equity participation (Eternygen) and spin-offs (Breakpoint Therapeutics GmbH spin-off (after period-end): Early-stage funding round of € 30 m with Evotec holding just below 50% of the company)

CORPORATE

- Management Board contracts with Dr Cord Dohrmann (CSO) and Enno Spillner (CFO) extended, new Supervisory Board elected at Annual General Meeting 2019 with new members joining Evotec's Supervisory Board
- Conversion of the Company into European Company (SE) completed effective 29 March 2019

GUIDANCE 2019 UPDATED

- Strong underlying business outlook and integration of Just.Bio – Evotec Biologics revenues support the increase of revenue and EBITDA guidance
  - Group revenues from contracts with customers without revenues from recharges are expected to increase by approx. 15% (previously: approx. 10%) (2018: € 364.0)
  - Adjusted Group EBITDA is expected to increase by >10% (previously: approx. 10%) (2018: € 92.0 m)
  - Guidance on unpartnered R&D expenses remains unchanged at € 30-40 m (2018: € 22.9 m)

FINANCIAL HIGHLIGHTS

The following table provides an initial overview of the financial performance in the first half of 2019 and 2018. More detailed information can be found on page 6 of this half-year report.

Key figures of consolidated income statement & segment information

Evotec SE & subsidiaries – First six months of 2019

In T€	***EVT Execute***	***EVT Innovate***	***Evotec Group H1 2019***	***Evotec Group H1 2018[1]***
External revenues[2]	158,872	41,174	207,088	178,875
Intersegment revenues	37,901	–	–	–
Gross margin in %	*27.7*	*33.3*	*30.8*	*28.1*
R&D expenses[3]	(373)	(33,298)	(29,288)	(10,015)
SG&A expenses	(23,835)	(6,070)	(29,905)	(27,117)
Impairment of intangible assets and goodwill	–	(11,919)	(11,919)	(4,167)
Other operating income (expenses), net	9,332	22,016	31,348	12,697
Operating result	**39,614**	**(15,578)**	**24,036**	**21,690**
Adjusted EBITDA[4]	***60,095***	***(1,885)***	***58,210***	***38,599***

[1] 2018 data including reclasses of recharges according to IFRS 15
[2] Revenues in the segments consist of revenues from contracts with customers without revenues from recharges as those are not of importance for the management to assess the economic situation of the segments.
[3] Thereof unpartnered R&D expenses of € 18.7 m in H1 2019
[4] Before contingent considerations, income from bargain purchase and excluding impairments on goodwill, other intangible and tangible assets as well as the total non-operating result

EBITDA is defined as earnings before interest, taxes, depreciation, and amortisation of intangibles as reported in the consolidated financial statements of the Group. More details are described in the notes to the unaudited interim condensed consolidated financial statements on page 17 of this half-year report.

OPERATIONAL HIGHLIGHTS

EVT EXECUTE

Strong performance and focus on alliances

In the first half of 2019, the EVT Execute segment continued its strong progress of previous quarters.

Evotec signed multiple new drug discovery and development agreements (e.g. Astex, Exscientia, Yale) and extended and expanded existing long-term agreements (e.g. Dermira, Enterprise Therapeutics, Fibrocor, STORM Therapeutics) during the first half of 2019.

Furthermore, the base business again recorded a strong performance across all business lines and efficiency and quality improvement initiatives continue to be undertaken at various sites. The Management Board decided to consolidate all activities of its Basel site (Switzerland) into its Toulouse (France) site.

In addition to the strong base business, milestone achievements were recorded within EVT Execute during the first half of 2019.

In the first six months of 2019, Evotec also continued to invest in and upgrade its cutting-edge drug discovery and development platform.

EVT INNOVATE

New partnerships for long-term growth

In the first half of 2019, new agreements were signed within EVT Innovate, e.g. a new licence agreement with Galapagos in fibrosis, two new partnerships in oncology with The Mark Foundation (immuno-oncology) and Indivumed (focus on precision medicine in colorectal cancer), and two new partnerships in the space of novel antibiotics with The Global Antibiotic Research and Development Partnership ("GARDP") and the Helmholtz Centre for Infection Research ("HZI").

In addition, The Bill & Melinda Gates Foundation and Evotec entered into a new five-year partnership for the discovery of new treatment regimens that better address tuberculosis. Under the terms of this partnership, Evotec receives a grant of approx. $ 23.8 m to generate standardised, high-quality pre-clinical data to support novel regimen selection and development.

Progress in partnered product pipeline and focus on iPSC platform

Existing pipeline projects continued to move forward in the first half of 2019. After period-end, Evotec was notified by its partner Bayer about positive Phase II proof-of-concept results with a P2X3 antagonist for the treatment of chronic cough. The leading immune-oncology asset from the alliance between Evotec and Exscientia was progressed into a 28-day regulatory toxicology testing. The SGM-1019 programme with Second Genome was terminated in the first half of 2019, which triggered the full impairment of this programme. All rights of this project will be returned to Evotec.

Evotec's iPSC-based partnership with Celgene in neurodegeneration continued to progress very well and was expanded to include an undisclosed new cell type, triggering a payment of $ 9 m to Evotec.

In the first six months of 2019, Evotec continued to invest in the further development of its iPSC platform to prepare internal projects for future partnering. In this regard, after period-end, Evotec announced the acquisition of certain assets from the stem cell company Ncardia AG to advance Evotec's iPSC platform (effective 01 July 2019). No financial details of the transaction were disclosed. The acquired assets include intellectual property relevant for iPSC-based phenotypic drug discovery, an existing cellular product business around iPSC-derived cells, as well as a strong team of approx. 15 stem cell biology experts operating from laboratories at the BioCampus Cologne.

Efficient translation with BRIDGEs, equity participations and spin-offs

In the first half of 2019, Evotec continued to accelerate the translation of science across its various ventures.

Alongside its focus on artificial intelligence ("AI") in drug discovery, Evotec and the British clinical AI technology company Sensyne Health plc, the University of Oxford, Oxford University Innovation Ltd, and Oxford Sciences Innovation launched the Digital BRIDGE LAB10x. This BRIDGE is aimed at accelerating the translation of research in the fields of clinical artificial intelligence and digital health at Oxford into forming new companies applying breakthrough digital solutions, clinical AI algorithms and accelerated data-driven drug discovery and development. Furthermore, in its LAB150 BRIDGE with Toronto-based MaRS Innovation, further important projects were selected during the first half of 2019.

Shortly after period-end, Evotec announced the spin-off of the virtual biotech company Breakpoint Therapeutics GmbH focusing on the development of Evotec's DNA damage response portfolio, comprising discovery-stage assets and drug targets that promise broad therapeutic application in a variety of cancers. Together with an international VC consortium consisting of Medicxi, a life sciences-focused investment firm and Taiho Ventures, LLC, the venture capital arm of Taiho Pharmaceutical, Evotec invested in the early-stage funding round (total volume of € 30 m) and holds just below 50% of the company, thus accelerating potentially breakthrough therapeutics via equity participation. In the first half of 2019, Evotec also participated in a further financing round of its portfolio company Eternygen.

CORPORATE

Multimodality in R&D: Stepping into biologics

Effective 02 July 2019 (after period-end), Evotec closed the transaction to acquire Just Biotherapeutics (Just.Bio – Evotec Biologics), which had been signed on 20 May 2019. This acquisition accelerates Evotec's long-term strategy to be the industry partner of choice for external end-to-end innovation, strengthening Evotec's multimodality approach to R&D, adding biologics to its current offering in small molecules and cell therapy. Evotec will pay a total consideration of up to $ 90 m including potential earn-outs in the next three years. The initial consideration upon closing is $ 63.6 m (€ 56.3 m, EUR/USD rate of 1.13), subject to customary net debt and working capital adjustments. The acquisition of 100% of the issued and outstanding equity interests of the company has been paid in cash to a syndicate of institutional investors consisting of ARCH Venture Partners, Merck & Co., Lilly Asia Ventures, and the Bill & Melinda Gates Foundation. The acquisition is accretive to Evotec's revenue growth.

Issuance of promissory note (Schuldschein) worth € 250 m

In June 2019, Evotec successfully issued its first Schuldschein (promissory note) of € 250 m on the capital market with a fixed and variable interest rate of on average below 1.5 percent over 3, 5, 7, and 10 years maturity. Evotec intends to use the proceeds of this Schuldschein to strengthen its corporate financing structure as well as to finance the recent Just.Bio – Evotec Biologics acquisition, the expansion of its business and to re-finance certain loans at more attractive terms.

Management Board members' contracts extended, new Supervisory Board elected

In the first half of 2019, the Supervisory Board extended the existing contracts with the Management Board members Dr Cord Dohrmann (CSO) for a term of five years and Enno Spillner (CFO) for a term of three years.

Furthermore, Evotec's shareholders at the Annual General Meeting 2019 elected a new Supervisory Board for a term of five years. The existing members Prof. Dr Wolfgang Plischke (Chairman), Prof. Dr Iris Löw-Friedrich (Vice Chairman), Dr Michael Shalmi and Dr Elaine Sullivan were re-elected. Dr Mario Polywka, Evotec's COO until 31 December 2018, and Roland Sackers, CFO and Managing Director of QIAGEN N.V., were elected as new members of the Supervisory Board.

Conversion into European Company (SE) completed

Effective 29 March 2019, Evotec completed its conversion into a company under European law (Societas Europaea, "SE") with its registration in the commercial register. The new legal form has no impact on the Company's day-to-day operations and reflects the continuing European and international focus of the whole Evotec Group, with major subsidiaries in France, Germany, Italy, UK, and the USA.

A. OPERATIONS

Changes in Group structure, corporate strategy and objectives, product offering and business activities

The Company continues to be managed in line with the corporate objectives and strategy described in Evotec's Annual Report 2018 on pages 29 to 31.

B. REPORT ON THE FINANCIAL SITUATION AND RESULTS

Note: The 2018 and 2019 results are not fully comparable. The difference stems from the acquisition of Evotec ID (Lyon) SAS, effective 01 July 2018. The results from Evotec ID (Lyon) SAS are only included from 01 July 2018 onwards. The accounting policies used to prepare this interim information are the same as those used to prepare the audited consolidated financial statements for the year ended 31 December 2018, except for the adoption of IFRS 16 "Leases" as of 01 January 2019. From 01 January 2019 onwards, Evotec applies IFRS 16.

1. Results of operations

Evotec's **Group revenues from contracts with customers** for the first half of 2019 grew to € 207.1 m, a significant increase of 16% compared to the same period of the previous year (H1 2018: € 178.9 m). This increase is due to a strong performance in the base business across all business lines as well as higher milestone and licence revenues. The total revenues from milestones, upfronts and licences for the first half of 2019 amounted to € 19.1 m and increased by 23% over the same period of the previous year (H1 2018: € 15.5 m).

Geographically, 54% of Evotec's revenues were generated with European customers, 43% with customers in the USA and 3% with customers in the rest of the world. This compares to 52%, 45% and 3%, respectively, in the same period of the previous year.

Costs of revenue for the first half of 2019 amounted to € 143.3 m (H1 2018: € 128.6 m) and included amortisation of intangible assets from the purchase price allocations of the recent strategic acquisitions, yielding a gross margin of 30.8% (H1 2018: 28.1%). This increase in margin compared to 2018 reflects significant milestone and licence contributions and good margins in the base business. Additionally, favourable FX effects impacted the gross margin by approx. 1.4% points. Gross margin excluding total amortisation amounted to 33.6%. As has previously been stated, gross margins in the future may be volatile due to the dependency of the financial results on the receipt of potential milestone or out-licensing payments.

Total R&D expenses for the first half of 2019 increased as planned by 192% to € 29.3 m (H1 2018: € 10.0 m). Thereof, **unpartnered R&D expenses** amounted to € 18.7 m, reflecting continued investment into internal initiatives in the fields of metabolic diseases, oncology and neurology as well as academic BRIDGE initiatives. Its partnered R&D expenses of € 10.6 m on its infectious disease portfolio were fully reimbursed under other operating income by its partner Sanofi. This split into unpartnered and partnered R&D expenses had not been applied in H1 2018, as partnered R&D expenses were only recorded following the acquisition of Evotec ID (Lyon) SAS, effective 01 July 2018.

SG&A expenses for the first half of 2019 increased subproportionately by 10% to € 29.9 m (H1 2018: € 27.1 m) and were mainly impacted by expenses of Evotec ID (Lyon) for six months as well as an increase in headcount in response to overall Company growth and M&A-related expenses.

In the first six months of 2019, **impairments of intangible assets and goodwill** of € 11.9 m were recorded (H1 2018: impairment of intangible assets of € 4.2 m). The SGM-1019 programme was fully impaired (€ 10.3 m) as the project was discontinued by Evotec's partner Second Genome. This impairment of intangible assets also triggered a goodwill impairment of € 1.3 m of the cash-generating unit Evotec (US) Innovate. All rights of the underlying asset will be returned to Evotec.

Other operating income and expenses, net in the first six months of 2019 amounted to € 31.3 m (H1 2018: € 12.7 m) being positively impacted by reimbursed R&D expenses from Sanofi and R&D tax credits in the amount of € 12.7 m (H1 2018: € 10.3 m).

Consequently, Evotec's **operating result** for the first half of 2019 increased to € 24.0 m (H1 2018: € 21.7 m).

The **total non-operating result** of € (5.1) m in the first half of 2019 (H1 2018: € (1.5) m) was impacted by interest expenses mainly related to IFRS 16 and a foreign currency exchange loss of € 0.4 m. Evotec's share in the net result of its equity investments in the first six months of 2019 of € (2.1) m mainly related to Eternygen, Exscientia, Facio, and Topas Therapeutics and is included in the position "Share of the loss of associates accounted for using the equity method".

Adjusted Group EBITDA in the first six months of 2019 significantly increased by 51% to € 58.2 m (H1 2018: € 38.6 m) and was, among other things, positively impacted by IFRS 16.

Tax expenses in the first half of 2019 amounted to € 8.3 m (H1 2018: € 2.3 m). This increase mainly resulted from deferred tax expenses.

The **net result** in the first half of 2019 amounted to € 10.7 m (H1 2018: € 17.9 m).

Earnings per share for the first half of 2019 were € 0.07 (H1 2018: € 0.12).

2. Operating segments EVT Execute and EVT Innovate

Revenues from the EVT Execute segment amounted to € 196.8 m in the first half of 2019, an increase of 20% compared to the same period of the previous year (H1 2018: € 163.3 m). This increase is primarily attributable to growth in the base business. Included in this amount are € 37.9 m of intersegment revenues (H1 2018: € 21.5 m). The EVT Execute segment recorded costs of revenue of € 142.3 m in the first six months of 2019 (H1 2018: € 126.8 m), resulting in a gross margin of 27.7% (H1 2018: 22.4%). The gross margin was affected, against the prior-year period, by higher margins in the base business. In the first six months of 2019, the adjusted EBITDA of the EVT Execute segment was strong at € 60.1 m and significantly improved compared to the same period of the previous year (H1 2018: € 36.3 m).

The EVT Innovate segment generated revenues in the amount of € 41.2 m (H1 2018: € 32.0 m), consisting entirely of third-party revenues. This 29% increase in EVT Innovate revenues primarily resulted from milestone and licence revenues in the first half of 2019 and the signing of new partnerships. The EVT Innovate segment reported costs of revenue of € 27.5 m (H1 2018: € 15.9 m), resulting in a gross margin of 33.3% compared to 50.4% in the prior-year period. The margin in H1 2019 was mainly affected by larger contracts with higher resource and material costs. R&D expenses for the EVT Innovate segment significantly increased as planned from € 12.0 m in the first six months of 2018 to € 33.3 m in the first six months of 2019. This increase is primarily due to expenses in unpartnered R&D in the fields of metabolic and CNS diseases, oncology, and academic BRIDGE initiatives as well as in partnered R&D on its infectious disease portfolio, which is fully reimbursed under other operating income by its partner Sanofi. The impairment charges at Group level (€ 11.9 m) were fully recorded within the EVT Innovate segment. The EVT Innovate segment reported an adjusted EBITDA of € (1.9) m (H1 2018: € 2.3 m).

3. Financing and financial position

Cash used in operating activities for the first half of 2019 amounted to € 11.0 m (H1 2018: cash provided by operating activities of € 71.2 m) and resulted mainly from a decrease in deferred revenues related to the Bayer, Celgene, and Sanofi collaborations, an increase in working capital resulting primarily from R&D tax credit receivables as well as prepayments and the payment of annual bonuses at the beginning of the year. The prior-year period was affected by the prepayment from Celgene with regards to the oncology partnership ($ 65 m).

Cash provided by investing activities for the first half of 2019 amounted to € 5.4 m compared to cash used in investing activities of € 13.6 m in the same period of the previous year. In the first six months of 2019, the proceeds from the sale of current investments amounted to € 20.9 m. The purchase of investments in associated companies and other long-term investments in the first six months of 2019 (€ 1.0 m) related to an investment in Eternygen. Capital expenditures amounted to € 14.4 m and are thus on a similar level as in the previous year (H1 2018: € 14.2 m).

Cash provided by financing activities for the first half of 2019 amounted to € 219.3 m (H1 2018: cash used in financing activities of € 33.5 m). In the first half of 2019, Evotec raised € 249.1 m, net, via issuing a first-time promissory note (Schuldschein), entered into new bank loan agreements at attractive terms, and drew down another tranche of the European Investment Bank ("EIB") loan (€ 11.2 m). As a counter-effect, Evotec completed the full repayment of the bridge loan following the Aptuit acquisition in 2017 and reduced other loan obligations.

Liquidity, which includes cash and cash equivalents (€ 322.3 m) and investments (€ 19.5 m) amounted to € 341.8 m at the end of June 2019 (31 December 2018: € 149.4 m).

4. Assets, liabilities and stockholders' equity

Assets

The increase in current tax receivables to € 19.5 m (31 December 2018: € 13.8 m) is primarily related to higher R&D tax receivables.

Property, plant and equipment amounted to € 192.1 m (31 December 2018: € 90.5 m). This increase is mainly due to the capitalisation of right of use assets as fixed assets as of 01 January 2019 following the application of IFRS 16.

The decrease in intangible assets and goodwill to € 326.3 m (31 December 2018: € 343.8 m) resulted primarily from the impairment of the intangible assets of the SGM-1019 programme and a goodwill impairment of the cash-generating unit Evotec (US) Innovate.

The increase in prepaid expenses and other current assets to € 26.5 m (31 December 2018: € 19.5 m) mainly results from VAT receivables in Italy.

Changes in liquidity are explained above under "Financing and financial position".

The Company was not involved in any off-balance-sheet financing transactions.

Liabilities

The decrease in current loan liabilities and lease obligations to € 29.2 m (31 December 2018: € 56.9 m) mainly results from the full repayment of the bridge loan and lease liabilities according to IFRS 16 (€ 10.7 m).

Current deferred income decreased to € 2.1 m (31 December 2018: € 11.5 m) mainly due to the short-term portion of the Evotec ID (Lyon) upfront payment.

Non-current loan liabilities and lease obligation significantly increased to € 409.1 m (31 December 2018: € 57.5 m) primarily as a result of the issue of the promissory note (€ 249.1 m) and lease liabilities according to IFRS 16 (€ 90.3 m).

Stockholders' equity

As of 30 June 2019, Evotec's capital structure remained largely unchanged compared to the end of 2018. Due to the exercise of stock options and Share Performance Awards, there were in total 149,896,057 shares issued and outstanding with a nominal value of € 1.00 per share as of 30 June 2019. Included in this amount as of 30 June 2019 were 249,915 treasury shares.

Evotec's equity ratio as of 30 June 2019 decreased to 41.1% (31 December 2018: 55.0%) mainly as a result of the promissory note issue.

More details regarding assets, liabilities and stockholders' equity are described in the notes to the unaudited interim condensed consolidated financial statements on page 22 of this half-year report.

5. Human Resources

Employees

At the end of June 2019, 2,756 people were employed within the Evotec Group (31 December 2018: 2,617 employees).

Stock-based compensation

In the first six months of 2019, no stock options were granted to Evotec employees and 50,000 options were exercised. As of 30 June 2019, the total number of options available for future exercise amounted to 32,594 (approximately 0.0% of shares in issue).

During the first half of 2019, 230,231 Share Performance Awards were granted to members of the Management Board and other key employees and 833,263 shares were issued through the exercise of Share Performance Awards. As of 30 June 2019, the total number of Share Performance Awards available for future exercise amounted to 2,785,864 (approximately 1.9% of shares in issue).

Options and Share Performance Awards have been accounted for under IFRS 2 using the fair value at the grant date. In the first six months of 2019, no options and no Share Performance Awards held by employees of the Company continued to be valid after termination of the relating employment.

Shareholdings of the Boards of Evotec SE

Number of shares

	01 Jan 19	*Additions*	*Sales*	*30 June 19*
Management Board				
Dr Werner Lanthaler	838,053	140,190	–	978,243
Enno Spillner	–	–	–	–
Dr Cord Dohrmann[1)]	46,218	–	–	46,218
Dr Craig Johnstone	–	–	–	–

[1)] Dr Cord Dohrmann received his shares in Evotec through a transfer from an escrow account in accordance with the share purchase agreement in July 2010 in exchange for his share in DeveloGen

Number of stock options

	01 Jan 19	*Additions*	*Exercise*	*Expired options*	*30 June 19*
Management Board					
Dr Werner Lanthaler	–	–	–	–	–
Enno Spillner	–	–	–	–	–
Dr Cord Dohrmann	82,594	–	50,000	–	32,594
Dr Craig Johnstone	–	–	–	–	–

Number of Share Performance Awards

	01 Jan 19	*Additions*	*Exercise*	*30 June 19*
Management Board				
Dr Werner Lanthaler	832,915	45,161	175,000	703,076
Enno Spillner	92,285	11,071	–	103,356
Dr Cord Dohrmann	318,152	13,318	25,000	306,470
Dr Craig Johnstone	43,498	16,733	3,500	56,731

With the exception of Dr Mario Polywka, the Supervisory Board of Evotec SE does not hold any stock options or Share Performance Awards.

Pursuant to Article 19 of the European Market Abuse Regulation (EU-Marktmissbrauchverordnung), the above tables and information list the number of Company shares held and rights for such shares granted to each board member as of 30 June 2019 separately for each member of Evotec's Management Board.

C. RISKS AND OPPORTUNITIES MANAGEMENT

The risks and opportunities described in Evotec's Annual Report 2018 on pages 61 to 70 remain mainly unchanged. At present, no risks have been identified that either individually or in combination could endanger the continued existence of Evotec SE.

D. SUBSEQUENT EVENTS

Shortly after period-end, the strategic transaction signed on 20 May 2019 to acquire Just Biotherapeutics' (Just.Bio – Evotec Biologics) Seattle-based machine-learning technologies and agile, flexible methods for the design, development, and manufacturing of biologics and integrate them into Evotec's drug discovery offerings has been successfully closed effective 02 July 2019.

After period-end and effective 01 July 2019, Evotec announced the acquisition of assets from the stem cell specialist Ncardia AG. The acquired assets include intellectual property relevant for iPSC-based phenotypic drug discovery, an existing cellular product business around iPSC-derived cells, as well as a strong team of stem cell biology experts operating from laboratories at the BioCampus Cologne.

After period-end on 25 July 2019, Evotec was informed by its partner Bayer about the positive POC Phase II data with a P2X3 antagonist in chronic cough.

E. GENERAL MARKET AND HEALTHCARE ENVIRONMENT

Global economic development

Overall, the global economy has shown some signs of recovering momentum during the first half of 2019, yet forecasts predict a somewhat subdued growth in 2019. Downward risks remain which could impact the development of the global economy in 2019. These risks include, but are not limited to, continued trade tensions between major global economies, slowing industrial activities, tightening financial conditions, and political uncertainties (e.g. BREXIT, tensions in the Middle East). 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.

Trends in the pharmaceutical and biotechnology sector

In the first half of 2019, there were no material changes to the overall trends in the pharmaceutical and biotechnology sector described in Evotec's Annual Report 2018 on page 41. Please see Evotec's Annual Report 2018 for further information.

F. FINANCIAL OUTLOOK

Guidance 2019 updated

Elements of Evotec's financial guidance 2019 are updated reflecting the strong underlying base business and the integration of Just.Bio – Evotec Biologics as depicted in the table below.

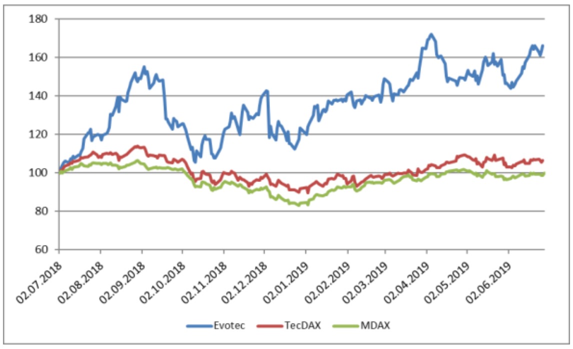
	Guidance 2019	*Actual 2018*
Group revenues from contracts with customers without revenues from recharges	Approx. 15% growth *(Previously: approx. 10%)*[1)]	€ 364.0 m[2)]
Unpartnered R&D expenses	Approx. € 30-40 m *(unchanged)*	€ 22.9 m
Adjusted Group EBITDA[3)]	Improve by >10% compared to 2018 (*Previously: approx. 10%)*	€ 92.0 m[4)]

[1)] Based on current/updated FX rates
[2)] 2018 total revenues excluding revenues from recharges according to IFRS 15
[3)] EBITDA is defined as earnings before interest, taxes, depreciation, and amortisation of intangibles. Adjusted EBITDA excludes contingent considerations, income from bargain purchase and impairments on goodwill, other intangible and tangible assets as well as the total non-operating result
[4)] 2018 total adjusted Group EBITDA excluding € 3.5 m one-off effects in 2018

G. EVOTEC SHARE

Performance of the Evotec share over the past twelve months

The DAX index closed the first half of 2019 up 18% at 12,399 points. Evotec's share price ended the first half of 2019 at € 24.58. This represents an increase of 42% compared to its opening price for 2019 (€ 17.30). The main benchmark indices for the Evotec share, the TecDAX and the MDAX, gained about 18% and 19%, respectively, in the first six months of 2019.



II. UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Evotec SE and Subsidiaries
Consolidated interim statement of financial position as of 30 June 2019

in T€ except share data	*footnote reference*	*as of 30 June 2019*	*as of 31 December 2018*
ASSETS			
Current assets:			
— Cash and cash equivalents	9	322,259	109,055
— Investments		19,503	40,394
— Trade accounts receivables		51,604	45,938
— Accounts receivables from related parties		1,698	2,092
— Inventories		6,521	5,660
— Current tax receivables	10	19,526	13,829
— Contract assets		15,959	12,913
— Other current financial assets		498	430
— Prepaid expenses and other current assets	11	26,488	19,458
Total current assets		**464,056**	**249,769**
Non-current assets:			
— Investments accounted for using the equity method and other long-term investments		27,900	28,963
— Property, plant and equipment		192,058	90,519
— Intangible assets, excluding goodwill	12	107,170	122,989
— Goodwill	13	219,142	220,791
— Deferred tax asset		40,308	43,329
— Non-current tax receivables		16,058	14,601
— Other non-current financial assets		21	27
— Other non-current assets		895	895
Total non-current assets		**603,552**	**522,114**
Total assets		**1,067,608**	**771,883**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
— Current loan liabilities	15	16,651	55,069
— Current portion of lease obligations	14	12,502	1,850
— Trade accounts payable		26,637	31,137
— Provisions		25,216	27,979
— Contract liabilities		45,089	49,676
— Deferred income	16	2,141	11,511
— Current income tax payables		6,327	4,232
— Other current financial liabilities	17	805	42
— Other current liabilities		7,950	14,779
Total current liabilities		**143,318**	**196,275**
Non-current liabilities:			
— Non-current loan liabilities	15	316,725	54,680
— Long-term lease obligations	14	92,335	2,866
— Deferred tax liabilities		20,565	21,517
— Provisions		21,131	19,986
— Contract liabilities		27,246	44,041
— Deferred income	18	6,385	7,000
— Other non-current financial liabilities		771	638
Total non-current liabilities		**485,158**	**150,728**
Stockholders' equity:			
— Share capital		149,896	149,063
— Additional paid-in capital		784,973	783,154
— Accumulated other comprehensive income		(27,386)	(27,200)
— Accumulated deficit		(469,222)	(481,013)
Equity attributable to shareholders of Evotec SE		**438,261**	**424,004**
Non-controlling interest		871	876
Total stockholders' equity		**439,132**	**424,880**
Total liabilities and stockholders' equity		**1,067,608**	**771,883**

Evotec SE and Subsidiaries
Consolidated interim income statement for the period from 01 January to 30 June 2019[1)]

in T€ except share and per share data	***Footnote reference***	***Six months ended 30 June 2019***	***Six months ended 30 June 2018***	***Three months ended 30 June 2019***	***Three months ended 30 June 2018***
Revenues from contracts with customers	8	207,088	178,875	103,239	97,238
Costs of revenue		(143,288)	(128,583)	(71,092)	(65,434)
Gross profit		**63,800**	**50,292**	**32,147**	**31,804**
Operating income and (expenses)					
— Research and development expenses		(29,288)	(10,015)	(14,929)	(5,399)
— Selling, general and administrative expenses		(29,905)	(27,117)	(15,143)	(13,823)
— Impairment of intangible assets		(10,272)	(4,167)	(10,272)	(4,167)
— Impairment of goodwill		(1,647)	–	(1,647)	–
— Other operating income		35,886	17,198	17,488	9,133
— Other operating expenses		(4,538)	(4,501)	(2,666)	(2,389)
Total operating expenses		**(39,764)**	**(28,602)**	**(27,169)**	**(16,645)**
Operating income		**24,036**	**21,690**	**4,978**	**15,159**
Non-operating income (expense)					
— Interest income		475	301	284	–
— Interest expense		(3,255)	(1,113)	(2,194)	(666)
— Share of the loss of associates accounted for using the equity method		(2,076)	(1,413)	(712)	(685)
— Other income from financial assets		3	4	2	1
— Foreign currency exchange gain (loss), net		(412)	673	(846)	2,200
— Other non-operating income		174	72	68	69
Total non-operating income (expense)		**(5,091)**	**(1,476)**	**(3,398)**	**919**
Income before taxes		**18,945**	**20,214**	**1,580**	**16,078**
— Current tax expense		(5,354)	(4,100)	(2,831)	(2,570)
— Deferred tax income (expense)		(2,929)	1,753	(1,137)	780
Total taxes		**(8,283)**	**(2,347)**	**(3,968)**	**(1,790)**
Net income		**10,662**	**17,867**	**(2,388)**	**14,288**
thereof attributable to:					
Shareholders of Evotec SE		10,667	17,869	(2,388)	14,288
Non-controlling interest		(5)	(2)	–	–
Weighted average shares outstanding		**149,360,388**	**147,295,047**	**149,577,480**	**147,297,465**
Net income (loss) per share (basic)		**0.07**	**0.12**	**(0.02)**	**0.10**
Net income (loss) per share (diluted)		**0.07**	**0.12**	**(0.02)**	**0.10**

[1)] 2018 data including reclasses of recharges according to IFRS 15

Evotec SE and Subsidiaries
Consolidated interim statement of comprehensive income for the period from 01 January to 30 June 2019

in T€	***Six months ended 30 June 2019***	***Six months ended 30 June 2018***	***Three months ended 30 June 2019***	***Three months ended 30 June 2018***
Net income	**10,662**	**17,867**	**(2,388)**	**14,288**
Accumulated other comprehensive income				
Items which have to be re-classified to the income statement at a later date				
— Foreign currency translation	(387)	876	(2,632)	(1,369)
— Revaluation and disposal of available-for-sale securities	201	(44)	201	(44)
Other comprehensive income	**(186)**	**832**	**(2,431)**	**(1,413)**
Total comprehensive income	**10,476**	**18,699**	**(4,819)**	**12,875**
Total comprehensive income (loss) attributable to:				
— Shareholders of Evotec SE	10,481	18,701	(4,819)	12,875
— Non-controlling interest	(5)	(2)	–	–

Evotec SE and Subsidiaries
Condensed consolidated interim statement of cash flows for the six months ended 30 June 2019

in T€	***Six months ended 30 June 2019***	***Six months ended 30 June 2018***
Cash flows from operating activities:		
— Net income	10,662	17,867
— Adjustments to reconcile net income to net cash provided by operating activities	41,062	21,159
— Change in assets and liabilities	(62,693)	32,186
Net cash provided by (used in) operating activities	**(10,969)**	**71,212**
Cash flows from investing activities:		
— Purchase of investments in associated companies and other long-term investments	(979)	(2,689)
— Purchase of property, plant and equipment	(14,419)	(14,196)
— Purchase of intangible assets	–	(430)
— Payment of subsequent contingent considerations	(149)	(2,140)
— Proceeds from sale of property, plant and equipment	–	405
— Proceeds from sale of current investments	20,928	5,483
Net cash provided by (used in) investing activities	**5,381**	**(13,567)**
Cash flows from financing activities:		
— Proceeds from option exercise	895	15
— Issuance of promissory note	249,125	–
— Proceeds from loans	28,552	15,559
— Repayment finance lease obligation	(5,170)	(392)
— Repayment of loans	(54,053)	(48,647)
Net cash provided by (used in) financing activities	**219,349**	**(33,465)**
Net increase in cash and cash equivalents	**213,761**	**24,180**
— Exchange rate difference	(557)	112
— Cash and cash equivalents at beginning of year	109,055	67,017
Cash and cash equivalents at end of the period	**322,259**	**91,309**

Evotec SE and Subsidiaries
Interim consolidated statement of changes in stockholders' equity of the six months ended 30 June 2019

	Share capital			Income and expense recognised in other comprehensive income					
in T€ except share data	*Shares*	*Amount*	*Additional paid-in capital*	*Foreign currency translation*	*Re-valuation reserve*	*Accu-mulated deficit*	*Stockholders equity attributable to the Share-holders of Evotec SE*	*Non-con-trolling interest*	*Total stock-holders' equity*
Balance at 01 January 2018	**147,532,681**	**147,533**	**778,858**	**(35,287)**	**6,384**	**(566,565)**	**330,923**	**992**	**331,915**
— IFRS 9 adjustment	–	–	–	–	–	(10)	(10)	–	(10)
— Exercised stock options	14,588	14	–	–	–	–	14	–	14
— Stock option plan	–	–	2,068	–	–	–	2,068	–	2,068
— Deferred and current tax on future deductible expenses	–	–	–	–	–	376	376	–	376
Other comprehensive income				876	(44)	–	832	–	832
Net income for the period				–	–	17,869	17,869	(2)	17,867
Total comprehensive income (loss)				**876**	**(44)**	**17,869**	**18,701**	**(2)**	**18,699**
Balance at 30 June 2018	**147,547,269**	**147,547**	**780,926**	**(34,411)**	**6,340**	**(548,330)**	**352,072**	**990**	**353,062**
Balance at 01 January 2019	**149,062,794**	**149,063**	**783,154**	**(33,202)**	**6,002**	**(481,013)**	**424,004**	**876**	**424,880**
— Exercised stock options	833,263	833	62	–	–	–	895	–	895
— Stock option plan	–	–	1,757	–	–	–	1,757	–	1,757
— Deferred and current tax on future deductible expenses	–	–	–	–	–	1,124	1,124	–	1,124
Other comprehensive income				(387)	201	–	(186)	–	(186)
Net income for the period				–	–	10,667	10,667	(5)	10,662
Total comprehensive income				**(387)**	**201**	**10,667**	**10,481**	**(5)**	**10,476**
Balance at 30 June 2019	**149,896,057**	**149,896**	**784,973**	**(33,589)**	**6,203**	**(469,222)**	**438,261**	**871**	**439,132**

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of presentation

The accompanying unaudited interim condensed consolidated financial statements of Evotec have been prepared in accordance with IAS 34 on interim reporting in conjunction with International Financial Reporting Standards (IFRS) and their interpretations as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union (EU). The interim consolidated financial statements have been prepared on cost basis, except for derivative financial instruments, which are measured at fair value as well as investments accounted for at fair value through other comprehensive income (equity) and long-term investments accounted for at fair value through profit and loss. 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 2018, except for the adoption of new standards effective as of 01 January 2019. Income tax income and 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 consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended 31 December 2018. In the opinion of the management, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation have been included.

2. Principles of consolidation

Effective 01 July 2018, Evotec acquired 100% of the shares in Evotec ID (Lyon) SAS, Marcy L'Étoile (France). This acquisition has been fully consolidated since that date.

Due to this acquisition, the interim condensed consolidated financial statements for the first six months of 2018 and 2019 are not fully comparable.

3. Use of estimates

In the interim condensed consolidated financial statements for the six months ended 30 June 2019, the Company has used the same estimation processes as those used to prepare the audited consolidated financial statements for the year ended 31 December 2018 The implementation of IFRS 16 "Leases" required management to make additional assumptions and estimates.

Estimates and assumptions are reviewed on an ongoing basis. Actual results can differ from these estimates.

4. Recent pronouncements, adopted for the first time in 2019

IFRS 16 was adopted first time 01 January 2019 where right of use assets in the amount of T€ 104,256 and lease liabilities in the amount of T€ 106,258 were additionally recognised. Of these lease liabilities T€ 10,601 were due within one year. Evotec transitioned to IFRS 16 in accordance with the modified retrospective approach. Prior year figures were not adjusted. Evotec has decided to apply the relief option where short-term leases as well as lease with total liability amount under T€ 5 will be accounted for as expenses from short-term leasing.

The following reconciliation to the opening balances for the lease liabilities as of 01 January 2019 is based upon the operating leases after application easements for short-term leases and low-value assets as of 31 December 2018:

in T€	***Recon-ciliation 01 January 2019***
Operating leases after application easements for short-term leases and low-value assets as of 31 December 2018	**122,260**
Discounting	(16,002)
Finance lease liabilities as of 31 December 2018	4,716
Lease liability as of 01 January 2019	**110,974**

The lease liabilities were discounted with the incremental borrowing rate as of 01 January 2019. The weighted average discount rate range was 0.60%-3.77%. In order to calculate the incremental borrowing rate, reference interest rates were derived for a period up to 20 years from the yields of sovereign bonds in major countries. The reference interest rates were supplemented by a leasing risk premium. The lease liabilities led to the recognition of the following right of use assets:

in T€	***Recon-ciliation 01 January 2019***
Operational lease liability as of 01 January 2019 according to IFRS 16	**106,258**
Provisions for lease expenses as of December 2018	(2,002)
Finance lease liabilities as of 31 December 2018	4,716
Right of use assets as of 01 January 2019	**108,972**

Leases are presented as follows in the income statement:

in T€	***01 January - 30 June 2019***
Other operating income	
Sublease income	164
Expenses	
Expenses from short-term lease and low assets lease	285
Depreciation and impairment losses	
Depreciation of right of use assets	6,777
Net financing cost	
Interest expense on lease liabilities	1,344
Currency gain on lease liabilities	(985)

5. Recent pronouncements, not yet adopted

For information about the recent pronouncements please refer to the consolidated financial statements for the year 2018.

6. Acquisitions

Evotec acquired 100% of the shares of Just Biotherapeutics (Just.Bio – Evotec Biologics), Seattle, WA, USA, as of 02 July 2019. Just.Bio – Evotec Biologics is a technology company that integrates highly synergistic and machine-learning-driven technologies. The acquisition strengthens Evotec's multimodality approach to R&D. The initial accounting for the business combination is still incomplete as the total consideration will be subject to adjustments. The total consideration will be paid in cash.

7. Segment information

EVT Execute and EVT Innovate have been identified by the Management Board as operating segments. The segments' key performance indicators are used monthly by the Management Board to evaluate the resource allocation as well as Evotec's performance. Intersegment revenues are valued with a price comparable to other third-party revenues. The evaluation of each operating segment by the management is performed on the basis of revenues and adjusted EBITDA. The adjusted EBITDA is calculated without non-operating income (expense). For the EVT Innovate segment, R&D expenses are another key performance indicator.

The segment information for the first six months of 2019 is as follows:

in T€	*EVT Execute*	*EVT Innovate*	*Intersegment eliminations*	*Transition*	*Evotec Group*
External revenues	158,872	41,174	–	7,042	207,088
Intersegment revenues	37,901	–	(37,901)	–	–
Costs of revenue	(142,283)	(27,481)	33,518	(7,042)	(143,288)
Gross profit	**54,490**	**13,693**	**(4,383)**	**–**	**63,800**
Operating income and (expenses)					
— Research and development expenses	(373)	(33,298)	4,383	–	(29,288)
— Selling, general and administrative expenses	(23,835)	(6,070)	–	–	(29,905)
— Impairment of intangible assets	–	(10,272)	–	–	(10,272)
— Impairment of goodwill	–	(1,647)	–	–	(1,647)
— Other operating income	13,421	22,465	–	–	35,886
— Other operating expenses	(4,089)	(449)	–	–	(4,538)
Total operating income (expenses)	**(14,876)**	**(29,271)**	**4,383**	**–**	**(39,764)**
Operating income (loss)	**39,614**	**(15,578)**	**–**	**–**	**24,036**
— Interest result					(2,780)
— Share of the loss of associates accounted for using the equity method					(2,076)
— Other income (expense) from financial assets, net					3
— Foreign currency exchange gain (loss), net					(412)
— Other non-operating income					174
Income before taxes					**18,945**
Adjusted EBITDA	**60,095**	**(1,885)**			**58,210**

The EBITDA adjusted for the first six months 2019 is derived from operating income (expense) as follows:

in T€	*EVT Execute*	*EVT Innovate*	*Evotec Group*
Operating income (expense)	**39,614**	**(15,578)**	**24,036**
plus depreciation of tangible assets	14,855	1,672	16,527
plus amortisation of intangible assets	5,626	102	5,728
plus impairment of intangible assets	–	10,272	10,272
plus impairment of goodwill	–	1,647	1,647
Adjusted EBITDA	**60,095**	**(1,885)**	**58,210**

The segment information for the first six months of 2018 is as follows[1)]:

in T€	*EVT Execute*	*EVT Innovate*	*Intersegment eliminations*	*Transition*	*Evotec Group*
External revenues	141,787	31,971	–	5,117	178,875
Intersegment revenues	21,547	–	(21,547)	–	–
Costs of revenue	(126,808)	(15,852)	19,194	(5,117)	(128,583)
Gross profit	**36,526**	**16,119**	**(2,353)**	**–**	**50,292**
Operating income and (expenses)					
— Research and development expenses	(359)	(12,009)	2,353	–	(10,015)
— Selling, general and administrative expenses	(23,353)	(3,764)	–	–	(27,117)
— Impairment of intangible assets	–	(4,167)	–	–	(4,167)
— Other operating income	17,885	4,430	–	(5,117)	17,198
— Other operating expenses	(8,784)	(834)	–	5,117	(4,501)
Total operating income (expenses)	**(14,611)**	**(16,344)**	**2,353**	**–**	**(28,602)**
Operating income (loss)	**21,915**	**(225)**	**–**	**–**	**21,690**
— Interest result					(812)
— Share of the loss of associates accounted for using the equity method					(1,413)
— Other income (expense) from financial assets, net					4
— Foreign currency exchange gain (loss), net					673
— Other non-operating income					72
Income before taxes					**20,214**
Adjusted EBITDA	**36,268**	**2,331**			**38,599**

[1)] 2018 data including reclasses of recharges according to IFRS 15

The EBITDA adjusted for the first six months of 2018 is derived from operating income (expense) as follows:

in T€	*EVT Execute*	*EVT Innovate*	*Evotec Group*
Operating income (expense)	**21,915**	**(225)**	**21,690**
plus depreciation of tangible assets	8,420	464	8,884
plus amortisation of intangible assets	5,933	188	6,121
plus impairment of intangible assets	–	4,167	4,167
less change in contingent consideration	–	(2,263)	(2,263)
Adjusted EBITDA	**36,268**	**2,331**	**38,599**

8. Revenue from contracts with customers

The following schedule analyses the revenue Evotec recognised from contracts with customers for the first six months of 2019:

in T€	*EVT Execute*	*EVT Innovate*	*Transition*	*Evotec Group*
Revenues from contracts with customers				
Service fees and FTE-based research payments	151,840	30,601		182,441
Recharges	–	–	7,042	7,042
Compound access fees	548	–	–	548
Milestone fees	5,021	1,752	–	6,773
Royalties	–	–	–	–
Licences	1,463	8,821	–	10,284
Total	**158,872**	**41,174**	**7,042**	**207,088**
Timing of revenue recognition				
At a certain time	5,021	9,775	–	14,796
Over a period of time	153,851	31,399	7,042	192,292
Total	**158,872**	**41,174**	**7,042**	**207,088**
Revenues by region				
USA	65,311	15,892	3,281	84,484
Germany	10,123	1,993	281	12,397
France	22,694	7,704	1,629	32,027
United Kingdom	32,400	4,908	1,094	38,402
Others	28,344	10,677	757	39,778
Total	**158,872**	**41,174**	**7,042**	**207,088**

The following schedule analyses the revenue Evotec recognised from contracts with customers for the first six months of 2018:

in T€	*EVT Execute*	*EVT Innovate*	*Transition*	*Evotec Group*
Revenues from contracts with customers				
Service fees and FTE-based research payments	140,465	20,576	–	161,041
Recharges	–	–	5,117	5,117
Compound access fees	322	–	–	322
Milestone fees	1,000	11,395	–	12,395
Royalties	–	–	–	–
Licences	–	–	–	–
Total	**141,787**	**31,971**	**5,117**	**178,875**
Timing of revenue recognition				
At a certain time	1,000	11,395	–	12,395
Over a period of time	140,787	20,576	5,117	166,540
Total	**141,787**	**31,971**	**5,117**	**178,875**
Revenues by region				
USA	52,870	12,912	1,872	67,654
Germany	10,234	4,547	213	14,994
France	23,030	9,289	1,547	33,866
United Kingdom	26,321	748	820	27,889
Others	29,332	4,475	665	34,472
Total	**141,787**	**31,971**	**5,117**	**178,875**

9. Cash and cash equivalents

The increase in cash and cash equivalents as of 30 June 2019 compared to 31 December 2018 relates mainly to the issuance of promissory notes in the amount of T€ 250,000 responding to cash in the same amount.

10. Current tax receivables

The increase in current tax receivables as of 30 June 2019 compared to 31 December 2018 relates mainly to tax refunds from tax development programmes in the context of qualifying research and development expenses within France and Italy.

11. Prepaid expenses and other current assets

Prepaid expenses and other current assets as of 30 June 2019 increased compared to 31 December 2018 primarily due to prepayments made in the beginning of the year and VAT-related receivables in Italy.

12. Intangible assets, excluding goodwill

In the second quarter of 2019, clinically developed technologies resulting from the acquisition of Renovis Inc., San Francisco, did not show promising data which resulted in the decision to discontinue the programme (termination of SGM-1019 partnered programme with Second Genome). Evotec therefore impaired the relating developed technologies in full in the amount of T€ 10,272 and the impairment was allocated to the EVT Innovate segment.

13. Goodwill

The impairment of the developed technologies mentioned above were the triggering event leading to an impairment test of the cash generating unit Evotec (US) Innovate in the second quarter of 2019. As a result of this test, an impairment in the amount of T€ 1,647 was recorded. This impairment was also allocated to the EVT Innovate segment.

14. Current and non-current lease liabilities

The increase in lease liabilities as of 30 June 2019 in comparison with 31 December 2018 mainly relates to the adoption of IFRS 16. Please refer to note 4 for further information.

15. Current and non-current loan liabilities

The increase in loan liabilities as of 30 June 2019 in comparison with 31 December 2018 mainly relates to the issuance of promissory notes in the amount of T€ 250,000.

16. Current deferred income

The decrease in current deferred income as of 30 June 2019 compared to 31 December 2018 primarily relates to the prepayment received from Sanofi.

17. Other current financial liabilities

Other current financial liabilities decreased as of 30 June 2019 in comparison with 31 December 2018 primarily due to the payment of high social security liabilities as well as wage taxes relating to option exercises made in 2019, which were recorded in this balance sheet item at 31 December 2018.

18. Non-current deferred revenues

The decrease in non-current deferred revenues primarily relates to revenues realised from Celgene, Bayer and Pfizer.

19. Stock-based compensation

In the first six months ending 30 June 2019, 86,283 Share Performance Awards from the total granted 230,231 Share Performance Awards were given to the members of the Management Board.

20. Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet as of 30 June 2019 and 31 December 2018, are as follows:

		30. June 2019		*31 December 2018*	
in T€	***Classification according to IFRS 9***	***Carrying amount***	***Fair value***	***Carrying amount***	***Fair value***
— Cash and cash equivalents	Amortised cost	322,259	322,259	109,055	109,055
— Investments	Fair value through other comprehensive income	19,503	19,503	40,394	40,394
— Long-term investments	Fair value through profit and loss	6,396	6,396	6,396	6,396
— Trade accounts receivables	Amortised cost	51,604	51,604	45,938	45,938
— Contract assets	Amortised cost	15,959	15,959	12,913	12,913
— Other current financial assets	Amortised cost	498	498	430	430
— Current loan liabilities	Amortised cost	(16,651)	(16,651)	(55,069)	(55,069)
— Non-current loan liabilities	Amortised cost	(316,725)	(333,604)	(54,680)	(55,944)
— Trade accounts payable	Amortised cost	(26,637)	(26,637)	(31,137)	(31,137)
— Contract liabilities	Amortised cost	(45,089)	(45,089)	(49,676)	(49,676)
— Other current financial liabilities	Amortised cost	-	-	(42)	(42)
— Derivative financial instruments	Fair value through other comprehensive income	(805)	(805)	(299)	(299)
— Contingent consideration	Fair value through profit and loss	(517)	(517)	(646)	(646)
		9,795	**(7,084)**	**23,577**	**22,313**
Unrecognised (gain)/loss			**16,879**		**1,264**

The following tables allocate financial assets and financial liabilities as of 30 June 2019 and 31 December 2018, respectively to the three levels of the fair value hierarchy as defined in IFRS 13:

	30 June 2019			
in T€	***Level 1***	***Level 2***	***Level 3***	***Total***
Assets at fair value through other comprehensive income	19,503	–	–	19,503
Assets at fair value through profit and loss	–	–	6,396	6,396
Liabilities at fair value through other comprehensive income	–	(825)	–	(825)
Liabilities at fair value through profit and loss	–	–	(517)	(517)

	31 December 2018			
in T€	***Level 1***	***Level 2***	***Level 3***	***Total***
Assets at fair value through other comprehensive income	40,394	–	–	40,394
Assets at fair value through profit and loss	–	–	6,396	6,396
Liabilities at fair value through other comprehensive income	–	(299)	–	(299)
Liabilities at fair value through profit and loss	–	–	(646)	(646)

The following tables show the movement of the fair values at level 3 for the six months period ending 30 June 2019 and the financial year 2018, respectively:

in T€	***January to June 2019 Other investments***	***January to June 2019 Contingent consideration***
As of 01 January 2019	6,396	(646)
Consumption	–	149
Included in interest expense		
— Interest change in net present value, unrealised	–	(20)
As of 30 June 2019	**6,396**	**(517)**

in T€	***January to December 2018 Other investments***	***January to December 2018 Contingent consideration***
Balance at 01 January 2018 before IFRS 9 application	4,282	(4,830)
Effect of first time application of IFRS 9	–	–
Balance at 01 January 2018 after first time application of IFRS 9	4,282	(4,830)
Exchange rate difference	–	(95)
Addition	1,924	–
Consumption	–	2,140
Included in other operating expense		
— Changes in fair value, unrealised	–	2,263
Included in other operating income		
— Changes in fair value, unrealised	190	–
Included in interest expense		
— Interest change in net present value, unrealised	–	(124)
Balance at 30 December 2018	**6,396**	**(646)**

The levels of the fair value hierarchy and its application to Evotec's financial assets and financial liabilities are described below:

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data.

21. Related party transactions

Except for the transactions described in Evotec's Annual Report 2018 on page 126, no other material transactions with related parties were entered into in the first six months of 2019.

22. Subsequent events

For further information on subsequent events refer to page 10 of this report.

Financial calendar 2019

28 March 2019	Annual Report 2018
14 May 2019	Quarterly Statement Q1 2019
19 June 2019	Annual General Meeting 2019
14 August 2019	Half-year 2019 Interim Report
12 November 2019	Quarterly Statement 9M 2019

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.

III. RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the Interim Condensed Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and financial results of the Group, and the Group Interim Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

14 August 2019

Dr Werner Lanthaler	Dr Cord Dohrmann
Chief Executive Officer	*Chief Scientific Officer*
Dr Craig Johnstone	Enno Spillner
Chief Operating Officer	*Chief Financial Officer*