Evotec AG, Third Quarter Report 2006

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Dear Shareholders,

We are very pleased with the strong Q3 results we publish today. All divisions reported substantial revenue growth over Q3 2005 translating into a Group revenue increase of 30%. The achievement of our second milestone with Takeda, above average performances in pilot plant and formulation services as well as the successful installation of a major ultra-high-throughput screening system in the US contributed to this revenue growth. As a consequence, Q3 operating loss before amortisation improved by 28% despite continued higher R&D investment in our CNS pipeline, and the Services Division achieved a positive operating result of EUR 1.2 million. In summary, these quarterly results, although they can not be extrapolated and need to be evaluated in the 2006 full-year context, indicate that all divisions are performing well and we are on track to achieve our corporate objectives.

Key figures Q3 2006

Euro in millions	**07-09/2006**	**07-09/2005**	∆ in %
Total revenue	**24.6**	**19.0**	**30**
– Services Division	17.5	14.3	22
Operating result before amortisation	**(3.1)**	**(4.3)**	**28**
– Services Division	1.2	0	-
Cash at the end of third quarter	**57.3**	**54.3**	**6**

Significant news flow on the development of our CNS pipeline, with data from two clinical studies, was also reported in Q3:

- **Our frontrunner product EVT 201 for the treatment of insomnia advanced into Phase II**
- **We successfully completed Phase I with our Alzheimer's disease/neuropathic pain drug EVT 101**
- **However, we had to discontinue the development of our Alzheimer product EVT 301, due to adverse events observed in our Phase I safety and tolerability study**

We now have two promising CNS candidates in our portfolio, one in Phase II (EVT 201) and one about to enter Phase II (EVT 101). The first efficacy data in patients should be reported next year. Both compounds act through proven pathways, reducing to some extent the risk inherent in drug discovery and development. At the same time, based on their distinct mechanisms of action, we believe they both may positively differentiate from the competition, in markets with still significant unmet medical need.

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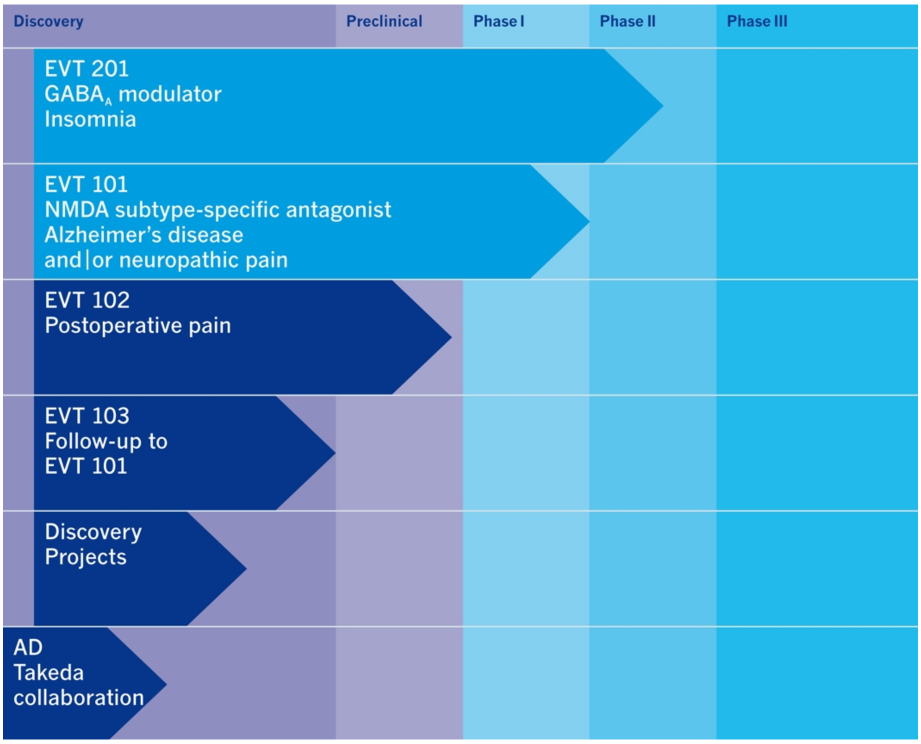
1. Pipeline progressing: EVT 101 completed Phase I, EVT 201 entered into Phase II



<u>Insomnia:</u>
Phase II started with EVT 201

In September, we initiated our first Phase II clinical trial with EVT 201 under a US IND. This compound is a partial positive allosteric modulator (pPAM) of the $GABA_A$ receptor and is being developed for the treatment of insomnia. The multi-centre, double-blind trial is designed to evaluate the efficacy of EVT 201 in a three way cross-over design in 66 patients with primary insomnia at sleep research centres across the United States.
The Phase II trial is designed to confirm in patients EVT 201's promising early results and encouraging side-effect profile demonstrated in the two earlier proof-of-principle Phase I/II trials in a model of insomnia in human volunteers. In the road traffic noise model of insomnia, EVT 201 significantly reduced "wake after sleep onset" (WASO) while significantly increasing "total sleep time" (TST) and quality of sleep with no subjective residual effects. Results of these studies were presented at the European Sleep Research Society (ESRS) meeting in Innsbruck in September.

Second Phase II study in the elderly expected to start during Q4

In parallel we are preparing for a second Phase II study with EVT 201 in elderly patients with chronic primary insomnia. The required IND amendment to start the study was submitted to the FDA in October to enable a 2006 start. The study will be a parallel design study with two doses of EVT 201 and placebo in 135 patients, which, in addition to effects on sleep quality, will evaluate the consequences of this on day-time performance.

Alzheimer's Disease & Neuropathic pain: Phase I for EVT 101 completed, Evotec continues with Phase II trials, Roche expressed continued interest

We successfully completed Phase I with EVT 101, the NR2B subtype-specific NMDA receptor antagonist, as reported in more detail in our previous Q2 report. In early November Roche decided not to opt into the programme now after Phase I, and they expressed their continued interest in EVT 101 to which they have further option rights after proof-of-concept. Based on this decision we plan to initiate phase II trials with the compound in one or several indications in 2007.

Alzheimer's Disease: Development of EVT 301 discontinued

In September, we stopped the ongoing Phase I trials with our MAO-B inhibitor EVT 301 and decided to discontinue the development programme. During the one month safety and tolerability study in young and elderly volunteers, several cases of asymptomatic elevated liver function tests in the elderly group were observed. All cases reversed spontaneously. No cases of elevated liver function tests were observed within the young healthy volunteer group.

We continue to strongly believe in the potential of MAO-B inhibition in CNS related disorders and are diligently evaluating the potential clinical development of our back-up compound EVT 302 in one or more indications.

Second milestone reached in Alzheimers project with Takeda

In August, we achieved the second milestone in our four-year drug discovery collaboration with Takeda. We granted Takeda exclusive rights to a second novel Alzheimer target based on successful target identification and validation work triggering a milestone payment of over one million Euros. Importantly, Evotec is eligible for future milestone payments on the successful clinical development of compounds acting on the selected target. The collaboration is productively progressing into its fourth year. Evotec is entitled to further milestone payments should Takeda select additional targets from Evotec's target database.

2. Encouraging revenue growth and profitability from collaborations despite increasing focus on results-based business

It is our strategy to focus more on higher value, results-based projects in which we share in our customers' success through milestone payments and royalties for the delivery of key research results. This strategy dilutes our financials short-term.

Strong position in Services: Nine months revenues up 10%; Operating division result positive

Despite a higher amount of results-based business compared to the same period in 2005, financials for the Services Division for the first nine months of 2006 were strong. Revenues grew by 10% over 2005 to EUR 47.7 million. Also, gross margins remained on a similar high level as in H1 2006 despite the absence of milestone payments. Pilot plant deliveries with strong margins and continued strong performance in formulation services were the main contributors. As a result, the operating divisional result was positive at EUR 1.4 million.

In Q3, Evotec continued to sign important new and repeat business with clients and partners including *CHDI and Daiichi Sankyo* for discovery projects and with *Endo, Panacos, Serono and UCB* for development services.

Broad and integrated collaboration with CHDI further extended

Evotec reported in August, that the US-based not-for-profit organisation CHDI has chosen Evotec as a strategic drug discovery partner in the search for Huntington Disease treatments. The collaboration has been further expanded in Q3 through two medicinal chemistry programmes that have been initiated on the back of strong biology and compound management projects. In total, 17 Evotec scientists are now working full time for CHDI on a variety of Huntington Disease programmes.

Daiichi selects Evotec as partner for medicinal chemistry and compound profiling

In October, Evotec announced a new research collaboration agreement with Daiichi Pharmaceutical Co., Ltd. (a wholly owned subsidiary of DAIICHI SANKYO COMPANY, LIMITED) for medicinal chemistry and compound profiling signed in Q3. A dedicated group of Evotec scientists have started working initially on two programmes for Daiichi to identify lead structures for further progression into clinical trials. A Daiichi scientist has joined the Evotec team.

Due to the continued strong performance in formulation and pilot plant services, Evotec expects to meet or even slightly exceed its financial targets for the Services Division in 2006.

Important events after the end of the third quarter

In early November Roche decided not to opt into the programme now after Phase I, and they expressed their continued interest in EVT 101 to which they have further option rights after proof-of concept.

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Financial Report

Highlights

- Nine months **revenues** for the Group up 15% to EUR 61.2 m (2005: EUR 53.2 m)
- Group **R&D expenses** increased to EUR 24.1 m (2005: EUR 8.6 m); due to increased clinical trials expenses and the Q1 upfront payment for the acquisition of the MAO-B programme from Roche
- Despite higher R&D expenses, group **operating loss** reduced by 36% to EUR 22.3 m (2005: EUR 35.0 m) as a result of:
  - Charges from amortisation of intangible assets and impairment of goodwill reduced from EUR 27.3 m to EUR 3.1 m
  - Gross profit increased from EUR 17.9 m to EUR 23.2 m
- Above average nine months performance in the **Services Division**:
  - Revenues up 10% to EUR 47.7 m (2005: EUR 43.3 m)
  - Operating result positive at EUR 1.4 m (2005: EUR (7.4) m)
- Full-year 2006 revenue **guidance** given in August (EUR 77 m - EUR 81 m) increases to EUR 82 m - EUR 84 m
- Year-end **liquidity** position targeted to exceed EUR 50 m

Revenues

Evotec **revenues** for the first nine months of 2006 increased by 15% to EUR 61.2 million (2005: EUR 53.2 million). All divisions experienced above average growth in Q3 with total group revenues up 30% over Q3 2005. These results are encouraging and emphasise the Company's strong market position. They should, however, only be evaluated on a full-year basis as the third quarter was extraordinarily strong.

Revenues for the first nine months in our **Services Division** increased by 10% to EUR 47.7 million (2005: EUR 43.3 million). For Q3, revenue growth amounted to 23%. Development Services had an above average quarter with substantial pilot plant deliveries and continued strong performance in formulation services. All manufacturing slots in the formulation business are now closed for 2006 and new phase II clean room capacity is on schedule to come on-line in Q1 2007. Also, discovery services continued strongly on 2005 levels although Evotec increasingly is seeking higher value, results-based projects with lower short-term revenues but increased mid- to long-term upside through milestones and royalties.

Revenues in our **Pharmaceuticals Division** increased by 155% over the first nine months 2005 to EUR 2.9 million (2005: EUR 1.1 million). This is mainly a result of the achievement of the second milestone in the collaboration with Takeda. As expected, the ongoing R&D payments from Takeda for target validation work have now ended.

Our **Tools & Technologies Division (Evotec Technologies, ET)** also had a strong quarter mainly due to the installation of an ultra-high-throughput screening system in the University of Cincinnati Genome Research Institute (UC GRI) for which ET received the order at the beginning of the year. With

29% growth in Q3, ET third-party revenues for the first nine months increased by 21% to EUR 10.7 million (2005: EUR 8.9 million).

For the first nine months of 2006, the Evotec Group recorded 48% of total revenues in Europe, 42% in the United States and 10% in Japan and the Rest of the World.

Operating cost structure

Cost of revenue for the first nine months of 2006 was EUR 38.0 million, translating into a gross margin of 37.9% (2005: 33.6%). The 39.9% gross margin in Q3 was particularly high, mainly driven by the milestone payment from Takeda. Also, the margins in the Services Division remained on a similar high level as in H1 2006 due to pilot plant deliveries with strong margins and continued strong performance in formulation services.

With the development of Evotec's Pharmaceuticals Division, **R&D expenditure** increased significantly over 2005, as planned. R&D for the first nine months of 2006 amounted to EUR 24.1 million (2005: EUR 8.6 million). EUR 19.9 million originated from Evotec's pharma business through increased clinical trials expenses for the development of pipeline projects and the upfront payment for the MAO-B programme from Roche in Q1. As anticipated, R&D expenditure in Q3 (EUR 7.3 million) remained approximately on the Q2 2006 level (EUR 6.9 million).

With this increased focus on our pharma pipeline, the other divisions continued their trend of reducing R&D expenses; Services (-18% year-to-date) and Evotec Technologies (-44%). Q3 R&D expenses for Evotec Technologies were particularly low (-70%) as activities were focused on customer projects and on further product enhancements, which contain low implementation risk and hence are required to be capitalised under IFRS.

SG&A for the first nine months of 2006 increased by 17% to EUR 17.1 million (2005: EUR 14.6 million). Primarily three effects caused this increase: a) the cost of a strategic review of the Services Division earlier in the year and the resulting increased investment in Business Development capabilities b) increased US sales force expenses in Evotec Technologies, and c) Evotec Neurosciences was not fully consolidated until May 2005.

Financial results

Operating loss declined by 36% to EUR 22.3 million year-to-date (2005: EUR 35.0 million) mainly for two reasons: a) 2005 included charges from acquisition-related goodwill impairment of Evotec Neurosciences (EUR 18.5 million) and regular amortisation charges from Evotec's acquisition of Oxford Asymmetry International in the year 2000 (EUR 7.3 million), neither occurred in 2006, b) gross profit increased to EUR 23.2 million (2005: EUR 17.9 million) due to a strong revenue performance and a favourable sales mix in the first nine months of 2006. These two effects were partially offset

by R&D spend for Evotec's proprietary drug development projects which increased as planned.
The operating result in our Services Division was positive at EUR 1.4 million in the first nine months of this year.

Operating loss excluding amortisation charges and impairment of goodwill increased due to higher R&D spend to EUR 19.2 million (2005: EUR 7.8 million).

Net loss declined by 55% to EUR 16.1 million (2005: EUR 35.6 million). In addition to the improved operating result, total non-operating result improved notably to EUR 7.1 million (2005: EUR (2.9) million). This mainly results from the profit of the sale of intellectual property by Evotec Technologies to Olympus which we reported in July. In addition, the absence of "loss from equity investments" following the dissolution of the JV with DeveloGen as well as better results from currency hedging contributed positively.

Net income tax expenses amounted to EUR (1.0) million, which includes EUR (0.4) million from ET generating taxable income. Prior years deferred tax benefits from the amortisation of non-goodwill intangible assets from the acquisition of OAI no longer occur as such assets were fully amortised by the end of Q3 2005.

Net loss per share for the first nine months of 2006 was EUR 0.25 (2005: EUR 0.74).

Earnings before interest and taxes, depreciation and amortisation (**EBITDA**) for the first nine months of 2006 was EUR (7.2) million (2005: EUR (4.5) million).

Segment reporting

Services Division

Euro in thousands	**01-09/2006**	**01-09/2005**	Δ in %
Total revenue	47,707	43,310	10.2
– Thereof 3rd party	47,629	43,235	10.2
Gross profit	15,110	13,256	14.0
Gross margin	31.7%	30.6%	
– Research and development expenses	2,212	2,713	(18.5)
– Selling, general and administrative expenses	10,138	8,919	13.7
– Amortisation of intangible assets	60	7,349	(99.2)
– Impairment of goodwill	-	-	-
– Other operating expenses	1,280	1,656	(22.7)
Operating income (loss)	1,420	(7,381)	119.2
Operating income (loss) before amortisation and impairment	1,480	(32)	-

Euro in thousands	**07-09/2006**	**07-09/2005**	Δ in %
Total revenue	17,593	14,341	22.7
– Thereof 3rd party	17,549	14,327	22.5
Gross profit	5,483	3,881	41.3
Gross margin	31.2 %	27.1%	
– Research and development expenses	848	777	9.1
– Selling, general and administrative expenses	3,076	2,607	18.0
– Amortisation of intangible assets	8	2,455	(99.7)
– Impairment of goodwill	-	-	-
– Other operating expenses	391	529	(26.1)
Operating income (loss)	1,160	(2,487)	146.6
Operating income (loss) before amortisation and impairment	1,168	(32)	-

Pharmaceuticals Division

Euro in thousands	**01-09/2006**	**01-09/2005**	Δ in %
Total revenue	2,872	1,128	154.6
– Thereof 3rd party	2,872	1,128	154.6
Gross profit	2,487	316	687.0
Gross margin	86.6%	28.0%	
– Research and development expenses	19,870	2,175	813.6
– Selling, general and administrative expenses	2,883	2,750	4.8
– Amortisation of intangible assets	2,392	1,078	121.9
– Impairment of goodwill	-	18,478	(100.0)
– Other operating expenses	-	-	-
Operating income (loss)	(22,658)	(24,165)	6.2
Operating income (loss) before amortisation and impairment	(20,266)	(23,087)	12.2

Euro in thousands	**07-09/2006**	**07-09/2005**	Δ in %
Total revenue	1,967	677	190.6
– Thereof 3rd party	1,967	677	190.6
Gross profit	1,941	167	-
Gross margin	98.7%	24.7%	
– Research and development expenses	6,197	1,779	248.3
– Selling, general and administrative expenses	851	1,180	(27.9)
– Amortisation of intangible assets	798	784	1.8
– Impairment of goodwill	-	-	-
– Other operating expenses	-	-	-
Operating income (loss)	(5,905)	(3,576)	(65.1)
Operating income (loss) before amortisation and impairment	(5,107)	(2,792)	(82.9)

Tools & Technologies Division

Euro in thousands	**01-09/2006**	**01-09/2005**	Δ in %
Total revenue	11,494	9,680	18.7
– Thereof 3rd party	10,743	8,883	20.9
Gross profit	6,025	4,896	23.1
Gross margin	52.4%	50.6%	
– Research and development expenses	2,417	4,296	(43.7)
– Selling, general and administrative expenses	4,150	3,213	29.2
– Amortisation of intangible assets	1,122	953	17.7
– Impairment of goodwill	-	-	-
– Other operating expenses	-	866	(100.0)
Operating income (loss)	(1,664)	(4,432)	62.5
Operating income (loss) before amortisation and impairment	(542)	(3,479)	84.4

Euro in thousands	**07-09/2006**	**07-09/2005**	Δ in %
Total revenue	5,428	4,099	32.4
– Thereof 3rd party	5,093	3,961	28.6
Gross profit	2,654	1,765	50.4
Gross margin	48.9%	43.1%	
– Research and development expenses	415	1,406	(70.5)
– Selling, general and administrative expenses	1,368	1,020	34.1
– Amortisation of intangible assets	387	323	19.8
– Impairment of goodwill	-	-	-
– Other operating expenses	-	866	(100.0)
Operating income (loss)	484	(1,850)	126.2
Operating income (loss) before amortisation and impairment	871	(1,527)	157.0

Capital expenditure

Evotec invested a further EUR 1.2 million in **fixed assets** during Q3 2006 (2005: EUR 0.7 million). Year-to-date investment in fixed assets amounts to EUR 2.6 million (2005: EUR 4.3 million), with the largest single amount in 2006 attributable to the Services Division due to the build of additional facilities for the formulation business.

Investment in **intangible assets** amounted to EUR 0.5 million during Q3 2006 (2005: EUR 0.6 million) taking the year-to-date for 2006 to EUR 1.0 million (2005: EUR 2.9 million). The investment in intangible assets during 2006 arises primarily from the capitalisation of certain development costs in the Tools & Technologies Division under IFRS. In 2005, the investment in intangibles included not only capitalisation of development costs, but also assets from the acquisition of the uHTS business of Carl Zeiss and patent and licence costs.

Cash flow and cash equivalents

Cash flow from operating activities year-to-date 2006 was EUR (9.5) million (2005: EUR 0.2 million), unchanged over H1 2006. This operating cash break-even in the third quarter was achieved despite higher R&D spend in the Pharmaceuticals Division, due to (i) strong Q3 performances in both the Services and the Tools & Technologies Divisions, (ii) the receipt of the Takeda milestone payment and (iii) a further payment resulting from the divestment of ET's small molecule detection business to Olympus.

Cash flow from investing activities year–to-date 2006 was EUR (3.7) million (2005: EUR 9.7 million). The positive 2005 number included cash acquired from the acquisition of Evotec Neurosciences, only partially offset by expenses for the DeveloGen Joint Venture, and higher capital expenditure levels compared to 2006.

Cash flow from financing activities year–to-date 2006 was EUR 17.1 million (2005: EUR 27.7 million) due to the capital increases in April 2006 and June 2005, respectively.

In total, cash and cash equivalents decreased by EUR 3.4 million during Q3 2006 to EUR 57.3 million at the end of September (end of December 2005: EUR 53.5 million).

Employees and management

At the end of September 2006 the Evotec Group had 618 employees, an increase of 14 employees in comparison to the end of December 2005 (604). The slight increase in headcount is a result of strengthening the Pharmaceuticals Division clinical team and the formulation team in Glasgow.

Outlook: Evotec well positioned for 2007

The positive developments reported today emphasise Evotec's strong market position and its progress in all business units.

1. Significant progress has been made with ***Evotec Technologies (ET)***. As anticipated, the company has substantially improved its financial performance over 2005 and has successfully focused its business on tools and applications for the cell biology growth market. In particular the company's Opera™ cell analyser but also its cutting edge automation and software solutions give ET a leading position in this market segment.

2. In ***research collaborations*** with pharmaceutical and biotech companies Evotec has increasingly complemented its traditional fee-for-service business with results-based projects - broader, more creative solutions to drug discovery in which customers such as Boehringer Ingelheim are expected to reward our success through milestone payments and royalties. Despite the fact that these results-based collaborations dilute the division's revenues and margins short-term, 2006 financial results remained strong. We are encouraged by the progress we are making and look forward to

2007, a year in which the contributions from milestones could exceed the 2006 level and step by step contribute to the more traditional pure service revenues.

3. In just 18 months Evotec has built a ***CNS pipeline*** with two promising products in clinical development. Our first programme EVT 201 has recently progressed into Phase II and we anticipate starting Phase II trials with EVT 101 in one or more indications with this compound in 2007. We expect to report efficacy data in patients for EVT 201 in the second half of the year 2007. This will be a critical milestone in our further strategic and financial development. In addition, we continue to evaluate opportunities to further expand our CNS activities on several fronts, including the potential development of our back-up MAO-B inhibitor EVT 302.

Revenue guidance for 2006 increased to EUR 82m – EUR 84m

4. In terms of ***financial guidance***, Evotec remains positive with regard to its ability to meet its financial targets for 2006:

The Group Sales and Order Book for 2006 has grown to EUR 83 million as of October (October 2005: EUR 76 million). 2006 order book growth will now slow down significantly towards year-end as we expect very little business to be added in Q4 which is recognised for the year. However, based on this healthy order book situation and taking the remaining year-end delivery risk into account, Evotec is hereby increasing its revenue target for the full year 2006: from EUR 77 million – EUR 81 million (i.e. 0 to 5 % revenue growth on its business which remained post divestiture of parts of Evotec Technologies' business to Olympus in early 2006) to EUR 82 million – EUR 84 million. Growth, as has been discussed is driven from both the Services Division and Evotec Technologies.

Group R&D spend in 2006 is now anticipated to not come in at the upper end, but the middle of the Company's guidance (EUR 30 million to EUR 35 million). This is a result of the discontinuation of the EVT 301 development programme. Based on this adjusted guidance, Evotec's targeted liquidity position at the end of 2006 increased to over EUR 50 million.

Condensed consolidated statements of operations according to IFRS
Evotec AG and Subsidiaries

Euro in thousands except share data and per share data						
	01-09/2006	01-09/2005	∆ in %	07-09/2006	07-09/2005	∆ in %
Revenue:						
– Drug discovery products & development of technologies	10,745	9,132	17.6	5,095	3,979	28.1
– Drug discovery services	50,500	44,115	14.5	19,515	14,987	30.2
Total revenue	**61,245**	**53,247**	**15.0**	**24,610**	**18,966**	**29.7**
– Cost of revenue	38,017	35,332	7.6	14,790	13,295	11.2
Gross profit	**23,228**	**17,915**	**29.7**	**9,820**	**5,671**	**73.2**
Operating costs and expenses:						
– Research and development expenses	24,083	8,554	181.5	7,262	3,899	86.3
– Selling, general and administrative expenses	17,056	14,617	16.7	5,274	4,712	11.9
– Amortisation of intangible assets	3,081	8,785	(64.9)	1,075	3,364	(68.0)
– Restructuring expenses	-	866	(100.0)	-	866	(100.0)
– Impairment of goodwill	-	18,478	(100.0)	-	-	-
– Other operating expenses	1,280	1,656	(22.7)	391	529	(26.1)
Total operating costs and expenses	**45,500**	**52,956**	**(14.1)**	**14,002**	**13,370**	**4.7**
Operating loss	**(22,272)**	**(35,041)**	**(36.4)**	**(4,182)**	**(7,699)**	**(45.7)**
Other non-operating income (expense):						
– Interest income	987	524	88.4	373	286	30.4
– Interest expense	(495)	(542)	(8.7)	(189)	(168)	12.5
– Loss from equity investments	-	(2,237)	(100.0)	-	(764)	(100.0)
– Foreign currency exchange gain (loss), net	174	(1,137)	(115.3)	(152)	97	(256.7)
– Other non-operating income	7,017	462	-	132	64	106.3
– Other non-operating expense	(593)	-	100.0	-	-	-
Total non-operating income (expense)	**7,090**	**(2,930)**	**342.0**	**164**	**(485)**	**133.8**
Loss before taxes and minority interests	**(15,182)**	**(37,971)**	**(60.0)**	**(4,018)**	**(8,184)**	**(50.9)**
Income tax benefit (expense)	(950)	2,553	(137.2)	(786)	985	(179.8)
Minority interests	-	(207)	(100.0)	-	(63)	(100.0)
Net loss	**(16,132)**	**(35,625)**	**(54.7)**	**(4,804)**	**(7,262)**	**(33.9)**
Weighted average shares outstanding	**65,795,671**	**48,405,696**		**68,057,204**	**62,744,415**	
Net loss per share	(0.25)	(0.74)		(0.07)	(0.12)	

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Condensed consolidated balance sheets according to IFRS
Evotec AG and Subsidiaries

Euro in thousands	30/09/2006	31/12/2005	Δ in %
Assets			
Current assets:			
– Cash and cash equivalents	57,347	53,520	7.2
– Trade accounts receivable	13,544	12,758	6.2
– Accounts receivable due from related parties	582	840	(30.7)
– Inventories	13,169	10,502	25.4
– Current tax receivables	557	531	4.9
– Prepaid expenses and other current assets	4,804	3,822	25.7
Total current assets	**90,003**	**81,973**	**9.8**
Non-current assets :			
Long-term investments	-	-	-
Property, plant and equipment	36,008	38,163	(5.6)
Intangible assets, excluding goodwill	8,900	10,927	(18.6)
Goodwill	55,867	54,994	1.6
Other non-current assets	54	54	0.0
Total non-current assets	**100,829**	**104,138**	**(3.2)**
Total assets	**190,832**	**186,111**	**2.5**

Liabilities and stockholders' equity			
Current liabilities:			
– Current maturities of long-term loans	3,382	6,042	(44.0)
– Current portion of finance lease obligations	1,167	1,702	(31.4)
– Trade accounts payable	8,226	8,105	1.5
– Accounts payable to related parties	1	6	(83.3)
– Advanced payments received	1,046	801	30.6
– Provisions	6,920	6,563	5.4
– Deferred revenues	3,806	4,417	(13.8)
– Current tax payables	372	125	197.6
– Other current liabilities	2,745	1,911	43.6
Total current liabilities	**27,665**	**29,672**	**(6.8)**
Non-current liabilities:			
Long-term loans	6,289	3,399	85.0
Long-term finance lease obligations	1,718	2,130	(19.3)
Deferred tax liabilities	-	-	-
Deferred revenues	943	726	29.9
Provisions	1,597	1,515	5.4
Total non-current liabilities	**10,547**	**7,770**	**35.7**
Stockholders' equity:			
– Share capital	68,064	62,759	8.5
– Additional paid-in capital	609,903	596,525	2.2

– Reserve	(34,724)	(36,207)	(4.1)
– Retained deficit	(490,540)	(474,408)	3.4
– Minority interests	-	-	-
Subtotal stockholders' equity	**152, 703**	**148,669**	**2.7**
– Own shares	(83)	-	100.0
Total stockholders' equity	**152,620**	**148,669**	**2.7**
Total liabilities and stockholders' equity	**190,832**	**186,111**	**2.5**

evotec

Condensed consolidated statements of cash flows according to IFRS
Evotec AG and Subsidiary

Euro in thousands	30/09/2006	30/09/2005
Cash flows from operating activities:		
– Net loss	(16,132)	(35,625)
– Adjustments to reconcile net loss to net cash used in operating activities:	9,552	34,065
– Change in assets and liabilities	(2,959)	1,754
Net cash provided by (used in) operating activities	**(9,539)**	**194**
Cash flows from investing activities:		
– Acquisition costs	-	(366)
– Purchase of long-term investments	-	(2,051)
– Purchase of property, plant and equipment	(2,622)	(4,318)
– Purchase of intangible assets	(1,049)	(2,856)
– Cash acquired	-	19,243
– Proceeds from sale of property, plant and equipment	5	27
– Proceeds from sale of marketable securities	-	-
Net cash provided by (used in) investing activities	**(3,666)**	**9,679**
Cash flows from financing activities:		
– Proceeds from capital increase	18,733	28,460
– Transaction costs	(727)	-
– Purchase of own stock	(83)	-
– Proceeds from increase of loans	7,986	5,408
– Repayment of loans	(8,835)	(6,162)
Net cash provided by financing activities	**17,074**	**27,706**
Net increase (decrease) in cash and cash equivalents	**3,869**	**37,579**
– Exchange rate difference	(42)	1,484
– Cash and cash equivalents at beginning of year	53,520	15,277
Cash and cash equivalents at end of the third quarter	**57,347**	**54,340**
Cash, cash equivalents and marketable securities at end of the third quarter	**57,347**	**54,340**

Consolidated statements of changes in stockholders' equity according to IFRS

Evotec AG and Subsidiaries

Euro in thousands except share data	Share capital Shares	Share capital Amount	Additional paid-in capital	Unearned compen-sation	Reserve Foreign currency translation	Revaluation reserve	Retained deficit	Minority interest	Total Stock-holders' equity
Balance at 1 January 2005	**38,010,130**	**38,010**	**552,360**	**(1,716)**	**(39,005)**	**1,110**	**(440,825)**	**574**	**110,508**
Acquisition of ENS Holdings, Inc.	14,276,883	14,277	26,266	-	-	-	-	-	40,543
Capital increase 24 June	10,457,402	10,457	17,880	-	-	-	-	-	28,337
Capital increase (stock options)	14,473	15	19	-	-	-	-	-	34
Stock option plan	-	-	-	466	-	-	-	-	466
Stock option plan acquired	-	-	-	(655)	-	-	-	-	(655)
Foreign currency translation	-	-	-	-	4,270	-	-	-	4,270
Revaluation	-	-	-	-	-	-	-	-	-
Net loss	-	-	-	-	-	-	(35,625)	-	(35,625)
Minority interests	-	-	-	-	-	-	-	(574)	(574)
Balance at 30 Sept 2005	**62,758,888**	**62,759**	**596,525**	**(1,905)**	**(34,735)**	**1,110**	**(476,450)**	**-**	**147,304**
Balance at 1 January 2006	**62,759,424**	**62,759**	**596,525**	**(1,622)**	**(35,856)**	**1,271**	**(474,408)**	**-**	**148,669**
Capital increase	5,228,701	5,229	12,606	-	-	-	-	-	17,835
Capital increase (stock options)	76,227	76	95	-	-	-	-	-	171
Stock option plan	-	-	677	99	-	-	-	-	776
Foreign currency translation	-	-	-	-	1,384	-	-	-	1,384
Revaluation	-	-	-	-	-	-	-	-	-
Net loss	-	-	-	-	-	-	(16,132)	-	(16,132)
Minority interests	-	-	-	-	-	-	-	-	-
Balance at 30 Sept 2006	**68,064,352**	**68,064**	**609,903**	**(1,523)**	**(34,472)**	**1,271**	**(490,540)**	**-**	**152,703**

Notes to the consolidated financial statements

1. Basis of presentation

The accompanying unaudited consolidated financial statements of Evotec have been prepared in accordance with International Financial Reporting Standards (IFRS). 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 2005.
The consolidated financial statements do not include all of the information and footnotes required under IFRS for complete financial statements. As a result, these financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended 31 December 2005.

2. Basis of consolidation

The change in external reporting from United States generally accepted accounting principles (US GAAP) to IFRS was made for the full year 2005 including comparatives. Therefore, Q3 and Q3 year-to-date 2005 comparisons are restated to IFRS. In the opinion of management there are only a few areas of impact, described in detail in the notes to our consolidated financial statements 2005.
In addition, the basis of consolidation changed as of 26 May 2005. Following the acquisition of EVOTEC NeuroSciences GmbH (ENS) by Evotec, and after the transfer of shares and control on 26 May 2005, all numbers reported since that date include the results of ENS fully consolidated in the Evotec group accounts. For the period 1 January to 26 May 2005 the results were included as a net loss from equity investments under non-operating expenses. Therefore the year-to-date financial statements 2005 and 2006 are not fully comparable. In the opinion of management, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation have been included.

3. Segment reporting

In Q2 2005 Evotec changed the composition of its segments due to the implementation of its strategy of more rapidly growing internal drug discovery and development. The changed composition of segments impacts on the Services Division and the Pharmaceuticals Division. The Tools & Technologies segment is unchanged.
Under this composition of segments the Services Division shows regular revenues only from third party contract research (only excluding ENS target identification and target validation projects). The research and development expenses of the Pharmaceuticals Division declined, mainly by the former intra-group margins shown with the previous composition of segments. This new composition of segments does not effect the overall Company’s accounting principles.

Segment reporting according to IFRS

Euro in thousands	Pharmaceuticals Division	Services Division	Tools & Technologies	Not allocated	Total
Revenue:					
– Drug discovery products & development of technologies	-	2	11,494	(751)	10,745
– Drug discovery services	2,872	47,705	-	(77)	50,500
Total revenue	**2,872**	**47,707**	**11,494**	**(828)**	**61,245**
– Costs of revenue	385	32,597	5,469	(434)	38,017
Gross Profit	**2,487**	**15,110**	**6,025**	**(394)**	**23,228**
– Research and development expenses	19,870	2,212	2,417	(416)	24,083
– Selling, general and administrative expenses	2,883	10,138	4,150	(115)	17,056
– Amortisation of intangible assets	2,392	60	1,122	(493)	3,081
– Impairment of goodwill	-	-	-	-	-
– Other operating expenses	-	1,280	-	-	1,280
Operating income (loss)	**(22,658)**	**1,420**	**(1,664)**	**630**	**(22,272)**
– Interest income	-	-	19	968	987
– Interest expense	-	-	(846)	351	(495)
-Foreign currency exchange gain (loss)	-	-	39	135	174
-Other non-operating income	209	306	6,628	(126)	7,017
-Other non-operating expense	-	-	(593)	-	(593)
Net loss before taxes and minorities	**(22,449)**	**1,726**	**3,583**	**1,958**	**(15,182)**
-Total assets	10,575	100,979	23,426	55,852	190,832
-Total liabilities	4,620	16,790	23,961	(7,159)	38,212
-Capital expenditures	413	1,627	1,644	-	3,684

4. Cash flows

Adjustments to reconcile the reported net loss to net cash used in operating activities (EUR 9.6 million) includes amortisation (EUR 3.1 million), depreciation (EUR 5.1 million), compensation expense (EUR 0.8 million) and other non-cash items. The operating cash flow stated above therefore includes the cash proceeds from the Olympus transaction, which are included in non-operating income.

5. Shareholdings of the Boards of Evotec AG

	Number of shares	Share options
Management Board		
Joern Aldag	298,056	402,600
Dr Dirk H. Ehlers	4,540	231,500
Supervisory Board		
Prof Dr Heinz Riesenhuber	132,480	0
Peer Schatz	3,892	0
Dr Hubert Birner	0	0
Dr Peter Fellner	0	0
Dr William Jenkins	0	0
Mary Tanner	46,690	0

30 September 2006

Pursuant to §15a of the German Securities Trading Act (Wertpapierhandelsgesetz), the above table 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 30 September 2006.

6. Stock options programme

In Q3 Evotec issued no new stock options to employees; 11,338 options were exercised. As of 30 September 2006, the total number of options available for future exercise amounted to 3,588,968 (approximately 5% of shares in issue). Options have been accounted for under IFRS 2 using the fair value method at the measurement date.

Forward looking statements

This press release contains forward-looking statements that involve risks and uncertainties. The forward-looking statements contained herein represent the judgement of Evotec as of the date of this release. These forward-looking statements are no guarantees for future performance, and the forward-looking events discussed in this report may not occur. Evotec disclaims any intent or obligation to update any of these forward-looking statements.