



Nine-month
2014
Interim Report

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I. Management report for the first nine months of 2014

STRONG OPERATIONAL PERFORMANCE; POSITIVE EBITDA; UNIQUE STRATEGIC POSITION DESPITE RECENT DIAPEP277® SETBACK; IMPORTANT MILESTONES EXPECTED FOR Q4; VERY STRONG CASH POSITION

FINANCIAL HIGHLIGHTS

Revenues excluding milestones, upfronts and licences in the first nine months of 2014 up 5% compared to the first nine months of 2013; adjusted nine-month 2014 EBITDA positive

- Group revenues amounted to € 58.9 m (2013: € 60.3m); revenues excluding milestones, upfronts and licences rose by 5%, up 7% at constant 2013 FX rates
- Positive adjusted EBITDA before contingent considerations of € 0.3 m for the Group and € 9.8 m for EVT Execute
- Impairment charges of € 8.7 m triggered by termination of DiaPep277®
- Very strong liquidity position of € 90.3 m despite acquisitions and significant investments to support further growth
- High and stable equity ratio at 72.8%

OPERATIONAL HIGHLIGHTS

EVT Execute

Strong performance in EVT Execute business leads to contract extensions and expansions

- Expansion of protein production capabilities initiated in US to serve a major US Pharma partner (after period-end)
- Important initial milestone achieved as part of multi-target alliance with Bayer HealthCare
- Collaboration expansion with the Jain Foundation
- Three-year extension and expansion of collaboration with CHDI Foundation to fight Huntington's disease
- Long-term compound management collaboration with Medicines for Malaria Venture

EVT Innovate

Building a partnered product pipeline comprising more than 40 projects and expanding the EVT Innovate strategy by means of new collaborations with leading German research institutions

- Phase IIb trial of EVT302 in Alzheimer's disease within Roche alliance progressing according to plan
- Janssen continues developing the EVT100 series in the field of CNS diseases
- Successful completion of all safety studies for EVT201 and initiation of late-stage clinical programmes for registration in China
- Setback with the announcement that Hyperion is terminating its DiaPep277[®] programme; Evotec will take legal steps
- Further milestones achieved in TargetAD collaboration
- Public grants awarded to Evotec to develop new drug candidates to treat multiple sclerosis
- New collaboration with Fraunhofer IME in joint drug discovery programmes

ACQUISITION UPDATE

Upgrading the drug discovery platform, enhancing innovation offering through acquisitions

- Acquisition of Bionamics GmbH to accelerate 'EVT Innovate' strategy
- Acquisition of Euprotec adds and expands expertise and capabilities in infectious diseases

GUIDANCE 2014

Financial guidance for 2014 confirmed; important milestones expected for the remainder of the year

- High single-digit percentage growth in Group revenues excluding milestones, upfronts and licences
- R&D expenditure is expected to be in the range of € 10 m to € 14 m
- Group EBITDA before changes in contingent considerations expected to be positive and at a similar level to 2013 (2013: € 10.4 m)
- Liquidity is expected to exceed € 90 m at the end of 2014
- Positive operating cash flow at a similar level to 2013 (2013: € 6.7 m)

1. FINANCIAL HIGHLIGHTS

Revenues excluding milestones, upfronts and licences in the first nine months of 2014 up 5% compared to the first nine months of 2013; adjusted nine-month 2014 EBITDA positive

Evotec's revenues for the first nine months of 2014 amounted to € 58.9 m, a decrease of 2% compared to the same period of the previous year (2013: € 60.3 m). This decrease was primarily due to significantly lower

milestone contributions in the first nine months of 2014 compared to the same period of the previous year, when large milestone contributions of € 7.5 m in total from Boehringer Ingelheim and a first milestone from UCB were recorded. Excluding milestones, upfronts and licences, Evotec's revenues for the first nine months of 2014 rose by 5% and were up 7% compared to the same period of the previous year at constant 2013 foreign exchange rates.

EBITDA before changes in contingent consideration amounted to € 0.3 m in the first nine months of 2014 (first nine months of 2013: € 5.9 m). EBITDA was adjusted for changes in contingent considerations as well as for extraordinary effects with regards to the bargain purchase resulting from the acquisition of Bionamics. Note: The adjusted EBITDA of Evotec may vary significantly between quarters as a result of the timing of performance-based milestone payments and partnering events. Overall, the Company is on track to achieve a positive EBITDA at a similar level to 2013 (before changes in contingent consideration, if any) at the end of 2014.

Revenues from the EVT Execute segment amounted to € 61.5 m in the first nine months of 2014 and included € 13.2 m of intersegment revenues. The EVT Innovate segment generated revenues totalling € 10.6 m. The gross margin in EVT Execute amounted to 24.8% while EVT Innovate generated a gross margin of 32.0%. R&D expenses in the first nine months of 2014 stood at € 0.7 m for the EVT Execute segment. The EVT Innovate segment reported R&D expenses in the amount of € 10.4 m. In the first nine months of 2014, the EBITDA before changes in contingent consideration of the EVT Execute segment amounted to € 9.8 m and the EVT Innovate segment reported an EBITDA before changes in contingent consideration of € (9.5) m.

Liquidity including cash, cash equivalents and investments at the end of September 2014 remained very strong at € 90.3 m.

2. OPERATIONAL HIGHLIGHTS

*Evotec manages its drug discovery activities under the business segments **EVT Execute** and **EVT Innovate**. EVT Execute represents all partnerships in which the partner brings the underlying target to the collaboration. EVT Innovate comprises all partnerships derived from Evotec's internal research. Further information on the new segments EVT Execute and EVT Innovate can be found in the "Corporate objectives and strategy" section on page 26 of Evotec's Annual Report 2013.*

EVT Execute

Strong performance in EVT Execute business leads to contract extensions and expansions

Expansion of protein production capabilities initiated in US to serve a major US Pharma partner (after period-end)

Work has been initiated to establish a protein production and cell services facility on the US East Coast. The new laboratory will become operational in the first quarter of 2015. This addition complements the expansion in such services at the Abingdon facility and is to meet an increasing need to deliver services to a major US partner and the general growth in this area.

Important initial milestone achieved as part of multi-target alliance with Bayer HealthCare

In September 2014, Evotec announced that its multi-target collaboration with Bayer HealthCare ("Bayer") had reached an important initial milestone for the transition of a molecule into pre-clinical development for the treatment of endometriosis. The goal of this collaboration is to develop three pre-clinical candidates within the five-year alliance. Both parties contribute innovative drug targets and high-quality technology infrastructures and share the responsibility for potential clinical candidates in endometriosis.

Collaboration expansion with the Jain Foundation

In September 2014, Evotec and Jain Foundation Inc. announced a further extension and expansion of the collaboration first signed in 2012. This phase of the collaboration includes the screening of compound libraries in multiple assay formats to further support the Jain Foundation's goals of understanding and curing dysferlinopathies, a group of inherited skeletal muscular dystrophy diseases.

Three-year extension and expansion of collaboration with CHDI Foundation to fight Huntington's disease

In September 2014, Evotec and CHDI Foundation, Inc. ("CHDI") announced the extension and expansion of their collaboration through to 2017. The collaboration – which aims to find new treatments for Huntington's disease, an inherited neurodegenerative disorder – means that CHDI will now fund up to 52 full-time scientists at Evotec for the next three years. The collaboration, initiated in 2006, has expanded considerably over this period to fully leverage Evotec's integrated neuroscience platform. Evotec provides a full range of research activities and expertise in the neuroscience area to CHDI, including integrated biology and chemistry supported by compound and library management, target validation, stem cell research, high-content screening, computational chemistry, *in vitro* pharmacokinetics and protein production.

Long-term compound management collaboration with Medicines for Malaria Venture

In August 2014, Evotec (US), Inc. and Medicines for Malaria Venture ("MMV") entered into a multi-year compound management agreement in support of MMV's Malaria and Pathogen Box initiatives. In this collaboration, Evotec leverages its industry-leading and long-standing compound management services to support MMV's efforts to establish, maintain and distribute vital research tools to the global malaria research community.

EVT Innovate

Building a partnered product pipeline comprising more than 40 projects and expanding the EVT Innovate strategy by means of new collaborations with leading German research institutions

Phase IIb trial of EVT302 in Alzheimer's disease within Roche alliance progressing according to plan

The patient recruitment for the Phase IIb multicentre, randomised, double-blind, parallel-group, placebo-controlled study to evaluate the efficacy and safety of RO4602522 (RG1577/EVT302) in patients with moderate severity Alzheimer's disease ("AD") was completed in the first quarter of 2014; Roche and its subsidiary Chugai (Japan) have also initiated and completed several Phase I safety trials during 2014. Results from the Phase IIb study are expected in H1 2015. This clinical trial is one of the very few late-stage

small molecule trials in this specific AD patient population. EVT302 is a potent small molecule inhibitor of monoamine oxidase-B (MAO-B) which reduces the formation of toxic reactive oxygen species in the brain of Alzheimer's disease patients where overexpression of MAO-B is postulated to contribute to neuronal damage.

Janssen continues developing the EVT100 series in the field of CNS diseases

In December 2012, Evotec entered into a licence agreement with Janssen Pharmaceuticals, Inc. ("Janssen") for its NR2B subtype selective NMDA-antagonist portfolio for development against diseases in the field of depression. In December 2013, Evotec announced that certain pre-clinical studies performed by Janssen did not confirm certain properties of the antagonist and further development of the project was evaluated by Janssen. In March 2014, Janssen informed Evotec that it would resume development of the programme in CNS.

Successful completion of all safety studies for EVT201 and initiation of late-stage clinical programmes for registration in China

At the end of September 2014, JingXin Pharmaceutical Co., Ltd. ("JingXin") completed all safety studies for EVT201 in China. All of the data met the required standards to progress the compound into further clinical trials for insomnia. Patient recruitment is ongoing and JingXin plans to initiate late-stage trials for China in the near future. EVT201 is a GABA_A receptor partial positive allosteric modulator developed for the treatment of insomnia.

Setback with the announcement that Hyperion is terminating its DiaPep277[®] programme; Evotec will take legal steps

Hyperion Therapeutics, Inc. ("Hyperion") announced in September 2014 that it would be terminating the development of DiaPep277[®] for newly diagnosed Type 1 diabetes. Hyperion claimed that it had uncovered evidence that certain employees of the Israel-based Andromeda Biotech, Ltd. ("Andromeda"), which Hyperion acquired from the Israeli firm Clal Biotechnology Industries Ltd. ("Clal") in June 2014, engaged in serious misconduct involving the trial data of DiaPep277[®]. Evotec holds certain royalty and milestone rights on DiaPep277[®] and still has an open receivable against Andromeda, which amounts to € 3.4 m. After careful evaluation, Evotec will take legal steps against Andromeda to recover all Evotec claims and potential damages resulting from this misconduct.

Further milestones achieved in TargetAD collaboration

In September 2014, Evotec achieved further milestones in its TargetAD collaboration with Janssen for the identification and selection of additional targets from the TargetAD database. These target selections were achieved under the collaboration between Evotec and Janssen, facilitated by the Johnson & Johnson Innovation Center in California, signed in November 2013. Under the terms of the agreement, Janssen and Evotec are collaborating to identify new drug targets for discovery of novel treatment approaches to Alzheimer's disease.

Public grants awarded to Evotec to develop new drug candidates to treat multiple sclerosis

In September 2014, Evotec announced it had entered into three novel research projects for the treatment of multiple sclerosis ("MS") supported by research funds from the German Federal Ministry of Education and Research ("BMBF"). The projects originate from the Deutsches Rheuma-

Forschungszentrum ("DRFZ"; an institute of the Leibniz Association) and the University Medical Center Hamburg-Eppendorf ("UKE") comprising cytokine regulation, neuroprotection and tolerance induction. Evotec will utilise its drug discovery platform, its project management capabilities and its market presence to identify drug candidates in these novel approaches to tackle MS and to commercialise these at a later stage. Current MS treatments mostly constitute symptomatic approaches while more specific, well-differentiated disease-modifying treatment modes are eagerly looked for by the industry. The three projects have a term of between 1.5 and 3 years and have a total budget of about € 5 m.

New collaboration with Fraunhofer IME in joint drug discovery programmes

In July 2014, Evotec announced an exclusive strategic collaboration with the Fraunhofer Institute for Molecular Biology and Applied Ecology ("IME") in several disease areas by combining the relevant platforms of both organisations for internal and external drug discovery projects.

3. ACQUISITION UPDATE

Upgrading the drug discovery platform, enhancing innovation offering through acquisitions

Acquisition of Bionamics GmbH to accelerate 'EVT Innovate' strategy

Signed in March 2014 and effective 01 April 2014, Evotec acquired the German-based company Bionamics GmbH ("Bionamics"), an asset management company that focuses on the translation of academic innovations into attractive assets for the biotech and Pharma industry. The transaction comprises the acquisition of all shares in Bionamics against cash (€ 0.5 m) and potential future earn-out payments amounting to € 0.4 m. The deferred earn-out payments will be due for a period of four years after the acquisition and are dependent upon the achievement of certain project revenues. In addition to an experienced management team, Bionamics brings a portfolio of fully funded projects that have potential upside for Evotec.

Acquisition of Euprotec adds and expands expertise and capabilities in infectious diseases

Effective 27 May 2014, Evotec acquired all of the shares in Euprotec Ltd ("Euprotec"), a UK-based specialist contract research organisation focusing on infectious disease drug discovery services. The acquisition of Euprotec strengthens Evotec's position as the quality leader in drug discovery services and creates a new disease franchise to accelerate Cure X and Target X initiatives. The purchase price consists of a cash consideration of £ 2.5 m and a potential deferred earn-out component of £ 1.25 m in cash. The deferred earn-out payments will be due for a period of two and a half years after the acquisition and are dependent upon the achievement of certain revenue targets. The integration of Euprotec into Evotec has been completed and already synergies across Evotec's business segments EVT Execute and EVT Innovate have been realised.

With respect to the impact of these transactions on Evotec's financial statements, please refer to pages 24 to 26 of this nine-month report.

4. GUIDANCE 2014

Financial guidance for 2014 confirmed; important milestones expected for the remainder of the year

All financial targets published on 25 March 2014 in Evotec's Annual Report 2013 (page 69) remain unchanged. With respect to further information on the guidance, please refer to the "Financial outlook" section on page 15 of this nine-month report.

A. OPERATIONS

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

During the first nine months of 2014, Evotec's Group **structure** changed compared to the first nine months of 2013 due to the acquisitions of Bionamics and Euprotec.

The Company continues to be managed in line with the **corporate objectives and strategy** described in Evotec's Annual Report 2013 on pages 25 and 26. The evolution of Evotec from being a pure service provider and an early-stage drug development company into being a drug discovery engine in its own right led to an organisational change within the Company. Two members of the Management Board were designated to separately lead the newly formed business segments named **EVT Execute** and **EVT Innovate**. Following this development, a segmentation of the business into two parts – including the associated financial reporting that represents the underlying business offerings and business model – was implemented as of 01 January 2014. EVT Execute represents all partnerships in which the partner brings the underlying target to the collaboration. EVT Innovate comprises all partnerships derived from Evotec's internal research. Further information on the operating segments EVT Execute and EVT Innovate can be found in the "Corporate objectives and strategy" section on page 26 of Evotec's Annual Report 2013. Evotec's Action Plan 2016 – "Innovation Efficiency", is on track and updates on EVT Execute and EVT Innovate are described in detail on pages 3 to 6 of this nine-month report. Based on Action Plan 2016, specific objectives for 2014 were defined for the segments EVT Execute and EVT Innovate at the end of 2013 and are described in section "Business Direction and Strategy" on pages 67 to 68 of Evotec's Annual Report 2013.

B. REPORT ON THE FINANCIAL SITUATION AND RESULTS

Note: The 2013 and 2014 results are not fully comparable. The difference stems from the acquisition of Bionamics effective 01 April 2014 and Euprotec effective 27 May 2014. While the results of Euprotec and Bionamics are fully included in the accompanying consolidated interim income statement for the first nine months of 2014, they were not included in the comparable period of the previous year.

COMPARISON OF FIRST NINE MONTHS 2014 FINANCIAL RESULTS WITH FORECAST

Evotec does not provide forecasts on a quarterly basis.

1. RESULTS

Evotec's **revenues** for the first nine months of 2014 amounted to € 58.9 m, a decrease of 2% compared to the same period of the previous

Revenues

Operating cost structure

year (2013: € 60.3 m). This decrease was primarily due to a significantly lower milestone contribution in the first nine months of 2014 compared to the same period of the previous year, when large milestone contributions totalling € 7.5 m from Boehringer Ingelheim and a first milestone from UCB were recorded. At constant 2013 foreign exchange rates, revenues for the first nine months of 2014 would have amounted to € 59.9 m, down 0.7% compared to the same period of the previous year. Excluding milestones, upfronts and licences, Evotec's revenues for the first nine months of 2014 increased by 5% and were up 7% compared to the same period of the previous year at constant 2013 foreign exchange rates. This growth was driven by an increase in revenues within the Company's existing drug discovery alliances and by new collaborations. Revenue contributions from the newly acquired business of Euprotec and Bionamics amounted to € 0.5 m.

Geographically, 60% of Evotec's revenues were generated within the US, 38% in Europe and 2% in Japan and the rest of the world. This compares to 49%, 48% and 3%, respectively, in the same period of the previous year. Growth in the US was due to new collaborations such as the TargetAD collaboration with Johnson & Johnson Innovation signed in November 2013, together with increases in certain ongoing collaborations such as CHDI.

Costs of revenue for the first nine months of 2014 increased to € 42.3 m (2013: € 38.7 m), yielding a **gross margin** of 28.3% (2013: 35.9%). At 2013 exchange rates the gross margin would have been 30.3%. The reduction is mainly due to lower milestones in the first nine months 2014 compared to the prior year period. In the third quarter of 2014 the gross margin was 25.9%.

Gross margins in the future may be volatile and the receipt of potential milestone or out-licensing payments may affect Evotec's financial results.

R&D expenses for the first nine months of 2014 amounted to € 9.2 m, an increase of 23% compared to the same period of the previous year (2013: € 7.5 m). This rise was due to higher strategic investments in Cure X and Target X initiatives and the broadening of the EVT Innovate project portfolio.

SG&A expenses for the first nine months of 2014 increased by 4% to € 12.8 m compared to the same period of the previous year (2013: € 12.3 m). This increase was planned and was mainly due to an expansion of the business development team to support the Company's future growth as well as the acquisitions of Bionamics and Euprotec.

In the first nine months of 2014, **amortisation of intangible assets** decreased to € 1.9 m from € 2.4 m in the same period of the previous year. This was primarily due to several licences and customer lists having been fully amortised during the previous year.

In the first nine months of 2014, Evotec recorded an **impairment of intangible assets** in the amount of € 8.7 m resulting from the announcement by Hyperion that it had terminated the further development of DiaPep277[®].

Other operating income and expenses, net in the first nine months of 2014 amounted to an income of € 7.2 m (2013: expense of € 0.3 m). This was primarily due to the fair value adjustment of the DiaPep277[®] earn-out provision (€ 6.0 m) relating to the termination of the programme by

Financial results

Hyperion. Furthermore, the termination of the strategic collaboration agreement with 4-Antibody AG for early antibody functionality testing signed in May 2012 resulted in extraordinary income of € 1.0 m. In addition, other operating income was favourably affected by proceeds of € 0.1 m resulting from the purchase price allocation for the business combination with Bionamics. Other operating expenses in the first nine months of 2014 were extraordinarily affected by a fair value adjustment of the earn-out due to the sellers of CCS in the amount of T€ 10.

Adjusted **EBITDA** is being disclosed from 2014 onwards and replaces the adjusted operating result as the key performance indicator. Group EBITDA before changes in contingent consideration amounted to € 0.3 m in the first nine months of 2014 (first nine months of 2013: € 5.9 m). EBITDA before changes in contingent consideration for the EVT Execute segment was positive at € 9.8 m. EBITDA was adjusted for changes in contingent considerations as well as for extraordinary effects in 2014 with regards to the bargain purchase resulting from the acquisition of Bionamics. Evotec's **operating loss** for the first nine months of 2014 amounted to € 8.7 m (2013: € 4.2 m).

The **net result** amounted to € (8.0) m (2013: € (4.9) m).

Earnings per share for the first nine months of 2014 were € (0.06) (2013: € (0.04)).

*Segment reporting***2. OPERATING SEGMENTS EVT EXECUTE AND EVT INNOVATE**

Since 01 January 2014, the Company has been operating, managing and reporting its business under two segments, EVT Execute and EVT Innovate. Comparable figures for 2013 are not available. A more detailed description of the segments as well as a table showing the segment information can be found on pages 22 to 24 of this nine-month report.

Revenues from the EVT Execute segment amounted to € 61.5 m in the first nine months of 2014 and included € 13.2 m of intersegment revenues. The EVT Innovate segment generated revenues of € 10.6 m consisting entirely of third-party revenues.

For the EVT Execute segment, costs of revenue came in at € 46.2 m in the first nine months of 2014, yielding a gross margin of 24.8%. The EVT Innovate segment reported costs of revenue of € 7.2 m, yielding a gross margin of 32.0%.

R&D expenses in the first nine months of 2014 totalled € 0.7 m for the EVT Execute segment. The EVT Innovate segment reported R&D expenses in the amount of € 10.4 m.

In the first nine months of 2014, SG&A expenses amounted to € 9.8 m for the EVT Execute segment and SG&A expenses for the EVT Innovate segment stood at € 3.0 m.

In the first nine months of 2014, the EBITDA before changes in contingent consideration of the EVT Execute segment was positive at € 9.8 m. The EVT Innovate segment reported an EBITDA before changes in contingent consideration of € (9.5) m. EBITDA was adjusted for changes in contingent considerations as well as for extraordinary effects with regards to the bargain purchase resulting from the acquisition of Bionamics.

3. FINANCING AND FINANCIAL POSITION

Cash used in operating activities for the first nine months of 2014 amounted to € 4.7 m (2013: cash used in operating activities of € 4.0 m). This amount was primarily due to the negative result before non-cash item as well as an increase in working capital of € 5.6 m. The increase in working capital results from high prepaid expenses, an increase in inventories as well as a decrease in trade accounts payable.

The line item "Adjustments to reconcile net loss to net cash provided by (used in) operating activities" in the cash flow statement came in at € 16.1 m and mainly consisted of depreciation of property, plant and equipment (€ 4.6 m), amortisation (€ 1.9 m) and impairment (€ 8.7 m).

Cash provided by investing activities for the first nine months of 2014 amounted to € 10.2 m compared to cash used in investing activities of € 23.4 m in the same period of 2013. The proceeds from the sale of current investments (€ 29.3 m) exceeded the purchases of investments (€ 13.7 m) by € 15.6 m. Capital expenditures decreased to € 3.0 m from € 4.1 m in the same period of the previous year. The purchase of investments in affiliated companies (€ 3.5 m) and cash acquired (€ 1.1 m) in the first nine months of 2014 resulted from the acquisitions of Bionamics and Euprotec.

Cash provided by financing activities for the first nine months of 2014 was € 2.9 m compared to € 30.4 m in the same period of 2013. The prior year amount was mainly due to the proceeds from the capital increase in August 2013. In the first nine months of 2014, the payment of earn-outs in the context of the CCS and Kinaxo acquisitions (€ 1.8 m) as well as proceeds from option exercises (€ 0.6 m) were more than offset by new long-term bank loans of (€ 4.3 m) intended to finance specific R&D projects and the Euprotec acquisition.

Liquidity, which includes cash and cash equivalents (€ 55.2 m) and investments (€ 35.1 m), amounted to € 90.3 m at the end of September 2014 (31 December 2013: € 96.1 m). This decrease in liquidity was mainly due to annual prepayments and bonuses, payments related to the earn-outs of CCS and Kinaxo, the acquisitions of Bionamics and Euprotec and the new research alliance with Convergence.

4. ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY

The material changes in assets and liabilities during the first nine months of 2014 are mentioned below. More details are described in the notes to the unaudited consolidated interim financial statements on page 26 of this nine-month report.

Assets

Trade accounts receivables decreased to € 14.1 m from € 17.8 m on 31 December 2013. This reduction is mainly due to the receipt of payments in 2014 which were delayed at the end of 2013 (€ 2.0 m). Trade accounts receivables were additionally impacted by a further write-off in the amount of (€ 0.7 m).

Prepaid expenses and other current assets increased to € 5.8 m from € 3.8 m on 31 December 2013. This was primarily due to seasonal prepayments for the year being made at the beginning of 2014 as well as prepayments to Convergence.

Intangible assets excluding goodwill decreased to € 30.3 m from € 39.8 m on 31 December 2013. This was mainly due to the impairment of DiaPep277[®] (€ 8.7 m). The increase in goodwill to € 44.4 m (31 December 2013: € 40.1 m) was mainly attributable to the goodwill from the preliminary purchase price allocation of Euprotec.

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 provisions to € 3.6 m (31 December 2013: € 5.8 m) mainly reflected the payment of the CCS (€ 1.3 m) and Kinaxo (€ 0.5 m) earn-outs.

The reduction in current deferred revenues to € 4.8 m (31 December 2013: € 6.1 m) primarily related to the realisation of the current portion of the upfront resulting from the termination of the partnership focusing on beta cell regeneration by Janssen.

The increase in non-current loan liabilities to € 4.3 m (31 December 2013: € 0.0 m) resulted from a new long-term bank loan to partially finance the acquisition of Euprotec and from a new long-term bank loan funded by the German KfW programme. This was established to finance innovative R&D projects.

The decrease in non-current provisions to € 14.4 m (31 December 2013: € 18.6 m) resulted largely from the fair value adjustment of the DiaPep277[®] earn-out provision (€ 6.0 m) in conjunction with the termination of the programme by Hyperion. This decrease was only partly offset by the unwinding of the discount relating to the DeveloGen earn-out (€ 1.0 m) as well as from the earn-outs of Euprotec (€ 0.3 m) and Bionamics (€ 0.1 m).

The drop in non-current deferred revenues to € 5.1 m (31 December 2013: € 8.4 m) primarily related to revenues recognised from the upfront payments from Janssen, Bayer and AstraZeneca. The upfront payment from Janssen Pharmaceuticals was fully realised due to the termination of the collaboration.

Stockholders' equity

As of 30 September 2014, Evotec's **capital structure** remained unchanged compared to the end of 2013. As of 30 September 2014, due to the exercise of stock options, there were 131,684,776 shares issued and outstanding with a nominal value of € 1.00 per share. Included in this amount as of 30 September 2014 were 274,315 treasury shares that were generated in the course of the acquisition of Renovis, Inc. by Evotec AG.

Evotec's equity ratio as of 30 September 2014 continued to be high and stable at 72.8% (31 December 2013: 69.9%).

5. HUMAN RESOURCES

Employees

At the end of September 2014, 718 people were employed within the Evotec Group (31 December 2013: 610 employees). The headcount

increase in the first nine months of 2014 was due to the growth in the EVT Execute and EVT Innovate businesses and the acquisition of Euprotec and Bionamics.

Stock-based compensation

In the first nine months of 2014, no stock options were granted to Evotec employees and a total of 289,083 options were exercised: 64,500 options were serviced out of treasury shares, 224,583 options were serviced from contingent capital. As of 30 September 2014, the total number of options available for future exercise amounted to 3,211,295 (approximately 2.4% of shares in issue).

In 2012, the Company implemented a share performance plan. During the first nine months of 2014, no share performance awards were granted to members of the Management Board and other key employees and no share performance awards were exercised. As of 30 September 2014, the total number of share performance awards available for future exercise was 1,683,450 (approximately 1.3% of shares in issue).

Options and share performance awards have been accounted for under IFRS 2 using the fair value at the measurement date. In the first nine months of 2014, employees of the Company were able to keep options and share performance awards in the amount of 47,867 after termination of the corresponding employment. Those transactions were recognised as accelerated vesting.

Shareholdings of the Boards of Evotec AG

Number of shares

	01 Jan 14	Additions	Sales	30 Sept 14
Management Board				
Dr Werner Lanthaler	516,494	10,000	-	526,494
Colin Bond	-	-	-	-
Dr Cord Dohrmann	41,387	-	-	41,387
Dr Mario Polywka	60,000	-	-	60,000
Supervisory Board				
Prof. Dr Wolfgang Plischke	-	-	-	-
Dr Walter Wenninger	38,538	-	-	38,538
Dr Claus Braestrup	-	-	-	-
Prof. Dr Paul Herrling	-	-	-	-
Bernd Hirsch	-	-	-	-
Prof. Dr Iris Löw-Friedrich	-	-	-	-

Number of stock options

	01 Jan 14	Additions	Exercise	30 Sept 14
Management Board				
Dr Werner Lanthaler	990,000	-	50,000	940,000
Colin Bond	290,000	-	-	290,000
Dr Cord Dohrmann	390,000	-	50,000	340,000
Dr Mario Polywka	440,000	-	41,208	398,792
Supervisory Board				
Prof. Dr Wolfgang Plischke	-	-	-	-
Dr Walter Wenninger	-	-	-	-
Dr Claus Braestrup	-	-	-	-
Prof. Dr Paul Herrling	-	-	-	-
Bernd Hirsch	-	-	-	-
Prof. Dr Iris Löw-Friedrich	-	-	-	-

Number of Share Performance Awards

	01 Jan 14	Additions	Exercise	30 Sept 14
Management Board				
Dr Werner Lanthaler	389,415	-	-	389,415
Colin Bond	146,204	-	-	146,204
Dr Cord Dohrmann	152,569	-	-	152,569
Dr Mario Polywka	150,631	-	-	150,631
Supervisory Board				
Prof. Dr Wolfgang Plischke	-	-	-	-
Dr Walter Wenninger	-	-	-	-
Dr Claus Braestrup	-	-	-	-
Prof. Dr Paul Herrling	-	-	-	-
Bernd Hirsch	-	-	-	-
Prof. Dr Iris Löw-Friedrich	-	-	-	-

Pursuant to § 15a of the German Securities Trading Act (Wertpapierhandelsgesetz), the above tables list the number of Company shares held and rights for such shares granted to each board member as of 30 September 2014 separately for each member of our Management and Supervisory Boards.

C. RISKS AND OPPORTUNITIES REPORT

The risks and opportunities described in Evotec's Annual Report 2013 on pages 58 to 66 remain unchanged. At present, no risks have been identified that either individually or in combination could endanger the continued existence of Evotec AG.

D. IMPORTANT EVENTS AFTER THE END OF THE FIRST NINE MONTHS OF 2014

In October 2014, Evotec received notice that Boehringer Ingelheim decided not to pursue with EVT070 into clinical development in the disease area of diabetes. The project is currently under evaluation. This could result in an impairment of the respective intangible asset.

E. TRANSACTIONS WITH RELATED PARTIES

Except for the transactions described in Evotec's Annual Report 2013 on pages 111 and 112, no other material transactions with related parties were entered into in the first nine months of 2014.

F. BUSINESS ENVIRONMENT

Global economy and outlook

Overall the global growth projection for 2014 has been lowered mainly due to weaker-than-expected global activity in the first half of 2014. In addition, there are several factors that present a risk to economic growth. Tensions between the European Union and the United States on the one hand and the Russian Federation on the other over the Ukraine have already resulted in trade sanctions on certain agricultural commodities and the number of products affected could widen if the crisis persists. Furthermore, conflicts in the Middle East are also increasing uncertainty. Finally, an outbreak of Ebola haemorrhagic fever in West Africa has proven difficult to contain. As a result, the World Bank corrected its global growth projections for 2014 as a whole downwards from 3.2% in January to 2.8% in June 2014. It has kept its global growth forecasts for the next two years unchanged at 3.4% and 3.5%, respectively. In June, the International Monetary Fund ("IMF") cut its growth forecast for the United States and now expects the world's largest economy to grow by 2% in 2014, down from its April expectations of 2.8%. The IMF has kept its 2015 forecast unchanged at 3%, thereby giving a sign of confidence that its economic recovery is on track. In a forecast published in October 2014, the IMF reduced its projection for the Eurozone and now expects the Eurozone to grow by 0.8% this year and by 1.3% in 2015. Furthermore, also in its October forecast, the IMF revised its growth outlook for the world economy to 3.3% for 2014, down 0.4 percentage points from its April 2014 forecast.

Healthcare environment and outlook

According to a report by Burrill & Company in July, the M&A deal values increased 194% between the first half of 2013 and the first half of 2014, driven by several multi-billion dollar deals. This figure climbed to a new record high for M&A activity in the first eight months of 2014, according to Burrill & Company in September 2014, following the announcement of Roche's planned \$ 8.3 bn acquisition of InterMune. According to Burrill Media, the US Treasury Department took steps in September to discourage US corporations from seeking to acquire or merge with offshore companies in so-called inversions to avoid US taxation. Such inversions have been a substantial driver of M&A activity in the life sciences in 2014 and the new rules will likely slow activity and could lead to more restrictive legislation. Life science companies raised \$ 7.4 bn globally in 95 initial public offerings during the first eight months of 2014, already exceeding the 66 life science IPOs completed in all of 2013. Although investors' appetite for life science IPOs slowed in the second quarter of 2014, there was still plenty of interest concerning innovative ideas coming out of the pharmaceutical and biotechnology industry in the USA and the third quarter of 2014 again saw a growing number of IPOs in the USA. The expectation is that if economic indicators continue to trend up, the markets will remain robust.

The pharmaceutical industry has suffered from decreasing efficiency in new product launches in the past decade. As a consequence, the pharmaceutical industry is increasingly looking to external opportunities from innovative biotech companies that offer services in drug research to deliver high-quality leads and development candidates. At the same time,

the whole pharmaceutical value chain is undergoing a process of division of labour and industrialisation of biotech. Academia identifies and evaluates targets. Innovative biotech companies translate academic ideas into hit and lead products, develop technical and commercial solutions and finally license out patents to the pharmaceutical industry. This may speed up the process of developing new life science products significantly.

Biotech companies like Evotec can secure a valuable share of associated value chains and benefit from an attractive business model. Alliances, co-operation ventures, licensing and service agreements as well as asset deals underline the Company's role both as a strategic partner and as a development and service company to the industry.

G. FINANCIAL OUTLOOK

Financial guidance for 2014 confirmed; important milestones expected for the remainder of the year

All of the financial targets published on 25 March 2014 in Evotec's Annual Report 2013 (page 69) remain unchanged.

In 2014, total Group revenues excluding milestones, upfronts and licences are expected to see high single-digit percentage growth.

Evotec expects research and development (R&D) expenses in 2014 to increase above the levels of 2013. This is primarily due to additional investments in the strategic Cure X and Target X franchise. In total, R&D expenditure is expected to be in the range of € 10 m to € 14 m in 2014. In 2014, Evotec will continue to invest in its technology platforms and capacities in order to drive its long-term growth strategy. It is therefore planned that € 5 m to € 7 m will be invested in further capacity increases and the upgrade of Evotec's technological capabilities.

Evotec's Group EBITDA before changes in contingent considerations is expected to be positive and at a similar level to 2013. EBITDA is defined as earnings before interest, taxes, depreciation and amortisation of intangibles. EBITDA excludes impairments on intangible and tangible assets as well as the total non-operating result. EBITDA is disclosed from 2014 onwards and replaces the adjusted operating result as the key performance indicator for productivity. The reason for this change is that EBITDA better facilitates comparisons between companies and industries by eliminating the effects of financing (i.e. interest) and capital investments (i.e. depreciation and amortisation).

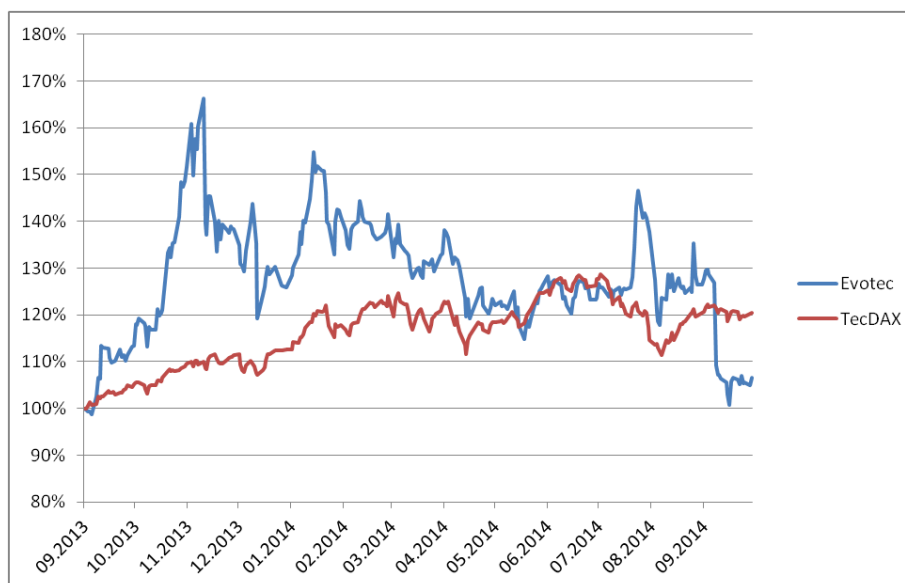
In 2014, top-line growth is expected to generate a positive operating cash flow at a similar level to 2013 and liquidity is expected to exceed € 90 m at 31 December 2014. This forecast excludes any potential cash outflow for M&A or similar transactions.

The Company's mid-term financial plan does not envisage the need for any additional external financing for Evotec's operating business. However, all strategically desirable moves such as potential company or product acquisitions will need to be considered separately.

The statements on **business direction and strategy, expected research and development, business opportunities** and **dividends** continue to be valid as published in Evotec's Annual Report 2013 on pages 67 to 69.

H. SHARE PRICE PERFORMANCE AND FINANCIAL CALENDAR

Performance of Evotec shares over the past twelve months



The DAX Index closed the first nine months of 2014 up 0.8% at 9,474 points. Following a very volatile performance in the first quarter of 2014, the DAX climbed to a new all-time high of 10,050 points on 20 June 2014. However, ongoing turbulence on the financial markets, declining German exports and ongoing political conflicts in Ukraine and the Middle East subsequently caused the DAX to almost recede to its 2014 opening price.

Following a strong performance at the beginning of the year, Evotec shares developed broadly in line with the German TecDAX during the second quarter of 2014. The third quarter of 2014 again saw a strong performance by the Evotec share due to a positive news flow until Evotec announced that Hyperion Therapeutics, Inc. would terminate the development of DiaPep277[®]. Although no Evotec employees were involved in the alleged fraud relating to this compound's clinical trial data, the Evotec share price was adversely affected by this announcement at the beginning of September 2014. Evotec's share price ended the first nine months of 2014 at € 3.09, down 17% from its opening price for 2014.

Financial calendar 2015

2014 Annual Report:	24 March 2015
Q1 2015 Interim Report:	12 May 2015
Annual General Meeting 2015:	09 June 2015
Half-year 2015 Interim Report:	12 August 2015
Nine-month 2015 Interim Report:	10 November 2015

II. Consolidated Interim Financial Statements

Evotec AG and Subsidiaries -

Consolidated interim income statement for the period from 1 January to 30 September 2014

<i>in T€ except share and per share data</i>	<i>Nine months ended 30 September 2014</i>	<i>Nine months ended 30 September 2013</i>	<i>Three months ended 30 September 2014</i>	<i>Three months ended 30 September 2013</i>
Revenues	58,933	60,320	18,848	23,630
Costs of revenue	(42,267)	(38,681)	(13,973)	(12,543)
Gross profit	16,666	21,639	4,875	11,087
Operating income and expense				
Research and development expenses	(9,181)	(7,475)	(2,897)	(2,656)
Selling, general and administrative expenses	(12,797)	(12,331)	(3,917)	(4,155)
Amortisation of intangible assets	(1,905)	(2,419)	(552)	(703)
Impairment of intangible assets	(8,735)	-	(8,735)	-
Restructuring expenses	-	(380)	-	(380)
Impairment of tangible assets	-	(1,076)	-	(1,076)
Impairment of goodwill	-	(1,948)	-	(1,948)
Other operating income	8,879	910	6,546	494
Other operating expenses	(1,652)	(1,161)	(480)	(501)
Total operating expenses	(25,391)	(25,880)	(10,035)	(10,925)
Operating income (loss)	(8,725)	(4,241)	(5,160)	162
Other non-operating income (expense)				
Interest income	233	134	68	51
Interest expense	(1,295)	(1,012)	(465)	(433)
Other expense from long-term investments	(10)	-	-	-
Profit share from associated companies	1	-	-	-
Other income from financial assets	79	8	33	-
Foreign currency exchange gain (loss), net	1,143	(672)	1,280	(729)
Other non-operating income	123	97	87	68
Other non-operating expense	(107)	-	-	-
Total non-operating expense	167	(1,445)	1,003	(1,043)
Income (loss) before taxes	(8,558)	(5,686)	(4,157)	(881)
Current tax income (expense)	28	61	62	(2)
Deferred tax income	535	759	527	600
Net income (loss)	(7,995)	(4,866)	(3,568)	(283)
Weighted average shares outstanding	131,247,152	118,146,894	131,325,032	118,828,586
Net income (loss) per share (basic)	(0.06)	(0.04)	(0.03)	-
Net income (loss) per share (diluted)	(0.06)	(0.04)	(0.03)	-

Evotec AG and Subsidiaries -

Consolidated statement of comprehensive income for the period from 01 January to 30 September 2014

<i>in T€</i>	<i>footnote reference</i>	<i>Nine months ended 30 September 2014</i>	<i>Nine months ended 30 September 2013</i>	<i>Three months ended 30 September 2014</i>	<i>Three months ended 30 September 2013</i>
Net loss		(7,995)	(4,866)	(3,568)	(283)
Accumulated other comprehensive income					
Items which are not re-classified to the income statement					
Remeasurement of defined benefit obligation		-	-	-	-
Taxes		-	-	-	-
Items which have to be re-classified to the income statement at a later date					
Foreign currency translation		3,676	(1,602)	2,152	352
Revaluation and disposal of available-for-sale securities		(8)	(55)	17	15
Taxes		-	-	-	-
Other comprehensive income		3,668	(1,657)	2,169	367
Total comprehensive income		(4,327)	(6,523)	(1,399)	84

Evotec AG and Subsidiaries -
Consolidated interim statement of financial position as of 30 September 2014

<i>in T€ except share data</i>	<i>footnote reference</i>	<i>as of 30 Sept. 2014</i>	<i>as of 31 Dec. 2013</i>
ASSETS			
Current assets:			
Cash and cash equivalents		55,164	45,644
Investments		35,136	50,499
Trade accounts receivables	6	14,130	17,777
Inventories		3,317	2,358
Current tax receivables		510	433
Other current financial assets		1,139	1,995
Prepaid expenses and other current assets	7	5,845	3,820
Total current assets		115,241	122,526
Non-current assets:			
Long-term investments	8	13	10
Property, plant and equipment		23,407	24,239
Intangible assets, excluding goodwill	9	30,294	39,826
Goodwill	10	44,438	40,136
Other non-current financial assets		77	77
Other non-current assets		183	566
Total non-current assets		98,412	104,854
Total assets		213,653	227,380
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Current loan liabilities		17,088	17,222
Current portion of finance lease obligations		5	5
Trade accounts payables		5,098	6,653
Advanced payments received		210	232
Provisions	11	3,596	5,788
Deferred revenues	12	4,772	6,051
Current income tax payables		198	741
Other current financial liabilities		135	342
Other current liabilities		818	1,919
Total current liabilities		31,920	38,953
Non-current liabilities:			
Non-current loan liabilities	13	4,319	-
Long-term finance lease obligations		8	14
Deferred tax liabilities		1,095	1,245
Provisions	14	14,428	18,586
Deferred revenues	15	5,140	8,382
Other non-current financial liabilities		1,118	1,233
Total non-current liabilities		26,108	29,460
Stockholders' equity:			
Share capital		131,685	131,460
Additional paid-in capital		687,527	686,767
Accumulated other comprehensive income		(23,742)	(27,410)
Accumulated deficit		(639,845)	(631,850)
Total stockholders' equity		155,625	158,967
Total liabilities and stockholders' equity		213,653	227,380

Evotec AG and Subsidiaries -

Condensed consolidated interim statement of cash flows for the nine months ended 30 September 2014

<i>in T€</i>	<i>Nine months ended 30 September 2014</i>	<i>Nine months ended 30 September 2013</i>
Cash flows from operating activities:		
Net loss	(7,995)	(4,866)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities	16,124	11,520
Change in assets and liabilities	(12,811)	(10,703)
Net cash used in operating activities	(4,682)	(4,049)
Cash flows from investing activities:		
Purchase of current investments	(13,674)	(35,394)
Purchase of investments in affiliated companies	(3,510)	(1,359)
Purchase of property, plant and equipment	(3,003)	(4,105)
Cash acquired in connection with acquisitions	1,069	119
Proceeds from sale of current investments	29,338	17,313
Net cash provided by (used in) investing activities	10,220	(23,426)
Cash flows from financing activities:		
Proceeds from option exercise	593	30,137
Proceeds from issuance of loans	4,255	550
Payment of subsequent earn outs	(1,813)	-
Purchase of treasury shares	-	(109)
Repayment of loans	(137)	(134)
Net cash provided by financing activities	2,898	30,444
Net increase in cash and cash equivalents	8,436	2,969
Exchange rate difference	1,084	(349)
Cash and cash equivalents at beginning of year	45,644	39,065
Cash and cash equivalents at end of the period	55,164	41,685

Evotec AG and Subsidiaries -

Consolidated interim statement of changes in stockholders' equity for the nine months ended 30 September 2014

	Share capital			Accumulated other comprehensive income				
<i>in T€ except share data</i>	Shares	Amount	Additional paid-in capital	Treasury shares purchased on stock exchange	Foreign currency translation	Revaluation reserve	Accumulated deficit	Total stockholders' equity
Balance at 01 January 2013	118,546,839	118,547	665,918	-	(32,542)	7,041	(606,417)	152,547
Capital increase	11,818,613	11,818	18,319	-	-	-	-	30,137
Exercised stock options	203,750	204	342	-	-	-	-	546
Stock option plan	-	-	984	-	-	-	-	984
Purchase of treasury shares	-	-	-	109	-	-	-	109
Transfer of treasury shares	-	-	-	(109)	-	-	-	(109)
Total comprehensive income (loss)					(1,602)	(55)	(4,866)	(6,523)
Balance at 30 September 2013	130,569,202	130,569	685,563	-	(34,144)	6,986	(611,283)	177,691
Balance at 01 January 2014	131,460,193	131,460	686,767	-	(34,376)	6,966	(631,850)	158,967
Exercised stock options	224,583	225	369	-	-	-	-	594
Stock option plan	-	-	391	-	-	-	-	391
Total comprehensive income (loss)					3,676	(8)	(7,995)	(4,327)
Balance at 30 September 2014	131,684,776	131,685	687,527	-	(30,700)	6,958	(639,845)	155,625

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated interim financial statements of Evotec have been prepared in accordance with International Financial Reporting Standards (IFRS) and their interpretations as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union (EU) in conjunction with IAS 34. The consolidated interim financial statements have been prepared on cost basis, except for derivative financial instruments as well as available-for-sale financial instruments, which are measured at fair value. The accounting policies used to prepare interim information are the same as those used to prepare the audited consolidated financial statements for the year ended 31 December 2013. 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 consolidated interim financial statements do not include all of the information and footnotes required under IFRS for complete financial statements according to IAS 1. As a result, these interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended 31 December 2013.

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

2. BASIS OF CONSOLIDATION

Evotec acquired all of the shares in Bionamics GmbH ("Bionamics") effective 01 April 2014. This acquisition has been fully consolidated since 01 April 2014. Through this acquisition, Evotec acquired a 50% share in NANODELIVER GmbH. This investment is consolidated at equity. Additionally, Evotec acquired all of the shares in Euprotec Ltd ("Euprotec") effective 27 May 2014. Euprotec has been fully consolidated since this date.

Due to these acquisitions, the condensed consolidated interim financial statements for the first nine months of 2013 and 2014 are not fully comparable.

3. BASIS OF ESTIMATION

In the consolidated interim financial statements for the nine months ended 30 September 2014, the Company has used the same estimation processes as those used to prepare the audited consolidated financial statements for the year ended 31 December 2013.

4. SEGMENT INFORMATION

Pursuant to IFRS 8, reporting on the financial performance of the segments has to be prepared in accordance with the management approach. The internal organisation as well as the reporting to the Management Board as chief operating decision maker were changed as of 01 January 2014 so that two different segments are reported. In

2014, the allocation of resources and the internal evaluation of Evotec's performance by the management are done according to those segments. The evaluation of each operating segment by the management is performed on the basis of revenues and EBITDA before changes in contingent consideration. For the EVT Innovate segment, R&D expenses are another key performance indicator. Expenses and income below operating result are not part of the segment results.

EVT Execute and EVT Innovate were identified by the Management Board as operating segments. The responsibility for EVT Execute was allocated to the COO, Dr Mario Polywka, while the responsibility for EVT Innovate was allocated to the CSO, Dr Cord Dohrmann. The organisation of the whole Evotec Group was structured accordingly.

The main activities in each of the segments are as follows:

- **EVT Execute:** Evotec has evolved into one of the global leaders in providing complete drug discovery solutions on a stand-alone basis or through holistic, fully integrated drug discovery solutions. In EVT Execute, these services are provided on a typical fee-for-service basis only or through a variety of commercial structures including research fees, milestones and/or royalties, but with Evotec never taking development risks.
- **EVT Innovate:** The segment EVT Innovate includes the advanced drug candidates and the early-stage internal discovery programmes. Evotec's internal programmes focus on first-in-class and best-in-class projects based on innovative biology. These so called "Cure X" or "Target X" initiatives largely follow indication areas that are firmly established at Evotec: metabolic and inflammatory disease, neurology, oncology and pain as well as infectious diseases. Projects are selected to match Evotec's expertise and technology and positioned for partnering with Pharma customers, usually at pre-clinical stages. Ensuing partnerships usually involve upfront and research payments as well as milestones and product royalties. In the future, Evotec prepares to take unfunded development risks in this business segment, but only in very carefully selected projects and in early stage phases of drug discovery (pre-clinic).

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 segment information for the first nine months of 2014 is as follows:

<i>In T€</i>	<i>EVT Execute</i>	<i>EVT Innovate</i>	<i>Intersegment eliminations</i>	<i>Evotec Group</i>
Revenues	61,497	10,630	(13,194)	58,933
Costs of revenue	(46,243)	(7,232)	11,208	(42,267)
Gross profit	15,254	3,398	(1,986)	16,666
Operating income and (expenses)				
Research and development expenses	(745)	(10,422)	1,986	(9,181)
Selling, general and administrative expenses	(9,821)	(2,976)	-	(12,797)
Amortisation of intangible assets	(1,621)	(284)	-	(1,905)
Impairment of intangible assets	-	(8,735)	-	(8,735)
Other operating income	2,667	6,212	-	8,879
Other operating expenses	(1,652)	-	-	(1,652)
Total operating expenses	(11,172)	(16,205)	1,986	(25,391)
Operating income (loss)	4,082	(12,807)	-	(8,725)
EBITDA adjusted	9,855	(9,520)		335

The segment information for the three months ended 30 September 2014 is as follows:

<i>In T€</i>	<i>EVT Execute</i>	<i>EVT Innovate</i>	<i>Intersegment eliminations</i>	<i>Evotec Group</i>
Revenues	21,807	1,999	(4,958)	18,848
Costs of revenue	(15,736)	(2,455)	4,218	(13,973)
Gross profit	6,071	(456)	(740)	4,875
Operating income and (expenses)				
Research and development expenses	(227)	(3,410)	740	(2,897)
Selling, general and administrative expenses	(3,088)	(829)	-	(3,917)
Amortisation of intangible assets	(458)	(94)	-	(552)
Impairment of intangible assets	-	(8,735)	-	(8,735)
Other operating income	548	5,998	-	6,546
Other operating expenses	(480)	-	-	(480)
Total operating expenses	(3,705)	(7,070)	740	(10,035)
Operating income (loss)	2,366	(7,526)	-	(5,160)
EBITDA adjusted	4,335	(4,607)	-	(272)

EBITDA was adjusted for changes in contingent considerations as well as for extraordinary effects with regard to the bargain purchase resulting from the acquisition of Bionamics.

5. ACQUISITIONS

Effective 01 April 2014, the Company acquired 100% of the shares in Bionamics GmbH, Hamburg, a company focused on the translation of academic innovations into attractive assets for the biotech and Pharma industry.

The purchase price of T€ 599 in cash includes a potential earn-out as contingent consideration. The earn-out was calculated based on estimated future revenues in the next 48 months as of the date of acquisition with a discount of 1.56%. The estimated maximum potential earn-out payment amounts to T€ 364.

The fair values of the acquired assets and liabilities were estimated based on the recognised amounts as of the date of the acquisition. A fair value adjustment has been recorded for developed technologies in the amount of T€ 394, which was estimated based on net present value modelling. Related deferred tax liabilities of T€ 127 net were also recorded. The bargain purchase resulting from the acquisition totals T€ 137.

The net loss posted by Evotec for the nine months ended 30 September 2014 included a net loss of T€ 25 from Bionamics and no revenues. Acquisition-related costs in the amount of T€ 5 were recognised through profit and loss.

Below is a breakdown of the carrying amount and the fair value of Bionamics at the date of acquisition:

	01 April 2014 Carrying amount T€	01 April 2014 Fair value T€
Cash and cash equivalents	375	375
Trade accounts receivables	87	87
Other current assets	8	8
Long-term investments	12	12
Property, plant and equipment	2	2
Developed technologies	-	394
Provisions	(5)	(5)
Trade accounts payables	(1)	(1)
Other current liabilities	(8)	(8)
Deferred tax liabilities	-	(127)
Net assets acquired	470	737
Bargain purchase	-	(137)
Cost of acquisition	-	600
Less cash and cash equivalents acquired	-	(375)
Less deferred earn-out component	-	(115)
Cash outflow from acquisition	-	110

Evotec acquired 100% of the shares in Euprotec Ltd, Manchester, UK, effective on 27 May 2014. Euprotec is a specialist contract research organisation and a recognised leader in anti-infective drug discovery services. These capabilities further enhance Evotec's ability to deliver high-quality innovative solutions to its partners on a global scale.

The purchase price of T€ 3,698 in cash includes a potential earn-out as contingent consideration. The earn-out in the amount of T€ 677 as contingent consideration was calculated based on estimated future revenues as well as estimated achievement of a defined future milestone in the next 31 months as of the date of acquisition with a discount rate of 2.03%. The maximum potential earn-out payment amounted to T€ 1,544 as of the date of the acquisition.

The fair values of the acquired assets and liabilities were estimated based on the recognised amounts as of the date of the acquisition. A fair value adjustment has been recorded for a customer list in the amount of T€ 302, which was estimated based on net present value modelling. Related deferred tax liabilities of T€ 63 net were also recorded. The preliminary goodwill resulting from the acquisition amounts to T€ 2,504. According to IFRS 3 and due to the preliminary assessment of the initial accounting for the acquisition of Euprotec, the initial accounting is provisional with regard to purchase price allocation and the fair values used to identify the purchase price and the assets and liabilities of the combination. It may therefore be subject to changes.

The net loss of Evotec for the nine months ended 30 September 2014 included a net loss of T€ 44 from Euprotec as well as revenues of T€ 489. Acquisition-related costs in the amount of T€ 56 were recognised through profit and loss.

Below is a breakdown of the carrying amount and the fair value of Euprotec at the date of acquisition:

	27 May 2014 Carrying amount T€	27 May 2014 Fair value T€
Cash and cash equivalents	695	695
Trade accounts receivables	260	260
Other current assets	111	111
Property, plant and equipment	146	146
Customer list	-	302
Trade accounts payables	(49)	(49)
Other current liabilities	(208)	(208)
Deferred tax liabilities	-	(63)
Net assets acquired	955	1,194
Goodwill	-	2,504
Cost of acquisition	-	3,698
Less cash and cash equivalents acquired	-	(695)
Less deferred earn-out component	-	(677)
Cash outflow from acquisition	-	2,326

6. TRADE ACCOUNTS RECEIVABLES

The decrease in trade accounts receivables from 31 December 2013 to 30 September 2014 is primarily due to the collection in the first quarter of 2014 of outstanding trade accounts receivables as of 31 December 2013. Trade accounts receivables were additionally impacted by a further provision in the amount of T€ 663 against one specific outstanding receivable.

7. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets as of 30 September 2014 primarily consisted of prepaid expenses totalling T€ 4,010 (31 December 2013: T€ 3,234) which are recognised over different time periods. The increase in prepaid expenses as of 30 September 2014 compared to 31 December 2013 mainly related to a payment in connection with the Convergence collaboration.

8. LONG-TERM INVESTMENTS

The long-term investments as of 30 September 2014 changed compared to 31 December 2013 because the investment in European Screening Port was written off and a 50% investment in NANODELIVER GmbH was acquired in the course of the business combination with Bionamics GmbH. This long-term investment is consolidated at equity.

9. INTANGIBLE ASSETS EXCLUDING GOODWILL

In the third quarter of 2014, Hyperion disclosed that it would stop the development of DiaPep277[®] due to alleged misconduct by Andromeda employees with regard to the use of generated data. Based on this information Evotec reviewed the relating developed technologies and concluded that an impairment in the amount of T€ 8,735 had to be recorded in the third quarter of 2014. The relating developed technologies were fully impaired as of 30 September 2014.

In the second quarter of 2014, a milestone payment for a biomarker was received which was included in the net present value model of the developed technology from the acquisition of Kinaxo. Based on this milestone payment, the Company reviewed the relating developed technology for impairment in the second quarter of 2014 and concluded that no impairment needed to be recorded.

Furthermore, an intangible asset resulting from the acquisition of Renovis was out-licensed in the second quarter of 2014. Due to this contract, the assumptions regarding the net present value model changed. Therefore, the Company reviewed this intangible asset for impairment and concluded that no impairment needed to be recorded.

In the second quarter of 2014, development phases of an intangible asset which is recorded within Evotec International were redefined. This led to a change in the timing of future milestones. In the third quarter of 2014 a further adjustment was made regarding the timing and the relating amounts of those future milestones. Therefore, the Company reviewed this intangible asset for impairment and concluded that no impairment needed to be recorded.

10. GOODWILL

The main additions to goodwill in 2014 related to the acquisition of Euprotec. The acquisition of Euprotec resulted in goodwill amounting to T€ 2,596 as of 30 September 2014. However, this amount is still provisional.

11. CURRENT PROVISIONS

The decrease in current provisions as of 30 September 2014 in comparison with 31 December 2013 primarily related to the payments of the earn-outs relating to the acquisition of CCS Cell Culture Service GmbH (T€ 1,313) and Kinaxo Biotechnologies GmbH (T€ 500). This was only partly offset by the current portion of the earn-out liability from the acquisitions of Euprotec Ltd.

12. CURRENT DEFERRED REVENUES

The decrease in current deferred revenues related to revenues recognised from the upfront payments received from Janssen Pharmaceuticals due to the termination of the collaboration agreement in respect of beta cell regeneration.

13. NON-CURRENT LOAN LIABILITIES

The increase in non-current loan liabilities resulted from the issuance of two new loan agreements. The first loan is for an amount of T€ 1,756. It is unsecured and has a maturity until 31 March 2021. Repayment of the loan will start on 30 June 2016 in equal instalments until the maturity date. The loan carries an interest at a rate of 1.25%.

The second loan has an amount of T€ 2,561. It is unsecured and has a maturity until 26 September 2019. Repayment of the loan will start at the end of September 2015 in equal instalments until the maturity date. The loan carries an interest at the three-month LIBOR rate plus 1.5%.

14. NON-CURRENT PROVISIONS

The decrease in non-current provisions as of 30 September 2014

compared to 31 December 2013 mainly related to the fair value adjustment of the earn-out liability from the acquisition of DeveloGen due to the discontinuation of the development of DiaPep277[®] in the amount of T€ 6,005. This was only partly offset by the additional earn-out liabilities from the acquisitions of Euprotec and Bionamics as well as the unwinding of the discount of the DeveloGen earn-out (T€ 962).

15. NON-CURRENT DEFERRED REVENUES

The decrease in non-current deferred revenues stemmed from revenues recognised from the upfront payments received from Janssen Pharmaceuticals, Bayer Pharma AG and AstraZeneca AB. The upfront payment from Janssen Pharmaceuticals was fully realised due to the termination of the collaboration.

16. STOCK-BASED COMPENSATION

In 2013, SPAs in the amount of 773,757 were granted. SPAs can only be exercised, if, when and to the extent that key performance indicators are achieved within a performance measurement period of three years. In the third quarter of 2014, the estimated achievement of the key performance indicators for the 2013 grant changed, resulting in an income in the third quarter of 2014 in the amount of T€ 271.

17. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet as of 30 September 2014, are as follows:

In T€	30 September 2014	
	Carrying amount	Fair value
Cash and cash equivalents	55,164	55,164
Available-for-sale financial assets		
Investments	35,136	35,136
Long-term investments	13	13
Total available-for-sale financial assets	35,149	35,149
Financial assets measured at fair value		
Derivative financial instruments	-	-
Other non-current financial assets	77	77
Total financial assets measured at fair value	77	77
Loans and receivables		
Trade accounts receivables	14,130	14,130
Other current financial assets	1,139	1,139
Total loans and receivables	15,269	15,269
Financial liabilities measured at amortised cost		
Current loan liabilities	(17,088)	(17,088)
Non-current loan liabilities	(4,319)	(3,809)
Current portion of finance lease obligations	(5)	(5)
Long-term finance lease obligations	(8)	(8)
Trade accounts payables	(5,098)	(5,098)
Other current financial liabilities	(135)	(135)
Total financial liabilities measured at amortised cost	(26,653)	(26,143)
Financial liabilities measured at fair value		
Derivative financial instruments	(50)	(50)
Contingent consideration	(12,490)	(12,490)
Total financial liabilities measured at fair value	(12,540)	(12,540)
	66,466	66,976
Unrecognised (gain)/loss		(510)

The following table allocates financial assets and financial liabilities as of 30 September 2014 to the three levels of the fair value hierarchy as defined in IFRS 7:

	30 September 2014			
	Level 1	Level 2	Level 3	Total
	T€	T€	T€	T€
Available-for-sale financial assets	35,136	-	13	35,149
Financial assets measured at fair value	-	77	-	77
Financial liabilities measured at fair value	-	(50)	(12,490)	(12,540)

The following table shows a reconciliation from the beginning balances to 30 September 2014 for fair value measurements in Level 3 of the fair value hierarchy:

In T€	January to September 2014	
	Investments	Contingent consideration
Balance at 01 January 2014	10	18,519
Acquisition of businesses	12	792
Changes due to foreign exchange differences		25
Consumption	-	(1,803)
Included in other operating expense		
Changes in fair value, unrealised	-	-
Included in other operating income		
Changes in fair value, unrealised	-	(6,005)
Included in expense from long-term investments		
Changes in fair value, unrealised	(10)	-
Included in profit share from associated companies		
Changes in fair value, unrealised	1	-
Included in interest expense		
Interest change in net present value, unrealised	-	962
Balance at 30 September 2014	<u>13</u>	<u>12,490</u>

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.

18. TRANSACTIONS WITH RELATED PARTIES

Except for the transactions described in Evotec's Annual Report 2013 on pages 111 and 112, no other material transactions with related parties were entered into in the first nine months of 2014.

19. SUBSEQUENT EVENT

In October 2014, Evotec received notice that Boehringer Ingelheim decided not to pursue with EVT070 into clinical development in the disease area of diabetes. The project is currently under evaluation. This could result in an impairment of the relating intangible asset.

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.