

**FORWARD** thinking means  
forward acting.

*What does it take to grow?  
Evotec's answer is the Action  
Plan 2016. The first important  
steps are those to more innovation  
efficiency in every step of the  
research process.*

*see page 03***STEP** into Evotec's strategy:  
Action Plan 2016.

*Execute, Integrate and Innovate.  
What's behind these taglines?  
And more important: How will  
we manage an efficient and  
sustainable implementation?*

*see page 04***BY** taking the direct way into  
the future, you are nothing without  
the right partners.

*Evotec is proud of its long-term  
alliances and successful partnerships,  
e.g. with academia. Or with its  
partners in industry.*

*see pages 10ff.***STEP** inside our figures now:  
Revenues, facts and figures ...

*Evotec's business year 2012  
was hallmarked by expansion and  
consolidation. And marked by great  
partnerships and reliable alliances.*

*see page 29*

# FORWARD STEP BY STEP

# DEAR SHARE- HOLDERS

## ACTION PLAN 2016 – INNOVATION EFFICIENCY



**Dr Werner Lanthaler**  
*Chief Executive Officer*

“Action Plan 2016 – Innovation Efficiency” is the strategic framework that we implemented in 2012 with the objective that Evotec should become the global leader in drug discovery solutions. Our ongoing high-quality drug discovery alliances combined with our vision and passion for growth and innovation make us confident that we can give you this long-term commitment.

“Growth and innovation” are big words and big promises that are often easily made. Which company does not claim that it wants to grow? Or which company does not say that it is innovative? Yes, even “passionate” is a word that basically everyone uses in their corporate statements these days.

When we defined our long-term strategy, we did much more than just put buzzwords together. We asked the difficult questions and did not just take the easy answers. Our strategy comes from the brains, hearts and hard work of Evotec scientists combined with the business

rationale of Evotec managers. With nearly 20 years of history and dedication to first-in-class science, Evotec has reached a position where we do not follow trends, but where we set them.

Innovation Efficiency constitutes a trend that reflects many of the key questions of the so-called R&D productivity challenge. Finding ways for our customers to make early-stage research experiments and processes faster, more cost-efficient and better is the key business that we deliver within the framework of Innovation Efficiency.

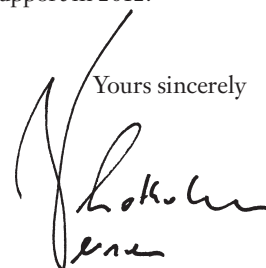
Please feel free to browse through this annual report. You will find an initial description of what we have started to deliver in 2012, within the three building blocks of Action Plan 2016 (EVT Execute, EVT Integrate and EVT Innovate).

Clearly, our EVT Innovate “Cure X Initiatives” mark a globally unique paradigm that will link a network of academic innovation with our vision of a more integrated and increasingly indus-

trialised drug discovery infrastructure that incorporates the best from academia, biotech and Pharma to deliver innovative drugs to the pharmaceutical industry and patients. What we started in 2011 with Harvard University has recently been built on by the next academic network partnership with Yale University, two top-class universities that will clearly help us to deliver on our promises.

We see the opportunity to lead the industry with our “Action Plan 2016 – Innovation Efficiency” strategy and we want to deliver the potential of this strategy to you, our customers, shareholders and friends. Thank you for your great support in 2012! ●

Yours sincerely




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# STEPPING INTO INNOVATION EFFICIENCY

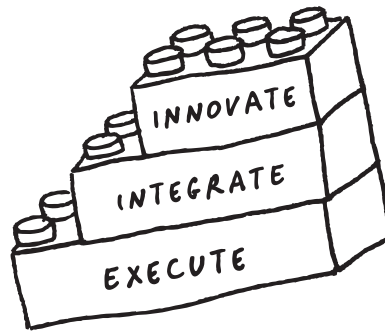
## ACTION PLAN 2016

After successfully building a solid foundation for future growth through “Evotec 2012 – Action Plan to Focus and Grow”, it was clear that our strategy needed further development to establish Evotec as a leader in international drug discovery solutions.

Key achievements of Action Plan 2012 were:

- ▶ To regain the trust of industry partners and investors
- ▶ Top-line revenue growth
- ▶ Transitioning Evotec into a profitable company
- ▶ Establishing more strategic alliances than ever before
- ▶ A strong liquidity and a strong sales order book

Since the drug discovery market is increasingly focused on external innovation, building collaborations between partners is a key asset for our Company. Outsourcing is prominent in the drug discovery process, which is Evotec’s core competence. The need for higher research and development (R&D) capital efficiency and the need for variable rather than fixed costs prompt many larger companies to take the step and enter alliances with specialised companies such as Evotec. Growth of 5–10% p.a. in the outsourced discovery market is predicted over the next five years, mainly



driven by Pharma restructuring. Furthermore, attrition of early targets will most likely increase as regulatory hurdles for new therapies are set higher. A major trend will be combining Western technology solutions with Asian capacities and cost structures. As a result, significantly larger drug discovery solution providers will emerge on the market. It is in response to these developments that Evotec has developed the strategy contained in Action Plan 2016.

The aim of Action Plan 2016 is to achieve long-term leadership in the drug discovery solutions market. In order to better define the pathway into this exciting future, we have assembled our strategy into three key building blocks: EVT Execute, EVT Integrate and EVT Innovate. These three building blocks depend on the existence of each other and each of them plays an important role in paving the way for successfully executing Action Plan 2016. ●

### ACTION PLAN 2016 OVERALL GOALS

#### Grow

- ▶ Double 2011 revenues by 2016
- ▶ Maintain profitability without compromising innovation power and keep a strong strategic cash position
- ▶ Improve the quality of revenue mix through royalty, milestone and service income by 2016

#### Innovate

- ▶ Continue to invest in highly innovative unpartnered research
- ▶ Continue to expand technology offering to increase range of customer solutions
- ▶ Build an even more mature pipeline without financial risk

#### Create/consolidate

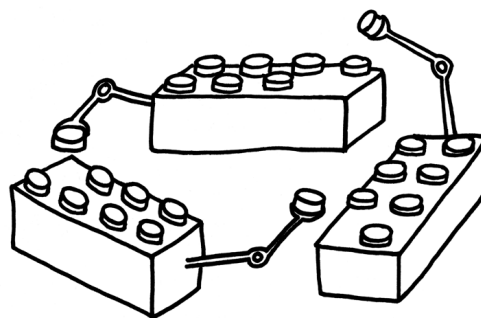
- ▶ Actively participate in strategic market consolidation
- ▶ Optimise shareholder value creation

# STEP BY STEP: OUR THREE BUILDING BLOCKS OF ACTION

EVT EXECUTE, EVT INTEGRATE AND EVT INNOVATE

## EVT EXECUTE

The need to improve R&D productivity is increasing the pressure on pharmaceutical companies to outsource drug discovery and development. We see that early-stage R&D activities are strategically being outsourced and this is where **EVT Execute** is important. EVT Execute delivers an industrialised, high-tech, comprehensive and unbiased infrastructure to Evotec's partners. The goal is to optimise the capital and innovation efficiency of the resources dedicated to each target that our partners are working on. Partners working with Evotec can access the latest science and the best-in-class technology infrastructures globally. Through EVT Execute, Evotec offers a broad range of integrated or stand-alone services, including assay development and high throughput screening, hit explosion using parallel synthesis, medicinal chemistry, *in vitro* and *in vivo* biology, ADMET (Absorption,



Distribution, Metabolism, Excretion and Toxicity), protein production, structural biology, computational chemistry, compound management, state-of-the-art high content histology, proteomics and biomarker discovery.

In EVT Execute collaborations, Evotec acts as a provider of outsourcing solutions on a purely fee-for-service basis with no risk on the success of projects. Although the Execute business has lower margins than EVT Integrate or EVT Innovate, it creates a solid foundation for the other two building blocks. It provides long-term repeat business and importantly allows

Evotec to maintain and build a world-class infrastructure and expertise in the field of drug discovery.

Evotec began a significant investment by upgrading its capacities, investing € 8.1 m during 2011 and about € 8.2 m in 2012 to ensure that its partners have access to the best-in-class instrumentation and processes. In 2011 and 2012, Evotec moved into a state-of-the-art 11,000 m<sup>2</sup> building in Hamburg, the Manfred Eigen Campus, and invested in the fitting-out of this new laboratory building. The Manfred Eigen Campus was officially opened by the Nobel Prize Laureate Prof. Manfred Eigen in June 2012.

In addition, Evotec entered into alliances and acquired assets that enable its partners to access the latest science and the best-in-class

technology infrastructure in selected areas of innovation and to strengthen its position as quality leader in drug discovery solutions. The Company added Agilent Technologies' RapidFire Mass Spectrometry analysis capabilities to its operation in Hamburg, thereby maintaining leadership in high-throughput screening. RapidFire enables ultrafast, direct analysis of native compounds for a wide variety of biochemical assays including routine ADMET and lead discovery applications across a range of therapeutic areas. Evotec is the first provider in Europe to offer these services.

With the acquisition of CCS Cell Culture Service GmbH ("CCS"), which was signed in December 2012 with effective date 01 January 2013, Evotec strengthened its position as quality leader in drug discovery solutions. CCS is one of the leading suppliers of custom cells and cell-based reagents such as recombinant assay cell lines, assay-ready frozen instant cells, qualified membranes and proteins for high-throughput screening, with more than ten years experience in bulk cell production. CCS' unique capabilities for cell-based screening, including its large-scale processes for cell production, freezing and storage as well as the entire team of specialised cell culture scientists and technicians will be fully integrated into Evotec's Hamburg operations to realise cost synergies and efficiency improvements.

Key milestones for EVT Execute for the year 2012 were:

- ▶ Counter screening and protein production capability added to service offering
- ▶ Expanding existing alliances, e.g. the three-year extension of the CHDI Foundation, Inc. ("CHDI") contract
- ▶ Antibody alliance with 4-Antibody AG ("4-Antibody")
- ▶ Entering into a major contract with the National Institutes of Health ("NIH") for Evotec to manage and operate a small molecule repository

In the first quarter of 2012, investments to generate new business and the transition to the Manfred Eigen Campus had a temporary negative effect on gross margin. For example,

Evotec's drug discovery platform was expanded with state-of-the-art protein production capabilities and capacity.

With its broad expertise and services, its repeat business and excellent alliances, EVT Execute is a key component for the overall success of Action Plan 2016. We at Evotec are aware of the fact that it takes much more than just the highest quality services to develop new drugs, but nevertheless this is the most important starting point.

## EVT INTEGRATE

Evotec is one of the few drug discovery businesses that can execute a comprehensive outsourcing strategy. In **EVT Integrate**, Evotec provides its customers with access to the Company's best-in-class fully integrated drug discovery process. In significant large-scale, multi-target deals, Evotec's customers contribute targets and compounds in Evotec's key areas of expertise, e.g. neuroscience, pain, metabolic diseases, oncology and inflammation, which Evotec scientists then process from target through to R&D using the Company's integrated drug discovery platform. In these alliances, Evotec typically commits to deliver on certain goals in the discovery process, e.g. to identify hits, leads or pre-clinical candidates on partner targets, while the partner undertakes full responsibility for clinical development and commercialisation. In these integrated approaches, Evotec receives upfront payments and research fees. In addition, Evotec shares some discovery risks with its partners in exchange for future returns, such as early-stage, mid-stage and clinical milestones payments and royalties on future product sales.

Key milestones for EVT Integrate for the year 2012 were:

- ▶ Significant alliance concluded with Bayer Pharma AG ("Bayer") to fight endometriosis
- ▶ Delivering significant and accelerated pre-clinical/clinical milestones

Notably, Evotec entered a new strategic, five-year multi-target alliance with Bayer in 2012,

## Dr Andreas Scheel

*in person*

**After almost seven years in the UK, he finally understands British humour ...**



Dr Andreas Scheel joined Evotec at the beginning of July 2012 as Executive Vice President *in vitro* Biology. In his current position, Andreas oversees the *in vitro* pharmacology activities across the Göttingen and Hamburg sites. From 1997 to 2009, Andreas worked at Evotec and played a key role in building the biology function in Hamburg. He left Evotec in 2009 as Head of Cellular Assays and joined OSI Pharmaceuticals/Prosidion, a US-based biopharmaceutical company at its site in Oxford, where he focused on R&D in diabetes and obesity, heading the *in vitro* Pharmacology and later also the *in vivo* Pharmacology department. He was a member of the Research Senior Leadership team managing the research portfolio and made significant contributions to the strategic reorientation of the research efforts in Oxford with a focus on polypharmacology approaches in diabetes. After the research site in Oxford was closed in early July 2012, Andreas rejoined Evotec.

Andreas holds a diploma in biochemistry from the Eberhard Karls Universität Tübingen and a PhD from the University of Cambridge. He has authored numerous papers and patents and presented at multiple scientific conferences. The role at Evotec attracted Andreas because Evotec's business plan is ambitious and full of opportunities. He enjoys having a leadership role in a complex environment where he can have an impact on the Company's direction and success. ●

**Condensed key figures** *Evotec AG (IFRS) at a glance*

T€	2008	2009	2010	2011	2012	CHANGE 12/11 IN %
<b>Results</b>						
<i>Revenues</i>	39,613	42,683	55,262	80,128	87,265	9
<i>Research &amp; development expenses</i>	42,537	20,947	6,116	8,437	8,340	-1
<i>Operating income (expense)</i>	(73,210)	(42,299)	1,715	5,207	(3,202)	-161
<i>Operating income<sup>1)</sup></i>	(45,627)	(24,461)	1,715	5,764	1,401	-76
<i>Net income (loss)</i>	(78,287)	(45,497)	2,985	6,651	2,478	-63
<b>Balance sheet data</b>						
<i>Total stockholders' equity</i>	149,859	111,487	132,637	147,245	152,547	4
<i>Capital expenditure<sup>2)</sup></i>	3,514	2,213	2,433	8,139	10,175	25
<i>Cash and investments<sup>3)</sup></i>	92,401	70,594	70,401	62,428	64,159	3
<i>Balance sheet total</i>	182,900	146,599	191,859	218,213	225,427	3
<b>Operating Cash flow</b>	(41,278)	(21,853)	899	10,146	11,957	18
<b>Personnel data</b>						
<i>Employees as of Dec. 31</i>	418	485	519	610	637	4
<b>Per share</b>						
<i>Result; in €</i>	(0.82)	(0.43)	0.03	0.06	0.02	-66

<sup>1)</sup> Operating results excluding impairment and reversal of impairment and changes in contingent considerations

<sup>2)</sup> Cash relevant purchase of tangible and intangible assets, excluding finance leases

<sup>3)</sup> Including auction rate securities

adding a great company to Evotec's list of partners. Both parties will contribute innovative drug targets and high-quality technology infrastructures and will share the responsibility for early research and pre-clinical characterisation of potential clinical candidates in the disease area of endometriosis. Evotec will join forces with Bayer in a comprehensive effort to tackle this significant issue in women's health.

Additionally, 2012 was especially marked by the expansion of the discovery alliances portfolio with partners such as UCB Pharma ("UCB"), CHDI and good progress in ongoing collaborations, which were substantiated by milestone achievements from Boehringer Ingelheim Pharma GmbH & Co. KG ("Boehringer Ingelheim"), MedImmune, LLC/AstraZeneca PLC ("MedImmune/AstraZeneca"), Novartis and Ono Pharmaceutical Co., Ltd. ("Ono").

## EVT INNOVATE

Evotec is committed to delivering solutions for some of the largest and most pressing global medical needs. The **EVT Innovate** business model relies on very modest but focused investments into either novel target identification platforms or driving and developing novel targets which we then partner with Pharma for an upfront fee for significant research fees and significant milestones and royalties. Through this strategy, Evotec is building a pipeline without bearing the extensive financial risk normally involved in such projects. To reduce Evotec's risk further, the Company also continues to seek strategic product development partnerships to fund the further development of its clinical assets. Evotec's current clinical stage portfolio comprises several development partnerships fully funded by its partners.

An important part of EVT Innovate is the creation of the Cure X initiative, whereby Evotec accesses and accelerates early academic or research initiatives in innovative areas of disease biology and positions such assets

for commercial partnering. In this context, Evotec is pursuing different Cure X initiatives: CureBeta, CureNephron, CureNeuron and CureHeart. Evotec entered collaborations for CureBeta and CureNephron with Harvard University in March 2011 and February 2012, respectively. Evotec is currently exploring potential collaboration opportunities in CureNeuron and CureHeart.

Key milestones for EVT Innovate for the year 2012 were:

- ▶ Partnering the EVT100 compound series
- ▶ Commercialising innovation (e.g. Cure X, etc.)
- ▶ Continuing to monitor the development and data of the Phase III trial with DiaPep277® in Diabetes mellitus ("Diabetes") with Andromeda Biotech Ltd. ("Andromeda") and Teva Pharmaceuticals Industries, Ltd. ("Teva") and the Phase II start with EVT302 in the development partnership with F. Hoffmann-La Roche Ltd. ("Roche") in Alzheimer's disease ("AD")
- ▶ Collaborations in the diabetes therapeutic area with MedImmune/AstraZeneca expanded

Notable was the new collaboration with Janssen Pharmaceuticals, Inc. (“Janssen”) for the CureBeta initiative, which is based on the collaboration between Harvard University and Evotec, as mentioned above. Under the terms of this collaboration, Evotec received an upfront payment of \$ 8 m and is eligible for milestone payments of up to a total of about \$ 200–300 m per product. The upfront, milestone and royalty payments will be shared by Evotec and Harvard University according to pre-agreed terms.

A highlight in the fourth quarter was the licence agreement with Janssen regarding Evotec’s NR2B subtype selective NMDA-antagonist portfolio including the drug candidates EVT101/103 for development against diseases in the field of depression. Evotec received an upfront payment of \$ 2 m with an additional \$ 6 m to be paid upon confirmation of certain pre-clinical properties of the candidates. Evotec is eligible to receive additional milestone payments from Janssen upon the successful completion of certain clinical and regulatory phases for a first product, which may total up to \$ 67 m, as well as additional, reduced milestone payments upon successful completion of certain phases for additional indications and/or compounds. Evotec shall be entitled to receive an additional \$ 100 m in commercial milestones dependent upon meeting certain sales thresholds and royalties which could be as high as double-digit percentage on certain future sales of royalty-bearing products. Evotec will share portions of the payments with Roche, who originally discovered the molecules.

As mentioned above, the vision of EVT Innovate is to build a strategic pharmaceutical pipeline without taking the financial risk. In 2012, we achieved all of our key milestones and are very successfully on the way to establishing Evotec as a preferred partner for innovative scientific programmes. A very important thing to remember is that without Evotec’s expertise and infrastructure stemming from EVT Execute and EVT Integrate, this success would not be possible. Thus EVT Innovate is the last building block to complete Action Plan 2016. ●

## Dr Arnd Steuernagel

*in person*

### Targeting large molecules one at a time

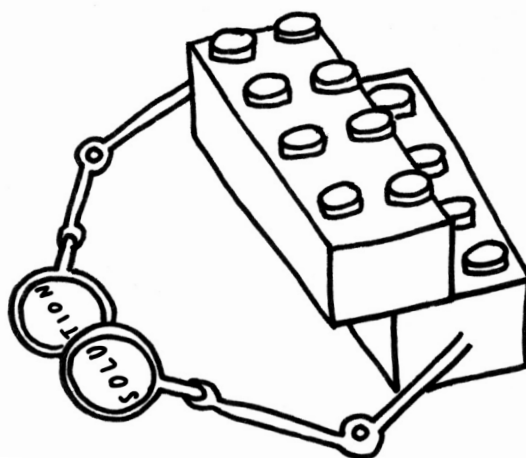
Dr Arnd Steuernagel joined Evotec in June 2011 as Senior Vice President Biologics. Evotec is established as a world-leading company in small molecule screening, optimisation and development. However, large molecules (or biologicals) are an increasingly important drug class requiring a very similar discovery and development infrastructure as small molecules. Arnd’s goal is to leverage Evotec’s existing platforms into the biologics space and thereby adding a new dimension to Evotec’s business. He is currently focused on setting up an antibody selection platform based on Evotec’s high-throughput and high-content assays thereby developing a high-value screening franchise for antibodies which best complement in-house activities of Pharma companies. Furthermore, he is involved in early drug development of biopharmaceuticals, supporting Cure X initiatives in which new biologics are identified and need to be validated.

Prior to joining Evotec, Arnd held the position of Chief Scientific Officer at

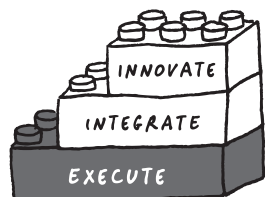


Scil Proteins GmbH, where he among other things developed Scil Proteins’ antibody mimetics technology from basic research level to a novel drug-screening platform (“Affilin® Technology”) and succeeded in strategically positioning it in the biopharmaceuticals space. In

addition to his vast scientific knowledge, Arnd has great management expertise which he acquired through managing staff as well as managing external CROs and expert consultants from the Pharma industry and academia. Furthermore, he is very familiar with the competitive landscape of the biotech industry. Before Arnd joined Scil Proteins in 2006, he worked for eight years at DeveloGen AG (“DeveloGen”), where he was involved in the fields of target identification and *in vitro* validation, holding different positions. During his last two years at DeveloGen, he held the position of Program Director of Somatoprim, a novel somatostatin analogue. In September 2012, Evotec and Aspireo Pharmaceuticals Limited (“Aspireo”) teamed up to partner Somatoprim. Arnd holds a PhD in developmental biology and has authored and co-authored a number of publications and patents. ●



# STEP INTO THE NEWS FLOW OF OUR BUSINESS



03 MAY 2012  
**Evotec announces multi-year agreement with the United States Environmental Protection Agency ("EPA")** Evotec enters into a multi-year compound

management agreement with the United States EPA. The contract covers a period of 5 years and has a total value of up to € 7.7 m (approximately \$ 10 m). Evotec will provide chemical procurement, analysis, sample preparation and management services in support of the EPA's National Computational Center for Toxicology. By providing key efficient scientific infrastructures such as compound management, Evotec strengthens its EVT Execute approach.

09 MAY 2012

**Evotec AG and 4-Antibody form strategic collaboration to innovate antibody selection** Evotec and 4-Antibody sign a strategic collaboration agreement under which Evotec will offer a fully integrated antibody discovery and development service. Evotec's novel and unique high-throughput and high-content screening approach coupled with 4-Antibody's high-throughput antibody selection approach will now allow screening of large and diverse antibody populations for desired functionality and activity at a much earlier stage of selection. Through the combination of the companies' capabilities, it will be possible to deliver a much higher chance to bring an antibody to the market than traditional affinity-selected antibody approaches. Both parties agreed to share financial rewards of this approach. Evotec will initially pay a € 2 m access fee to 4-Antibody, which is expected to be fully reimbursed from future returns. Going forward the parties will share profits.

16 MAY 2012

**Evotec becomes the first contract research facility in Europe to offer Agilent's RapidFire/MS Screening for pharmaceutical drug discovery** Evotec announces the addition of Agilent Technologies' RapidFire Mass Spectrometry analysis capabilities to its high-throughput screening facilities in Hamburg. RapidFire, a robust, in-line solid phase extraction technology enables ultra-

*We are committed to getting the optimal value out of the alliances and programmes we have with our partners. This is visible through our news flow. The following is a summary of the press releases published in 2012.*

fast, direct analysis of native compounds for a wide variety of biochemical assays including routine ADME and lead discovery applications across a range of therapeutic areas. This addition underlines Evotec's best-in-class screening platform and will ensure that partners and collaborators will benefit from further efficiencies in lead discovery.

19 SEPTEMBER 2012

**NIH awards major contract to Evotec to manage and operate a small molecule repository** Evotec enters into a multi-year compound management agreement with the NIH for the operation of a small molecule repository. The contract covers a period of up to ten years and has a total estimated value of up to \$ 75 m. This agreement validates Evotec's entry into compound management through the strategic acquisition of Compound Focus, Inc. in June 2011.

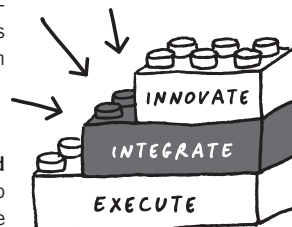
29 OCTOBER 2012

**Evotec extends ongoing collaboration with CHDI** Evotec extends collaboration with CHDI, a privately funded not-for-profit research organisation dedicated to developing therapies for Huntington's disease ("HD") until the end of 2015. The collaboration takes full advantage of Evotec's integrated drug discovery platform and its proficiency in neurological research, including its expertise in medicinal chemistry, *in vitro* and *in vivo* pharmacology and compound management. Evotec and CHDI entered into

this alliance in March 2006 and since then the collaborative relationship has grown significantly. This collaboration is an excellent example of how companies, including foundations such as CHDI, can access Evotec's platform suite of technologies, capabilities and strong disease biology expertise to drive their drug discovery efforts.

28 NOVEMBER 2012

**Evotec enters biology collaboration with Probiobdrug AG ("Probiobdrug")** Evotec and Probiobdrug enter into a collaboration under which Evotec will set up and validate assays to support the pre-clinical and clinical development of glutamyl cyclase ("QC") inhibitors for the treatment of Alzheimer's disease. Glutamyl cyclase is a novel proprietary enzyme target discovered and validated by Probiobdrug which plays a crucial role in the pathogenesis of Alzheimer's disease as well as potentially other diseases.



11 JANUARY 2012  
**Evotec receives fourth milestone payment in 2011 as part of its discovery alliance with Boehringer Ingelheim** Evotec receives a milestone payment of € 2.5 m in

2011 for the identification and selection of a compound to be advanced into extended profiling prior to pre-clinical development within an oncology programme. The partnership between Evotec and Boehringer Ingelheim has been in existence for eight years.

16 FEBRUARY 2012

**Evotec and IR Pharma Ltd ("IR Pharma") establish drug discovery alliance in the field of respiratory** Evotec and IR Pharma enter into an exclusive strategic alliance to provide integrated drug discovery solutions to pharmaceutical and biotech companies in the field of respiratory diseases. Evotec is now positioned to offer seamless, fully integrated respiratory- and inflammation-focused drug discovery programmes to its partners, from target to nomination of pre-clinical development candidates.



26 APRIL 2012

**Evotec and Active Biotech AB ("Active Biotech") extend and expand medicinal chemistry collaboration** Evotec and Active Biotech expand and extend their medicinal chemistry collaboration to further advance an existing programme, which has entered the lead optimisation phase. The programme aims to find novel small molecule modulators of a priority biological target, selected by Active Biotech, involved in immune disorders and cancer. Through expanding and extending this collaboration, Evotec seeks to further leverage its expertise to assist its partner in finding novel treatments addressing cancer and autoimmune disorders.

05 JUNE 2012

**Evotec receives milestone payment as part of its discovery alliance with Boehringer Ingelheim** Evotec receives a milestone payment of € 4.0 m for the transition of a respiratory programme into pre-clinical development. This represents the sixteenth milestone achieved as part of the successful alliance between Evotec with Boehringer Ingelheim and underlines the collaborative efforts between the teams of the two companies.

26 SEPTEMBER 2012

**Evotec receives milestone payment as part of its discovery alliance with Boehringer Ingelheim** Evotec announces that its research alliance with Boehringer Ingelheim has reached a milestone triggering a payment of € 2.5 m to Evotec. The milestone was for the transition of an oncology programme into pre-clinical profiling.

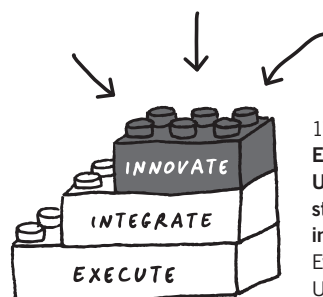
01 OCTOBER 2012

**Multi-target alliance with Bayer** Evotec and Bayer enter into a five-year, multi-target collaboration with the goal of developing three clinical candidates for the treatment of endometriosis. Both parties will contribute innovative drug targets and high-quality technology infrastructures and will share the responsibility for early research and pre-clinical characterisation of potential clinical candidates in the disease area of endometriosis. Bayer will be responsible for any subsequent clinical development and commercialisation. Evotec will receive € 12 m as an upfront payment. In total, Evotec may receive pre-clinical, clinical and sales milestones of potentially up to approximately € 580 m plus potential royalties of up to low double-digit percentage of net sales, depending on which party brought the compound to the collaboration and the successful development and approval of potential drug candidates.

08 OCTOBER 2012

**Evotec receives milestone in drug discovery collaboration** Evotec reaches a pre-clinical milestone from its drug discovery collaboration with Novartis. This milestone is further proof of Evotec's track record in advancing compounds towards the clinic with its collaborators. Under the terms of the agreement, Evotec is responsible for progressing the programme up to pre-clinical

development, and Novartis will then have the responsibility for all clinical development activities, manufacture and commercialisation of the compounds.



17 JANUARY 2012

**Evotec and Harvard University expand strategic alliance into kidney disease**

Evotec and Harvard University enter into a second strategic

alliance including Brigham and Women's Hospital in order to discover and develop new biomarkers and treatments in the field of kidney disease. *CureNephron* underlines Evotec's approach of entering strategic alliances to combine efforts in new drug discovery.

02 MAY 2012

**Evotec grants exclusive rights on EVT401 in China to Zhejiang Jinhua CONBA Bio-pharm. Co., Ltd. ("CONBA")** Evotec and CONBA announce the grant of a development and marketing licence on EVT401, a selective, small molecule P2X7 antagonist for human indications with the exception of ophthalmological, chronic obstructive pulmonary disease (COPD) and endometriosis in China. Evotec receives a small upfront payment, development and commercial milestone payments in excess of € 60 m and tiered double-digit double-digit percentage of royalties on net sales. Evotec will have the right to reference clinical data produced by CONBA to support potential further development of EVT401 in other territories. This partnership follows Evotec's plan to align with the best and most dedicated partners in the industry.

10 JULY 2012

**CureBeta, a collaboration between Evotec and Harvard University, enters strategic alliance with Janssen**

Evotec and Janssen enter a licence and collaboration agreement under which Janssen will receive exclusive access to a series of candidates designed to trigger the regeneration of insulin-producing beta cells. The agreement triggers an upfront payment of \$ 8 m. Milestone payments up to \$ 200–300 m per product is possible under this agreement. In addition, Janssen will pay royalties on future sales of any products that result from this collaboration. The upfront, milestone and royalty payments will be shared by Evotec and Harvard University according to pre-agreed terms. Evotec will receive additional research support for discovery and early development work that will be conducted in collaboration

with Janssen. This agreement establishes a new model of collaboration between academia and industry that has proven highly efficient and effective in accelerating innovative scientific development.

28 SEPTEMBER 2012

**Evotec and Aspireo enter into strategic advisory agreement** Under the terms of the agreement, Evotec will provide Aspireo with strategic and operational advice on the partnering of Somatoprim (a new molecular entity somatostatin analogue) and will consult Aspireo on matters of clinical and pre-clinical development. In return, Evotec receives advisory fees and participates in the economic success of Somatoprim.

15 NOVEMBER 2012

**Evotec partners with Haplogen GmbH ("Haplogen") to develop drugs for infectious diseases**

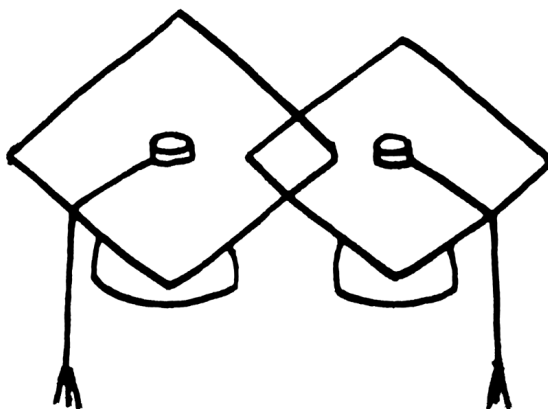
Evotec and Haplogen sign a collaboration agreement to discover and develop small molecules against viral infectious diseases. Under the agreement, Haplogen and Evotec will co-develop drugs against a human protein that is essential for pathogenic viruses to infect their host cell. Evotec will further develop Haplogen's lead compounds and apply its drug discovery platform to find additional small molecule inhibitors.

17 DECEMBER 2012

**Evotec announces NMDA-antagonist licence agreement**

Evotec AG entered into a licence agreement with Janssen regarding its NR2B subtype selective NMDA-antagonist portfolio for development against diseases in the field of depression. Under the terms of this agreement Janssen has been granted an exclusive, worldwide licence to a series of small molecule drug candidates. Janssen has the exclusive right to further develop the compounds and market the resulting products. Evotec will receive an upfront payment of \$ 2 m with an additional \$ 6 m to be paid upon confirmation of certain pre-clinical properties of the candidates. Evotec is eligible to receive additional milestone payments from Janssen upon the successful completion of certain clinical, regulatory and launch events for a first product, which may total up to \$ 67 m, as well as additional, reduced milestone payments upon successful completion of certain events for additional indications and/or compounds. Evotec shall be entitled to receive an additional \$ 100 m in commercial milestones depending and upon meeting certain sales thresholds and royalties, which could be as high as double-digit percentage on certain future sales of royalty-bearing products. Evotec will share portions of the payments with Roche, which originally discovered the molecules.

# EVOTEC: A GREAT PARTNER FOR ACADEMIA



Innovation has to be driven by the need to solve medical problems. This means finding new models of collaboration through which the major players can address these needs. Pharmaceutical and biotech companies, academic institutions, healthcare players and regulatory bodies all must be involved and understand the upside of innovation. This creates particularly good opportunities for developing a whole host of innovative new products.

One strategic goal is for Evotec to be the bridge between academia and Pharma, helping identify innovative assets and accelerate them to a position of partnering. In March 2011, Harvard University and Evotec defined a new

model of collaboration between academia and the biotech industry with the sole vision to truly accelerate new biological insights in beta cell biology into potentially paradigm-changing therapies for diabetes.

This first alliance, *CureBeta*, is very much focused on diabetes and potentially disease-modifying approaches targeting beta cell mass and function. The extent of beta cell failure ultimately determines when patients are diagnosed with overt diabetes. Restoring beta cell function in patients with diabetes represents a promising approach to not only change the progression of the disease but potentially revert or even cure diabetes.

## Cure X strategy becoming increasingly visible

*CureBeta* brings together first-in-class science as well as best-in-class infrastructure to build a beta cell replication approach to diabetes. It is supported by a first-in-class and best-in-class partnership. It started with a vision in an academic lab, was then accelerated in collaboration with Evotec and was finally combined with a pharmaceutical partner.

In July 2012, Evotec partnered *CureBeta* with Janssen. Janssen received exclusive access to a portfolio of small molecules and biologics designed to trigger the regeneration of beta

cells. This series of candidates was originally identified by scientists in the laboratory of Harvard University Professor Douglas Melton and then progressed based on Evotec's deep expertise and experience in industrialised drug discovery. This commercial agreement with Janssen was the first clear sign that Evotec is able to deliver on this new collaboration model. In contrast to previous models between academia and the biotech and pharmaceutical industry, this three-pronged partnership creates a new dynamic that primarily focuses on the science as it keeps academic inventors involved without limiting their freedom to conduct basic research and incorporates biotech's spirit and penchant for innovation while at the same time benefiting from Pharma's enormous experience.

This is also underlined by a second strategic alliance with Harvard University, which was initiated in January 2012, this time including Brigham and Women's Hospital. This alliance,

named *CureNephron*, aims at discovering and developing new biomarkers and treatments in the field of kidney disease. The key scientists involved in this collaboration are Dr Andrew

*“Clearly we need new strategies for prevention and effective therapies for treatment”*

Dr Benjamin Humphreys, Associate physician in the Renal Division, Brigham and Women's Hospital and a professor at Harvard Medical School, Evotec DDup, Volume 3

McMahon and Dr Benjamin Humphreys, highly accomplished scientists and clinicians in this exciting field. Together with Evotec scientists they are part of a uniquely cross-functional team covering kidney biology,

physiology and disease as well as leading drug discovery expertise. The primary goal is to select targets of highest biological and disease relevance; Evotec is equipped to pursue small molecules as well as biologicals, be they secreted factors, antibodies or peptides. It is the clear goal to search for target candidates that have the potential to slow, halt or even reverse kidney injury. In addition, the teams seek to identify and develop novel and more sensitive biomarkers that allow the stratification of patient population more clearly in terms of which parts of the kidney and cell types are primarily affected, as well as allowing us to track progression of the disease at higher resolution.

*CureNephron* has made tremendous progress since its start and is generating candidate targets and compounds. The next step is to identify a strategic Pharma partner that will complement the team and complete the value chain. ●

## Dr David Hallett

*in person*



### Building up great teams of scientists

Dr David Hallett joined Evotec in September 2005. David has more than 17 years of drug discovery expertise, particularly in the areas of neuroscience, pain and inflammation. As Executive Vice President of Chemistry, he has operational and strategic responsibility for chemistry, computational chemistry and DMPK groups in both the UK and India. Through close interactions with clients and his

business partners in Evotec's Bioscience groups, one of David's core responsibilities is to facilitate the formation of integrated project teams delivering high-value drug discovery solutions.

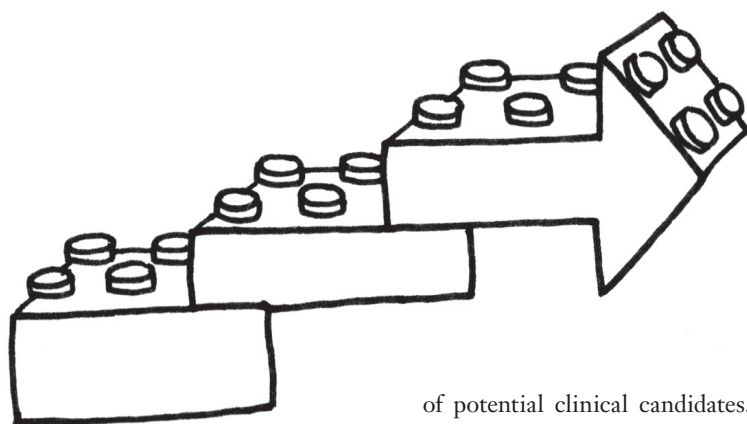
Prior to joining Evotec, David was a Research Fellow at Merck Sharp & Dohme where he led a number of successful drug discovery teams, mainly in the area of psychiatry. One of the most rewarding of these was a ligand-gated ion channel project for anxiety disorders where a team under David's stewardship delivered three development candidates over a two-year period. David holds a bachelor's degree in

Natural Sciences from Cambridge University and a PhD in chemistry from the University of Manchester. He also spent two years as a post-doctoral fellow at the University of Texas at Austin where he completed the total synthesis of the aglycon portion of the anti-tumour antibiotic calicheamicin  $\gamma_1$ . He has published more than 30 publications in peer-reviewed journals and is an inventor of more than 40 patents.

David enjoys working for Evotec as the Company fosters a truly entrepreneurial environment and has a unique mix of world-class scientists and strong business leaders. ●

# BAYER AND EVOTEC: STEPPING FORWARD ...

... TO NEW LEVELS OF INTEGRATED DRUG DISCOVERY



In October 2012, Evotec and Bayer entered into a five-year, multi-target collaboration with the goal of developing three clinical candidates for the treatment of endometriosis. Bayer, as the world leader in the field of hormonal oral contraception and pioneer in the area of women's healthcare, is the ideal partner for Evotec in this difficult-to-treat disease. This deal merges Bayer's expertise in women's healthcare and Evotec's expertise in inflammatory and chronic pain. It is a perfect example of how two companies can work in innovative synergy to address a disease with a clear unmet medical need.

Bayer and Evotec both contribute innovative drug targets and high-quality technology infrastructure and will share the responsibility for early research and pre-clinical characterisation

of potential clinical candidates. The research will be conducted in joint teams at both companies. The collaboration started with an equal number of targets from Evotec and Bayer HealthCare. Both parties will continue to identify additional potential drug targets as part of their early research activities and will use their know-how, high-quality technologies and infrastructure to discover and develop new drug candidates. Bayer will be completely responsible for any subsequent clinical development and commercialisation.

Evotec received € 12 m as an upfront payment. This initial payment will be recognised as revenue against resource effort over the course of the collaboration. In total, Evotec may receive pre-clinical, clinical and sales milestones of potentially up to approximately € 580 m plus potential royalties of up to low double-digit percentage of net sales, depending on which party brought the compound to the collaboration and the successful development and approval of potential drug candidates. ●

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► **ENDOMETRIOSIS** is a common and painful condition in which endometrial cells grow outside the uterine cavity. It is generally acknowledged that an estimated 10% of all women of child-bearing age are affected by endometriosis. This equates to 176 million women throughout the world, who have to deal with the symptoms of endometriosis during the prime years of their lives. It is caused by the abnormal growth of tissue similar to that which lines the uterus (endometrial tissue) in locations outside of the uterine cavity, where it causes ectopic lesion growth and debilitating pain. The most common symptom of the disease is pelvic pain. There is no known cure for endometriosis and most available drug treatments have certain limitations. Surgery can be effective in reducing the endometriosis-associated pain but does not prevent recurrences and can lead to surgical complications such as painful adhesions and possible impact on fertility. Endometriosis is a highly complex and heterogeneous disease and there is still a high unmet medical need for innovative therapies which address the individual needs of affected women. The disease can greatly impact a woman's social, professional and personal life and women with endometriosis often experience a higher incidence of depression and emotional distress due to the uncertainty of diagnosis, unpredictability of symptoms and the inability of living a normal life.

# PIPELINE WITHOUT FINANCIAL RISK

## ENORMOUS UPSIDE POTENTIAL

Evotec is building a strategic pharmaceutical pipeline that has significant upside potential for the Company without taking the financial risk. It is a long-term strategy Evotec has pursued over recent years and this will not be changed going forward. By partnering the EVT100 series and EVT401 in 2012, Evotec now has active product development partnerships in place for all its clinical assets. In addition, Evotec's Cure X initiative was expanded and nurtured Evotec's pre-clinical portfolio. Highlights within these Cure X initiatives were partnering CureBeta with Janssen and closing the second partnership with Harvard University (CureNephron). Furthermore, the Company was successful in partnering some of its other pre-clinical assets through the integrated alliance with Bayer.

### UPDATE OF PRODUCT DEVELOPMENT PARTNERSHIPS

#### DiaPep277® – Andromeda/Teva

DiaPep277® is an HSP 60 derived peptide, a novel approach in diabetes treatment modulating natural pathways to slow insulin-producing beta cell destruction. The compound was developed by DeveloGen before rights were transferred to Andromeda in 2007. Andromeda itself granted worldwide commercialisation rights to Teva in 2009. 2012 clearly marked a very important and also successful year in the development of DiaPep277® and its path to the market. The compound met its primary and secondary endpoints in a first Phase III trial in 457 type 1 diabetes patients. A second confirmatory Phase III trial that is being conducted by Andromeda in collaboration with Teva completed patient recruitment in September 2012. Results of this trial are expected towards the end of 2014 or early 2015.

Under the terms of the agreement, Evotec could receive milestone payments of up to € 40 m as well as royalties on sales.

As the incidence of diabetes type 1 is on the rise, particularly in young children, the prevention or even the delay in the progression of this disease would be of high clinical importance. According to the International Diabetes Foundation, there are 371 million people worldwide diagnosed with diabetes (2011: 366 million) and about 187 million who are at risk of costly and debilitating diabetes complications who have not yet been diagnosed. In 2012, \$ 471 bn was spent on the treatment of diabetes (2011: \$ 465 bn).

#### EVT302/RG1577 – Roche

EVT302 is a novel, potent and selective inhibitor of monoamine oxidase type B (MAO-B), an enzyme that breaks down the chemical messenger dopamine. Alzheimer's disease ("AD") is characterised by a loss of specific neurons in the brain including those producing dopamine. The resulting deficit in dopamine levels is thought to underlie typical behavioural changes of AD patients such as apathy and subsequent reduction in activities of daily living. In 2006, Evotec in-licensed EVT302 from Roche and developed the compound through Phase I and Phase II studies in a different indication. In 2011,

Evotec and Roche entered into an exclusive worldwide agreement for the development and commercialisation of EVT302 in AD.

Roche is currently recruiting for a Phase II clinical trial with RG1577 (EVT302) to assess the efficacy and safety of this compound in patients with moderate AD. In this multi-centre, randomised, double-blind, parallel-group, placebo-controlled study, patients on background therapy of donepezil or rivastigmine will receive either one or two doses of EVT302 or placebo for 12 months. Approximately 400 patients between the ages of 50 to 90 will take part in this study. As a primary outcome measure, changes in cognitive behaviour will be evaluated by means of the AD Assessment Scale – Cognitive Behaviour Subscale.

Under the terms of Evotec's agreement with Roche, Evotec could receive development and commercial milestone payments of up to \$ 820 m as well as tiered double-digit percentage of royalties on sales.

The need for new treatments is enormous as AD cannot be prevented, cured or even slowed down. According to the World Alzheimer

## Dr Kathrin Grundner-Culemann

*in person*

### Combining strengths for successful proteomics projects

Dr Kathrin Grundner-Culemann joined the Evotec Group in 2011 through Evotec's acquisition of Kinaxo Biotechnologies GmbH ("Kinaxo"), where she has worked since 2010. In her position as Research Scientist and Project Leader in the Mass Spectrometry Group at Evotec (München) GmbH, Kathrin is responsible for the management of proteomics projects for Evotec's partners. This includes customer communication, project development, experimental set-up and coordination with different departments as well as compiling results and preparing reports for the customers. In addition, Kathrin organises one of Evotec's two mass spectrometry laboratories in Munich and is responsible for two members of staff in the mass spectrometry department.



Kathrin holds a master's degree and a PhD in biochemistry from the Technische Universität München. She performed her PhD research at the Max Planck Institute of Biochemistry, focusing on quantitative phosphoproteomics. From 2006 until 2007, she worked as a research assistant at the Ludwig Institute for Cancer Research in Brussels. She authored a publication investigating cellular kinase substrates and is working on a publication about a joint study by Evotec (München) and the Technische Universität München.

Kathrin considers challenges such as technological innovations in the field of mass spectrometry as very compelling. She enjoys working in a very diverse position and being part of an excellent team.

product, which may total up to \$ 67 m as well as additional, reduced milestone payments upon successful completion of certain events for additional indications and/or compounds. Evotec is entitled to receive an additional \$ 100 m in commercial milestones depending upon certain sales thresholds and royalties that could be in the double-digit percentage range on certain future sales of royalty-bearing products. Evotec will share portions of the payments with Roche, which originally discovered the molecules.

It is estimated that over 120 million people suffer from depression globally. According to the World Health Organization, depression will be the "heaviest disease burden" after heart disease by 2020. Whereas global spending on antidepressants was \$ 15 bn in 2003, it is expected that this figure will drop to \$ 6 bn by 2016 (Thomson Reuters Pharma analysis). This is mainly due to the fact that currently available antidepressants are prescribed quite regularly, but patients seem to have major concerns to take them.

### EVT401 – CONBA and undisclosed animal health company

EVT401, our P2X7 receptor is an ATP-gated ion channel and may provide a novel approach for the treatment of inflammatory conditions. The compound was completely developed in-house. Phase I results in 2009 showed a very good safety profile and confirmed "on-target activity". During 2012, two development partnerships were up and running. The first alliance, which was closed in summer 2011 with a top-tier global animal health company, was terminated in October 2012, following a portfolio review by Evotec's partner. The second alliance was started in May 2012 with CONBA, one of the largest pharmaceutical companies in China. The agreement grants CONBA exclusive rights to develop and commercialise the compound for the Chinese market for human indications with the exception of ophthalmological, chronic obstructive pulmonary disease (COPD) and endometriosis. CONBA will initiate further clinical trials with EVT401 in inflammatory diseases in 2013.

Under the terms of the agreement, Evotec receives from CONBA a small upfront payment, development and commercial milestone

Report 2012, approximately 36 million people were living with dementia worldwide in 2010. This number is expected to rise to 66 million by 2030 and 115 million by 2050. The global market of Alzheimer's disease is estimated to reach \$ 19 bn by 2015.

### EVT100 series – Janssen

EVT101 and EVT103 are orally active NR2B subtype selective NMDA-antagonists and represent one of the few new approaches in clinical development for depression. Extensive studies over the past 20 years have shown that NMDA receptors are involved in the pathology of depression and other diseases of the central nervous system ("CNS"). The EVT100 series was originally in-licensed from Roche in 2004. Evotec completed pre-clinical development of the compounds and pursued multiple Phase I studies with EVT101 and EVT103. A development partnership with Roche, initiated in 2009, was dissolved in 2011. The decision to

terminate a Phase II study in treatment-resistant patients was triggered by difficulties to recruit patients under the former study protocol, resulting in the possibility of inconclusive results. In the fourth quarter of 2012, Evotec successfully partnered its EVT100 series to Janssen. Janssen received an exclusive, worldwide licence regarding its NR2B subtype selective NMDA-antagonist portfolio for development against diseases in the field of depression. Janssen is responsible for further development of the compounds and will exclusively market the products resulting from this collaboration.

Under the terms of Evotec's agreement with Janssen, Evotec received an upfront payment of \$ 2 m with an additional \$ 6 m to be paid upon confirmation of certain pre-clinical properties of the candidates. Evotec is eligible to receive additional milestone payments from Janssen upon the successful completion of certain clinical, regulatory and launch events for a first

payments in excess of € 60 m and tiered double-digit percentage royalties on net sales.

**EVT201 – Zhejiang JingXin  
Pharmaceutical Co., Ltd (“JingXin”)**

EVT201 is a GABA<sub>A</sub> receptor partial positive allosteric modulator developed for the treatment of insomnia. Evotec successfully

concluded two Phase II studies, providing excellent safety and efficacy results, but was nevertheless not successful in partnering the compound in the Western market. In October 2010, Evotec entered into a licence and collaboration agreement with JingXin for EVT201. The agreement grants JingXin exclusive rights to develop and market the drug candidate in China.

Under the terms of the agreement, Evotec will receive a small upfront payment, together with commercial milestones and significant royalties.

**Somatoprim – Aspireo**

Somatoprim (DG3173) is a new molecular entity somatostatin analogue with a unique,

**EVT Innovate** – An overview of the EVT Innovate clinical development assets is provided by the following table:

PARTNER	INDICATION	STATUS	NEXT MILESTONE	COMMERCIALS
Andromeda/Teva	Diabetes <sup>1)</sup>	2 <sup>nd</sup> Phase III recruitment closed	Final Phase III data	Up to € 40 m milestones, royalties
Roche	Alzheimer's disease <sup>2)</sup>	Phase II start	Completion of Phase II Phase III start	Up to \$ 820 m milestones, royalties
Janssen	Treatment resistant depression <sup>3)</sup>	Phase II	Phase IIb start	Up to \$ 160 m milestones, royalties
JingXin	Insomnia <sup>4)</sup>	Phase II	Phase IIb start	Milestones, royalties
CONBA	Inflammation <sup>5)</sup>	Phase I/II	Phase II start	Up to € 60 m milestones, royalties
Aspireo	Acromegaly, diabetic retinopathy, others	Phase I	Partnering	Advisory fees, royalties on Somatoprim

<sup>1)</sup> DiaPep277<sup>®</sup> is being developed by Andromeda and has been partnered with Teva <sup>2)</sup> EVT302 (MAO-B) <sup>3)</sup> EVT101/103 series

<sup>4)</sup> Chinese rights only (EVT201) <sup>5)</sup> EVT401 (P2X7)

**EVT Integrate & EVT Innovate** – An overview of the EVT Integrate and EVT Innovate early stage assets is provided by the following table:

PARTNER	INDICATION	STATUS	NEXT MILESTONE	COMMERCIALS
Bayer	Endometriosis	Pre-clinical	Pre-clinical	Upfront € 12 m; total value up to € 580 m; royalties
Boehringer Ingelheim	Various	Pre-clinical	Clinical candidate	Milestone payments, royalties
Boehringer Ingelheim	Type 2 Diabetes Insulin Sensitizer	Research	Pre-clinical	Up to € 237 m milestones, significant royalties
CHDI	Huntington's Disease	Research	Pre-clinical	\$ 41 m research payments over contract period
Janssen	CureBeta Type 1 and 2 Diabetes	Research	Pre-clinical	Upfront \$ 8 m; research payment; up to \$ 300 m milestones per product; royalties
MedImmune/ AstraZeneca	Types 1 and 2 Diabetes EVT770	Research	Pre-clinical	Up to € 254 m milestones, significant royalties
Ono	Various	Research	Pre-clinical	Milestones
UCB	CNS disorders	Research	Pre-clinical	Milestones and royalties
UCB	Immunology	Research	Pre-clinical	Milestones and royalties

## Dr Mei Steele

*in person*



**Dedicated team player at Evotec in San Francisco**

Through Evotec's acquisition of Compound Focus, Inc., the compound management business of BioFocus, a Galapagos company, Dr Mei Steele entered the Evotec Group in 2011. Mei started her job at Compound Focus in September 2011. She works as a project manager for Evotec's Compound Management Services in San Francisco, USA. Her main responsibilities are providing project management services for a variety of global commercial and not-for-profit organisations as well as government contracts.

Mei has eight years of experience in drug discovery and product management with various companies in the biotechnology industry. This includes expertise with assay development and optimisation, liquid handling and automation, data analysis and management, vendor and CRO relations and project management. Prior to joining Evotec, she led the product development for an infectious disease therapeutic at Altravax, Inc.

Mei received her doctorate in Cell and Molecular Nutrition from Tufts University in 2003. She published several peer-reviewed articles in the field of cancer research, primarily focusing on the transcriptional regulations of cell cycle control. Mei enjoys working with her talented and dedicated colleagues and takes pride in the many accomplishments they made together as a team. ●

potentially best-in-class, pharmacological profile currently in Phase II clinical development. Somatostatin analogues have been approved for the treatment of acromegaly, carcinoid tumours, and Cushing's disease but also have demonstrated significant potential in diabetic retinopathy. Somatoprim was originally developed by DeveloGen. DeveloGen investigated the safety, tolerability and pharmacokinetic profile of DG3173 in a double-blind, placebo-controlled single dose escalating Phase I study. In this study, DG3173 was generally well-tolerated and safe. Evotec acquired DeveloGen in July 2010 but this asset was not included in the acquisition. Aspireo, an Israeli biopharmaceutical company, was established in September 2010 as an asset-centric biotech company. In 2012, Evotec and Aspireo entered into a strategic advisory agreement for support in the development and partnering of Aspireo's Somatoprim.

Under the terms of the agreement, Evotec will provide Aspireo with strategic and operational advice on the partnering of Somatoprim. In addition, Evotec will consult Aspireo on matters of clinical and pre-clinical development. In return for such services, Evotec will retain advisory fees as well as participate in the economic success of Somatoprim. Somatostatin analogues are generating more than \$ 1.5 bn in annual sales in a continually growing market.

### DG070 – Boehringer Ingelheim

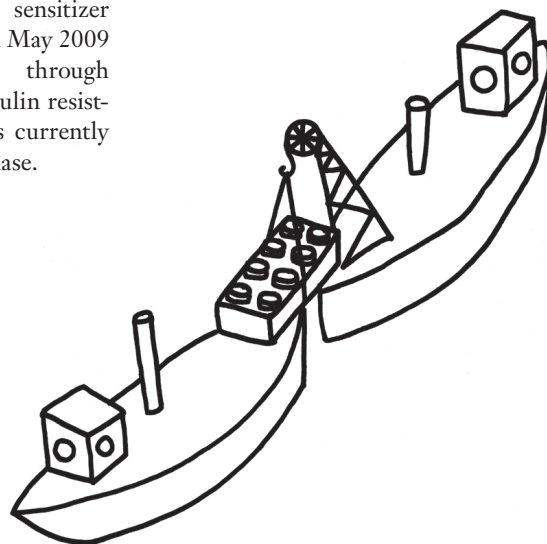
DG070 is a relevant target directly addressing insulin resistance. This insulin sensitizer programme, which was partnered in May 2009 with Boehringer Ingelheim through DeveloGen for the treatment of insulin resistance in type 2 diabetes patients, is currently progressing through the research phase.

### EVT770 – MedImmune/AstraZeneca

EVT770 is a secreted molecule that has been identified in a screen for potential beta cell regeneration targets. It has also been identified through Evotec's subsidiary in Göttingen. In December 2010, Evotec entered into a licence and collaboration agreement with MedImmune/AstraZeneca with a particular focus on the regeneration of insulin-producing beta cells. This deal was the first deal executed by Evotec on beta cell regeneration assets and capabilities and was extended in December 2012.

### VR1 – Pfizer Inc ("Pfizer")

The VR1 receptor is one of the best characterised members of the transient receptor potential (TRP) family of ion channel proteins. Ion channels mediate and influence cell signalling and are attractive targets for drug discovery. Antagonists of VR1, which prevent the activation of nerve cell signalling, are predicted to be useful in the treatment of pain, urinary incontinence and other diseases and disorders. In May 2005, Pfizer entered into a worldwide collaboration and licence agreement with Renovis, Inc., acquired by Evotec in 2007/2008, to research, develop and commercialise small molecules that target the VR1 receptor. The lead candidate moved into Phase I clinical trials in mid-2008. In the fourth quarter 2012, Pfizer gave notice that the programme was terminated as a result of a comprehensive portfolio review. ●





# STEP BY STEP INTO THE RIGHT DIRECTION

Evotec's share price ended 2012 at € 2,626 and was therefore up 11.4% for the year. This compares with 21% for the German technology stock index TecDAX in a moderately positive capital market environment. The continued support of high-quality investors was influenced by the strong news flow on milestones and partnerships. It is clear that Evotec is executing on Action Plan 2016 and that the Company is moving towards sustainable profitability. However, the milestone-based business model of the Company causes significant fluctuations in the operating result between quarters.

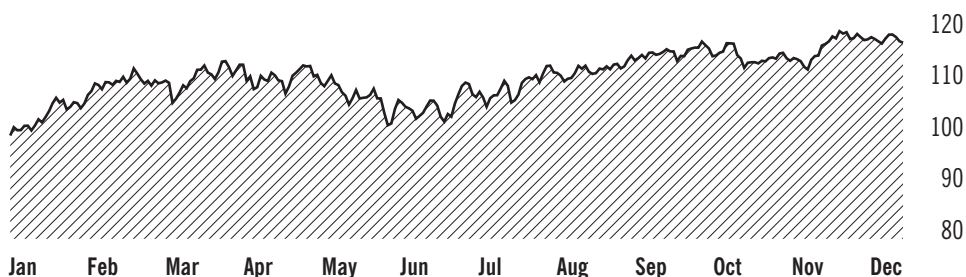
## Recovery in international stock markets

Despite significant global macroeconomic issues and concerns a degree of confidence returned to the stock markets in the early months of 2012. However, at the end of the first quarter the European markets underwent a correction that lasted until early June when once again confidence in the broader global economy returned. Along with this the European Central Bank and European governments reassured the markets by signalling that a policy was being developed which would help stabilise the European sovereign debt crisis. At

**Development of the Evotec share (indexed)**  
(01 January 2012–31 December 2012)



**Development of the TecDAX (indexed)**  
(01 January 2012–31 December 2012)



<b>SHARE DATA</b>	
<i>Ticker symbol</i>	<i>EVT</i>
<i>Securities identification number</i>	<i>566480</i>
<i>ISIN</i>	<i>DE0005664809</i>
<i>Reuters symbol</i>	<i>EVTG.DE</i>
<i>Bloomberg symbol</i>	<i>EVT GY Equity</i>
<i>Stock exchange, market segment</i>	<i>Frankfurt Stock Exchange, Prime Standard</i>
<i>Index</i>	<i>TecDAX</i>
<i>Designated Sponsor</i>	<i>Close Brothers Seydler Bank</i>

very good year. As for 2013, a combination of an upturn in M&A activity within the sector, continuing positive sentiment in the global economy and an increase in drug approvals should provide a very favourable investor environment.

**Volatility in operating result still  
a hurdle for clear outperformance of  
the Evotec stock**

While Evotec's stock price developed broadly in line with the German technology index TecDAX at the beginning of the year, it fell back in May and underperformed in comparison to both the NASDAQ Biotech index and the TecDAX. This was driven by investors being disappointed by the slight loss Evotec reported early May for the first quarter of 2012, although the Company regularly explained that operating result varies significantly between quarters as a result of the specific timing of performance-based milestones and partnering events. From July 2012 onwards, Evotec's stock reversed this trend based on a strong news flow. Early in the second half of 2012, the Company announced the CureBeta deal with Janssen and Harvard University, milestone payments from big Pharma partners, especially Boehringer Ingelheim and Novartis, new major partnerships, e.g. with Bayer, and important contract extensions with CHDI and the NIH, which basically set the sentiment for the remainder of the year. However, the stock dropped from its mid-October high following the profit update for the year. In mid-December, the license agreement with Janssen on Evotec's portfolio of NMDA receptor antagonist for development in depression led to investor confidence in the Company through the end of the year. In summary, despite a solid flow of strong news, including 9% revenue growth, strong liquidity and a strong sales order book, the Company closed the year up 11.4% at € 2,626 below the increase of 21% in the index. Based on decreasing investor interest, Evotec's average daily trading volume on all German stock exchanges was € 1,102,204 in 2012 compared to € 1,385,848 in 2011.

**Exercise of stock options leads to only a  
slight change in capital structure**

During the year 2012, Evotec made no new acquisition where the Company used shares.

<b>KEY FIGURES PER SHARE</b>	<b>2012</b>	<b>2011</b>
<i>High (date)</i>	<i>€ 3.00 (16 Oct)</i>	<i>€ 3.48 (27 Jan)</i>
<i>Low (date)</i>	<i>€ 1.97 (01 June)</i>	<i>€ 1.58 (09 Aug)</i>
<i>Opening price</i>	<i>€ 2.36</i>	<i>€ 2.92</i>
<i>Closing price</i>	<i>€ 2.63</i>	<i>€ 2.34</i>
<i>Weighted average number of shares outstanding</i>	<i>117,295,847</i>	<i>116,022,213</i>
<i>Total number of shares outstanding as at 31 December</i>	<i>118,546,839</i>	<i>118,315,864</i>
<i>Average trading volume (all exchanges)</i>	<i>420,411 shares</i>	<i>526,538 shares</i>
<i>Market capitalisation as at 31 December</i>	<i>€ 328.9 m</i>	<i>€ 270.2 m</i>
<i>Earnings per share</i>	<i>€ 0.02</i>	<i>€ 0.06</i>

<b>ANALYST COVERAGE</b>	
<i>Close Brothers Seydler Research AG</i>	<i>Igor Kim</i>
<i>Commerzbank AG</i>	<i>Volker Braun</i>
<i>Deutsche Bank</i>	<i>Gunnar Romer</i>
<i>DZ Bank AG</i>	<i>Elmar Kraus</i>
<i>Edison Investment Research</i>	<i>Mick Cooper</i>
<i>Job. Berenberg, Gossler &amp; Co. KG</i>	<i>Adrian Howd</i>
<i>Kempen &amp; Co N.V.</i>	<i>Mark Pospisilik</i>
<i>Montega AG</i>	<i>Tim Kruse, Stefan Schröder</i>

no point in the year did the German blue chip index DAX drop below the year's opening value. During the second half of the year the index gained about 18.8% to close the full year up about 29.1%. The EURO STOXX 50 and the Dow Jones, however, closed the year up 13.8% and 7.2%, respectively.

**An ever better year for biotech investors**

In the biotech sector, the year has been positive as a result of a significant number of clinical and regulatory events plus a continued strong

financing environment for late-stage companies. Positive sentiment in many of the large-cap biotech stocks has helped the sector outperform general markets. In addition, mid-cap biotech companies were supported by a relatively positive outlook for the global recovery and a degree of stabilisation. In general with a few exceptions there has also been a positive trend for small-cap players. Of the major biotech indices the AMEX Biotech Index was up 39.2%, while the NASDAQ Biotech Index gained 29.8% during the year. For biotech investors in general, 2012 was a

Consequently, as of 31 December 2012, Evotec's capital structure remained broadly unchanged compared to the end of 2011. The total number of ordinary shares outstanding increased to 118,546,839 (year-end 2011: 118,315,864) due to the exercise of stock options.

In 2012, the remaining shares were released from the trust and the trust agreement terminated. As a result Evotec AG used some of the now available shares to serve exercised options under its stock option programmes rather than using conditional capital. In 2012, a total of 761,328 stock options were exercised. 530,353 of these stock options were served by using these available shares. As of 31 December 2012, a total of 798,271 of those shares were remaining.

#### **New Share Performance Plan 2012 established**

To further incentivise executives via variable long-term incentive compensation, the 2012 Annual Meeting in June approved the contingent capital necessary to support the so-called Share Performance Plan 2012 ("SPP 2012"). Under this plan, Share Performance Awards may be granted to a level that may result in up to 4,000,000 bearer shares of the Company being issued at maturity to members of the Management Board and other key employees. Share Performance Awards can only be exercised, if, when and to the extent that key performance indicators are achieved. Key performance indicators for each individual tranche of awards are determined by the Supervisory Board.

During 2012, a total of 909.693 awards were granted to the Management Board and key employees. Each Share Performance Award grants up to two subscription rights to Company shares, each of which in turn entitle the holder to the subscription of one company share. The holder has to contribute € 1.00 per share at the date of issue. For further information, please see the translation of the AGM 2012 agenda published on Evotec's website at 'Investors > Annual General Meeting 2012'.

#### **Stable strategic shareholder base**

At year-end 2012, two shareholders were known by Evotec to have exceeded the 3% threshold: ROI Verwaltungsgesellschaft GmbH held just below 15% and TVM V Life Science Ventures GmbH & Co. KG including their affiliates held approximately 10% of Evotec shares. The free float according to Deutsche Börse AG, which is used to determine the weighting of the Evotec stock in stock indices, was approximately 75% of the capital stock.

#### **Professional Investor Relations**

It belongs to Evotec's strategy to maintain a professional dialogue with capital market experts. During the financial year 2012, the Company focused primarily on communicating the newly implemented Action Plan 2016, the progress achieved in its discovery and Cure X strategic alliances as well as the upsides in its Alzheimer and diabetes development partnerships. Progress was proven by consistently positive news regarding milestones and partnerships, especially in the second half of the year. Management gave presentations at 9 national and international investor conferences as well as at 7 road shows in key financial centres, primarily in Germany, the Netherlands and France with focused activities in the UK and the United States. The Company's Annual General Meeting in June attracted 143 shareholders, representing 42.4% of the Evotec share capital (2011: 38.98%). ●

<b>FINANCIAL CALENDAR</b>	<b>MEET EVOTEC</b>
<i>26 March 2013</i>	<i>Annual report 2012</i>
<i>14 May 2013</i>	<i>First quarter report 2013</i>
<i>12 June 2013</i>	<i>Annual General Meeting</i>
<i>08 August 2013</i>	<i>Half-year report 2013</i>
<i>12 November 2013</i>	<i>Third quarter report 2013</i>

# CORPORATE GOVERNANCE REPORT 2012

## THE DEFINITION OF GOOD CORPORATE MANAGEMENT AND SUPERVISION

Evotec takes its Corporate Governance responsibilities very seriously. As a consequence of its shares being listed on the Frankfurt Stock Exchange and its international shareholder base, the Company adheres not only to German but also to international Corporate Governance standards. Evotec's Management Board and Supervisory Board are convinced that complying with rigorous Corporate Governance standards is of great benefit to the Company. Therefore, Evotec reviews and enhances its Corporate Governance practices on an ongoing basis.

### DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

The German Corporate Governance Code as amended on 15 May 2012 (the "Code") sets forth substantial legal requirements for the

management and supervision of listed German companies. The rules are based to a large extent on internationally recognised standards for sound and responsible company management.

The general key principles of sound Corporate Governance are: observance of shareholder and employee interests, effective cooperation between the Management Board and the Supervisory Board and open and transparent communication.

With four exceptions, Evotec complies with all recommendations of the Code and the majority of the Code's suggestions. In December 2012, Evotec's Management Board and Supervisory Board declared in accordance with Section 161 of the German Stock Corporation Act (AktG):

*"Evotec AG complied in 2012 with the recommendations of the Governmental Commission on the German Corporate Governance Code as published*

*in the official section of the electronic Federal Gazette and intends to comply in the future with the recommendations of the Code, with the following exceptions:*

**T***o incentivise executives via variable long-term incentive compensation, the 2012 Annual General Meeting in June approved the so-called Share Performance Plan 2012. This complies with the recommendations set forth in Section 4.2.3 of the Code. In particular, it refers to specific key performance indicators and defines a "maximum target". From 2012 onwards, SPP 2012 replaces Evotec's stock option programme. Stock options issued in existing stock option programmes remain valid. While the exercise of options under these programmes requires an increase of the share price, the exercise is not related to other relevant comparison parameters as recommended in Section 4.2.3 of the Code. This decision is based on the lack of relevant comparison benchmarks in the field of German biotech at the time when the stock option programmes were created.*

**T**he Company's D&O insurance and the deductible for members of the Management Board contained therein are in line with Section 3.8 of the Code and with the regulations of the Act on the Appropriateness of Management Board Compensation (VorstAG).

For members of the Supervisory Board, the D&O insurance contains a reasonable deductible as foreseen by the version of the Code in force before its version published on 05 August 2009. The Company has decided to stick to this reasonable deductible for the time being. This decision was made in view of the Company's interest in attracting international expertise for its Supervisory Board and the fact that a deductible for non-executive directors is not very common in international practice. While almost half of the German companies quoted on the TecDAX do not have a corresponding deductible at all, the Company believes that a reasonable deductible is a good compromise.

**T**he Chairman of the Supervisory Board is a member of the committee which handles contracts with members of the Management Board (Remuneration and Nomination Committee), but not the Chairman of this committee as recommended by Section 5.2 of the Code. This makes it possible to have a further Supervisory Board member more deeply involved in the governance of the Company.

**T**he performance-related compensation of the Supervisory Board as approved by the shareholders in Article 12 (4) of the Company's Articles of Association is currently linked to potential dividend payments. The Company believes that this is sufficient to be deemed to be oriented toward sustainable growth of the enterprise as recommended in Article 5.4.6 para 2 of the Code. However, since it cannot be completely ruled out that this will be interpreted differently and for the reasons of precaution, we declare a deviance from the recommendation set forth in Article 5.4.6 para 2 of the Code."

The current Declaration of Compliance with the German Corporate Governance Code and the declarations of the past five years can be

found on Evotec's website ([www.evotec.com](http://www.evotec.com)) in the section 'Investors > Corporate Governance'.

## GENERAL INFORMATION ON EVOTEC'S MANAGEMENT STRUCTURE

### Two-tier management and control system: Management Board and Supervisory Board

According to the German Stock Corporation Act (AktG), a two-tier system with clear separation of "management", through the Management Board ("Vorstand"), and "control", through the Supervisory Board ("Aufsichtsrat"), is mandatory for German stock corporations. The two boards work closely together to achieve long-term and sustainable growth for the Company and to create shareholder value. They agree on the Company's strategy and on business transactions that are significant. The Annual General Meeting ("Hauptversammlung") is the company body representing the interests of the shareholders.

#### Management Board ("Vorstand")

Evotec's Management Board is responsible for the day-to-day operations and is supported by the Management Team. In its business operations and decisions, the Management Board acts on behalf of the Company and works towards its progress with the objective of sustainable creation of value, thus taking into account the interests of the shareholders, the employees and other stakeholders. The Management Board is appointed by the Supervisory Board.

In accordance with a suggestion of the Code, new members are appointed for up to three years; however, prolongations of existing contracts might be up to five years as currently agreed with the Chief Executive Officer. Members of Evotec's Management Board have

accepted no more than a total of three Supervisory Board mandates in non-Group listed companies or in supervisory bodies of companies with similar requirements. Information on the mandates and professional affiliations of the members of the Management Board can be found on page 117.

The Company's rules of internal procedure assign functional duties and responsibilities to the Management Board members.

The Company has a global presence and an international customer base. Therefore, organisational diversity is a key consideration for the Management Board when making managerial appointments, and currently three out of four members of the Management Board are non-German.

#### Supervisory Board ("Aufsichtsrat")

As at 31 December 2012, Evotec's Supervisory Board consisted of six independent members who, in accordance with the Code's recommendations, were appointed on the basis of their qualifications, work experience, independence and diversity.

To ensure compliance with these recommendations, the Supervisory Board has specified concrete objectives regarding its composition, which are ensured when making proposals to the Annual General Meeting for election or re-election of new Supervisory Board members. These objectives stipulate that the activities of the Company shall be represented by having independent Supervisory Board members with national and international experience in the respective fields of (i) Research and Development, (ii) Finance, (iii) Marketing and Sales and (iv) Healthcare Economy/Public Health. Potential conflict of interest situation(s) shall be avoided by deploying the highest scrutiny when discussing potential candidates. In addition, the Supervisory Board shall ensure that the individual age of a candidate shall not exceed 72 years at the time of the proposal. Diversity with regard to female representation

shall be ensured by having a minimum of one female member of the Supervisory Board. Overall, the Supervisory Board shall be composed in such a way that the majority of its members are independent and that its members as a group possess the knowledge, ability and expert experience required to properly complete its tasks.

Currently, the composition of Evotec's Supervisory Board fulfils all those objectives: all members are independent, three nationalities are represented on the Supervisory Board of Evotec and there is one female member.

No former member of the Management Board is a member of the Supervisory Board. The Supervisory Board appoints Management Board members considering the diversity of the Management Board, provides advice to the Management Board and oversees its activities. The Supervisory Board, and in particular its Chairman, regularly consults with the Management Board and is thus informed at all times about the business planning and development, the strategy of the Company as well as its risk environment and compliance. In addition, the Supervisory Board plays a key role in decisions of fundamental importance.

Business activities of fundamental importance requiring approval of the Supervisory Board include:

- ▶ the strategic and operational direction of the Company;
- ▶ annual budget targets and significant deviations from budgets;
- ▶ significant changes in the drug development pipeline;
- ▶ investments outside the Company's ordinary course of discovery alliance business (including in-licensing) in excess of € 2.5 m;
- ▶ establishing and acquiring companies or changing the Group structure;
- ▶ business contracts outside the Company's ordinary course of business that have significantly different risk profiles;
- ▶ out-licensing contracts worth in excess of € 5 m;

#### Tenures and composition of Supervisory Board Committees \*

	END OF TENURE <sup>1)</sup>	AUDIT COMMITTEE	REMUNERATION AND NOMINATION COMMITTEE
<i>Dr Flemming Ørnskov (Chairman)</i>	2014		×
<i>Dr Walter Wenninger (Vice Chairman)</i>	2014		× (Chair)
<i>Dr Hubert Birner</i>	2014	× (Chair)	
<i>Roland Oetker</i>	2014		×
<i>Prof. Dr Andreas Pinkwart</i>	2014	×	
<i>Mary Tanner</i>	2014	×	

<sup>1)</sup> Following the Annual General Meeting in June 2014.

\* Information on the professional affiliations of Supervisory Board members can be found on page 117.

- ▶ granting loans or liens, providing guarantees, issuing bonds or any measures of capital acquisitions;
- ▶ buying or selling real estate property; and
- ▶ establishing new business operations or significantly revising existing business operations.

The Supervisory Board has its own internal rules of procedure (see [www.evotec.com](http://www.evotec.com); 'Investors > Corporate Governance > Policies and Charters') and complies with the Code's suggestion to hold occasional separate discussions.

With two exceptions, the Supervisory Board was not aware of any potential conflict of interests among any of its members in the course of 2012. In one case, Roland Oetker considered himself as potentially conflicted regarding a potential collaboration with 4-Antibody. In the other case, the Chairman of the Supervisory Board, Dr Flemming Ørnskov, and Dr Walter Wenninger disclosed a potential conflict relating to a collaboration opportunity for the Company with Bayer as these two Supervisory Board members were at this point of time a member and a former member of the management of this potential collaboration partner. Neither of them was directly involved in the discussions between the Company and Bayer. In both cases, the respective Supervisory Board

members did not participate in the Supervisory Board's considerations of the collaboration and neither for 4-Antibody nor for Bayer Supervisory Board approval was required.

Information on the professional affiliations of board members and on related party transactions can be found on pages 113 and 117.

#### Work in Supervisory Board Committees in accordance with the Governance Code

A significant proportion of the Supervisory Board's work is conducted in committees of the Supervisory Board. From among its members, Evotec's Supervisory Board has established, pursuant to the German Stock Corporation Act (AktG) and the recommendations of the Code, an Audit Committee and a Remuneration and Nomination Committee. Members of both committees are appointed in accordance with the Code.

Evotec's Audit Committee, comprising three members, supports the Supervisory Board in independently monitoring the Company's financial reporting activities and in auditing reports. In particular, the Audit Committee scrutinises the Company's accounting processes, the effectiveness of the internal

## Directors' Shareholdings as of 31 December 2012

	SHARES	STOCK OPTIONS	SHARE PERFORMANCE AWARDS
<b>Management Board</b>			
<i>Dr Werner Lantbaler</i>	516,494	1,340,000	209,877
<i>Colin Bond</i>		390,000	76,190
<i>Dr Cord Dobrmann</i>	27,226	390,000	76,190
<i>Dr Mario Polywka</i>	60,000	815,000	83,036
<b>Supervisory Board</b>			
<i>Dr Flemming Ørnskov</i>	41,738		
<i>Dr Walter Wenninger</i>	27,126		
<i>Dr Hubert Birner</i>	50,278		
<i>Roland Oetker</i>	17,429,685		
<i>Prof. Andreas Pinkwart</i>	2,330		
<i>Mary Tanner</i>	70,933		

## Reported Directors' Dealings 2012

DATE	NAME	POSITION	TYPE OF TRANSACTION	NO. OF SHARES	SHARE PRICE	TOTAL PRICE
24 Aug 2012	<i>Werner Lantbaler</i>	<i>Member of Management Board</i>	<i>Purchase</i>	20,000	€ 2.50	€ 50,000.00

control system and the audit. In addition, it discusses the quarterly and half-yearly reports with the Management Board. Within the scope of the audit of the financial statements commissioned by the Supervisory Board, the Audit Committee also discusses certain steps and procedures of the audit with the appointed auditing firm, including the auditors' independence, the additional services rendered by the auditor, the issuing of the audit mandate to the auditing firm, the determination of auditing focal points, the fee agreement and compliance issues. The members of the Audit Committee possess the required skills and experience. The committee's chairman is independent and has specialist knowledge and experience in the application of accounting principles and internal control processes. Neither the Chairman of the Supervisory

Board nor a former member of the Management Board may become Chairman of the Audit Committee. Evotec's Audit Committee Charter can be found on the Company's website ([www.evotec.com](http://www.evotec.com)) in the section 'Investors > Corporate Governance > Policies and Charters'.

The main duties and responsibilities of the Company's Remuneration and Nomination Committee are to prepare the appointment of Management Board members and to prepare recommendations concerning their remuneration system and Share Performance Plan. Final decisions are made by the full Supervisory Board. For information about the appropriateness of the compensation of individual board members please see page 65 of the "Remuneration Report".

More details on the activities of the Supervisory Board can be found in the "Supervisory Board Report" on page 28.

#### Supervisory Board efficiency audit

On a regular basis, the Supervisory Board examines the efficiency of its activities as recommended in the Code. To date, all such audits have led to the conclusion that the Supervisory Board is organised efficiently and that the Management Board and the Supervisory Board interact efficiently and effectively.

#### Annual General Meeting

Shareholders may exercise their voting rights at the Annual General Meeting. Each share

entitles the shareholder to one vote. This year's Annual General Meeting, at which more than 42% of the share capital was represented, took place in Hamburg on 14 June 2012.

Evotec offers shareholders who are unable to attend the Annual General Meeting the opportunity to access key parts of the event live on the Internet. The Company also encourages non-attendees to exercise their voting rights by arranging for independent proxies who are bound to the shareholders' instructions. Shareholders may also authorise a person of their choice to represent them in the meeting. The possibility of a postal vote was not available at the Annual General Meeting 2012.

The remuneration system for the members of the Management Board was on the agenda of the 2012 Annual General Meeting and was approved by the Annual General Meeting.

## REMUNERATION REPORT

Section 4.2.5 of the Code stipulates that the Remuneration Report should be part of the Notes or the Management Report. Accordingly, the remuneration of Management Board members, divided into fixed and variable compensation components as well as any fringe benefits, and remuneration of Supervisory Board members is reported in a separate section of the Management Report ("Remuneration Report") on page 65.

## DIRECTORS' DEALINGS AND SHAREHOLDINGS

### Ownership of shares and options by Board members

The share ownership of members of the Management Board and of the Supervisory Board on 31 December 2012 was as follows: see table on page 23.

### Directors' Dealings regularly reported

Under the Securities Trading Act ("Wertpapierhandelsgesetz"), the members of the Supervisory Board and the Executive Management Team of Evotec as well as persons who have a close relationship with these persons are obligated to report trading in Evotec stock so long as the transactions exceed in aggregate € 5,000 (the de minimus threshold) per calendar year. In addition, Evotec has established an Insider Trading Policy (see [www.evotec.com](http://www.evotec.com); 'Investors > Corporate Governance > Policies and Charters') that sets standards for board members' and employees' trading in Evotec shares and thus ensures transparency. In 2012, the following transaction (Directors' Dealings) was reported to the Company: see table on page 23.

## CORPORATE GOVERNANCE PRACTICES

### Compliance and Code of Conduct

As a matter of course, Evotec abides by the law and by ethical principles. This is shown, amongst others, by the Company's Code of Conduct which stipulates fundamental ethical principles, such as integrity and professionalism that apply to board members and other employees alike. The Code of Conduct sets standards for:

- ▶ accounting and the permissible use of the Company's funds and assets;
- ▶ conduct in cases of insider trading or conflict of interest;
- ▶ compliance with antitrust legislation;
- ▶ a work environment free of discrimination and harassment;
- ▶ non-disclosure and protection of intellectual property and business secrets; and
- ▶ the duty to report upon the suspicion of an infringement of the Code of Conduct (whistle-blowing).

The Code of Conduct is published on the Evotec website ([www.evotec.com](http://www.evotec.com)) in the section

'Investors > Corporate Governance > Policies and Charters'.

Evotec also complies with the financial market rules. The Company maintains an ad hoc Committee, which consists of the Chief Financial Officer, the General Counsel and the assistant to the Board. This committee examines the ad hoc relevance of insider information and ensures that Evotec complies with the law.

Evotec's Compliance Programme is overseen by the Company's Compliance Officer, functioning as an independent and objective body that reviews and evaluates compliance issues/concerns within the organisation.

### Sustainability

For Evotec, sustainability plays a major role in the Company's business and attitude. Consequently, Evotec sets out its values and economic, ecological and social responsibility. All three criteria are important and are reflected in Evotec's strategy and firmly established in its business processes. Evotec pursues a business model that aims at sustainable growth, creating value for all stakeholders and protecting the interests of its shareholders. Taking responsibility for the Company's employees and business partners and maintaining its commitment to society and a healthy environment are two of Evotec's guiding principles. In its R&D activities, Evotec adheres to the highest scientific and ethical principles.

Further information can be found in the "Sustainability Report" on page 62 in the Management Report.

### Risk management

An important element of sound Corporate Governance is dealing responsibly with risks. Evotec has established a systematic risk and opportunities management system that enables the Management Board to detect and react to relevant risks and market developments in good time. The Management



Board reports on these to the Supervisory Board. The Company's risk and opportunities management system and policies are covered by the annual audit of financial statements. Details can be found in the "Management Report" on page 69.

## FURTHER INFORMATION

### Audit of financial statements

On a regular basis, Evotec provides financial and business information to its shareholders and other interested parties by publishing its annual consolidated financial statements and quarterly reports. As an incorporated company whose registered head office is located within the European Union, Evotec must prepare and publish consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) whilst observing Section 315a HGB (German Commercial Code). The financial statements of the Evotec Group and the financial statements of Evotec AG are audited by the audit firm and the Supervisory Board. The audit firm is appointed by the shareholders at the Annual General Meeting and commissioned by the Supervisory Board. It participates at the Supervisory Board's deliberations on the financial statements and reports the most significant results of its audit.

### Equity investees and stock option plans and Share Performance Plans

A list of substantial equity investees as well as details on the Company's stock option plans can be found in the section "Consolidated financial statements" on pages 104 and 113.

### Investor Relations/Transparency

Evotec informs its shareholders, financial analysts, the media and the public on a regular basis about its progress. In doing so, the Company complies with all requirements of the Code regarding transparency, timeliness, openness and shareholder equality. Evotec is committed to fair disclosure of information and

its communication is governed by a Company Disclosure Policy. It is a prime concern of the Company that all relevant target groups receive the same information at the same time, and this implies communicating in both English and German. The Company's publications are available on its website [www.evotec.com](http://www.evotec.com), section 'Investors'.

The 'Investors' section of Evotec's website maintains information such as news releases, the financial calendar containing the publication dates of the financial statements, investor relations conferences, annual and quarterly reports, other regulatory news and regularly updated corporate governance information. This section of the website also includes the Articles of Association, the Rules of Procedure of the Supervisory Board, the Audit Committee Charter, the Code of Conduct, the Insider Trading Policy and all declarations of compliance.

Evotec places great emphasis on a continuous dialogue with financial analysts and investors. It conducts at least one analyst meeting every year and telephone conferences when quarterly financial results are published, while ensuring that no stakeholder receives preferential information. In 2012, management presented the Company at nine national and international investor conferences. ●

# BE AN EXPERT STEP BY STEP

## GLOSSARY OF TERMS

**ADMET:** Acronym for **A**bsorption, **D**istribution, **M**etabolism, **E**xcretion and **T**oxicity of a substance reflecting the physiological processes → *in vivo*.

ADMET studies are used to characterise how drugs are taken up by the body, where they go in the body, the chemical changes they undergo in the body, and how they are eliminated from the body. See also →DMPK

**Agonist:** Drug that binds a cellular receptor, which is ordinarily stimulated by naturally occurring substances, triggering a response.

**Alzheimer's disease (AD):** The most common cause of dementia affects around 36 million people worldwide according to the World Health Organization. During the course of the disease, protein plaques appear in the brain, leading to the death of brain cells. No single factor has been identified as the cause for AD.

**Antagonist:** Drug that binds a cellular receptor thereby blocking the action of the natural activator of the receptor.

**Assay:** Any combination of →targets and →compounds, which is exposed to a detection device to measure chemical and biological activity.

**Beta cell:** A type of cell in the pancreas, which produces insulin; the loss of such cells is ultimately the cause for elevated blood glucose levels in type 2 and type 1 diabetes patients.

**Biomarker:** A characteristic that is objectively measured and evaluated as an indicator of normal biologic processes, pathogenic processes, or pharmacologic responses to a therapeutic

intervention. It can foretell the therapeutic outcome in a patient, which in turn allows a personalised therapy approach.

**Cellular target profiling®:** Uncovers the molecular →targets of →compounds with unknown mode-of-action and reveals possible off-target side effects early in the discovery and development process.

**Central nervous system (CNS):** Represents the largest part of the nervous system, including the brain and the spinal cord. Together with the peripheral nervous system, it has a fundamental role in the control of behaviour.

**Clinical trials:** Drug research studies that involve patients.

**Computational chemistry:** Discipline of using computational methods to calculate properties of chemical →compounds and their interaction with biological →targets (e.g. proteins).

**Compound:** A pure, macroscopically homogeneous substance that consists of atoms or ions of different elements in definite proportions that cannot be separated by physical means, and that have properties unlike those of its constituent elements.

**Compound library:** Collection of a multitude of different molecules; used for →screening.

**DMPK:** Acronym for Drug Metabolism and →Pharmacokinetics; is part of a larger battery of studies often referred to as →ADME (absorption, distribution, metabolism and elimination). DMPK includes the study of the mechanisms of absorption and distribution of

an administered drug, the rate at which a drug action begins and the duration of the effect, the chemical changes of the substance in the body by metabolic enzymes and the effects and routes of excretion of the metabolites of the drug.

**EVOLution<sup>SM</sup>:** Evotec's fragment-based drug discovery platform, which combines biochemical and biophysical techniques including →nuclear magnetic resonance (NMR), →surface plasmon resonance (SPR) and →X-ray crystallography for the →screening of low molecular weight →compounds and characterisation of the fragment →hits.

**Drug response prediction:** Enables earlier educated decisions on drug efficacy, safety and response in patients.

**Fragment-based drug discovery:** A drug discovery strategy that utilises small molecules – fragments of more complex molecules – to generate efficient starting points for drug discovery. This approach thus provides the opportunity to effectively manage the molecular weight and overall complexity of drug candidates, a recognised success factor in drug development.

**Hit (compound):** →Compound found by →screening to have a desired biological effect.

**Inhibitor:** A →compound that binds to an enzyme/receptor and decreases or blocks its activity.

**In vivo/in vitro:** *in vivo* means in the living organism as opposed to *in vitro*.

**Ion channel:** Transmembrane protein which,

when activated, allows the passage of ions across cell membranes that influence the physiology of a cell.

**Kinases:** Any of several enzymes that catalyse the transfer of a phosphate group from one molecule to another.

**Lead (compound):** A representative of a →compound series with sufficient potential (as measured by potency, selectivity, →pharmacokinetics, physicochemical properties, novelty and absence of toxicity) to progress to a full drug optimisation programme.

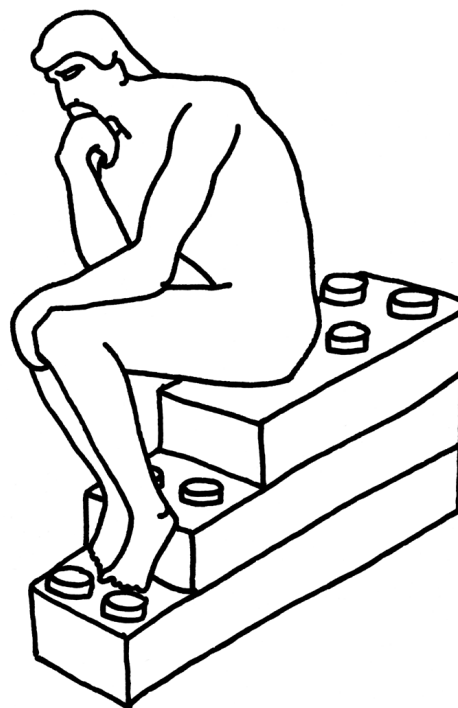
**Lead optimisation:** The synthetic modification of a biologically active →compound, to fulfil all pharmacological, physicochemical, →pharmacokinetic and toxicological requirements for clinical usefulness.

**Medicinal chemistry:** A chemistry-based discipline, also involving knowledge and aspects of biological, medicinal and pharmaceutical sciences. It is concerned with the invention, discovery, design, identification and preparation of biologically active →compounds, the study of their →ADMET properties, the interpretation of their mode of action at the molecular level and the construction of structure activity relationships. Medicinal chemistry optimisation is “fine tuning” required to turn a validated →lead into a →pre-clinical development candidate involving subtle structural changes to the lead using a “hand-crafted” approach.

**Neuropathic pain:** A type of pain which is caused by damage to or dysfunction of the nervous system. There is often no “injury” or tissue damage that triggers the pain. However, the function of the nerve is affected in a way that causes it to send pain messages to the brain.

**Nuclear magnetic resonance (NMR):** Technology that is used to study the interaction of →small molecules, such as drug candidates, with their →targets.

**Pharmacokinetics:** Time-dependent availability and compartmental distribution, as affected by absorption, distribution, metabolism, excretion (→ADMET).



**Phosphoproteomics:** A branch of proteomics that identifies, catalogues and characterises proteins containing a phosphate group as a post-translational modification.

**Pre-clinical development candidate:** The molecule identified by the process of →medicinal chemistry optimisation to be a suitable candidate for development as a potential pharmaceutical entity.

**Pre-clinical phase:** The phase of drug discovery research extending from →target identification, the search for chemical →compounds with desired properties, through to the end of efficacy studies in animal models.

**Regenerative medicine:** The process of creating living, functional tissues to repair or replace tissue or organ function lost due to age, disease, damage or congenital defects.

**Screening:** Mass testing of →compound libraries using an established →assay format.

**Small molecule:** A low molecular weight organic →compound. These are preferred for drugs as they usually are orally available (unlike proteins that must be administered by injection). The size of small molecules is less than 1,000 daltons, and is usually in the range from 250 to 700 daltons.

**Surface plasmon resonance (SPR):** Technology that is used to study the interaction of →small molecules, such as drug candidates, with their →targets.

**Target:** Specific biological molecule, such as an enzyme, receptor or →ion channel, assumed to be relevant to a certain disease. Most drugs work by binding to a target, thereby affecting its biological function.

**Target identification:** Identifying a molecule (often a protein) that is instrumental to a disease process (though not necessarily directly involved), with the intention of finding a way to regulate that molecule’s activity for therapeutic purposes.

**Target validation:** Involves the verification of the relevance of a →target to the course of a specific illness.

**Ultra-high throughput screening:** Technique of rapidly searching for molecules with desired biological effects from very large →screening libraries, often exceeding 100,000 tests a day.

**X-ray crystallography:** The determination of 3D structures of molecules from the diffraction pattern obtained upon irradiation of a crystalline form of the substance being studied by X-ray radiation. ●



**Dr Flemming Ørnskov**  
*Chairman of the Supervisory Board*

# SUPERVISORY BOARD REPORT

The primary task of the Supervisory Board is to supervise and provide advice regularly to the Management Board on the management of the Company.

In the course of 2012, the Supervisory Board convened for four formal meetings and held two telephone conferences to discuss the operational and strategic developments of Evotec AG. The Audit Committee convened separately for five telephone conferences, and the Remuneration and Nomination Committee convened four times in either face-to-face meetings or telephone conferences.

The Management Board also provided continuous updates to the Supervisory Board through regular verbal and written reports that included in-depth analyses on the status of operations. The information provided included written monthly management reports with extensive coverage of the Company's financial figures for the previous month, accompanied by detailed comments and explanatory text. In addition, the Chairman of the Supervisory Board and the Chief Executive Officer/acting Chief Executive Officer, as well as other members of the Management Board, discussed current topics such as strategy, planning risk management and compliance via numerous conference calls, held whenever appropriate.

At each Supervisory Board meeting the status of the Company's discovery alliance business, its scientific initiatives, its development partnerships, out-licensing activities and regular standard agenda items were discussed.

In addition, the Supervisory Board addressed the following specific subjects in detail during its meetings:

- ▶ In March 2012, the Supervisory Board discussed the new strategic plan of the Company entitled Action Plan 2016. The Supervisory Board reviewed in detail the proposed new Share Performance Plan for key employees to succeed the existing stock option programmes. Furthermore, the Supervisory Board discussed and approved the 2011 annual financial statements in the presence of the auditors.
- ▶ In June 2012, the Supervisory Board focused on the upcoming AGM, the operational business of the Company, on strategic development opportunities, and on key internal process upgrades. In addition, the

Supervisory Board approved the new Share Performance Plan and resolved to seek approval from the forthcoming AGM for the contingent capital needed to support the Plan.

▶ Following a meeting of the Remuneration Committee in July 2012, the Supervisory Board was informed by the Chairman of the Remuneration Committee about his discussions with the Chief Financial Officer, the Chief Scientific Officer and the Chief Operating Officer regarding the renewal of their service contracts.

▶ In its September 2012 meeting, the Supervisory Board discussed the status of the Company's operational business. Furthermore, it discussed and agreed to the acquisition of all the shares of CCS Cell Culture Service GmbH.

▶ In a telephone conference and subsequent to a circular resolution, the Supervisory Board approved the announcement that the Chief Executive Officer of Evotec, Dr Werner Lanthaler, will temporarily stand down from his role within the Company due to health reasons. Following a decision of the Supervisory Board after consultation with the Management Board, the Chief Operating Officer was appointed to lead the Company in the absence of Dr Lanthaler as acting Chief Executive Officer.

▶ In two telephone conferences in October and November 2012, the Supervisory Board discussed with the Management Board the status of the Company's operational business.

▶ In December 2012, the Board reviewed and approved the budget for the year 2013. It discussed the performance of the Company in 2012 and the corporate goals of the Company for 2013.

The financial statements and the Management Report for Evotec AG for the year 2012 as well as the consolidated financial statements together with the consolidated Management Report of the Evotec Group, were audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Hamburg. The auditors issued an unqualified audit opinion.

In preparation for the Supervisory Board meeting on 12 March 2013, the Auditors presented the status of the 2012 audit, a summary of key audit findings and other relevant topics to the Audit Committee. The Audit Committee used this information as a guideline for its

own evaluation of the statements and reports. The auditors participated in the 2013 March meeting of the full Supervisory Board and presented a comprehensive report on the audit and their observations. The Supervisory Board examined both the financial statements and the consolidated financial statements prepared by the Management Board based on its own judgment, taking into account the Audit Committee's input as well as information on key topics provided by the auditors. Following this, the Supervisory Board approved the financial statements and the consolidated financial statements for the year 2012.

In 2012, Colin Bond, CFO, Dr Cord Dohrmann, CSO, and Dr Mario Polywka, COO, agreed new three-year contracts with the Company as represented by the Supervisory Board starting July 2013 (Bond), September 2013 (Dohrmann) and November 2013 (Polywka). Dr Werner Lanthaler, CEO, had already signed a new five-year contract in 2011, which started in March 2012.

With two exceptions, the Supervisory Board was not aware of any potential conflict of interests among any of its members in the course of 2012. In one case, Roland Oetker considered himself as potentially conflicted regarding a potential collaboration with 4-Antibody. In the other case, the Chairman of the Supervisory Board, Dr Flemming Ørnskov, and Dr Walter Wenninger disclosed a potential conflict relating to a collaboration opportunity for the Company with Bayer as these two Supervisory Board members were at this point of time a current and a former member of the management of this potential collaboration partner. Neither of them was directly involved in the discussions between the Company and Bayer. In both cases, the respective Supervisory Board members did not participate in the Supervisory Board's considerations, and neither for 4-Antibody nor for Bayer Supervisory Board approval of the collaboration was required.

The Supervisory Board thanks the Management Board and the Company's employees for their hard work during the year and wishes them ongoing success for 2013. ●

Hamburg, 12 March 2013  
**The Supervisory Board**  
**Dr Flemming Ørnskov**



# MANAGEMENT REPORT 2012



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# OPERATIONS AND BUSINESS ENVIRONMENT

## ORGANISATIONAL STRUCTURE AND BUSINESS ACTIVITIES

### GROUP STRUCTURE AND BUSINESS MODEL

Evotec is a drug discovery alliance and development partnership company. The Company operates worldwide and has leading scientific experts, state-of-the-art technologies as well as key therapeutic area expertise, covering neuroscience, pain, metabolic diseases, oncology and inflammation.

The core of Evotec's business is drug discovery research in collaboration with a large number of Pharma and biotech partners and within selected areas also in-house projects. Evotec presents its drug discovery offerings under the banners of Execute, Integrate and Innovate, which represent business models that reach from straight fee-for-service, over risk-shared alliances to collaborations on proprietary projects. The approach to all of Evotec's collaborations with customers is identical, in that the focus remains on providing best-in-class drug discovery

solutions in the most efficient manner and thereby maximising the customer's opportunities to progress candidates into the clinic and beyond. Through the adoption of IFRS 8, Evotec reports as one business segment in accordance with its management approach.

Evotec is a publicly listed stock corporation operating under German law. Evotec AG is the parent company of the Group and is headquartered in Hamburg, Germany, where the majority of management functions are concentrated.

In addition to Evotec AG, major operating sites exist in Abingdon, UK; Thane, India; Göttingen and Munich, Germany and South San Francisco, USA. Offices in Germany, the USA, the UK and India handle Evotec's international sales activities which are closely integrated with the operations of the Group.

The Evotec Group employed 637 people at the end of 2012. All consolidated subsidiaries and equity investees are listed in Note (35d) to the Consolidated Financial Statements.

### Major Operating Entities<sup>1)</sup> as of 31 December 2012

Evotec AG, Hamburg, D				
Evotec (UK) Ltd. Abingdon, UK 100%	Evotec (India) Private Limited Thane, IN 100%	Evotec International GmbH (formerly Evotec NeuroSciences GmbH) <sup>2)</sup> Hamburg, D 100% (indirect)	Evotec (München) GmbH (formerly Kinaxo Biotechnologies GmbH) Munich, D 100%	Evotec (US), Inc. (formerly Renovis, Inc.) <sup>3)</sup> South San Francisco, USA 100%

<sup>1)</sup> Indirect and direct holdings <sup>2)</sup> In 2012, Evotec Göttingen was merged into this entity

<sup>3)</sup> In 2012, Evotec San Francisco was merged into this entity

## PRODUCTS AND SERVICES

Evotec focuses on providing integrated and innovative drug discovery solutions to the life sciences industry. In addition, Evotec has a selected number of proprietary drug candidates at various stages of development either partnered or available for partnering.

### Discovery alliances

In its discovery alliances, Evotec provides innovative and integrated solutions to pharmaceutical and biotechnology companies. The Company has developed substantial drug discovery expertise and an industrialised platform that assists its partners in driving new, innovative small molecule compounds into clinical trials. This

expertise covers the entire spectrum of drug discovery and is applicable to drug targets across multiple therapeutic indications. Its capabilities include early-stage assay development and screening, compound management, fragment-based drug discovery, medicinal chemistry, *in vivo* pharmacology, *in vitro* ADMET as well as an unparalleled chemical proteomics platform (see the description of the drug discovery process below).

Evotec's alliance partners include, among others, Bayer Pharma AG ("Bayer"), Boehringer Ingelheim Pharma GmbH & Co. KG ("Boehringer Ingelheim"), CHDI Foundation, Inc. ("CHDI"), MedImmune, LLC/AstraZeneca PLC ("MedImmune/AstraZeneca"), Genentech, Inc. ("Genentech"), Janssen Pharmaceuticals, Inc.

(“Janssen”), Ono Pharmaceutical Co., Ltd. (“Ono”) and UCB Pharma (“UCB”) (the core alliances are described in more detail in the chapter “Research and development” on page 34 of this Management Report). In exchange for access to its integrated discovery offerings, Evotec receives contractual service fees and ongoing FTE-based research payments and, in certain circumstances, up-front technology or drug asset access fees and milestone and royalty payments related to the achievement of certain research, development and sales achievements.

#### Development partnerships

Evotec has a selected number of drug candidates partnered which are progressing in clinical development. The Company will always enter into partnerships for clinical development programmes rather than developing programmes alone. In 2012, the EVT100 compound family of orally active, subtype selective NMDA receptor antagonists was partnered under an exclusive licensing agreement with Janssen for the development of against diseases in the field of depression. EVT401, a P2X7 antagonist for the treatment of inflammatory diseases, has been partnered with Zhejiang Jinhua CONBA Bio-pharm. Co., Ltd. (“CONBA”), a leading Chinese pharmaceutical company. Partnerships continued with Andromeda Biotech Ltd./Teva Pharmaceuticals Industries, Ltd. (“Andromeda/Teva”) focused on DiaPep277® for type I diabetes, with F. Hoffmann-La Roche Ltd (“Roche”) on EVT302 for the treatment of Alzheimer’s disease and with Zhejiang Jingxin Pharmaceutical Co., Ltd (“Jingxin”) focused on EVT201 for insomnia (the most advanced development partnerships are described in more detail in the chapter “Research and development” on page 36 of this Management Report).

In summary, Evotec works as a high-quality discovery solution provider for dedicated project groups within pharmaceutical and biotechnology companies which outsource drug discovery projects to manage their core functions and increase capital efficiency. Evotec has integrated all disciplines of drug discovery, optimised the entire process and consequently implemented a strategy of providing innovation as the core of its partnering activities.

### EVOTEC’S DRUG DISCOVERY PROCESS

#### Setting off with the target

The drug discovery process builds on research showing that certain genes, or their corresponding proteins, play a role in the outbreak or course of a disease (*target identification and validation*). The approaches and technologies employed in this phase of research vary significantly and are highly sophisticated. Evotec focuses its activities primarily on subsequent phases in which drug candidates are identified and optimised.

Drug candidates are molecules that interact with a target and thus possess the potential to influence the course of disease progression in a positive manner. The targets that are used are usually provided to Evotec from their partners, but in a growing number of projects Evotec is also expressing targets and generating respective cell lines internally. The Company has substantial experience and expertise in key therapeutic areas including neuroscience, pain, metabolic diseases as well as oncology and inflammation.

#### Primary screening

The search for new drugs begins with *screening*. In an automated process, the selected target is brought together with numerous chemical compounds to test for biological interactions. For this process a tailored test system, an *assay*, has to be developed to identify an interaction of reference molecules with specific targets such as G protein-coupled receptors (“GPCRs”), ion channels or enzymes.

The numerous chemical compounds used for the screen may contain tens, or even hundreds, of thousands of structurally diverse molecules and are referred to as a **compound library**. Evotec provides customers with access to its own library of approximately 250,000 diverse compounds and to a third-party library of 100,000 for screening compounds. In addition, Evotec screens libraries of its partners, if required. Evotec also supports its customers in the rapid and efficient design and synthesis of compound libraries and in the storage, reformatting and general logistics of compound libraries (*compound management*). The compounds that biologically interact with the target are subsequently referred to as “hit compounds” or simply “hits”. The closer an assay reflects the natural biological processes within the human body; the more meaningful these hits are as starting points for drug discovery projects.

In addition to standard screening methods, Evotec has a proprietary ultra-high throughput screening (uHTS) system, EVOscreen®. A significant advantage of this technology is its simultaneous analyses of multiple read-out parameters and its high-quality and sensitive results which can be used especially for *fragment-based drug discovery*. Fragments are small organic molecules that are typically only one-third the size of typical screening compounds and tend to interact only weakly with target proteins. Nevertheless, they are very useful starting points for medicinal chemists to optimise into more active drug molecules. They provide the flexibility to add additional chemical groups, leaving chemists with more room to manoeuvre and increase the likelihood of developing a successful compound.

Evotec is one of the leading laboratories developing high-resolution confocal imaging assays for high content screening. These so-called high content assays allow very detailed analysis of cellular parameters and organelles or the distribution of intracellular targets (*high-content screening*). Finally, a large number of different biophysical methods such as NMR (nuclear magnetic resonance), SPR (surface plasmon resonance) and label-free screening techniques are established at Evotec. It is not necessary to force a target into an available assay; it is always possible to select the best matching technology for a target.

Further building on the competitive advantage of Evotec’s detection technology, the Company has significantly extended its fragment-based drug discovery engine. Complementary to identifying hits by chemical means, sophisticated computational methods that simulate how compounds bind to targets are increasingly employed in a process known as *virtual screening*. This helps to narrow down the number of chemical compounds for subsequent testing in the lab. Evotec has a powerful computer infrastructure at its disposal, enabling the Company to employ both classical “wet” and virtual screening methods in a complementary manner that brings even greater efficiency to Evotec’s quest to identify new hit compounds.

**Focused screening and compound optimisation**

Hit compounds must undergo considerable development and optimisation before they can be clinically tested in humans as new drug candidates. On the basis of hit structures that resulted from primary screening, Evotec designs and synthesises smaller, more **focused compound libraries** of similar molecules. These “sister” structures are then screened against the original target to identify compounds with improved drug properties.

The biologically active molecules, or “**lead structures**”, that the above process yields are subsequently pharmacologically optimised. In *biological testing* and *optimisation*, selectivity tests are performed against similar targets, generating extensive side effect profiles. ADMET assays, which test for **absorption, distribution, metabolism, excretion** and **toxicity** properties of compounds, are also conducted. For the first time, the impact of the lead compounds is then tested in living organisms, resulting in primary *in vivo* data. In *chemical optimisation*, the knowledge gained in biological testing is used to optimise the molecular structure by means of computational chemistry and medicinal chemistry methods. During more advanced phases of lead optimisation Evotec also offers leading *proteomics* capabilities which can be used for in-depth profiling of compounds as well as for the identification and validation of project-specific biomarkers.

In compound optimisation Evotec has a breadth and depth of expertise across all major target classes and therapeutic areas. With more than 200 programmes completed for our partners to date, Evotec’s *medicinal chemistry platform* consistently delivers results with (among other achievements) more than 30 pre-clinical development candidates produced for its partners and 20 compounds approved for clinical trials. Evotec’s range of services in pre-clinical drug discovery is supplemented by state-of-the-art *high-speed analytical methods* and highly specialised **information management systems**. These ensure the efficient capture, storage and easy retrieval of the significant volume of data that is generated throughout the process.

**Pre-clinical drug research leads to IND filing**

In drug development, pre-clinical development, also named pre-clinical studies and nonclinical studies, is a stage of research that begins before clinical trials can begin and during which important feasibility, iterative testing and drug safety data is collected. The main goals of pre-clinical studies are to determine a product’s ultimate safety profile.

When a drug candidate is generated with the right pharmacological properties, it is ready to be tested in clinical trials for its safety and suitability as a therapeutic for humans. To enter into these clinical trials, an **IND (investigational new drug)** application must be filed.

**Clinical development**

After pre-clinical drug discovery, *clinical development* is the next significant stage towards bringing a new **drug** onto the market. Each drug candidate needs to go through three phases of clinical development successfully, testing for both safety and efficacy, before it can be registered for approval.

In its proprietary research programmes as well as in those for its partners, Evotec makes use of all the above-mentioned discovery capabilities, offering integrated services that cover selected portions or the entire

span of the R&D process. Evotec does not conduct any clinical trials internally, and the Company’s joint clinical programmes are exclusively developed in partnerships with pharmaceutical companies, which fund their development.

**MARKET AND COMPETITIVE POSITION****The drug discovery outsourcing market**

The global pharmaceutical industry continues to face significant productivity challenges. Research and development costs have escalated over the years, yet product pipelines are not producing the returns experienced in earlier decades. Against this industry backdrop, biotech and Pharma companies are increasingly turning to outsourcing of research and development activities to address and solve these issues. The use of external solution providers allows fixed costs to be converted into variable costs and also provides expertise in selected areas without the client needing to maintain or build internal capabilities and infrastructure. Based on the latest research, the drug discovery outsourcing market generated \$ 9.7 bn in global revenues in 2011 and this is expected to increase to \$ 21.3 bn by 2017 and to \$ 35.7 bn by 2023, reaching approximately 3.5 times today’s market value within the next 10 years. Chemistry services are the largest segment in drug discovery outsourcing with a market share of 38.9%, though biological services are expected to move up from their 29.6%, mainly due to the growing complexity and importance of biological and targeted therapies, fast progressing molecular biology and also the emerging market for biosimilars (source: Report “Drug Discovery Outsourcing: World Market 2013-2023”, Visiongain).

Outsourcing has been used by the pharmaceutical industry for more than 20 years, mainly for supporting clinical trials or regulatory affairs in a particular country or region. In the current environment, companies are expected to continue to increase their outsourcing at earlier and earlier stages of the research and development process. In this way, losses at late stages should be reduced or avoided. The reorganisation of the pharmaceutical industry has been very visible during 2012 with high-profile restructuring exercises undertaken by a number of global pharmaceutical companies well-documented in the press. This is seen as the initial stages of the pharmaceutical industry addressing the challenges presented by its cost base and possible decline of top level revenues and seeking new and innovative ways to support its drug discovery pipeline going forward. All stages of drug discovery can be outsourced as a stand-alone discipline (target identification, target validation, high-throughput screening and lead optimisation), but the productivity challenge facing the pharmaceutical industry is set to drive an increase in strategic outsourcing, which will likely lead to larger outsourcing contracts favouring bigger players with lower perceived risk.

**Evotec’s competitive position in drug discovery outsourcing**

Evotec has tracked this changing trend in the market over the past few years and has strategically positioned itself to take full advantage of these market developments. By assembling top-class scientific experts and integrating state-of-the-art technologies as well as substantial experience and expertise in key therapeutic areas, Evotec has established a unique competitive position to complement these changes in the industry.



Amongst its peers in the Western markets, Evotec belongs to the largest and most stable drug discovery providers with the most flexible product portfolio and a long-standing track record. The Company provides high-quality scientific expertise and innovation in all disciplines coupled with the advantages of also employing traditional chemistry services in low-cost countries in a process in which all disciplines perfectly interact with each other. Competition from companies in emerging markets like China and India is expected to further grow within the coming years, since they offer chemistry, research and manufacturing services at low costs. While those advantages have started to diminish in China due to a significantly strengthened local currency the FTE rates in India are still the most competitive in the world. In addition, the vast majority of scientists in these regions are highly educated but they still lack the experience and track record in industrialised drug discovery. An additional emerging issue is the fluctuation of the workforce, especially in India, which remains a problem for companies in building a highly experienced workforce. Furthermore, there are still concerns regarding intellectual property rights protection in India. Evotec provides a detailed overview of all risks and opportunities on page 69 ff. in chapter Risk and opportunities management.

In summary, Evotec is one of the few drug discovery companies in the world that can execute a comprehensive outsourcing strategy because it is able to undertake and integrate all parts of the drug discovery process and understands what it means for a customer to outsource their core early-stage intellectual property and how to maximise the value that can be brought to it.

**The key indications of Evotec's development partnerships: markets, medical need and Evotec's position**

In addition to its drug discovery activities, Evotec has out-licensed a number of clinical assets for development in partnerships with pharmaceutical companies. The therapeutic markets and Evotec's position for the most advanced compounds are detailed below.

**Diabetes mellitus – DiaPep277®**

Diabetes mellitus (“Diabetes”) is a chronic incapacitating disease associated with severe lifelong conditions such as cardiovascular diseases, kidney diseases, nerve damage and eye diseases, which require intensive monitoring and control. Diabetes is caused by relative or complete decrease in insulin production and secretion by pancreatic beta cells. Furthermore, diabetes can be caused by the reduced effectiveness of secreted insulin in consequence of the gradual loss of insulin sensitivity of target cells, which is called insulin resistance.

At present, there is no cure for diabetes and only symptomatic treatment options are available. The most common diabetes types are type 1 and type 2 diabetes. Currently, about 90-95% of diabetes patients worldwide have type 2 diabetes. According to the International Diabetes Foundation, there are 371 million people worldwide who are diagnosed with diabetes (2011: 366 million) and about 187 million who are at risk of costly and debilitating diabetes complications who have not yet been diagnosed. Concerning the diabetes market volume, approx. \$ 471 bn were spent on the treatment of diabetes in 2012 (2011: \$ 465 bn).

Evotec has licensed to Andromeda (a company partially owned by Teva) DiaPep277®, a novel approach in diabetes treatment modulating

natural pathways to slow insulin-producing beta cell destruction. The approach is expected to lead to maintained adequate diabetic control, reduced insulin requirements and reduced hypoglycaemic events in patients with type 1 diabetes. As the number of diabetes type 1 cases is increasing, particularly in young children, the prevention or even the delay in the progression of this disease would be of high clinical importance for those age groups.

**Depression/treatment-resistant depression – EVT100 compound family**

Depression is a mental disorder with symptoms that, according to the National Institute for Mental Health, include persistent sad, anxious or ‘empty’ mood, feelings of hopelessness or pessimism, feelings of guilt, worthlessness or helplessness or loss of interest or pleasure in hobbies and activities that were once enjoyed. According to European Neuropsychopharmacology (D. Souery, 1999) it has been recognised that about one-third of patients treated for major depression disorder do not respond satisfactorily to the first antidepressant pharmacotherapy. Treatment-resistant depression is a term used in clinical psychiatry to describe cases of major depressive disorder that do not respond to adequate courses of at least two antidepressants.

The market for depression is huge. It is estimated that over 120 million people suffer from depression globally. According to the World Health Organization, depression will be the “heaviest disease burden” after heart disease by 2020. Whereas global spending on antidepressants was \$ 15 bn in 2003, it is expected that this figure will drop to \$ 6 bn by 2016 (Thomson Reuters Pharma analysis). This is mainly due to the fact that currently available antidepressants are prescribed quite regularly, but patients seem to have major concerns to take them. Also, expensive drugs in this indication are increasingly being replaced by generics, since many drugs have lost their patents. There is currently no specific therapy approved for treatment-resistant depression. The need for more effective and well-accepted therapies is high but there are few new mechanisms in clinical development for depression.

In December 2012 Evotec entered into a licence agreement with Janssen regarding its orally active NR2B subtype selective NMDA antagonist portfolio. NR2B subtype selective NMDA antagonists represent one of the few new approaches in clinical development for depression. Extensive studies over the past 20 years have shown that NMDA receptors are involved in the pathology of depression and other diseases of the central nervous system (“CNS”). Clinical studies of non-selective modulators, however, have been hampered by significant side effects such as hallucinations. Compounds, such as Evotec's, selectively targeting the NR2B subunit containing receptors have proven in pre-clinical studies to retain many of the beneficial effects of non-selective compounds but with improved side effect profiles. The non-selective NMDA receptor blocker ketamine and an NR2B-selective NMDA antagonist have been proven to provide substantial and instant clinical benefit for depressed patients in clinical trials. However, both molecules, for which proof-of-concept has been shown before, require parenteral administration and are not suited for chronic indications. Hence, an orally active therapeutic option is urgently needed.

**Alzheimer's disease – EVT302**

Alzheimer's disease (“AD”) is a progressive, degenerative, irreversible disease of the brain that affects both cognition and behaviour. It is the most common form of dementia in older people. AD is characterised

by a loss of short-term memory and deterioration in behaviour and intellectual performance. The exact pathophysiology of the disease is still being debated.

The AD market is one of the fastest-growing CNS markets. Prevalence rates increase sharply with age, roughly doubling every five years at least until the age of 85. As a result, around 5% of individuals over 65 years of age are affected with AD. The World Alzheimer Report 2012 states that 36 million people lived with dementia in 2010 and estimates that this number will increase to 66 million patients by 2030 and 115 million by 2050. The global market of Alzheimer's disease is estimated to reach \$ 19 bn by 2015. However, the market also faces patent expiries of leading brands, which will result in new generics and thus lower revenues with drugs for these indications.

AD patients are growing in number, but treatment options remain limited in both quantity and quality. Today, only four drugs are marketed for the treatment of AD and there is still no treatment available that can actively slow the progression or cure AD. Cholinesterase inhibitors and the NMDA receptor antagonist memantine (not subtype selective) provide only moderate and temporary symptomatic benefit and the drugs are typically only effective for up to three years before losing their therapeutic benefit. In addition, around 60% of AD patients do not respond to first-line therapy and all current treatments are associated with significant side effects. In summary, current treatments are far from perfect and clear opportunities exist for novel alternatives.

Evotec and Roche entered into an exclusive worldwide agreement for the development and commercialisation of EVT302 in AD patients. EVT302 is an orally active, potent, selective and reversible inhibitor of monoamine oxidase type B (MAO-B) that could slow the progression of AD. The enzyme MAO-B breaks down the chemical messenger dopamine in the brain and contributes to the production of free radicals. Free radicals are known to cause oxidative stress, which may contribute to pathogenesis of AD as demonstrated by the up-regulation of MAO-B expression in the brain of AD patients. For these reasons, the selective MAO-B inhibitor is targeted to treat AD symptoms and potentially slow disease progression. Earlier unpublished data from one-year multinational Phase III trials of a first-generation MAO-B inhibitor demonstrated clinical proof-of-concept by slowing symptom progression. Development was, however, subsequently stopped due to isolated reports of safety issues. EVT302 is from a chemically distinct series and was developed as a follow-up based on the positive clinical findings above. The drug would be used in combination with, rather than in competition with, the currently available symptomatic treatments.

## RESEARCH AND DEVELOPMENT

### RESEARCH AND DEVELOPMENT – ACTIVITIES

The core of Evotec's business is conducting research and development (R&D) activities to support Pharma and biotech companies in achieving their R&D goals by effectively utilising a best-in-class discovery infrastructure with maximum efficiency. Evotec offers access to a highly comprehensive pre-clinical discovery and development

value chain via project-driven technology solutions and customised business arrangements. Our partners are able to select either individual components of the value chain or access partially or fully integrated solutions for their projects. Research collaborations range from strict fee-for-service arrangements (EVT Execute), to risk-sharing (EVT Integrate) to fully funded R&D plus upside type arrangements (EVT Innovate). Internal R&D investments target the support of all three business units.

#### 1. EVT Execute R&D

In order to accelerate the drug discovery process, Evotec is continually upgrading its technology base and enhancing the offering to its partners. This is achieved by direct internal investments in R&D, technology agreements with other life science companies and by acquiring innovative R&D know-how and platforms. In 2012, internal R&D investments were primarily focused on expanding Evotec's already broad drug discovery and biomarker platforms. The Company also invested in new areas such as methylomics capabilities to strengthen its epigenomics platform and an antibody library and screening platform via a strategic partnership with 4-Antibody.

The strategic partnership with 4-Antibody was concluded in May 2012. The agreement enables Evotec to offer a fully integrated antibody discovery and development service and thereby expand and complement its leading small molecule drug discovery and development platform. Combining 4-Antibody's fully human antibody library with Evotec's high throughput/content screening and selection methodology allows screening of large and diverse antibody populations for desired functionality and activity at early stages of the antibody discovery process. This combination of highly complex fully human antibody libraries with highly sophisticated functional screening substantially reduces attrition rates at later development stages.

In December 2012, Evotec signed an acquisition of CCS Cell Culture Service GmbH ("CCS") with effective date 01 January 2013. CCS is a Hamburg-based company which supports the cell-culture needs of the Pharma and biotech market. The integration of CCS's unique capabilities in frozen cell preparations and bulk cell transfection for cell-based screening further upgrades Evotec's screening capabilities, a core expertise in the drug discovery process.

#### 2. EVT Integrate R&D

EVT Integrate provides highly integrated solutions to many Pharma and biotech companies. A seamless and highly customised integration of individual components of the leading drug discovery platforms into a project is the key for long term success. In exchange for access to its integrated discovery offering, Evotec receives ongoing research fees and, in an increasing number of collaborations, milestone payments based on research success as well as potential royalties. While the nature and scope of these alliances is very different, they all aim at supporting Evotec's partners in discovering and developing novel drug candidates. Evotec's activities in its key alliances are detailed below.

— *Bayer Pharma AG*: In October 2012, Evotec entered into a five-year, multi-target collaboration with Bayer with the goal of developing three clinical candidates for the treatment of endometriosis and associated pain. Endometriosis affects women in childbearing age therefore there is an incredible need for new, non-surgical treatments that will alleviate

pain whilst preserving fertility. Both Bayer and Evotec contribute drug targets and technology infrastructures and resources to drive the programmes and will share the responsibility for early research and pre-clinical characterisation of potential clinical candidates. Bayer will be responsible for any subsequent clinical development and commercialisation.

— *Boehringer Ingelheim Pharma GmbH & Co. KG*: In 2004, Evotec entered into a multi-year, multi-target drug discovery alliance with Boehringer Ingelheim to jointly identify and develop pre-clinical development candidates addressing various disease areas including central nervous system, inflammation, cardiometabolic and respiratory diseases. In 2009, the collaboration was extended for an additional four years and the scope expanded to include oncology. Under the terms of the agreement, Boehringer Ingelheim has full ownership and global responsibility for clinical development, manufacturing and commercialisation of the compounds identified. To date, 17 milestones have been achieved in this collaboration.

— *CHDI Foundation, Inc.*: Evotec and CHDI, a privately funded not-for-profit research organisation dedicated to developing therapies for Huntington's disease (HD), entered into a multi-year discovery alliance in March 2006 which has since grown significantly. It was extended again in 2012 for a further three years. The collaboration takes full advantage of Evotec's very broad and highly integrated drug discovery platform and its proficiency in neurological research, including its expertise in medicinal chemistry, *in vitro* and *in vivo* pharmacology and compound management. It is an excellent example of how foundations or other institutions without internal R&D facilities can access Evotec's platform suite of technologies, capabilities and strong disease biology expertise, to drive their drug discovery efforts.

— *Ono Pharmaceutical Co., Ltd.*: Evotec entered into its first research collaboration with Ono in March 2008, combining its high throughput screening and its proprietary fragment-based drug discovery platform to identify novel compounds active against a protease target. The compounds were then further optimised with Ono to generate a candidate suitable for pre-clinical development for which a milestone was achieved at the end of 2012. In October 2009, Evotec entered into a second collaboration with Ono to identify small molecules targeting an ion channel implicated in cardiovascular, CNS and urological diseases. Multiple compounds were jointly identified and progressed into lead optimisation. Ono has a worldwide right to develop and commercialise compounds generated by Evotec in this collaboration.

— *UCB Pharma SA*: In July 2011, Evotec entered into a three-year integrated drug discovery collaboration with UCB to identify small-molecule modulators of a number of high-priority biological targets, selected by UCB, involved in CNS disorders. The molecules will be further optimised and progressed through lead optimisation to a pre-clinical development candidate. In October of the same year, Evotec entered into a second multi-year, multi-target integrated drug discovery collaboration with UCB in the field of immunology.

### 3. EVT Innovate pre-clinical R&D

EVT Innovate gives partners access to highly innovative and integrated drug discovery projects and assets. In exchange for access to its integrated discovery offerings, Evotec receives upfront payments,

significant milestone and royalty payments as well as ongoing research fees at significant margins.

— *Boehringer Ingelheim Pharma GmbH & Co. KG*: Through the acquisition of DeveloGen in 2010, Evotec now participates in a highly innovative and integrated discovery alliance with Boehringer Ingelheim on small molecules to treat type 2 diabetes via targeting insulin resistance. This project is based on novel targets originally identified and validated through in-house efforts. Targeting insulin resistance without causing weight gain is viewed as a highly attractive treatment option with potentially disease-modifying properties.

— *Janssen Pharmaceuticals, Inc.*: In July 2012, Evotec announced a license and collaboration agreement with Janssen based on a portfolio of small molecules and biologics designed to trigger the regeneration of insulin-producing beta cells for the treatment of diabetes. The small molecules and biologics were originally identified by Professor Douglas Melton's laboratory at Harvard University and further developed in collaboration with scientists from Evotec, as part of the *CureBeta* research and development programme (see Projects to fuel future EVT Innovate collaborations below). Further discovery and early development work will now be conducted in collaboration with Janssen who provide industrial scope and scale as well as pharmaceutical development expertise and marketing capabilities to the joint programme. This new collaboration is an excellent example of successfully joining forces across traditional academic and industrial boundaries to rapidly advance groundbreaking science into medicines.

— *MedImmune, LLC/AstraZeneca PLC*: In December 2010, Evotec entered into a license and collaboration agreement in the diabetes therapeutic area with MedImmune, the global biologics arm of AstraZeneca. As part of the agreement MedImmune has exclusive access to a defined set of biologic targets that have the potential to prevent or reverse disease progression in diabetic patients. To date, the collaboration has been very productive in driving forward the development of EVT770 as well as additional molecules in the portfolio. In December 2012, the scope of the agreement was expanded after reaching an important milestone. The size of the combined research team has been increased and Evotec will receive additional research payments to support *in vitro* and *in vivo* pharmacology efforts.

— *Projects to fuel future EVT Innovate collaborations*: Evotec invests in highly innovative approaches to address key therapeutic areas and major pharmaceutical markets. As a result the Company is developing technologies that will lead to an improved understanding in the key areas of CNS, oncology, inflammation, metabolic and kidney disease. In 2012, Evotec invested significantly into its beta cell technology and the *CureBeta* alliance with Harvard University. In July 2012, Janssen was selected as the appropriate Pharma partner to expand the scope of *CureBeta* and strengthen and extend the value chain in terms of clinical development and marketing (see EVT Innovate pre-clinical R&D above). In addition, Evotec established a second alliance with Harvard University in the field of kidney diseases (*CureNephron*). Similar to *CureBeta*, the initial goal of the collaboration is to pursue a comprehensive and systematic approach towards the identification and development of physiological mechanisms and targets that are involved in the development of chronic kidney disease and acute kidney injury. Evotec continues to focus on developing additional "Cure" initiatives, i.e. early assets in innovative

areas of drug discovery, such as regenerative medicine, and is currently in the process of establishing further academic alliances in order to access highly innovative biology and early-stage assets that have the potential to be developed into disease-modifying therapies.

In addition to the ongoing academic alliance with Harvard University, Evotec signed an open innovation alliance with Yale University in December 2012 which will leverage first-rate science discovered at Yale University through a partnership with Evotec's drug discovery infrastructure and expertise. The partnership is targeted to highly innovative discovery approaches in diseases of high unmet medical need in metabolic diseases, CNS, immunological diseases and cancer. Furthermore and in line with this strategy, Evotec has also embarked on research partnerships with the biotech companies Haplogen GmbH ("Haplogen") and APEIRON Biologics AG ("Apeiron") to expand Evotec's portfolio of potential first-in-class therapies. The early assets generated in these research efforts are actively introduced into partnering discussions with third parties and may form the basis of future collaborations.

Pre-clinical R&D conducted in the framework of EVT Integrate and Innovate is expected to fuel Evotec's clinical stage pipeline, the most important products of which have been listed below.

#### 4. EVT Innovate clinical-stage pipeline

In its development partnerships, Evotec has licensed selected later-stage clinical assets to a Pharma partner for further development and hopefully commercialisation. In all these partnerships, the projects are fully funded and driven by the Pharma partners, and consequently Evotec carries no financial risks in these projects but will benefit from any future success. The most significant partnerships are:

*Andromeda Biotech Ltd.:* Andromeda (a company partially owned by Teva) is developing DiaPep277®, a novel and potentially disease-modifying immunotherapeutic for patients with type 1 diabetes. This programme was out-licensed to Andromeda by DeveloGen in June 2007. In a first Phase III trial, concluded at the end of 2011, DiaPep277® met its primary and secondary end points. Patients in the treatment arm receiving DiaPep277® subcutaneously, on top of their regular insulin injections, maintained adequate diabetic control, reported reduced insulin requirements and reduced hypoglycemic events. In September 2012, Andromeda announced it had completed patient recruitment of

a second confirmatory Phase III trial. The study includes 475 patients and is being conducted at 130 medical centres in the USA, Europe, Canada, South America and Israel. The primary end point of the study is the ability of DiaPep277® to maintain pancreatic beta cell function, measured by insulin secretion. The results of the trial are expected to read out at the end of 2014.

*Janssen Pharmaceuticals, Inc.:* In December 2012, Evotec licensed its orally active NR2B subtype selective NMDA-antagonist portfolio encompassing EVT101 and EVT103 exclusively to Janssen for development of treatments in the field of depression. Janssen will be responsible for clinical development and marketing under the agreement. The compounds in the portfolio were developed from discovery stages through to clinical studies by Evotec and originally licensed from Roche.

*Roche AG:* In October 2011, Evotec and Roche entered into an exclusive worldwide agreement for the development of Evotec's MAO-B inhibitor, EVT302, in patients with Alzheimer's disease (AD). Roche started a Phase II clinical trial in 2012 to assess the efficacy and safety of this compound in patients with moderate severity Alzheimer's disease.

EVT302 is a novel, potent inhibitor of monoamine oxidase type B (MAO-B) that could slow the progression of AD. The enzyme MAO-B breaks down the chemical messenger dopamine in the brain and contributes to the production of free radicals. Free radicals are known to cause oxidative stress, which may contribute to pathogenesis of AD as demonstrated by the up-regulation of MAO-B expression in the brain of AD patients. For these reasons, the selective MAO-B inhibitor is targeted to treat AD symptoms and potentially slow disease progression. The compound was originally licensed from Roche to Evotec in 2006 and initially developed in another indication.

The associated costs for R&D conducted under service agreements and R&D alliances with Pharma or biotech companies are not accounted for as R&D expenses in the Company's P&L but shown under "Cost of goods sold". However, Evotec invests in building, maintaining and upgrading its in-house discovery platforms and the development of early assets in key therapeutic areas. These activities are the basis for Evotec's reported R&D expenses (a multi-year overview of Evotec's key R&D figures is reported in the section "Research and development – facts and figures" below).

### **RESEARCH AND DEVELOPMENT – FACTS AND FIGURES** **DEVELOPMENT OF R&D EXPENSES**

in T€	2008	2009	2010	2011	<b>2012</b>
Clinical	20,796	6,074	1,033	2,512	<b>516</b>
Discovery	16,411	10,895	1,804	1,897	<b>2,972</b>
Platform R&D	1,918	1,562	868	1,101	<b>1,942</b>
Overhead R&D	3,412	2,416	2,411	2,927	<b>2,910</b>
<b>Total R&amp;D</b>	<b>42,537</b>	<b>20,947</b>	<b>6,116</b>	<b>8,437</b>	<b>8,340</b>
Funded R&D	20	2,846	3,878	1,648	554

In 2012, Evotec continued to focus and limit its R&D expenditure in line with the previous two years. In 2012, R&D expenditure was € 8.3 m, reflecting primarily investment into innovative asset development such as CureBeta and CureNephron as well as technology development.

Moving forward, Evotec will continue to carefully invest in areas that deliver a significant return in the near term whilst at the same time generate a pipeline of milestone and royalty-bearing collaborations and products with significant upside potential.

#### Key facts of development partnerships

Partner	Indication	Status	Next milestone	Commercials
Andromeda/Teva	Diabetes <sup>1)</sup>	2nd Phase III recruitment closed	Final Phase III data	Up to € 40 m milestones, royalties
Roche	Alzheimer's disease <sup>2)</sup>	Phase II start	Completion of Phase II Phase III start	Up to \$ 820 m milestones, royalties
Janssen	Treatment-resistant depression <sup>3)</sup>	Phase II start	Completion of Phase II	Up to \$ 160 m milestones, royalties
JingXin	Insomnia <sup>4)</sup>	Phase II	Phase IIb start	Milestones, royalties
CONBA	Inflammation <sup>5)</sup>	Phase I/II	Phase II start	Up to € 60 m milestones, royalties
Aspireo	Acromegaly, diabetic retinopathy, others	Phase I	Partnering	Advisory fees; royalties on Somatoprim

<sup>1)</sup> DiaPep277<sup>®</sup> is being developed by Andromeda and has been partnered with Teva <sup>2)</sup> EVT302 (MAO-B)

<sup>3)</sup> EVT101/103 series <sup>4)</sup> Chinese rights only (EVT201) <sup>5)</sup> EVT401 (P2X7)

#### Key facts of R&D alliances

Partner	Indication	Status	Next milestone	Commercials
Bayer	Endometriosis	Pre-clinical	Pre-clinical	Upfront € 12 m; total value up to € 580 m; royalties
Boehringer Ingelheim	Various	Pre-clinical	Clinical candidate	Milestone payments, royalties
Boehringer Ingelheim	Type 2 Diabetes Insulin Sensitizer	Research	Pre-clinical	Up to € 237 m milestones, significant royalties
CHDI	Huntington's Disease	Research	Pre-clinical	\$ 41 m research payments over contract period
Janssen	CureBeta Type 1 and 2 Diabetes	Research	Pre-clinical	Upfront \$ 8 m; research payment; up to \$ 300 m milestones per product; royalties
MedImmune/ AstraZeneca	Type 1 and 2 Diabetes EVT770	Research	Pre-clinical	Up to € 254 m milestones, significant royalties
Ono	Various	Research	Pre-clinical	Milestones
UCB	CNS disorders	Research	Pre-clinical	Milestones and royalties
UCB	Immunology	Research	Pre-clinical	Milestones and royalties

### OVERVIEW OF R&D RESULTS

Evotec provides a detailed overview of achievements in research and development in the section "Performance measurement – research and development performance" on page 44 of this Management Report.

### **RESEARCH AND DEVELOPMENT – INTELLECTUAL PROPERTY**

Evotec actively manages its own patent portfolio from the very early stage of an invention. The Company seeks, when appropriate, patent protection for its technologies, product candidates and other proprietary information.

Evotec reviews its patent portfolio regularly and decides whether to maintain or withdraw its patent applications and patents based on the importance of such intellectual property to maintain its competitive position and deliver on its strategy. As of 31 December 2012, Evotec has more than 100 patent families under its full control. All of these are on file, or pending through national and/or foreign applications, such as patent applications filed under the Patent Cooperation Treaty, or applications filed with the United States Patent Office, the European Patent Office or the Japanese Patent Office.

Supporting its discovery alliance business, Evotec owns a patent estate for molecular detection and other platform technologies. Furthermore, Evotec has developed a number of biological assays, e.g. methods to measure the chemical or biological activity of any combination of targets and compounds, which are patent-protected.

Evotec also pursues certain discovery projects internally. The Company monitors the research activities and results of this in-house research in order to identify potentially patentable drug candidate series which have the potential for partnering. Numerous patent applications have been filed so far for such series. In addition, pursuant to agreements with Roche, intellectual property concerning drug candidates of the EVT100 compound family and EVT201 has been assigned or exclusively licensed to Evotec, as the case may be. These drug candidates are protected by diverse composition-of-matter patent families, covering also their therapeutic use in major countries worldwide.

With its deep knowledge in CNS-related diseases, Evotec has established a solid position in the identification and validation of molecular targets involved in Alzheimer's disease and other neurodegenerative diseases. Over the past few years, Evotec has built a patent portfolio that covers the use of such targets for diagnostic and drug discovery purposes.

Furthermore, Evotec has established key metabolic disease know-how and complementary drug discovery expertise. The Company has patent-protected biological factors relevant for the regeneration of insulin-producing beta cells and their corresponding use for the treatment of diabetes.

### **SIGNIFICANT CORPORATE DEVELOPMENT EVENTS 2012**

In January 2012, Evotec completed the squeeze-out process for DeveloGen AG, which was then renamed Evotec (Göttingen) AG by formal registration in the commercial register. This triggered payments to the former minority shareholders of DeveloGen of € 12.75 per share, totalling € 176,217.75.

Also in January 2012, Evotec announced a second strategic alliance with Harvard University, this time including Brigham and Women's Hospital, aimed at discovering and developing new biomarkers and treatments in the field of kidney disease ("CureNephron"). The first collaboration ("CureBeta") was established in March 2011 to develop new diabetes therapies targeting beta cell regeneration. The second alliance will pursue systematic and unbiased approaches towards the identification of kidney-disease-relevant mechanisms with particular interest in mechanisms with disease-modifying potential. This programme is designed to deliver and exploit novel therapeutic targets as well as biomarkers that allow more accurate diagnosis, monitoring and treatment of chronic and acute kidney disease, conditions associated with high morbidity and mortality.

In April 2012, the Company entered into a multi-year compound management agreement with the United States Environmental Protection Agency ("EPA"). The contract covers a period of five years and has a total value of up to € 7.7 m (approximately \$ 10 m). Under the agreement, Evotec's San Francisco operations will provide chemical procurement, analysis, sample preparation and management services in support of EPA's National Computational Center for Toxicology.

Also in April 2012, Evotec granted CONBA a development and marketing licence for its P2X7 antagonist EVT401 in China for human indications with the exception of ophthalmological, chronic obstructive pulmonary disease (COPD) and endometriosis pain. Evotec obtained a small upfront payment and is eligible for development and commercial milestone payments in excess of € 60 m and tiered double-digit royalties on net sales. The agreement grants CONBA exclusive rights to develop and commercialise the compound for the Chinese market. Evotec will have the right to reference clinical data produced by CONBA to support potential further development of EVT401 in other territories.

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

In July 2012, Evotec announced that it licensed a portfolio of small molecules and biologics designed to trigger the regeneration of insulin-producing beta cells to Janssen. The small molecules and biologics were identified by Dr Douglas Melton's laboratory at Harvard University and further developed in collaboration with scientists from Evotec as part of the CureBeta research and development programme. Janssen perfectly complements this effort, providing industrial scope and scale as well as pharmaceutical development expertise and marketing capabilities. The agreement between Evotec and Janssen triggered an upfront payment of \$ 8 m. This amount will be recognised straight-line over the three-year term of the collaboration agreement.

Upon achievement of certain pre-clinical, clinical, regulatory and commercial goals, Janssen would make future milestone payments of up to \$ 300 m per product. In addition, Janssen will pay royalties on future sales of any products that result from this collaboration. The upfront, milestone and royalty payments will be shared by Evotec and Harvard according to pre-agreed terms. Evotec also receives ongoing research support for discovery and early development work that is conducted in collaboration with Janssen.

In September 2012, Evotec signed a multi-year agreement with the National Institutes of Health (“NIH”) for the operation of a small molecule repository (SMR). The NIH SMR contract will continue to provide services initiated previously under contract. The contract resource will support NIH-supported screening centres to acquire, store, maintain and distribute the current library collection. The library will also be made available to select outside collaborators. The contract is funded in its entirety by NIH, covers a period of up to ten years and has a total estimated value of up to \$ 75 m. This long-term contract will be managed through Evotec’s San Francisco subsidiary.

In October 2012, Evotec extended its collaboration with CHDI until the end of 2015. This contract extension could be worth up to \$ 41 m in research payments for Evotec. The collaboration takes full advantage of Evotec’s integrated drug discovery platform and its proficiency in neurological research, including its expertise in medicinal chemistry, *in vitro* and *in vivo* pharmacology and compound management. Evotec and CHDI entered into this alliance in March 2006. Since then, the collaborative relationship has grown significantly.

In October 2012, Evotec announced it had entered into a five-year, multi-target collaboration with Bayer with the goal of developing three clinical candidates for the treatment of endometriosis. Both parties will contribute drug targets and high-quality technology infrastructures and will share the responsibility for early research and pre-clinical characterisation of potential clinical candidates. Bayer will be responsible for any subsequent clinical development and commercialisation. Evotec received € 12 m as an upfront payment. In total, Evotec may receive pre-clinical, clinical and sales milestones of potentially up to approximately € 580 m plus potential royalties of up to low double-digit percentages of net sales, depending on which party brought the compound to the collaboration and the successful development and approval of potential drug candidates.

In December 2012, Evotec entered into a licence agreement with Janssen regarding its orally active NR2B subtype selective NMDA-antagonist portfolio for development against diseases in the field of depression. Janssen has been granted an exclusive, worldwide licence to a series of small molecule drug candidates to further develop the compounds and market the resulting products. Evotec received an upfront payment of \$ 2 m with an additional \$ 6 m to be paid upon confirmation of certain pre-clinical properties of the candidates. Evotec is eligible to receive additional milestone payments from Janssen upon the successful completion of certain clinical, regulatory and launch events for a first product, which may total up to \$ 67 m, as well as additional, reduced milestone payments upon successful completion of certain events for additional indications and/or compounds. Evotec shall be entitled to receive an additional \$ 100 m in commercial milestones depending upon meeting certain sales thresholds and royalties which could be as

high as double-digit on certain future sales of royalty-bearing products. Evotec will share portions of the payments with Roche, which originally discovered the molecules.

Signed in December 2012 and effective 01 January 2013, Evotec acquired CCS, a Hamburg-based company which supports the cell culture needs of a worldwide customer base of biotech and pharmaceutical companies. CCS’ large-scale processes for cell production, freezing and storage, including the entire team of specialised cell culture scientists and technicians, will be fully integrated into Evotec’s Hamburg operations to realise cost synergies and efficiency improvements. The purchase price consists of a cash consideration of € 1.15 m and an earn-out component targeting € 1.4 m in cash. The earn-out component will become due one year after the acquisition and depends upon the achievement of revenue targets. Through the acquisition of CCS, Evotec confirms its leading position as fully integrated drug discovery and early development partner for Pharma and biotechnology companies. Integration of CCS’ unique capabilities, such as frozen cell preparations and bulk cell transfection for cell-based screening will enable Evotec’s partners to access the latest science and the best-in-class technology infrastructure to increase efficiency in the drug discovery process.

Throughout 2012, Evotec made several changes to the legal entity structure in order to improve customer service, reduce administrative complexity and optimise the Group for corporate tax purposes. The key changes were that Evotec, Inc. was liquidated and Evotec (Göttingen) AG was merged into EVOTEC NeuroSciences GmbH. Afterwards, EVOTEC NeuroSciences GmbH changed its name to Evotec International GmbH. On 31 December 2012, Compound Focus, Inc. was merged into Renovis, Inc. and the name of the subsidiary was changed to Evotec (US), Inc. at the same time. Apart from tax effects, these changes do not have any material impact on the financial situation of the Evotec Group.

## **PROCUREMENT AND FACILITY MANAGEMENT IN 2012**

The high-quality collaborative services provided by Evotec to its customers are based on a combination of recruiting the best drug discovery scientists available alongside a premium research platform to allow access to cutting-edge technologies. To ensure that Evotec maintains and strengthens its offering in this regard the Company invests significantly in capital equipment.

Entering the year 2012 there was a significant level of capital expenditure anticipated, even exceeding the high levels of 2011. This was based on the growth expectations of the business, the move to a new global headquarters in Hamburg and the completion of a capital investment programme designed to address several years of under-investment in capital equipment prior to 2010.

This, combined with the strengthened procurement function put in place during 2011, provided an important opportunity to further develop and roll-out robust controls over capital equipment procurement. This was achieved by clear communication of a new procurement guideline for capital equipment across the organisation, allowing the Company to measure and report the spend against plan on a month-by-month

basis. In doing so, Evotec's management was able to monitor the progress of all capital projects and assess and adjust as appropriate the ongoing priorities of such expenditure in the light of changes within collaborative programmes being undertaken and of those in discussion.

All significant capital expenditure procurement was centralised as part of this process with professional procurement staff undertaking all negotiations, effectively coordinating linked purchases across the Group, thereby maximising synergies and economies of scale. This process has had the added benefit of significantly reducing the burden on operational staff of activities tangential to their core roles, allowing them to focus on the partnerships with customers.

Further to this, Evotec undertook a successful review of operational consumables cost focused at the Company's headquarters in Hamburg. In partnership with consumable supply industry experts the most significant families of consumables used within the operations were carefully reviewed and the costs paid benchmarked for these against market-available best price. This led to significant savings being identified at a time where the operations were growing quickly, thus allowing like-for-like margins to be improved without compromising on the quality of service provided to Evotec's customers.

Plans are in place for 2013 to expand this strategic focus on operational costs across the rest of the Group to further maximise the efficiency and effectiveness of procurement processes within the Company.

2012 saw the completion of the operational move from the west of Hamburg to the state-of-the-art research premises at the Manfred Eigen Campus north of the city. This coincided with significant growth within the operations in Hamburg, driven by increased customer demand, allowing the Company to expand its operations as well as bringing onto a single campus its *in vivo* pharmacology team and its nuclear magnetic resonance screening team.

At the Abingdon site, whilst the zebra fish activities ceased early in the first quarter of the year, the space was efficiently refitted at minimal expense to house the rapid growth of protein production work. A partnership with a large US Pharma company in particular led to the need to build new insect expression and cold room facilities which are now supporting this significant collaboration.

Further work is underway at the site in Thane (India) to locate a new state-of-the-art facility for the operation to move to in 2014 that is better suited to the business' needs. In addition, plans are well advanced to expand operations in Göttingen in support of the Company's strategic Cure X initiatives.

As was the case in 2011, the focus on optimising the available facility capacity currently held by the Evotec Group continued during 2012. This resulted in the negotiation of a reconfiguration of the Evotec San Francisco site which will result in the combination of a smaller footprint and improved utilisation of space from 2013 onwards. This will allow the business to maintain and grow its service offering but at a lower rental overhead.

## LEGAL STRUCTURE AND SUPERVISION

As required by the German Stock Corporation Act (Aktiengesetz), Evotec AG has a two-tier board system consisting of the Evotec Management Board (Vorstand) and the Evotec Supervisory Board (Aufsichtsrat). The Management Board is responsible for managing Evotec and representing the Company in its dealings with third parties, while the Supervisory Board appoints and dismisses the members of the Evotec Management Board and oversees the management of the Company. German law prohibits the Supervisory Board from making management decisions.

The Evotec Supervisory Board consists of six members – as provided in the current Articles of Association – all of whom are elected by the shareholders by a simple majority of the votes cast at an Annual General Meeting ("AGM"). The Supervisory Board appoints a chairman and one vice-chairman from among its members. The members of the Supervisory Board are elected for five years and may be re-elected. The term of the current members of the Evotec Supervisory Board will expire at the end of the Annual General Meeting held in the year 2014.

Under Evotec's Articles of Association, the Supervisory Board determines the size of the Management Board, which must have at least one member under the German Stock Corporation Act. The statutory maximum term for members of the Management Board is five years. Management Board members may be reappointed and may be dismissed with good cause prior to the completion of their terms of office.

The Evotec Management Board consists, in addition to the CEO, of three additional board members. The CEO is functionally responsible for the areas of Corporate Development, Investor Relations and Corporate Communications, the CFO for Finance, Controlling, Information Technology, Legal, Purchasing, Facility Management and Human Resources, the COO for Business Development and Business Operations and the CSO for Intellectual Property and Research Operations.

In 2012, Colin Bond, CFO, Dr Cord Dohrmann, CSO, and Dr Mario Polywka, COO, agreed new three-year contracts with the Company starting July 2013 (Bond), September 2013 (Dohrmann) and November 2013 (Polywka). Dr Werner Lanthaler, CEO, already signed a new five-year contract in 2011, which started in March 2012.

On 04 October 2012, Evotec announced that its CEO, Dr Werner Lanthaler, will temporarily stand down from his role within the Company due to health reasons. Following a decision by the Supervisory Board after consulting Dr Lanthaler, the Management Board consisting of Dr Cord Dohrmann and Colin Bond under the direction of Dr Mario Polywka will lead the Company in his absence. Dr Lanthaler will reassume the role of CEO as soon as he has recovered.

Information regarding the remuneration of Evotec's Management Board and Supervisory Board can be found in the "Remuneration report" on page 65 of this Management Report.



## DECLARATION OF CORPORATE MANAGEMENT

More information on Company management practices can be found in the Company’s “Declaration of Corporate Management” according to section 289a HGB on Evotec’s website at [www.evotec.com](http://www.evotec.com); “Investors > Corporate Governance”.

## CORPORATE OBJECTIVES AND STRATEGY

Evotec’s primary measure of success is the overall return that the Company delivers to its shareholders. To achieve this objective Evotec has developed a clear vision supported by a strategic plan entitled “Action Plan 2016 – Innovation Efficiency”.

The overall objective of Action Plan 2016 is for Evotec to become the global leader in drug discovery solutions. Execution of this strategy focuses on high-class innovation combined with scale, optimal cost structures and maximal operational efficiency. Specific objectives of Action Plan 2016 include the following:

- ▶ Deliver maximum innovation efficiency for Evotec’s customers
- ▶ Double 2011 revenues by 2016
- ▶ Improve the quality of revenue mix through royalty, milestone and service income
- ▶ Achieve operating margin in the order of 15% and accelerate cash generation
- ▶ Build an even more mature pipeline without financial risk

## LONG-TERM SUSTAINABLE INNOVATION AND GROWTH STRATEGY

Evotec’s strategy is to grow the Company and create value upside through sustainable and profitable drug discovery alliances and development partnerships. To this end, in March 2009, the Company implemented its strategy “Evotec 2012 – Action Plan to Focus and Grow”. The core elements of this strategy were to strengthen the discovery alliances business, refocus the pipeline on the most valuable assets and significantly reduce operating expenses and strategic clinical risks, the latter being achieved through development partnerships on selected proprietary projects. By the end of 2011, all of the key goals had been achieved and a solid foundation had been established for the next growth phase of the Company. Action Plan 2016 – Innovation Efficiency is the new strategy framework and was first announced in March 2012. Three core areas are defined within which the Company’s key objectives and goals are set:

**EVT Execute:** EVT Execute will deliver an even more industrialised high-tech infrastructure to Evotec’s partners in long-term relationships. The goal is to optimise the capital efficiency of the work dedicated to every target that its partners are working on. Partners who work with Evotec receive selected access to the latest science and globally the best-in-class technology infrastructure.

**EVT Integrate:** EVT Integrate represents a comprehensive and systematic approach for processing drug targets in Evotec’s key areas of expertise. Pharma and biotech companies have experienced the advantages of developing drug candidates in integrated performance-based projects

Objectives	Major achievements 2012
<b>EVT Execute</b> <ul style="list-style-type: none"> <li>▶ Provide high-tech functional solution tools and capabilities to optimise efficiency at any point of a drug discovery process</li> <li>▶ Achieve strong foundation of repeat business</li> <li>▶ Drive profitability via economies of scale and process optimisation</li> <li>▶ Deliver double-digit revenue growth</li> </ul>	<ul style="list-style-type: none"> <li>▶ Extension of ongoing collaboration with CHDI</li> <li>▶ NIH contract signed</li> <li>▶ Major technology upgrade and capacity expansion programme undertaken</li> <li>▶ Counter screening and protein production capability added to service offering</li> <li>▶ Antibody alliance with 4-Antibody</li> </ul>
<b>EVT Integrate</b> <ul style="list-style-type: none"> <li>▶ Offer integrated drug discovery alliances that can start at any point in the drug discovery process</li> <li>▶ Deliver an increase in the number of integrated collaborations</li> <li>▶ Risk-shared arrangements, profitability dependent on project success, milestones and royalties</li> </ul>	<ul style="list-style-type: none"> <li>▶ Significant alliance concluded with Bayer to fight endometriosis</li> <li>▶ Several milestone payments received in alliances with Boehringer Ingelheim and Novartis</li> </ul>
<b>EVT Innovate</b> <ul style="list-style-type: none"> <li>▶ Deliver unique target-driven drug discovery initiatives for first-in-class novel drugs</li> <li>▶ Focused investments in research to drive higher returns</li> <li>▶ Achieve significant upfront, milestone and royalty payments associated with projects</li> </ul>	<ul style="list-style-type: none"> <li>▶ CureBeta partnering with Janssen</li> <li>▶ EVT100 series licensed to Janssen</li> <li>▶ Phase III milestone for DiaPep277®</li> <li>▶ Second strategic alliance with Harvard University focused on new biomarkers and treatments in the field of kidney disease (CureNephron)</li> <li>▶ Collaboration in the diabetes therapeutic area with MedImmune/AstraZeneca expanded</li> </ul>

with Evotec: Evotec does not simply lower costs for its customers; most importantly, the Company significantly reduces the time taken to reach key decision points in the progression of compounds to the clinic. Evotec will continue to expand its business around metabolic, pain, oncology and CNS drug targets.

**EVT Innovate:** Evotec is committed to delivering solutions for some of the largest and most pressing medical needs. With EVT Innovate, the Company brings forward the most promising scientific ideas to make a difference in key medical areas. Evotec assumes initial research costs to develop early stage assets but then partners those assets at an early stage with an appropriate pharmaceutical company in return for an initial upfront payment and research fees. In addition, Evotec shares in the success of the projects through milestone and product royalties. As a result of this strategy, Evotec is building a pipeline without bearing the extensive financial risk normally involved in such projects. To reduce Evotec's risk further, the Company also continues to seek strategic partnerships to fund the further development of its clinical assets. Evotec's current clinical stage portfolio comprises several product development partnerships fully funded by its partners.

The goals defined for 2013 in the context of Action Plan 2016 can be found in "Outlook", "Business direction and strategy" on page 77 of this Management Report.

### STRATEGIC GROUP STRUCTURE AND FINANCIAL INTEREST

Evotec's strategic Group structure reflects the international direction of the Company and its strategy to acquire businesses with assets that perfectly complement Evotec's offering. With affiliates in Germany, the UK, India and the US, Evotec is active and provides potential partners and customers direct access to the most important regions and their respective advantages. Evotec will seek to expand its technology and capabilities in offering an integrated drug discovery platform in areas that complement its current operations to accelerate future growth. To this end, Evotec may continue to acquire or buy shares in other companies provided that there is a good strategic fit and a compelling rationale for its shareholders. As a result, the Group structure may change depending on any acquisitions made.

### STRATEGIC FINANCING MEASURES

Evotec is pursuing the goals of ensuring a balanced capital structure and of limiting refinancing risks through diversification of its financing sources and instruments. The Company increased its access to debt financing during 2012 and significantly improved the terms and conditions on which this financing is made available. Evotec has defined its minimum liquidity in order to ensure that sufficient cash is available at all times to support the ongoing operations. A Treasury Committee was established at the end of 2010. This committee meets on a monthly basis to consider all aspects of the Company's funding, liquidity and cash management. Currently, Evotec has a liquidity of € 64.2 m and drew € 17.4 m of bank loans from its existing credit lines as per 31 December 2012. In order to diversify risk the Company works with several banks. On this basis, Evotec is confident that adequate funding is in place to support its medium-term objectives and especially all goals of Action Plan 2016.

### PERFORMANCE MEASUREMENT

#### FINANCIAL PERFORMANCE MEASURES

Evotec's Management Board uses various financial indicators to manage the Company. Evotec's goal is to continue to grow its top line and increase operating profitability and cash generation. The Company believes that the growth achieved and anticipated in its discovery alliances, combined with strict cost control and a prudent investment policy, form the continued basis for future financial success and shareholder value creation.

Evotec's long-term key financial performance indicators are consistent with the focus above. In addition to growing revenues, Evotec plans to increase the Company's profitability and maintain a solid, not necessarily growing, liquidity position. These elements are measured via the monthly and quarterly operating result before impairment and contingent consideration, and the liquidity status. The 2012 performance compared to plan is shown and discussed in the chapter "Comparison of 2012 financial results with forecast" on page 48 of this report. In addition, the Company has implemented a long-term profitability target. According to Action Plan 2016, Evotec aims to reach an operating margin in the order of 15% by 2016.

#### DEVELOPMENT OF FINANCIAL KEY PERFORMANCE INDICATORS

in T€	2008	2009	2010	2011	2012
Revenues	39,613	42,683	55,262	80,128	87,265
Operating result adjusted *	(45,627)	(24,461)	1,715	5,764	1,401
Liquidity **	92,401	70,594	70,401	62,428	64,159

\* Operating result excl. impairments and reversal of impairments and changes in contingent considerations

\*\* Cash and cash equivalents and investments

Management engages in monthly financial reviews with a strong emphasis on financial performance drivers, such as revenues, order book status and margins, as well as careful cost analysis (selling, general and administrative, and research and development expenses) to measure its performance against its financial targets and to analyse performance versus the prior year.

In addition, cash forecasts, including the definition of minimum cash levels, the monitoring of contract research revenues and milestones, and operating cash flow, are critical in optimising Evotec's short- and mid-term financial performance. Treasury management is undertaken in a comprehensive and timely manner with the focus on cash management, FX exposure, funding optimisation and investment opportunities.

Value analysis based on discounted cash flow models is the most important financial control criterion for Evotec's investment decisions regarding M&A projects and in-licensing opportunities.

### NON-FINANCIAL PERFORMANCE MEASURES

In a research-driven and employee-based industry such as biotechnology, financial information alone shows an incomplete picture of a company's value creation achievement and potential. Therefore the key non-financial performance measures of Evotec's strategy are as follows:

#### Quality of drug discovery solutions and performance in discovery alliances (Sustainable development – key performance indicator 1 ("SD-KPI1"))

Evotec generates the vast majority of its revenues from alliances with pharmaceutical and biotechnology companies. Consequently, the most important non-financial performance indicator for Evotec is its quality of drug discovery solutions and performance in those alliances.

Evotec progresses alliances based on its broad range of integrated capabilities spanning the whole drug discovery process. Defining and following standards that aim to be best-in-class is the highest priority for Evotec, as the Company's goal is to accelerate the drug discovery process with the best possible tools available. Consequently, Evotec is continually upgrading its technology base and enhancing its offering to partners. Only the best and most advanced technologies, combined with the highest quality of drug discovery solutions, are the standards which Evotec wishes to consistently deliver to its partners.

There are different parameters to measure customer satisfaction with Evotec's offering and performance in discovery alliances. Number, growth and size of alliances, the percentage of repeat business, new customer acquisition and the status of the Company's sales and order book are key indicators. During its 19-year history Evotec has continued to deliver excellent results in existing programmes and expanded its customer base and global network of partnerships. The Company is now working with close to 100 Pharma and biotech companies on a global basis. This growth and progression is highlighted in the tables below.

#### Development of Evotec's alliances (To the Company's knowledge benchmark data not available)

	2008	2009	2010	2011	2012
Number of alliances**	58	76	72	97	96
Number of alliances** > € 1 m revenues	7	8	7	15	16
Repeat business	84%	92%	95%	85%	86%
New business during the year***	21	29	22	45*	29

\* thereof 22 related to acquisitions (Kinaxo and Compound Focus)

\*\* number of alliances equal number of customers

\*\*\* number of new customers

#### Development of TOP 10 collaborations (sorted by years under review) (To the Company's knowledge benchmark data not available)

in T€	2008	2009	2010	2011	2012
TOP 1: Boehringer Ingelheim	12,558	7,988	13,754	17,022	13,546
TOP 2: CHDI	8,285	9,090	9,211	8,915	9,905
TOP 3: UCB Pharma	-	-	-	1,120	9,792
TOP 4–10	11,539	17,608	23,665	35,937	31,957
<b>Total TOP 10 revenues</b>	<b>32,382</b>	<b>34,686</b>	<b>46,630</b>	<b>62,994</b>	<b>65,200</b>
Growth in %		7%	34%	35%	4%

Notably, several collaborations significantly increased in volume in recent years and this is seen as a clear indicator of customer satisfaction. The number of alliances in which Evotec generates more than € 1 m revenues per year increased from seven in 2008 to 16 in 2012. Revenues from the Company's TOP 10 collaborations amounted to € 65.2 m, up 4% over the prior year. In addition, the key collaborations with CHDI and UCB significantly increased in size. However, revenues with Evotec TOP 1 customer Boehringer Ingelheim declined in 2012 because milestone payments are volatile between years.

Evotec's repeat business, as defined by the percentage of 2012 revenues coming from customers that the Company already had in 2011, continued to be high at 86%. New collaborations were announced with 4-Antibody, Aspireo, Bayer, CONBA, IR Pharma, Janssen, Probiobdrug and Teijin during the year. Substantial contract extensions were signed with Active Biotech, CHDI, MedImmune/AstraZeneca, NIH, UCB and the US EPA.

#### Quality and safety performance of products (Sustainable development – key performance indicator 3)

It is important to note that, during the past five years, no services were recalled and neither fines nor settlement payments related to litigation in Evotec's drug discovery alliances were due.

#### Research and development performance (Sustainable development – key performance indicator 2)

As a company developing novel pharmaceutical drug compounds, sustainable productivity in R&D is obviously a second key non-

financial performance indicator. Unlike for most biotech companies, success of clinical programmes represents pure upside for Evotec as all clinical development activities are funded by a Pharma partner. Evotec participates in the progress and success of those programmes through milestone payments and royalties.

During 2012, Evotec's most advanced programmes progressed positively. DiaPep277® met its primary and secondary endpoints in a Phase III trial and started patient recruitment for a second Phase III aimed at confirming these results. Roche started Phase II with EVT302 and Evotec entered into an alliance with Aspireo for the development of Somatoprim. In addition, EVT401 was partnered with CONBA specifically for the Chinese market, and Evotec entered into a licence agreement with Janssen regarding its NR2B subtype selective NMDA-antagonist portfolio (EVT100 series). Two earlier programmes, VR1 programme with Pfizer and EVT401 with an animal health company, were stopped following a strategic portfolio review of the Pharma partner. In summary, the number of advanced active drug candidates developed in partnerships increased by one during the year.

Evotec's early-stage discovery projects were developed according to plan, primarily focusing on delivering compounds to the clinical pipeline in future years and preparing selected programmes for partnering.

For a more detailed description of Evotec's advanced drug candidates and its research programmes, please see chapter "Research and development" on page 34 of this Management Report.

#### Progress of advanced drug candidates\*,\*\*

Drug Candidate	Partner (Start of partnership)	PDC	Phase I	Phase II	Phase III	Progress in 2012
DiaPep277®	Andromeda/Teva (2007)					2nd phase III recruitment closed
EVT302	Roche (2011)					Start of phase II
EVT100	Janssen (2012)					Partnered in Dec 2012
EVT201	JingXin (2010)					No news
Somatoprim	Aspireo (2012)					Support in the development and partnering
EVT401	Conba (2012)					Partnered in May 2012
EVT401	Undisclosed (2011)					Programme stopped after portfolio review
VR1	Pfizer (2005)					Programme stopped after portfolio review
EVT770	MedImmune (2010)					Extension of collaboration until end 2013

\* Starting with pre-clinical development stage

\*\* To the Company's knowledge benchmark data not available

Status 31 Dec 2011

Status 31 Dec 2012

## EARLY INDICATORS

To evaluate early on the degree to which Company goals will be fulfilled in the medium to long term several factors are used. Early indicators include:

1. Current and expected developments of the market for drug discovery alliances and general trends in research and development:  
Developments and trends are monitored on a regular basis and in the case of any triggering events. When new developments or trends with a potential impact on the Company's product portfolio or financial position are observed, this can lead to adjustments in Evotec's strategy and current decisions. If necessary, actions are taken to reduce negative impacts or to improve probabilities of success.
2. The development of Evotec's IP position:  
In order to protect intellectual property Evotec reviews its patent portfolio regularly (see more details in the chapter "Research and development" under "Intellectual property" on page 38).
3. The sales and order book:  
The sales and order book provides good visibility of revenues for the coming months and is updated on a monthly basis.
4. The monthly/quarterly results:  
Financial results are regularly used for measuring the current performance of the Company but also to extrapolate the development of the business in future years. By analysing trends and figures the management is able to adjust parts of its business plan, cost components and outlook should deviations of expected results be recognised.
5. The achievement of milestones in discovery alliances and development partnerships:  
Milestone achievements are a key revenue and cash flow driver at Evotec. Accordingly, the development of milestone payments is an indicator of the success of Evotec's programmes and the performance of Evotec in risk-shared alliances. Milestone payments can vary between quarters and years. However, if the number of achieved milestone payments were to significantly deviate from Evotec's plans, the Company would need to consider adjusting its strategy.

## GENERAL MARKET AND HEALTHCARE SUMMARY

### ECONOMIC DEVELOPMENT

The first quarter of 2012 saw a degree of stability in the financial markets based on global economic developments and a decrease in adverse news emanating from the peripheral Eurozone countries. This trend reversed in the second quarter as concerns resurfaced and optimism generated by initial European stimulus efforts began to fade.

Mario Draghi, President of the European Central Bank (ECB), declared in July that he would do "whatever it takes" to save the Euro and this helped to reverse market volatility. In September, he added further momentum to global market sentiment by laying out plans to buy bonds from struggling Euro countries via a Eurozone-wide permanent rescue fund labelled the European Stability Mechanism (ESM).

In November, European output figures indicated that the region had sunk back into recession, again placing Europe at the centre of market concerns. However, financial markets remained positive, suggesting that this information was fully anticipated and already priced into the markets.

The conclusion of the presidential election in the US was largely viewed positively. However, until resolution is achieved of the so-called US fiscal cliff and agreement is reached on the US debt ceiling, it is expected that there will continue to be a notable level of volatility within the markets. The lack of clarity is likely to suppress the US dollar. Once the current uncertainty is resolved the US dollar is expected to strengthen against the Euro.

In Japan, the economy contracted in 2012 because of a strong Yen, which adversely affected exports, and the surfacing of diplomatic tensions with China, a major trading partner, over sovereignty of the Diayou/Senkaku islands.

As the year progressed, it became clear that investor interest in riskier assets had returned, despite ongoing concerns over the Eurozone, a slowdown in the rate of economic growth in the Far East and the US's continued inertia in addressing its budgetary issues. This has resulted in all major equity markets trending positively over the latter part of the year from a June low. By the end of the year, the blue chip DAX Index was up 29.1% on the year. The German index performed better than other major indices such as the European Stoxx50, which closed the year up 13.8% and NASDAQ up 16.8%.

### DEVELOPMENT IN THE PHARMACEUTICAL AND BIOTECHNOLOGY SECTOR

The performance of the pharmaceutical industry continues to be affected by a significant imbalance between new product introductions and patent losses. The biggest patent cliff the pharmaceutical industry has ever seen resulted in an estimated \$ 33 bn of sales forecast to be lost in 2012 alone (Source: Nature Reviews Drug Discovery, January 2013). In order to address this, instead of developing a product from

early-stage research which involves significant capital investment, the industry is increasingly looking at opportunities to externally acquire promising pipeline candidates. The industry has continued to experience in-licensing transactions to make up for the loss of revenues that will arise as key products lose patent exclusivity. Restructuring within the pharmaceutical industry continued in 2012 with companies such as Novartis planning to cut jobs in the US and Roche cutting jobs and shifting significant resources to China. Furthermore, AstraZeneca, Abbott (now AbbVie), Takeda, Merck KGaA, Sanofi and Lundbeck all announced significant restructurings (Source: Scrip Analysis; December 2012). These programmes included closure plans for entire research facilities, reducing the number of disease areas of focus within their therapeutic portfolio and focusing on externalisation.

This restructuring has been accompanied by a shift towards more collaborative work with discovery solution providers, such as Evotec, and dedicated project groups within pharmaceutical companies. This has resulted in an increased outsourcing of drug discovery projects. This trend was anticipated by Evotec and allowed the Company to position itself most appropriately to meet changing customer needs.

In 2012, the shares of most of the leading biotech companies experienced significant gains in their market caps based on products and changes in strategy (Source: EP Vantage, November 2012). This sentiment and the big Pharma restructurings show that outsourcing is proving to be a useful tool by which pharmaceutical companies manage their core functions and increase capital efficiency, allowing them to focus internal resources on later stage developments and revenue growth. Strategic outsourcing has provided a valuable way to achieve time and cost savings as well as to provide financial and operational flexibility.

#### DEVELOPMENT OF LEGAL FACTORS

Companies involved in drug discovery and development operate in highly regulated markets. The majority of legal factors that could significantly affect Evotec's business are those that would directly impact the Company's partners and customers. For example, changes in government funding of research and development work would have a direct impact on the funds available to pharmaceutical and biotech companies and hence their ability to afford Evotec's drug discovery solutions. This could ultimately affect Evotec's business in a positive or negative manner. Similarly, changes in legal conditions regarding the treatment of tax credits for research and development work conducted by Evotec's partners and customers could also impact Evotec's business.

New drugs for human use are subject to approval by the European Medicine Agency (EMA) in the European Union, the Food and Drug Administration (FDA) in the USA and by other national regulatory and supervisory authorities. Evotec is focused on the early stages of drug discovery with development and commercialisation conducted by the Company's Pharma partners, who fund those activities. Consequently, any changes in the regulatory environment would also only indirectly impact Evotec's business, e.g. by reducing or increasing the upside Evotec may generate from the successful development and commercialisation of its licensed products.

Factors that might directly impact Evotec's business include any

tightening of the Welfare of Animals Act relating to pre-clinical animal studies or any changes in the regulation of pre-clinical research in general. In addition, any easing of policy relating to the conduct of stem cell research in Europe, for example, could have a positive impact on Evotec's business.

In 2012, on the whole, legal factors affecting Evotec were largely unchanged and the Group's operating business was not materially affected.

#### EXCHANGE RATE DEVELOPMENT, INTEREST RATES AND FINANCING

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

The biggest impact from currency movements on Evotec's financial position in 2012 resulted from the Euro (€) to US dollar (\$) **exchange rate**. It fluctuated between 1.21 and 1.34. The Euro remained relatively strong in the first quarter but declined from May through July as a result of the Euro crisis and the sovereign debt issues in a number of the Eurozone countries. From late July, with some stability underpinning the markets due to European policy actions to solve the crisis, the Euro strengthened against the US dollar through the rest of a volatile year. The reasons for the relative US dollar weakness in the second half was the pending presidential election, causing uncertainty on the approach to tackling underlying concerns over the economy, the budget deficit and the increasing level of US government borrowings. Overall however, the US dollar was significantly stronger against the Euro in 2012 compared to 2011, with an average exchange rate of 1.29 compared to 1.39 in the prior year and reflects that currency markets vacillate between an uncertain situation in both the US and Europe.

For Evotec, a strengthening US dollar leads to an increase in reported revenues and expenses in Euro and to an increase in liquidity in Euro terms. This had a positive impact on 2012 revenues of approx. € 3.4 m in comparison to 2011. At year-end, the US dollar weakened against the Euro from 1.29 (2011) to 1.32 (2012), which reduced the year-end liquidity position by approximately € 0.4 m.

The second most important currency for Evotec is the Pound Sterling (£). The Pound Sterling to Euro exchange rate fluctuated between 1.18 and 1.28 in 2012. The average exchange rate was 1.23 compared to 1.15 in the prior year. Similar to the US dollar, a strengthening Pound Sterling leads to an increase in reported revenues and expenses in Euro's and to an increase in liquidity in EUR terms. This had a positive impact on 2012 revenues of approximately € 0.7 m and a negative impact on gross profit of € 0.9 m in comparison to 2011. In terms of liquidity at the end of the year, the Pound Sterling strengthened from 1.19 to 1.22, which reduced the year-end liquidity position by € 0.1 m.

Overall, the Company is long in US dollars and Euros and short in Pound Sterling. This is due to the fact that the Company generates approximately 50% of its revenues in US dollar and approximately 45% of its total cost base is denominated in Pound Sterling. Evotec's policy is not to speculate on foreign exchange movements. The strategy of the Company is to sell surplus US dollar in both the forward and spot

markets to cover ongoing Pound Sterling expenses.

Historically low **interest rates** continued throughout 2012. In Europe the ECB inter-banking interest rate (3 months Euribor) dropped significantly from 1.3% to a historic low of 0.2% at year end due to the slow-down in growth in the Eurozone. In the US, the target range for the federal funds rate was kept at between 0 and 0.25%. The main impact of low interest rates on the financial performance of Evotec is a reduction in interest income received on the cash deposits and the short-term investments of the Company. However, there is a partially offsetting decrease in the interest expense on the borrowings of the Company.

Evotec is one of the very few European small cap biotech companies with a healthy liquidity position and believes this to be a competitive advantage in building the Company and shareholder value. The Company's debt is **financed** without any collateral requirements. Evotec will continue to operate as capital-efficiently as possible, to assess the funding of its R&D activities and capital investments carefully and to balance this against cash flow from revenue-bearing business to ensure that Evotec's cash will be sufficient to maintain and grow the Company sustainably.

#### **DEVELOPMENT OF EVOTEC'S SHARES**

Globally, the first quarter 2012 saw a positive start for all major stock market indices. The second quarter, however, saw investor confidence checked by the global economic outlook, concerns for Europe and the ongoing impact of the global financial crisis. Evotec's shares started 2012 at a price of € 2.36 and hit a 12-month low of € 1.97 in early June in line with the general market sentiment from which point the shares closed the year up 34%. From early July the share price developed positively on the back of predominantly positive news regarding partnerships and research achievements. The Company closed the year up 11.4% at € 2.63.

#### **MANAGEMENT BOARD'S ASSESSMENT OF THE ECONOMIC SITUATION AND BUSINESS PERFORMANCE**

As a provider of drug discovery solutions Evotec's business performance is not directly impacted by the economic cycle. Regarding the healthcare market, developments in 2012 can be evaluated as mostly positive for the Company. The current and planned restructuring processes within big Pharma may lead to increased outsourcing by the pharmaceutical industry as it seeks to increase productivity and access innovation in research and development. Evotec anticipated this trend early and continues to improve and develop its drug discovery infrastructure to meet the customers' expectations. This has been rewarded by a growing customer base, increasing contract volumes as well as a high percentage of repeat business. Evotec's Action Plan 2016 provides innovation and solutions as the core of all its partnering activities and the Company continues to be one of the few drug discovery businesses that can execute a comprehensive outsourcing strategy, because of its highly integrated drug discovery capability.

# FINANCIAL REPORT

The 2011 and 2012 results are not fully comparable. The difference results from the acquisitions of Kinaxo Biotechnologies GmbH (Evotec (München) GmbH), effective 18 April 2011, and of Compound Focus, Inc. (Evotec San Francisco), effective 01 June 2011. While the results of Evotec (München) and Evotec San Francisco are fully included in the accompanying consolidated statements of operation for 2012, they were only partially included in the comparable period of the previous year: the results of Evotec (München) for the period 18 April 2011 through 31 December 2011 and of Evotec San Francisco for the period 01 June 2011 through 31 December 2011.

For further discussion on the Kinaxo Biotechnologies GmbH and Compound Focus, Inc. acquisitions and selected pro forma financial results, see Note 3 of the Consolidated Financial Statements.

## Condensed Income Statement

		2011	2012
Revenues	T€	80,128	87,265
Gross margin	%	43.7	35.6
— R&D expenses	T€	8,437	8,340
— SG&A expenses	T€	15,760	16,301
— Amortisation	T€	1,703	2,768
— Impairment result (net)	T€	557	3,505
— Other operating expenses (income)	T€	3,321	3,311
Operating income (loss)	T€	5,207	(3,202)
<i>Operating income (loss) adjusted*</i>	T€	5,764	1,401
<b>Net income (loss) total</b>	T€	<b>6,651</b>	<b>2,478</b>

\* *Operating result excl. impairments and reversal of impairments and changes in contingent considerations*

## Performance against Forecasts

	Forecast March 2012	Forecast June 2012	Final results
Revenues	€ 88–90 m	€ 88–90 m	€ 87.3 m
R&D expenses	~ € 10 m	~ € 10 m	€ 8.3 m
Operating result before impairment	Improved over 2011	Profitable but below 2011	Profitable but below 2011
Liquidity	> € 60 m	> € 60 m	€ 64.2 m

## COMPARISON OF 2012 FINANCIAL RESULTS WITH FORECAST

### SHIFT IN MILESTONE REVENUES LED TO REVISED PROFIT GUIDANCE

In Evotec's financial guidance for the full year 2012, as stated in the "Outlook" section of the 2011 annual report, total Group revenues were expected to achieve double-digit growth in percentage terms and exceed € 88 m. Total R&D expenditure was expected to be broadly in line with 2011 at approximately € 10 m. The operating result before impairment and changes in contingent consideration was expected to improve over 2011. At constant currencies, liquidity (cash and investments) was forecast to remain above € 60 m at the end of 2012, excluding any potential cash outflow for M&A or similar transactions.

Due to a shift in revenues from milestones from Q4 2012 into 2013, Evotec corrected on 19 October 2012 its original operating result guidance. The operating result before impairment and changes in contingent consideration for the financial year 2012 was then expected to be less than that achieved in 2011. However, the revenue and liquidity targets for 2012 remained unchanged.

The final results for the financial year 2012 were € 87.3 m in revenues, € 8.3 m in R&D expenses and € 64.2 m in liquidity. The operating result before impairment and contingent consideration amounted to € 1.4 m compared to the prior-year amount of € 5.8 m. The difference in 2012 compared to 2011 is attributable to a different revenue mix, driven primarily by a decrease in revenues from milestones, upfronts and licences, which have a higher than average margin contribution.



## RESULTS OF OPERATIONS

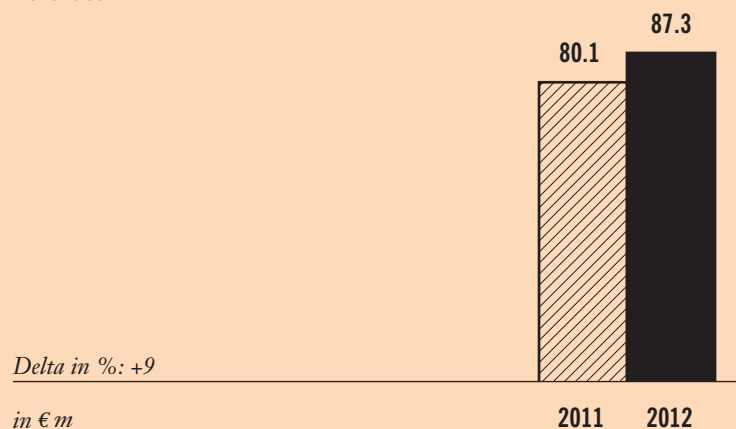
### REVENUES CONTINUED PROFITABLE GROWTH

Evotec Group revenues increased by 9% over the same period of the previous year to € 87.3 m (2011: € 80.1 m). Growth was driven by an increase in revenues within the Company's drug discovery alliances, contributions from acquisitions as well as foreign currency effects.

The total amount of milestone, upfront and licence payments achieved in Evotec's partnerships was € 20.7 m and decreased in comparison with last year's level (€ 25.2 m), mainly due to the high 2011 upfront payment from Roche (€ 6.9 m) as part of a development partnership for the treatment of Alzheimer's disease with EVT302 and a shift in revenue from milestones from Q4 2012 into 2013. Revenue contribution from the acquired businesses of Evotec (München) and Evotec San Francisco amounted to € 11.0 m (2011: € 8.0 m), leading to a like-for-like revenue growth of 6%. At constant 2011 foreign exchange rates the 2012 revenues would have amounted to € 83.2 m primarily due to the US dollar being stronger versus the Euro in 2012.

Key collaborations were announced in 2012 with Bayer, CHDI, Janssen and the NIH. In addition, the Company received two milestones through its long-standing collaboration with Boehringer Ingelheim and also received further milestones from collaborations with Andromeda/Teva, MedImmune/AstraZeneca, Novartis and Ono. Through these discovery alliances and development partnerships, the Company further strengthened its customer and revenue base and improved the foundation for future growth.

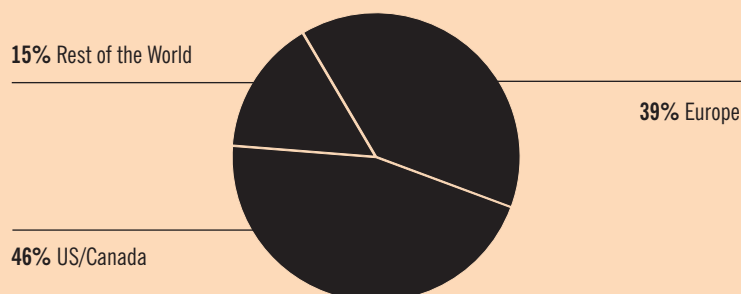
#### Revenues



Geographically, 39% of Evotec's revenues were generated with customers in Europe, 46% in the US and 15% in Japan and the rest of the world. This compares to 55%, 33% and 12%, respectively, in the same period of the previous year. Growth came primarily from the US due to an increase of the EVT Execute business (compound management and a large counter screening initiative with a pharmaceutical company) and an upfront payment from Janssen for the EVT100 compound family. The higher contribution of Japan and the rest of the world revenues to the Group revenues primarily reflects the contribution from the DiaPep277<sup>®</sup> milestone from

Andromeda/Teva. The lower contribution of European revenues to Group revenues resulted primarily from the recognition in 2011 of the upfront payment for EVT302 and the remainder of the upfront payment for the EVT100 compound family from Roche and from lower milestone payments in 2012 from Boehringer Ingelheim.

#### Revenues by Region



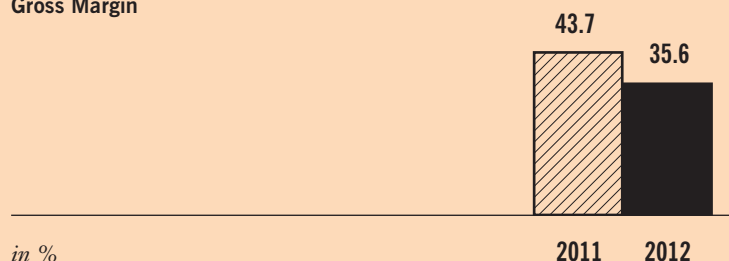
### COSTS OF REVENUE/GROSS MARGIN RAMP-UP OF EVT EXECUTE BUSINESS AND DIFFERENT REVENUE MIX AFTER ACQUISITIONS

Costs associated with the Group's revenues include the cost of personnel directly associated with revenue-generating projects, facilities and overhead used to support those projects and materials consumed in the provision of the product or service. The relative significance of these cost types varies with the service or product provided – for example, laboratory-based projects require higher personnel cost but may require smaller quantities of materials, whereas screening projects involve lower personnel cost but higher relative facility and material costs.

Costs of revenue increased by 25% to € 56.2 m (2011: € 45.1 m) yielding a gross margin of 35.6% (2011: 43.7%). The 8.1% point margin difference in 2012 compared to 2011 is mainly attributable to the decrease in revenues of milestones, upfronts and licences, which have high margin contribution as a percentage of total revenues. In addition, the ramp-up of capacities in EVT Execute, the move into the new Manfred Eigen Campus in Hamburg at the start of 2012 and lower margin compound management revenues following the acquisition of the Evotec San Francisco business reduced the overall gross margin.

Overall, the Company's revenue mix will lead to a continued lower level of gross margin going forward compared to previous years. In addition, gross margins in the future may continue to be volatile and significantly depend on the amount and timing of potential milestone or out-licensing revenues.

#### Gross Margin



**RESEARCH AND DEVELOPMENT EXPENSES**  
**BUILD-UP OF CURE X INITIATIVES AND**  
**INVESTMENTS IN PLATFORM R&D**

R&D expenditure amounted to € 8.3 m (2011: € 8.4 m). Evotec's unfunded research focused on selected discovery projects in the key areas of CNS, oncology, inflammation, metabolic and kidney disease such as the CureBeta and CureNephron alliances with Harvard University. These projects progressed according to plan, with the primary focus being on delivering compounds to the clinical pipeline in future years and preparing selected programmes for partnering. The CureBeta initiative was successfully partnered with Janssen in July 2012, and since that date the Evotec employees working on the collaboration have been funded by Janssen. The earlier than expected partnering of CureBeta was the main reason that R&D expenditure in 2012 was at the lower end of the guidance. Internal discovery projects accounted for 36% (2011: 22%) of total R&D spending, while R&D to support specific platform technologies accounted for 23% (2011: 13%) of total R&D expenditure. Platform R&D was primarily focused to expand Evotec's already broad discovery and biomarker platforms, including antibody screening following the strategic partnership with 4-Antibody and the development of methylomics capabilities to strengthen its epigenomics platform. Clinical R&D expenditure declined to 6% (2011: 30%) of the total R&D spending. The reason for this decrease is that the previous year still included the expenses for the continuation of a study with the EVT100 series after the termination of the Roche collaboration and also costs for the manufacture of EVT501. Finally, 35% (2011: 35%) of total R&D expenditure categorised as overhead consisted of patent costs as well as the expenses for managing the early discovery programmes and the platform technologies (see table below).

**R&D Expenses by Categories**

T€	2011	2012
Clinical projects	2,512	516
Discovery projects *	1,897	2,972
Platform R&D	1,101	1,942
Overhead expenses	2,927	2,910
<b>Total</b>	<b>8,437</b>	<b>8,340</b>

\* Discovery projects are those that have not reached the clinical phase

For a more detailed description of Evotec's R&D activities and key R&D facts and figures, including a five-year overview of the R&D key financials, see also "Research and development – activities" on page 34 of this report).

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**  
**THE IMPACT OF ACQUISITIONS AND INVESTMENT IN THE**  
**BUSINESS DEVELOPMENT TEAM**

Selling, general and administrative (SG&A) expenses of the Group increased by 3% to € 16.3 m (2011: € 15.8 m). This is primarily due to the higher cost base following the acquisitions of Evotec (München) and Evotec San Francisco, an increase in the size of the Business Development team as well as foreign currency effects.

**SG&A Expenses**



**OPERATING INCOME/EXPENSES APART**  
**FROM R&D AND SG&A**

In 2012, amortisation increased to € 2.8 m, compared to € 1.7 m in the previous year. This was primarily due to the amortisation of the customer list of Evotec San Francisco as well as the amortisation of the 4-Antibody licence.

The impairment in the amount of € 3.5 m is primarily a result of a decision made by Pfizer Inc ("Pfizer") to terminate the VR1 programme following its recent portfolio review (for more details, see also "Impairment review" on page 57 of this report).

In October 2012, Evotec received notice that the partnering agreement for EVT401 with an animal health company was terminated following a portfolio review. This development required the fair value of the asset to be recalculated on the basis of an assessment of future partnering prospects as at Q4 2012. The valuation supported the intrinsic value of this programme. The licence and collaboration agreement for EVT401 in an animal health indication had been signed in Q3 2011 and was a triggering event that resulted in a reversal of impairment of intangible assets of € 1.5 m in 2011.

Other operating income and expenses, net in 2012 of € (3.3) m (2011: € (3.3) m) resulted primarily from three effects:

1. Expense of approximately € 2.3 m from the parallel rental in Hamburg for the old facility and the new Manfred Eigen Campus and the resulting planned under-utilisation of parts of those buildings during the transition period.
2. Expense of € 2.3 m relating to the fair value adjustment in the context of the contingent consideration (earn-out) due to the sellers of Evotec (Göttingen), primarily due to EVT770 reaching pre-clinical development candidate stage in the collaboration with MedImmune/AstraZeneca.
3. Income of € 1.2 m relating to the fair value adjustment in the context of the contingent consideration (earn-out) due to the sellers of Evotec San Francisco.

**OPERATING RESULT**  
**AFTER ADJUSTMENTS POSITIVE BUT BELOW 2011**

Evotec's operating result for 2012 amounted to € (3.2) m (2011: € 5.2 m). In addition to a lower gross profit, 2012 included an impairment of intangible assets in the amount of € 3.5 m, while the prior year period included a net impairment of only € 0.6 m. In line with the latest guidance, the operating result before impairment and changes in contingent consideration was positive at € 1.4 m (2011: € 5.8 m). It remained below the prior year mainly due to the lower gross profit as explained above.

Operating Result



a loss of € 1.2 m in 2012, the prior year period was positively impacted by a gain of € 1.4 m which was recorded in accordance with IAS 21 as a result of the reduction in the capital reserve of one subsidiary due to the payment of a dividend to Evotec AG.

The earn-outs, which are related to the Evotec (Göttingen), Evotec (München) and Evotec San Francisco acquisitions, caused interest expenses in the amount of € 1.1 m (2011: € 1.3 m) because of the unwind of the discount since the acquisition date. The interest result, excluding the interest expenses related to earn-outs, amounted to € 0.1 m (2011: interest expense of € 0.2 m).

**NET RESULT**  
**STRONG DEFERRED TAX INCOME**

Net income amounted to € 2.5 m (2011: € 6.7 m). The improvement over the operating result primarily resulted from significant deferred tax income (see below).

The tax result amounted to € 7.5 m in 2012 (2011: € 1.4 m). In 2012, Evotec incurred a deferred tax income of € 8.3 m (2011: € 2.5 m); thereof € 4.8 m was due to the merger of Evotec (Göttingen) with Evotec NeuroSciences to Evotec International GmbH. As a result of the merger losses carried forward of Evotec NeuroSciences can be used to a higher level than anticipated at the end of 2011.

The total non-operating result amounted to € (1.8) m (2011: € 0.0 m). It decreased primarily due to exchange rate effects. While Evotec recorded

Multiple-year overview results of operations

in T€	2008	2009	2010	2011	2012
<b>Revenues</b>	<b>39,613</b>	<b>42,683</b>	<b>55,262</b>	<b>80,128</b>	<b>87,265</b>
Cost of revenues	21,977	24,262	30,916	45,143	56,242
<b>Gross profit</b>	<b>17,636</b>	<b>18,421</b>	<b>24,346</b>	<b>34,985</b>	<b>31,023</b>
Research and development expenses	42,537	20,947	6,116	8,437	8,340
Selling, general and administrative expenses	19,950	16,695	15,956	15,760	16,301
Amortisation of intangible assets	553	455	672	1,703	2,768
Impairment of goodwill (net)	20,288	48	-	-	-
Impairment of intangible assets (net)	7,295	18,185	-	557	3,505
Impairment of tangible assets (net)	-	(395)	-	-	-
Restructuring expenses	132	4,849	-	-	-
Other operating income and expenses (net)	91	(64)	(113)	3,321	3,311
<b>Operating result</b>	<b>(73,210)</b>	<b>(42,299)</b>	<b>1,715</b>	<b>5,207</b>	<b>(3,202)</b>
<b>Operating result adjusted *</b>	<b>(45,627)</b>	<b>(24,461)</b>	<b>1,715</b>	<b>5,764</b>	<b>1,401</b>
Non-operating income and expense (net)	(2,760)	(2,520)	2,152	49	(1,812)
<b>Profit (loss) before taxes</b>	<b>(75,970)</b>	<b>(44,819)</b>	<b>3,867</b>	<b>5,256</b>	<b>(5,014)</b>
Tax income (expense)	(2,317)	(678)	(882)	1,395	7,492
<b>Net result</b>	<b>(78,287)</b>	<b>(45,497)</b>	<b>2,985</b>	<b>6,651</b>	<b>2,478</b>
Gross margin	44.5 %	43.2 %	44.1 %	43.7 %	35.6 %
Operating margin	(184.8 %)	(99.1 %)	3.1 %	6.5 %	(3.7 %)
Operating margin adjusted	(115.2 %)	(57.3 %)	3.1 %	7.2 %	1.6 %
EBITDA margin	(165.8 %)	(51.4 %)	18.1 %	17.3 %	6.3 %
R&D cost ratio	107.4 %	49.1 %	11.1 %	10.5 %	9.6 %
SG&A cost ratio	50.4 %	39.1 %	28.9 %	19.7 %	18.7 %
Personnel costs to total costs	34.1 %	41.1 %	45.8 %	42.9 %	42.2 %

\* Operating result excl. impairments and reversal of impairments and changes in contingent considerations

**Net Result**

This translates into a total net income per share for Evotec of € 0.02 (2011: € 0.06) based on a weighted average number of shares of 117,295,847 (2011: 116,022,213).

## FINANCING AND FINANCIAL POSITION

### FINANCIAL MANAGEMENT PRINCIPLES

Evotec manages its financial resources to support its strategy of providing integrated and innovative drug discovery solutions and alliances to the pharmaceutical and biotechnology industry. When appropriate, the Company utilises selected debt financing and has historically raised capital through the issuance of new shares, most recently for the acquisition of Kinaxo Biotechnologies GmbH in 2011 that expanded the Company's drug discovery offering. Evotec maintains a high and fairly stable level of liquidity to finance its expanding drug discovery alliance business and to fund proprietary R&D if deemed necessary to kick-start such alliances. Apart from bank debt, the Company has no major long-term financial obligations or liabilities.

Capital expenditure proposals are carefully evaluated by management to ensure that they are consistent with the business strategy, by either maintaining or enhancing the Company's technology platforms and its proprietary research. In addition, each capital investment is assessed in terms of expected financial return. Capital investments are expected to be financed from the cash generated by the operating business.

Evotec is currently well financed and has no plans or need to raise capital in the near- to mid-term to support its ongoing business and operations. However, the option of increasing capital may always be considered. This might be the case if new opportunities arise in terms of M&A, in-licensing or R&D investments requiring additional financing. The Company does not intend to engage in projects unless adequate funding is allocated or secured.

### CASHFLOW STRONG OPERATING CASH FLOW

Group *cash flow provided by operating activities* improved significantly in 2012 compared to the prior year. It was positive at € 12.0 m (2011: € 10.1 m) and this was due to the € 12.0 m upfront payment received from Bayer in the fourth quarter of 2012.

*Cash flow provided by investing activities* was € 5.8 m (2011: € (15.1) m). The proceeds from sale of current investments in the amount of € 81.4 m were reinvested in the amount of € 62.5 m. Through the sale of these investments capital expenditures, earn-out payments and a technical access fee to an antibody platform were financed. Capital expenditures remained at a similar level to 2011 and amounted to € 8.2 m (2011: € 8.1 m). Earn-out payments to the former Evotec (München) and Evotec San Francisco shareholders amounted to € 3.0 m. To obtain access to 4-Antibody's antibody platform Evotec paid € 2.0 m.

*Net cash flow provided by financing activities* amounted to € 2.6 m (2011: € 2.1 m) and related mainly to a net increase in bank loans (€ 1.9 m) and to proceeds from stock options exercise (€ 0.8 m). The Company successfully increased its access to debt financing during 2012 and further improved the terms and conditions on which this financing is or will be made available.

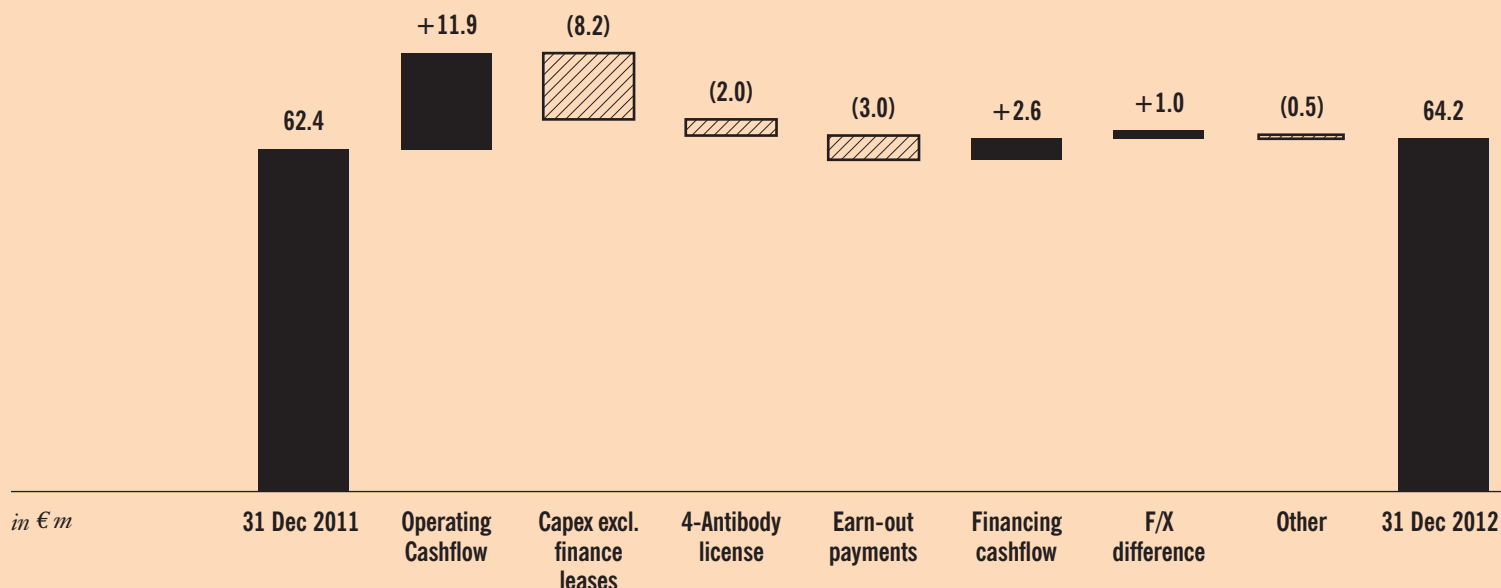
The impact of exchange-rate movements on the net increase in cash and cash equivalents in 2012 was € 1.0 m. This was primarily due to the US dollar strengthening against the Euro.

#### Condensed Statement of Cash Flows

in T€	2011	2012
<b>Net cash provided by (used in)</b>		
– Operating activities	10,146	11,957
– Investing activities	(15,068)	5,775
– Financing activities	2,139	2,603
<b>Net increase/decrease in cash and cash equivalents</b>	<b>(2,783)</b>	<b>20,335</b>
Exchange rate difference	(531)	953
<b>Cash and cash equivalents</b>		
– At beginning of year	21,091	17,777
– <b>At end of year</b>	<b>17,777</b>	<b>39,065</b>
– Investments	44,651	25,094
<b>Liquidity at end of year</b>	<b>62,428</b>	<b>64,159</b>

The year-on-year change in liquidity at year end can be summarised as follows:

**Liquidity Development**

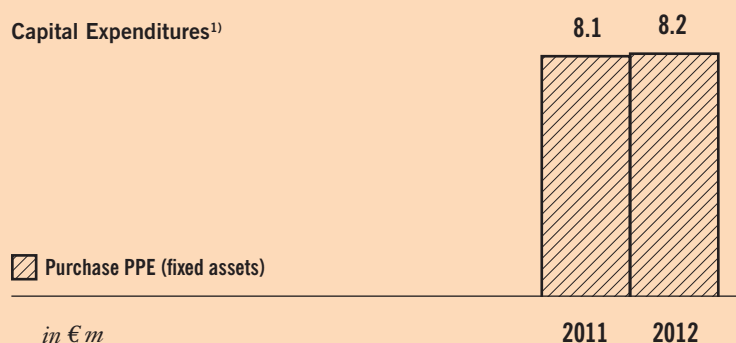


**CAPITAL EXPENDITURES  
SIGNIFICANT INVESTMENT TO  
UPGRADE EVOTEC'S CAPACITIES**

Capital expenditures in 2012 amounted to € 8.2 m (2011: € 8.1 m) with the investments being made in the following three key areas:

- i) New areas of instrumentation to support Evotec's drug discovery offering and to keep Evotec at the cutting edge of scientific innovation. Areas invested in included high content and biophysical screening, protein production, structural biology and *in vivo* pharmacology.
- ii) Replacing and upgrading old equipment to ensure that Evotec's employees are working with best-in-class instrumentation. Areas invested in included screening, chemical purification and analysis and ADMET.
- iii) Fitting out the new Manfred Eigen Campus in Hamburg. Although Evotec leased a fitted-out facility, investment has been required in 2012 to house the *in vivo* pharmacology.

**Capital Expenditures<sup>1)</sup>**



<sup>1)</sup> Without finance leases

**COST OF CAPITAL  
WEIGHTED AVERAGE COST OF  
CAPITAL SIMILAR TO 2011**

Evotec calculates the cost of capital according to the debt/equity ratio at the end of the year using the weighted average cost of capital (WACC) formula. The cost of equity capital is the return expected by stockholders, computed from capital market information. Evotec's peer group is predominantly equity-financed and as a result the WACC of these peer group companies is purely based on the cost of equity capital. The Evotec model uses the yield on long-term risk-free bonds, increased by the risk premium typical for investments in the equity market as well as the beta factors of Evotec's peer group. The risk premium comprises a general market risk and a specific business risk. The analysis period for the beta factor calculation spans five years, with annual beta figures determined on a weekly basis and an average subsequently being calculated.

To take into account the different risk and return profiles, Evotec calculates individual post-tax capital cost factors for its different product categories. In 2012, these ranged from 10.5% for the Company's drug discovery and development programmes (2011: 10.3%) to between 8.3% and 10.5% (2011: 7.8% to 10.8%) for the Company's service entities also taking into account the location and the country-specific risk.

**LIQUIDITY AND HEDGING  
LIQUIDITY AT € 64 M; € 2 M CASH GAIN DESPITE  
SIGNIFICANT INVESTMENTS**

Evotec ended 2012 with a liquidity of € 64.2 m (2011: € 62.4 m), which is composed of cash and cash equivalents (€ 39.1 m) and of investments

(€ 25.1 m). Cash and cash equivalents as well as short-term investments can all be accessed within a period of less than three months. Due to the strong cash provided by operating activities, liquidity improved by

€ 1.8 m despite significant investments in capital expenditures as well as technical access fees and earn-out payments.

The following is a historic trend of the Company's year-end liquidity.

#### Liquidity as of 31 December

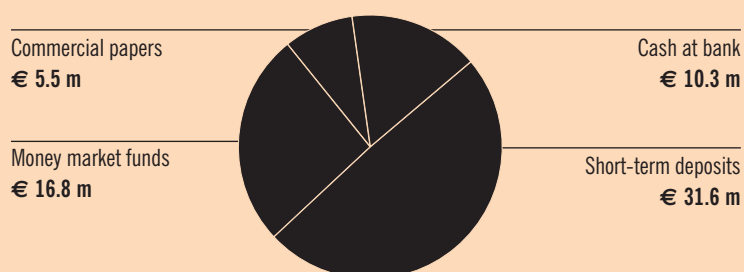
in T€	2008	2009	2010	2011	2012
Cash and cash equivalents	55,064	32,926	21,091	17,777	39,065
Short-term investments	29,034	25,432	46,303	44,651	25,094
Long-term financial investments	8,303 <sup>1)</sup>	12,236 <sup>1)</sup>	3,007	0	0
<b>Total liquidity</b>	<b>92,401</b>	<b>70,594</b>	<b>70,401</b>	<b>62,428</b>	<b>64,159</b>

<sup>1)</sup> incl. auction rate securities

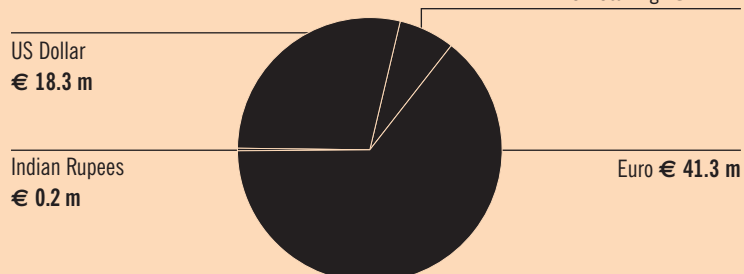
Deposits are primarily held in the three major currencies in which the Group trades – Euro, Pound Sterling and US dollar (see pie chart below). In 2012, approximately 50% of the Company's revenues were generated in US dollars and approximately 45% of its cost of goods sold was in Pound Sterling. The primary risk exposure of the Group relates to these two currencies. Evotec uses forward contracts and spot transactions to convert US dollars to Pound Sterling to address this risk. At 31 December 2012, the Company held forward contracts until the end of 2013 in the amount of \$ 24 m. During 2012, the currency holdings in US dollars increased from € 11.8 m at the end of 2011 to € 18.3 m at the end of 2012. The currency holdings in Pound Sterling and Indian Rupees were kept at a low level, with the objective of having sufficient available cash to meet short-term local operating needs.

Evotec actively manages its funds to maximise the return while seeking to maintain principal preservation and liquidity. Evotec's cash and investments are held at several different banks. Financial investments are made only in liquid instruments in low-risk products or financial institutions rated A- or better (Standard & Poor's ratings or equivalent).

#### Liquidity by Investment Type



#### Functional Currency Holdings



### A CONTINUED CHALLENGING CASH MANAGEMENT ENVIRONMENT

The Evotec Group is exposed to both translational and transactional foreign currency risk.

The translational foreign currency risk is the exchange rate risk associated with companies that deal in foreign currencies or list foreign assets on their balance sheets. Evotec's translation exposure primarily relates to the conversion of the income statements and balance sheets of its UK, US and Indian-based subsidiaries into the reporting currency, the Euro. The subsidiaries have a Pound Sterling, US dollar and Indian Rupees-denominated cost and asset base, respectively. The Company does not use financial instruments to hedge its translation exposures. The cash translation exposure in Pound Sterling is justified and mitigated by anticipated future costs denominated in Pound Sterling.

Transactional risk is the exchange-rate risk associated with the time delay between entering into a contract and settling it. Operating units are exposed to transactional risks arising from revenues and expenses denominated in currencies other than those of the local currency. The foreign exchange gain or loss shown in the Financial Statements is derived from the gains and losses on transactions denominated in a currency other than the local currency, the change in the value of foreign currency assets and liabilities recalculated into local currency at the balance sheet date and fair-value adjustments relating to financial instruments held. The Company uses forward contracts to hedge its transaction exposures.

The US dollar strengthened throughout the year against the Euro in comparison with the 2011 exchange rates. This had a positive impact of € 3.4 m on 2012 revenues. Pound Sterling strengthened slightly against the Euro in the first quarter and significantly from the second quarter to the fourth quarter in comparison with the prior year. This negatively affected the cost base of the UK operations in Euro terms and had a negative impact on 2012 gross profit of € 0.9 m. Overall, gross margin improved by 0.4 percentage points because of FX movements in 2012.

To protect against adverse currency movements, the Company entered into forward contracts, selling US dollars against Pound Sterling. This resulted in a realised gain in 2012 of T€ 27.

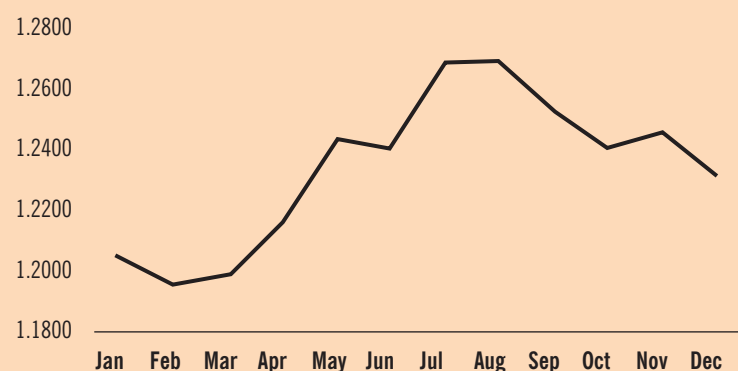
These were exclusively forward contracts selling US dollars for Pound Sterling, all with a maturity of less than 12 months.

### AVERAGE MONTHLY EXCHANGE RATES OF THE COMPANY'S THREE MAJOR CURRENCIES

The notional amounts of currency-related derivative financial instruments held at 31 December 2012 were \$ 24.0 m (2011: \$ 6.0 m).

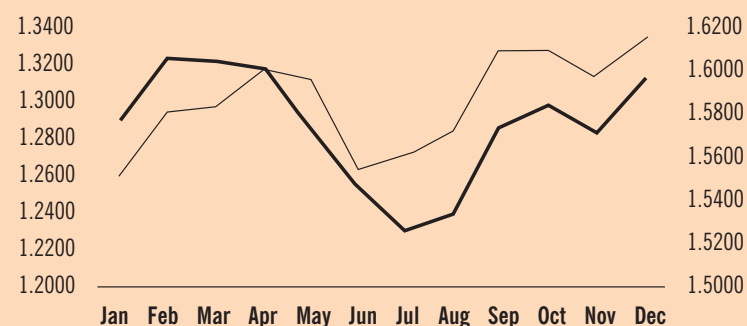
As a tool to manage short-term and medium-term liquidity, the Company makes use of short- and long-term bank loans. During 2012, the sum of debt instruments – including both long-term and current portions – was increased by € 1.9 m to € 17.4 m at 31 December 2012 (2011: € 15.5 m). The currency of these year-end debt positions were € 17.4 m in Euro (2011: € 15.5 m in Euro and T€ 7.0 in Pound Sterling).

1 £ = x €  
GBP vs. Euro 2012



Average monthly foreign exchange rates; Source: www.oanda.com

1 € = x \$  
Euro/GBP vs. US Dollar 2012



Average monthly foreign exchange rates; Source: www.oanda.com

### Multiple-year overview financial position

in T€	31 Dec 2008	31 Dec 2009	31 Dec 2010	31 Dec 2011	31 Dec 2012
Liquidity *	92,401	70,594	70,401	62,428	64,159
Debt	11,328	13,205	11,997	15,566	17,402
<b>Net liquidity</b>	<b>81,073</b>	<b>57,389</b>	<b>58,404</b>	<b>46,862</b>	<b>46,757</b>
Current liabilities	21,826	26,445	32,802	42,833	33,882
Non-current liabilities	11,215	8,667	26,420	28,135	38,998
Shareholder's equity	149,859	111,487	132,637	147,245	152,547
<b>Total liabilities and shareholder's equity</b>	<b>182,900</b>	<b>146,599</b>	<b>191,859</b>	<b>218,213</b>	<b>225,427</b>
Cash flow from operating activities	(41,278)	(21,853)	899	10,146	11,957
Cash flow from investing activities	61,049	(2,077)	(9,877)	(15,068)	5,775
Cash flow from financing activities	(4,309)	1,520	(3,367)	2,139	2,603
Movements in investments and fx-differences	(42,867)	603	12,152	(5,190)	(18,604)
<b>Net increase/decrease in liquidity</b>	<b>(27,405)</b>	<b>(21,807)</b>	<b>(193)</b>	<b>(7,973)</b>	<b>1,731</b>
Capital expenditures	3,514	2,087	2,433	8,139	8,175
Investment rate	18.9 %	11.3 %	12.7 %	44.0 %	32.8 %
Capex to write-downs	82.6 %	57.8 %	59.4 %	180.7 %	135.2 %

\* Cash and cash equivalents and investments in 2008 and 2009 including auction rate securities

## ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY

### ACQUISITIONS

In the year under review, Evotec has made no acquisition (purchase of companies or shares in companies).

With effect from 01 January 2013, Evotec AG acquired CCS, a Hamburg-based company which supports the cell culture needs of a worldwide customer base of biotech and pharmaceutical companies. The purchase price consists of a cash consideration of € 1.15 m and a potential earn-out component targeting € 1.4 m in cash. The earn-out payment may become due one year after the acquisition date and depends upon the achievement of certain revenue targets.

### CAPITAL STRUCTURE EQUITY INCREASE OF 3% THROUGH POSITIVE NET RESULT AND STOCK OPTIONS

In 2012, Evotec's share capital increased by 0.2% to € 118.5 m (31 December 2011: € 118.3 m) and additional paid-in capital by 0.3% to € 665.9 m (31 December 2011: € 663.8 m) due to the exercise of stock options. Total equity increased to € 152.5 m (31 December 2011: € 147.2 m) primarily because of the positive net result and the exercise of the options.

In 2012, no stock options were granted to Evotec employees (2011: 2,731,050 options) and a total of 761,328 options (2011: 122,732 options) were exercised. As of 31 December 2012, the total number of options available for future exercise amounted to 5,609,957 (approximately 5% of shares in issue). Options have been accounted for under IFRS 2 using the fair value at the grant date.

To further incentivise executives via variable long-term incentive compensation, the Annual General Meeting in June 2012 approved the contingent capital necessary to support a Share Performance Plan 2012 (SPP 2012). During the third quarter of 2012, a total of 909,693 awards were granted to the Management Board and key employees under SPP 2012. These awards could result in a maximum of 1,818,386 bearer shares being issued at maturity. Stock-based compensation is described in detail in chapter "Employees" on page 61.

Evotec's equity ratio continued to be strong, amounting to 67.7% at the end of 2012 (2011: 67.5%).

## ASSETS AND LIABILITIES INCREASE IN DEFERRED REVENUES WITH BAYER AND JANSSEN – RESULTING IN REVENUES IN THE FOLLOWING YEARS

The Company's total assets increased by € 7.2 m to € 225.4 m as of 31 December 2012 (31 December 2011: € 218.2 m).

Current assets as of 31 December 2012 increased by € 7.1 m to € 88.1 m (31 December 2011: € 81.0 m). This was primarily due to an increase in trade accounts receivable from € 10.4 m (31 December 2011) to € 15.1 m at the end of December 2012. The 2012 position included milestones and upfront payments in the amount of € 7.0 m (2011: € 2.5 m). Inventories decreased by € 1.2 m to € 2.4 m (31 December 2011: € 3.6 m) because of a lower level of work in progress at the balance sheet date.

Deferred tax asset increased to € 2.8 m (31 December 2011: € 2.4 m) due to the merger of Evotec (Göttingen) with Evotec NeuroSciences to Evotec International GmbH. As a result of the merger losses carried forward of Evotec NeuroSciences can be used to a higher level than anticipated at the end of 2011. The changes in the liquidity position are explained in "Financing and financial position" on page 53.

Property, plant and equipment increased by € 2.3 m to € 27.2 m in 2012 (31 December 2011: € 24.9 m), because of capital investments exceeding depreciation. This was due to investments in Evotec's technology platforms and capacity expansion in order to support growth.

Goodwill and intangibles decreased by € 4.3 m to € 105.6 m (31 December 2011: € 109.9 m) driven by impairments of intangible assets and different fx-rates at the balance sheet dates. The major reason for the decrease was the impairment of the VR1 antagonist programme.

In 2012, current liabilities decreased by € 8.9 m to € 33.9 m (31 December 2011: € 42.8 m) mainly as a result of a € 3.8 m decrease in trade accounts payable. At 31 December 2011, trade accounts payable had a higher level because capex and construction work related to the fit-out of the new facility in Hamburg. Current provisions decreased from € 11.0 m to € 6.9 m mainly due to payments and releases of earn-out obligations. The current portion of deferred revenues decreased by € 0.3 m to € 5.5 m. The short-term portion of loans remained unchanged at € 13.2 m.

Total non-current liabilities increased by € 10.9 m to € 39.0 m at 31 December 2012 (31 December 2011: € 28.1 m). The upfront payments from Bayer and Janssen have primarily a non-current portion. Consequently, non-current deferred revenues increased significantly to € 12.5 m (31 December 2011: € 0.0 m). Non-current provisions increased from € 14.6 m to € 18.8 m and relate mainly to potential earn-out payments. Deferred tax liabilities decreased by € 7.8 m to € 2.1 m due to the merger of Evotec (Göttingen) with Evotec NeuroSciences to Evotec International GmbH which resulted in the use of Evotec NeuroSciences tax loss carry-forwards to cover parts of the deferred tax liability. The long-term portion of loans increased by € 1.8 m to € 4.2 m at 31 December 2012 (31 December 2011: € 2.4 m).



**Condensed Balance Sheet**

in T€	2011	2012
Cash, cash equivalents and investments	62,428	64,159
Trade account receivables	10,393	15,053
Inventories	3,556	2,445
Other current assets	4,521	6,447
Deferred tax assets	2,373	2,815
Property, plant and equipment	24,946	27,181
Assets held for sale	62	-
Intangible assets and goodwill	109,854	105,608
Other non-current assets	80	1,719
<b>Total assets</b>	<b>218,213</b>	<b>225,427</b>
Current maturities of loans and finance leases	13,206	13,224
Trade account payable	10,134	6,363
Current provisions	11,045	6,914
Other current liabilities	8,448	7,381
Long-term loans and finance leases	2,360	4,178
Deferred tax liabilities	9,904	2,099
Other long-term liabilities	15,871	32,721
Liabilities held for sale	-	-
Total stockholders' equity	147,245	152,547
<b>Total liabilities and stockholders' equity</b>	<b>218,213</b>	<b>225,427</b>

**Working Capital Calculation**

in T€	2011	2012
Trade account receivables	10,393	15,053
Inventories	3,556	2,445
Other current assets	4,521	6,447
<b>Assets</b>	<b>18,470</b>	<b>23,945</b>
Trade account payable	10,134	6,363
Current provisions	11,045	6,914
Other current liabilities <sup>1)</sup>	8,448	7,381
<b>Liabilities</b>	<b>29,627</b>	<b>20,658</b>
<b>Working Capital</b>	<b>(11,157)</b>	<b>3,287</b>
<b>Δ Working Capital</b>		<b>14,444</b>

<sup>1)</sup> Excluding loans and finance leases

**INTANGIBLE ASSETS  
INTANGIBLE ASSETS ACCOUNTED FOR**

Intangible assets, excluding goodwill, include separately identified intangible assets, such as developed technologies, customer list, patents and licences, which were acquired in business combinations and also purchased licences and patents.

**IMPAIRMENT REVIEW**

The Company performed its annual regular review of tangible and intangible assets for potential impairment in accordance with IFRS during the final quarter of 2012.

During this annual regular review, Evotec also performed an impairment review of the intangible assets acquired in the acquisition of Renovis, Inc. in 2008. As a result, an impairment charge of € 3.1 m was taken against the VR1 antagonist programme. This was due to Evotec's partner Pfizer terminating the programme and contract in Q4 2012 after a portfolio review.

No impairment was deemed necessary for either goodwill or any of the other intangible assets

**ASSETS/LIABILITIES  
NOT ACCOUNTED FOR**

The assets of a company not only consist of quantifiable components, but also of elements that can only be described in qualitative terms. The employees of the Company are the most important asset in ensuring the continued operation and success of Evotec (this theme is covered in more detail on page 59 in chapter "Employees").

Excellent customer relationships are also critical to the success of Evotec. Respectability, reliability and continuity are indispensable determinants of customer relationships. Therefore, the Company not only has a grown customer base, but is also able to use its long-standing experience to quickly establish a successful business relationship with new customers (the most important customer relationships are described in more detail on page 34 in chapter "Research and development" and the five-year trend analysis of Evotec's performance in such alliances is shown in the description of the Company Sustainable Development Key Performance Indicator 1 on page 43 in chapter "Performance measurement").

In addition, the quality and continuity of Evotec's supplier relationships are highly significant to the Company's success. Evotec collaborates with more than 1,300 vendors throughout the world.

With its broad market acceptance and the high market penetration, the Evotec brand represents an intangible asset for the Company. The positive image of the brand among customers, vendors and employees, which has been built up over many years, is very important for the Group's business success.

**OFF-BALANCE-SHEET FINANCING INSTRUMENTS  
AND FINANCIAL OBLIGATIONS**

The Company is not involved in any off-balance-sheet financing instruments in the sense of the sale of receivables, asset-backed securities, sale and lease-back transactions or contingent liabilities in relation to special-purpose entities not consolidated. Evotec only has operating leases for IT equipment and company vehicles. These instruments have no material impact on the economic position of the Company.

At 31 December 2012 the Company had minimum operating lease obligations in the amount of € 37.7 m (31 December 2011: € 37.7 m). The majority of the operating lease obligations are related to rent expenses for facilities.

Other commitments and contingencies consist of consultancy agreements, purchase commitments and guarantees. The future minimum payments resulting from those long-term commitments and contingencies total approximately € 5.5 m (31 December 2011: € 3.7 m) (see note 32 a and b).

The Company has licensed or acquired certain third-party intellectual property for use in its business. Under these agreements, the Company is required to pay milestones, dependent on development progress and/or royalties and milestones dependent on present and future net income or on sub-licensing fees received from third parties.

The Company is obliged under an agreement with a third party to provide consulting service free of charge upon request of the third party.

#### Multiple-year overview balance sheet structure

in T€	31 Dec 2008	31 Dec 2009	31 Dec 2010	31 Dec 2011	31 Dec 2012
Cash, cash equivalents and short-term investments	84,098	58,358	67,394	62,428	64,159
Trade accounts receivables	2,531	4,510	11,869	10,393	15,053
Other current assets	6,449	6,089	7,429	8,139	8,892
Property, plant and equipment	18,468	19,162	18,487	24,946	27,181
Intangible assets, excluding goodwill	47,167	29,010	57,615	67,652	63,266
Goodwill	13,288	16,557	25,979	42,202	42,342
Other non-current assets *	10,899	12,913	3,086	2,453	4,534
<b>Total assets</b>	<b>182,900</b>	<b>146,599</b>	<b>191,859</b>	<b>218,213</b>	<b>225,427</b>
Loans and finance leases	11,328	13,205	11,997	15,566	17,402
Trade accounts payable	6,371	4,398	6,980	10,134	6,363
Provisions	7,638	5,690	19,378	25,663	25,731
Deferred revenues	1,818	7,452	11,181	5,884	18,064
Other financial liabilities	5,886	4,367	9,686	13,721	5,320
Shareholder's equity	149,859	111,487	132,637	147,245	152,547
<b>Total liabilities and shareholder's equity</b>	<b>182,900</b>	<b>146,599</b>	<b>191,859</b>	<b>218,213</b>	<b>225,427</b>
Working capital	(13,707)	(6,530)	(5,039)	(8,784)	3,287
Current ratio	4.26	2.61	2.64	1.95	2.60
Receivables turnover	15.65	9.46	4.66	7.71	5.80
Intangibles and goodwill to total assets	33.1 %	31.1 %	43.6 %	50.3 %	46.8 %
Provisions to total liabilities and shareholder's equity	4.2 %	3.9 %	10.1 %	11.8 %	11.4 %
Equity ratio	81.9 %	76.0 %	69.1 %	67.5 %	67.7 %

\* 2008 and 2009 including auction rate securities

#### MANAGEMENT BOARD'S GENERAL ASSESSMENT OF EVOTEC'S ECONOMIC SITUATION

Evotec has achieved continued profitable growth in 2012 with revenues up 9% primarily driven by an increasing underlying business from drug discovery alliances, contributions from acquisitions and favourable foreign currency effects.

However, contributions from high-margin success-based payments decreased following a shift in revenues from milestones from Q4 2012 into 2013. This had a negative effect on profitability compared to Evotec's 2012 guidance and compared to 2011, which also included

a significant upfront payment from Roche. In addition, there was a ramp-up of capacities in EVT Execute and lower margin compound management revenues contributed as well.

As a result, the overall gross margin declined by approximately 8% compared to 2011. Consequently, Evotec corrected on 19 October 2012 its original operating result guidance. The operating result before impairment and changes in contingent consideration for the financial year 2012 was then expected to be less than that achieved in 2011. The operating result achieved at year-end was in line with this corrected guidance at € 1.4 m.

R&D expenses were kept in line with guidance and continued to be focused on selected promising discovery projects.

SG&A expenses increased only slightly compared to the prior year primarily due to the higher cost base following the acquisitions of Evotec (München) and Evotec San Francisco.

Evotec's liquidity and equity ratio continued to be strong at € 64.2 m and 68%, respectively.

In summary, Evotec achieved solid progress in 2012 and the business is on track to reach the goals of Action Plan 2016 as outlined on page 41 of this report. The Company anticipates strong revenue growth and increased profitability in 2013.

For a detailed discussion of the 2012 results compared to guidance please refer to chapter "Comparison of 2012 financial results with forecast" on page 48.

### **JUDGEMENTS BY MANAGEMENT**

The accounting policies have been applied consistently to all periods presented in the consolidated financial statements and have been applied consistently by all entities except as explained in the section "Recent pronouncements" in the notes to the consolidated financial statements, which addresses changes in accounting policies. Information on the effects of the use of estimates, changes in assumptions and judgements by management can be found in the notes to the consolidated financial statements.

# EMPLOYEES

To be a leader in the provision of drug discovery solutions to the Pharma and biotech industry it is imperative for Evotec to recruit and retain the most talented employees in the industry. The core values of the Company are innovation, industrialisation, entrepreneurship and customer focus. Evotec therefore seeks to employ exceptional individuals whose profiles are consistent with these key themes, and who have the experience, commitment and dedication necessary for the Company to succeed.

### **HEADCOUNT**

As at 31 December 2012, the Evotec Group employed a total of 637 people in Europe, Asia and the US. This represents an increase of nearly 4% in global headcount compared to the end of 2011. The majority of the new employees joined the Hamburg and Göttingen sites. This reflects the increased demand for Evotec's core disease biology know-how and the need to support new research projects and collaborations with an increasing biology focus.

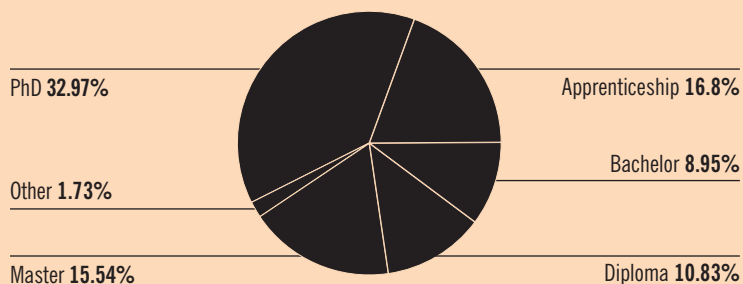
The headcount at other sites remained relatively constant within the parameters of normal staff turnover and attrition.

#### **Headcount as per 31 December**

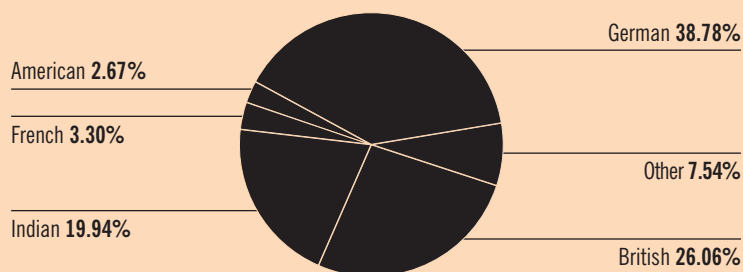
	2011	2012
Research in Germany	195	232
Research in UK	175	176
Research in India	106	96
Compound Management	26	25
Sales & Administration	108	108
<b>Total Evotec Group</b>	<b>610</b>	<b>637</b>
Total Germany	236	275
Total UK	210	212
Total India	130	119
Total US	34	31
<b>Total Evotec Group</b>	<b>610</b>	<b>637</b>

The workforce at Evotec is highly skilled with more than 80% of all employees having an academic education. A total of 210 employees, one-third of the company's total workforce, hold a PhD degree.

Employees according to highest level of education



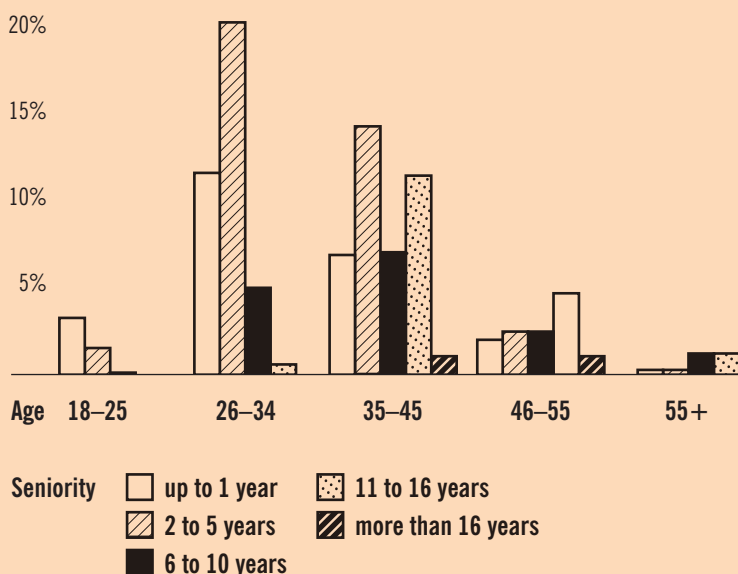
Employees according to nationality



Approximately 45% of Evotec's employees have worked for the Company for more than five years. The average age of Evotec's employees at the end of 2012 was approximately 37 years.

Women account for nearly 44% of employees globally. At the junior entry level for newly qualified graduates, more than 60% of the people Evotec hired in 2012 were females.

Employees according to age groups and seniority



**DIVERSITY**

Evotec has an international employee population possessing a rich diversity of skills, capabilities and experiences. This diversity brings a range of perspectives to the workplace, which in turn helps to grow the global business and to create a strong link to clients all over the world. In its recruiting and promoting activities, the Company especially focuses on the ability and performance of the individuals.

**WORK-LIFE BALANCE**

As an employer, Evotec is fully aware that a good balance between work and private life is important in achieving both corporate success and job satisfaction. Evotec therefore offers, where appropriate, the possibility of part-time employment arrangements as well as work-at-home options. The Company's flexible site-specific working hours also help to balance family and working life. In addition, employees are encouraged to take their annual vacation entitlement.

**SUCCESSION PLANNING AND DEVELOPMENT**

In 2012, Evotec initiated a formal succession planning and development programme. This is part of the Company's commitment to develop its employees and ensures that individuals are ready to assume key or critical roles in the Company as they become available. Succession planning is proactive in nature and results in the creation of a talent pool of candidates with the required potential, competencies and understanding of the existing business to fill high-level leadership positions in the future. Identifying and developing this pool of employees can be vital to an organisation if it needs to respond quickly to fill immediate capability requirements. However, succession planning also provides Evotec a mechanism to give highly skilled employees an indicator of future advancement, a key factor in the retention of individuals identified as having exceptional potential.

**EDUCATION AND TRAINING**

The targeted succession planning and development programme described above operates alongside more broad-based development linked to further education and professional training programmes to consistently promote the personal abilities of all Evotec employees. In 2013, the Company will continue its approach to training and development in Evotec. Evotec provides a coherent framework that offers professional learning and training programmes which are tailored to the needs of the employees and the Company. Through

its training and development initiatives, the Company ensures that employees are given every opportunity to effectively perform their jobs, gain competitive advantage and seek self-growth for future and increased work responsibilities.

### PERFORMANCE MANAGEMENT

Evotec operates a uniform and transparent compensation system for all employees. This system promotes performance-based remuneration, whereby employees are rewarded for achievement. According to the philosophy of Evotec, employees should be incentivised to add value and to share in the success of the Company.

Consequently, compensation includes, in addition to a fixed base salary and benefits, a bonus which is based on Company results and on individual performance against a written set of objectives.

In 2012, Evotec designed and implemented a new global long-term incentive programme (LTIP) to promote and ultimately reward the values of innovation, industrialisation, entrepreneurship and customer focus that underpin the Company's Action Plan 2016. The LTIP is a Share Performance Plan in which participants are allocated shares, the vesting of which is subject to the actual performance versus four equally weighted key performance indicators (KPIs) – revenues, operating income, operating cash flow and the share price – over a three-calendar-year period that started on 01 January 2012. These four KPIs were carefully selected on the basis of being the indicators that will drive shareholder value and ensure the future success of Evotec.

The launch of the LTIP was a crucial step to ensure alignment of the interests of the Management Board and Senior Management with shareholders' interests by focusing strongly on a sustainable success of the Company's business. Evotec made awards to the members of the Management Board, to Senior Management and some other people who are in key positions and have a significant impact on the long-term success of the Company.

### COMMUNICATION AND TEAM SPIRIT

Evotec is committed to transparent communication on the strategy, progress and performance of its business. Therefore, quarterly face-to-face meetings between the Senior Management and the employees were held to communicate key information and important company developments.

On 14 June 2012, subsequent to the Annual General Meeting, Evotec proudly held the opening ceremony of its new German headquarters and facilities in the north of Hamburg. Nobel Prize winner Prof Dr Manfred Eigen, one of Evotec's most prominent founders and the building's namesake, attended and provided the keynote speech reflecting the Company's history and development and growth into one of Germany's most successful biotech companies. The event attracted over 550 participants including employees, their partners and families, as well as alumni and guests who got the opportunity to walk through the Manfred Eigen Campus and view the modern laboratories. In the evening, guests enjoyed a barbecue, live music and dancing.

The Manfred Eigen Campus is a world-class facility for Evotec's employees to work in, and is another key element in attracting and retaining the best talents in the industry.

### LOOKING TO THE FUTURE

In 2013, Evotec will continue to position itself as a truly great place to work, by providing an environment where people can grow and develop and make their mark. As demographics change and talent shortages continue to impact the labour market, recruitment, succession planning and professional development will be the key priorities for Human Resources in the coming year.

# SUSTAINABILITY REPORT

## ECONOMIC, ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

For Evotec, sustainability means combining economic success with environmentally and socially responsible activities. All three criteria are important and are reflected in Evotec's strategy and firmly established in all business processes. Taking responsibility for the Company's employees and business partners and maintaining our commitment to society and a healthy environment are two of Evotec's guiding principles. By doing this, Evotec also takes responsibility for current and future generations while ensuring the basis for long-term business success. This sustainability report contains information on Evotec's social and ecological activities and the policies and responsibilities within the Company. Information on Evotec's management structure and corporate governance practices are disclosed in the Corporate Governance Report.

(SD KPI 2) (see "Performance measurement" on page 43 of this Management Report). Evotec's business strategy is also the basis for the Company's long-term oriented personnel policy (see also "Employees" on page 59) as well as its forward-looking R&D activities and ethics (see below).

In order to ensure that factors potentially endangering the sustainable performance of the Company are recognised at an early stage and adequate countermeasures are taken, a comprehensive risk management system has been implemented within the Company (see chapter "Risk and opportunities management" on page 69 of this Management Report). It is important to note that, during the past five years, no services were recalled and neither fines nor settlement payments related to litigation in Evotec's drug discovery alliances were due.

According to the management's view, the business model of Evotec does not contain any aspects that contradict the interests of shareholders focusing on sustainable investments.

## SUSTAINABLE CORPORATE MANAGEMENT AT EVOTEC

### LIFE SCIENCE – A VERY IMPORTANT CONTRIBUTION TO SOCIETY

The life science industry is making a very important contribution to the well-being of our society. For a large number of serious diseases there is no cure available today and consequently indirect healthcare costs are significant, especially considering the impact of the aging population. Evotec's purpose as a business is to find new, efficacious therapies that will improve the lives of millions of patients suffering from disease, thereby contributing to the productivity of society as whole.

### EVOTEC'S BUSINESS MODEL FOR SUSTAINABLE GROWTH

Evotec is pursuing a business model that aims at sustainable growth, protecting the interests of its shareholders and creating value for all stakeholders. This is reflected in the Company business strategy Evotec Action Plan 2016 – Innovation Efficiency (see "Operations and business environment" on page 41 of this Management Report), the success of which is measured by financial and non-financial performance indicators. Evotec uses a number of Sustainable Development Key Performance Indicators (SD KPIs) recommended also by the SD KPI Standard. These include "Quality of drug discovery solutions and performance in discovery alliances" as a measure for the commercialisation rate in alliances" (SD KPI 1) and "Research and development performance"

## CORPORATE SOCIAL RESPONSIBILITY (CSR) AND CODE OF CONDUCT

At Evotec the entire Management Board, under the leadership of the CEO, is responsible for ensuring Group-wide adherence to the Company's sustainability strategy. The strategy is integrated into Evotec's planning and affects the entire business at all the Company's sites. A description of how this strategy translates into the daily business of every employee at Evotec is included in the Company's Ethical Business Conduct Policy, the so-called Code of Conduct, which is published on Evotec's website ([www.evotec.com](http://www.evotec.com) > Corporate Governance > Policies and Charters > Code of Conduct). It comprises topics such as the use of corporate funds and proper record keeping, behaviour with regards to personal conflicts of interest, compliance with antitrust laws, the employee work environment, health and safety protection and minimising the impact on the environment as well as confidentiality with respect to intellectual property and trade secrets. Evotec's Code of Conduct also provides the framework for its responsible and correct behaviour towards business partners; Evotec's Code of Conduct as well as its processes in research and development are based on Company and industry standards and regulations.

In order to ensure a corporate behaviour that complies with these regulations, Evotec provides regular employee trainings on the Code of Conduct. Employees should immediately report any actions or facts which indicate even the slightest possibility of a breach of this Ethical Business Conduct Policy to the in-house legal Counsel or the CFO of the Company. No new commitments with a likelihood of breaching this policy should be undertaken. Also, in cases where an employee does

not want to report an observed breach to the Counsel or CFO, there is the possibility to contact a (non-executive) Supervisory Board member under the Company's separate "whistleblower" policy. However, the Company regards serious violations by individual employees, which could have a significant impact on the net assets, financial positions and results of operations, as unlikely and no breach has been reported so far.

### **SOCIALLY RESPONSIBLE PRODUCTS AND HIGHEST RESEARCH AND DEVELOPMENT ETHICS**

Evotec's core business focus is applying its scientific expertise and know-how together with partners to develop potential medicines for many different indications that could ultimately improve treatment options to benefit millions of people. Several examples of Evotec's efforts in different areas are given in the "Research and development" section on page 34.

In its R&D activities Evotec adheres to the highest scientific and ethical principles of human care and treatment of laboratory animals. As an indispensable part of biomedical research, the discovery and development of new medications for humans requires animal studies. Like all research-based life science companies Evotec conducts and commissions in-house animal studies in Europe.

All animal studies conducted at Evotec are approved by Evotec's animal welfare committee and by the local authorities prior to their execution and are fully compliant with the German Animal Welfare Act and the European Communities Council new Directive 2010/63/EU. Studies that cannot be accomplished in-house are subcontracted to dedicated, carefully selected and audited contract research organisations (CROs) which apply the same principles.

Evotec is committed to the 3Rs principles which are the guiding principles for the use of animals in research in many countries. Whenever possible, Evotec strives to Replace animal studies. The Company is constantly developing alternative methods, e.g. cell culture systems, to predict a drug candidate's characteristics early on *in vitro* and performs extensive profiling tests prior to animal testing. Evotec is also constantly improving existing methods to Reduce the number of laboratory animals required in an experiment and Refines these methods so that animals experience as little discomfort and distress as possible.

Evotec no longer manages or sponsors human clinical trials.

### **STRONG EMPHASIS ON OCCUPATIONAL SAFETY AND ENVIRONMENTAL MANAGEMENT**

Occupational safety and environmental management are fundamental considerations in any activity undertaken by Evotec. The Company operates in a tightly regulated sector where concerns over stakeholder safety are treated with the appropriate level of importance.

Many of the chemicals used in Group operations and their use require specific licences or are controlled by statutory regulation. Evotec follows strict protocols to ensure that these chemicals and their use

are controlled and monitored in such a way as to minimise the risk to health and safety as set out in the appropriate guidelines and licences. Evotec complies with national and local regulations, reporting requirements, permits and licences in all areas of health and safety and environmental control relevant to the operations undertaken. Documentation, practices and audits of key processes provide a strong basis for continuous improvement. These include emergency response, fire safety, engineering and maintenance procedures, waste disposal and safe handling and use of dangerous substances.

With the move of Evotec's headquarters to a new building in Hamburg, the Manfred Eigen Campus, several inspections were performed by the authorities of the city of Hamburg. All inspections resulted in positive reports and high safety standards of the building were commended. In general, the investment in high-quality technical facilities has led to significantly improved working conditions. Improved working conditions are also demonstrated by an increase in space per employee and an excellent connection to public transport. In addition, a contract with a new external health and safety provider was agreed for the Manfred Eigen Campus to further improve the quality of support with regards to health and safety issues. The success of this initiative led to this contract being extended to the other Evotec sites in Germany (Munich and Göttingen).

At our San Francisco site, we have contracted a consultant to augment health and safety training and compliance, as well as to reorganise the internal health and safety function to assure wider participation in operational initiatives and the completion of an industrial hygiene survey of the vial-processing laboratory.

Considering and addressing the environmental impact of Group operations is seen as an important and vital part of the Group's global responsibilities and is also a part of the Group's continuous objective to manage and control costs. Reducing energy consumption, waste production and increasing recycling are all areas that have a positive effect on both Evotec's global cost base and the environment.

The modern design of the Manfred Eigen Campus means it has a significantly improved energy efficiency compared to the former building in Hamburg. As has been the case in previous years, the Evotec Group also undertook a comprehensive programme of maintenance and repair for plant, building and equipment, ensuring that energy consumption and environmental impact of operations are minimised and the lives of the assets available to the Group extended.

In 2012 among the initiatives undertaken by the Group were:

- i) Commissioning of an air-conditioning and air-handling survey and report at the Abingdon site (primary chemistry facility) in order to ensure energy-efficient provision of services
- ii) Approval of a plan to replace aging chiller equipment at the Abingdon site in early 2013 which will result in a more energy-efficient unit utilising increasingly environmentally friendly refrigerants
- iii) Initiation of two heat recovery systems within the air-conditioning system in the Manfred Eigen Campus in Hamburg to reduce gas consumption and increase air change rates resulted in a decrease of overall electricity consumption of the Manfred Eigen Campus by 8.57%

- iv) Focused replacement of lighting with low-energy bulbs leading to 80% reductions in energy usage by affected light fittings in the Manfred Eigen Campus
- v) Working with a local energy provider at our San Francisco site to reduce power usage resulting in cost reductions of 15%

#### **SOCIAL RESPONSIBILITY**

Evotec contributes to social responsibility by supporting charities and other good causes. For example, in 2012, Evotec (UK) Ltd's chosen charity was the Children's Hospital of the John Radcliffe Hospital in Oxford. Employees held various fundraising events to raise money for the charity, including raffles and taking part in an organised fun run. Another group of employees supported Movember (the male cancer charity) by growing moustaches throughout November and collecting sponsorship.

Evotec also assists students in choosing a career in the pharmaceutical industry by hosting them in periods of work experience. In 2012, the Company helped many students from a wide variety of schools and universities spend a few weeks or months gaining valuable experience and insight into their future careers. Evotec has also continued to sponsor PhD researchers at academic institutions and host their industrial work experience periods.



# REMUNERATION REPORT

The Remuneration Report describes the Company's remuneration structure and provides information about payments to the board members in accordance with the requirements of the German Corporate Governance Codex (the "Code"). It is part of both the Consolidated Financial Statements and the Corporate Governance Report. The variable remuneration for all employees is detailed in the section "Employees" on page 61 of this Management Report.

## REMUNERATION OF THE MANAGEMENT BOARD

The total annual compensation of the individual members of the Management Board, which is fixed by the Supervisory Board and agreed with all Management Board members, is composed of fixed and variable compensation components. It is guided by Sec. 87 AktG and the German Corporate Governance Code. In line with those requirements compensation is awarded based on an assessment of performance that is oriented towards the sustainable growth of Evotec. The criteria for determining the amount of compensation awarded include the tasks of the individual members of the Management Board, their personal performance, the economic situation, the performance and outlook of Evotec as well as the comparative level of compensation at peer companies and the compensation structure in place in other areas of the Company.

The Law on the Appropriateness of Management Board Compensation (VorstAG) of 31 July 2009 allows the Annual General Meeting (AGM) to decide to approve the system of remunerating members of the Management Board (Sec. 120 Para. 4 AktG). The Management Board and the Supervisory Board of Evotec AG proposed such an approval at the AGM on 14 June 2012 with item 5 on the agenda "Resolution regarding the approval of the compensation system for members of the Management Board". The shareholders and shareholder representatives voted in favour of this item of the agenda with a majority of 92.22% of the votes.

In 2012, fixed and variable remuneration as well as components with a long-term incentive effect of active members of the Management Board totalled T€ 2,584 of which the variable part amounted to T€ 695 and the components with a long-term incentive effect amounted to T€ 601.

Fixed remuneration includes base salaries paid in 12 monthly instalments at the end of each month and fringe benefits such as contributions to retirement insurances, premiums for accident and accidental death insurances as well as the benefit derived from the use of company cars in the upper medium range for their own use. Apart from the remuneration, business-related payments, expenditure and expenses are reimbursed.

Variable remuneration is determined by a bonus scheme. The respective objectives are specified every year by the Remuneration and Nomination Committee of the Supervisory Board and subsequently approved by the Supervisory Board.

The variable portion of the remuneration paid out in March 2012 was based on the achievement of certain strategic targets for the business year 2011. The variable portion of the remuneration for the achievement of strategic targets for the business year 2012 will be paid out in March 2013. In both years, 80% of the bonus of the Company's Chief Executive Officer, Dr Werner Lanthaler, was based on the achievement of corporate milestones, and the remaining 20% on the achievement of personal objectives. For Colin Bond, Dr Cord Dohrmann and Dr Mario Polywka, as the other members of the Management Board, 60% of their bonus was based on the same corporate milestones, and the remaining 40% on the achievement of personal objectives. As per 31 December 2012 the Company accrued T€ 433 for the variable portion of the remuneration for the members of the Management Board, thereof T€ 184 for Werner Lanthaler, T€ 75 for Colin Bond, T€ 87 for Cord Dohrmann and T€ 87 for Mario Polywka. The variable portion of the remuneration will be paid in March 2013.

The 2011 and the 2012 corporate objectives referred to targets considered important for the positive development of the Company, such as the achievement of revenue and profitability targets, the execution of significant integrated collaboration agreements, the implementation of an innovation strategy and the preparation of the Company for sustainable future growth.

In addition to their fixed and variable remuneration, the members of the Management Board received 445,293 Share Performance Awards (SPA) in 2012 under the Company's share performance plan. These Share Performance Awards vest after four years according to achievement versus defined key performance indicators over a three-year performance measurement period. The fair values of all Share Performance Awards granted as of the grant date amounted to a total of T€ 601.

### Remuneration of the Management Board 2012

	Fixed remuneration in T€	Variable remuneration in T€	Share Performance Awards in pcs	Fair values of SPA granted in T€	Total remuneration in T€
Dr Werner Lanthaler	407	307	209,877	283	997
Colin Bond	269	126	76,190	103	498
Dr Cord Dohrmann	270	126	76,190	103	499
Dr Mario Polywka	342	136	83,036	112	590
<b>Total</b>	<b>1,288</b>	<b>695</b>	<b>445,293</b>	<b>601</b>	<b>2,584</b>

The members of the Management Board of Evotec AG have only customary rights in case of a change of control. Their contracts contain a change-of-control clause which would allow them to terminate their current contracts in the event of a change of control. In case members of the Management Board make use of their right to terminate their contracts in the event of a change of control, they are entitled to severance payments determined as follows: for Dr Werner Lanthaler, the severance payment shall be equal to 24 months of base salary; for Dr Mario Polywka, the payment shall be equal to 18 months of base salary; and for both Colin Bond and Dr Cord Dohrmann, the payment shall be equal to 12 months of base salary plus bonus (following new contracts from July and September 2013 respectively the payment will be equal to 18 months base salary plus bonus). In no case shall the respective severance payment be higher than the total compensation due for the remaining term of the respective Management Board member's contract.

In accordance with section 4.2.3 of the German Corporate Governance Code, in case of an early termination of their respective Service Agreement in the absence of a change-of-control situation, payments to the members of the Management Board shall not exceed the amount of two annual remunerations and shall not exceed the amount of remuneration that would be due until the expiration date of the Service Agreement.

The Company has made a provision for pension for one former Management Board member amounting to T€ 122 (2011: T€ 116). No such further provisions are due for other former Management Board members or their surviving dependents.

## REMUNERATION OF THE SUPERVISORY BOARD

The remuneration of the members of the Supervisory Board is set forth in the Company's Articles of Association as decided by the Annual General Meeting (AGM) 2011 and also applies for the following years, unless a new AGM passes different resolutions for the future.

According to Sec. 113 AktG, Supervisory Board remuneration is to be in appropriate relation to the task of the Supervisory Board members and the situation of the Company. The members of Evotec's Supervisory Board are entitled to fixed and performance-based payments as well as out-of-pocket expenses. In accordance with the recommendations of the Corporate Governance Code, Chair and Deputy Chair positions on the Supervisory Board, as well as the chair positions and membership on committees, are considered when determining the remuneration of individual members. Consequently, every Supervisory Board member receives T€ 15 per year, with the Chair receiving three times that amount and the Deputy Chair twice that amount. Members of Supervisory Board committees additionally receive T€ 3.75 per year, with the chairperson receiving T€ 10.

In addition to the fixed remuneration and in accordance with the suggestions of the German Corporate Governance Code, the members of the Supervisory Board receive payments tied to the Company's

long-term performance in the form of Evotec shares. Ordinary members of the Supervisory Board receive shares valued at T€ 10 per year (Chair three times, Deputy Chair twice this amount) and Committee Chairs receive additional shares valued at T€ 10 per year. This share-based remuneration serves as a further incentive for Supervisory Board members to focus on the Evotec share price. In addition, if Evotec shareholders are paid a dividend, every Supervisory Board member will receive an extra T€ 0.5 for every cent that the dividend per share exceeds € 0.15.

For their contributions in 2012, the individual members of the Evotec Supervisory Board receive the following compensation:

### Remuneration of the Supervisory Board 2012

	Cash remuneration in T€	Value of share-based remuneration in T€	Total in T€
Dr Flemming Ørnskov	48.8	30.0	78.8
Dr Walter Wenninger	40.0	30.0	70.0
Dr Hubert Birner	25.0	20.0	45.0
Roland Oetker	18.7	10.0	28.7
Prof Dr Andreas Pinkwart	18.7	10.0	28.7
Mary Tanner	18.8	10.0	28.8
<b>Total</b>	<b>170.0</b>	<b>110.0</b>	<b>280.0</b>

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

## DIRECTORS AND OFFICERS LIABILITY INSURANCE (D&O INSURANCE)

Evotec procured directors and officers liability insurance coverage for its Management and Supervisory Board members, its senior management and the directors of its subsidiaries at a cost to the Company of T€ 117 in 2012 (2011: T€ 124). For the members of Supervisory Board, an appropriately sized deductible, and for the members of the Management Board, a deductible in line with the stipulations of the legal provisions of the VorstAG, were agreed upon.

# INFORMATION PURSUANT TO SECTION 315 PARAGRAPH 4 OF THE GERMAN COMMERCIAL CODE

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

## COMPOSITION OF CAPITAL STOCK, VOTING RIGHTS AND AUTHORISATION TO ISSUE SHARES

As of 31 December 2012 the share capital of Evotec AG amounted to € 118,546,839.00 and was divided into 118,546,839 non-par value shares. All shares are bearer shares and have the same voting rights. Management is not aware of any restriction of the voting rights or the right to transfer. No binding lock-up agreements have been made with any shareholder, and neither stock loans, nor pre-emptive stock purchase rights are known to the Company. The Company does not control voting rights of any shares owned by employees. No shareholder holds the right to have representatives on the Company's Supervisory Board, or is restricted or bound to specific votes at the Annual General Meeting. Existing stock option schemes do not allow for immediate vesting or additional issuance in the case of a takeover offer.

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

**Authorised capital:** Pursuant to section 5 paragraph 4 of the Articles of Association of the Company, the Management Board, with the approval of the Supervisory Board, is authorised to increase the Company's share capital by up to € 23,663,172.00 in one or more tranches by 13 June 2017 by issuing new shares against cash or non-cash consideration. Any shares to be issued on this basis will be subject to the statutory subscription rights of Evotec's shareholders. With the approval of the Supervisory Board, the Management Board may, however, exclude the pre-emptive rights of its shareholders on one or several occasions under certain, well-defined conditions.

**Conditional capital:** By two resolutions of the 2012 Annual General Meeting, the Company had a conditional capital in the total amount of € 35,445,068.00. Conditional capital in the amount of € 11,781,896.00 shall be used only to the extent that holders of stock options and Share Performance Awards, awarded by Evotec on the basis of the shareholders' resolutions from 7 June 1999, 26 June 2000, 18 June 2001, 7 June 2005, 30 May 2007, 28 August 2008, 16 June 2011 and 14 June 2012, exercise their rights to subscribe for new shares of the Company. As of 31 December 2012, conditional capital in the amount of € 230,975.00 was used for holders of stock options exercise their rights to subscribe for new shares of the Company. Additional conditional capital in the amount of € 23,663,172.00 exists to issue no-par-value bearer shares to owners or creditors of convertible bonds and/or warrant-linked bonds, participation rights and/or income bonds (or a combination of such instruments) that may be issued by Evotec on the basis of the authorisation resolved by the Annual General Meeting on 14 June 2012. Such contingent capital increase shall only be used to the extent that option or conversion rights are utilised, or the owners or creditors are obligated to carry out their duty of conversion, and to the extent that no treasury shares or new shares from an exploitation of authorised capital are utilised for servicing.

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

## SHAREHOLDINGS EXCEEDING 10% OF VOTING RIGHTS

On 13 May 2011, Evotec was last notified by its shareholder and member of the Supervisory Board Roland Oetker that he, via ROI Verwaltungsgesellschaft mbH, Königsallee 20, 40212 Düsseldorf, Germany, owned 14.74% of the shares of the Company. The Company is not aware of any other direct or indirect shareholdings in its share capital exceeding 10% of its capital.

## BOARD STRUCTURE

The board structure of Evotec is explained in detail in the section "Legal Structure and Supervision" on page 40 of this Management Report.

#### **AUTHORISATION OF MANAGEMENT TO REPURCHASE STOCK**

The Company is authorised by two resolutions of the 2011 Annual General Meeting to acquire own shares with a computed proportion of the share capital totalling up to € 1,000,000.00 and € 10,818,613.00 respectively. Together with other own shares, which are in the possession of the Company or are attributable to the Company pursuant to section 71a and following of the German Stock Corporation Act (Aktiengesetz, AktG), the own shares acquired on the basis of these authorisations may at no time exceed 10% of the Company's current share capital. Acquisitions for the purpose of trading with own shares are excluded. The respective authorisations are effective until 15 May 2016. As of 31 December 2012, Evotec used its authorization to acquire own shares with a computed proportion of the share capital totalling up to € 1,000,000.00 in the amount of a computed proportion of the share capital of € 67,090.00 for the statutory remuneration of the Supervisory Board.

#### **AMENDMENT TO THE COMPANY'S ARTICLES OF ASSOCIATION/ APPOINTMENT OF MANAGEMENT BOARD**

Any amendment to the Company's Articles of Association requires a shareholder resolution. According to sections 133 and 179 of the German Stock Corporation Act (AktG) and section 15 of the Articles, the shareholder resolution amending the Company's Articles of Association requires an affirmative vote of at least three-quarters of the Company's share capital present in a general shareholders' meeting. Appointment and dismissal of the members of the Management Board are governed by sections 84 and 85 of the German Stock Corporation Act (AktG).

#### **CHANGE-OF-CONTROL PROVISIONS**

The Management Board of Evotec AG has only customary rights in case of a change of control. The contracts of the members of the Management Board contain a change-of-control clause which would allow management to terminate their current contracts in the event of a change of control. In case members of the Management Board make use of their right to terminate their contracts in the event of a change of control, they are entitled to severance payments determined as follows: for Dr Werner Lanthaler, the severance payment shall be equal to 24 months of base salary; for Dr Mario Polywka, the payment shall be equal to 18 months of base salary; and for both Colin Bond and Dr Cord Dohrmann, the payment will be equal to 12 months of base salary plus bonus (following new contracts from July and September 2013 respectively the payment shall be equal to 18 months of base salary plus bonus). In no case shall the respective severance payment be higher than the total compensation due for the remaining term of the respective Management Board member's contract. The remuneration of the Management Board is reported in more detail in Note 35e to the Consolidated Financial Statements and in the "Remuneration Report" on page 65 of this Management Report.

# RISK AND OPPORTUNITIES MANAGEMENT

Entrepreneurial success cannot be achieved without consciously taking risks. Owing to its worldwide activities, Evotec is naturally exposed to a variety of risks directly related to the Company's business. Risk and opportunities management helps to master the risks and opportunities associated with strategic objectives of the business and to maximise the business' potential. Regular strategy reviews ensure that opportunities and risks are reasonably balanced.

## RISK AND OPPORTUNITIES MANAGEMENT PRINCIPLES

Evotec is regularly confronted with risks and opportunities which have the potential to negatively or positively impact the financial position and profit and loss of the Group. Within the Group risk is defined as a potential occurrence of an external or internal event (or series of events) that may negatively impact our ability to achieve Evotec's business objectives or financial goals. Inversely, Evotec defines opportunity as a potential occurrence of an external or internal event (or series of events) that can positively impact the Evotec's business objectives or financial goals.

The risk management system of Evotec comprises the entirety of controls that ensure a structured management of opportunities and risks within Evotec Group. Evotec considers risk and opportunities management as the ongoing task of determining, analysing and evaluating actual and potential developments in the Company and the Company's environment. Evotec identifies opportunities based on comprehensive quantitative and qualitative analyses of market data, research projects and general trends in the biotechnological environment. The close cooperation between the Company's strategic and global operating departments allows Evotec to recognise risk and opportunities worldwide at an early stage. Where possible, Evotec's Management Board responds to these risks and opportunities by implementing corrective or supportive measures. The Company's risk and opportunities management system is therefore an important component of its management and control and plays a major role in the Group-wide guidelines described in more detail below.

While Evotec has summarised the most important individual risks in the section "Risks" below, an overview of the most important individual opportunities can be found in the chapter "Outlook" on page 78 of this report.

## RISK AND OPPORTUNITIES MANAGEMENT SYSTEM

Evotec employs a comprehensive risk management policy and risk and opportunities management system, which forms an integral part of the Group's management processes and complies with all

legal requirements. Evotec believes that a key component of risk and opportunities management is the identification and evaluation of risks, risk-mitigating actions and opportunities where they arise. In addition, a concerted approach to handling, monitoring and reporting is of key importance. Therefore, the Management Board ("Vorstand") has the overall responsibility to operate an effective risk and opportunities management system.

The Management Board is supported by the Group Risk Manager who is the owner of the centrally managed risk and opportunities management process on behalf of the Management Board. The Supervisory Board has the responsibility to monitor the effectiveness of the Group's risk management system. These duties are undertaken by the Supervisory Board's Audit Committee.

Evotec's risk and opportunities management process is a Group-wide activity, which utilises critical day-to-day insight from both global and local business units and functions. It systematically assesses on an ongoing basis all significant Company activities to identify, analyse and value risks and opportunities. Despite this appropriate and functioning system, there cannot be an absolute certainty that all possible risks are identified and managed. Opportunities are mainly captured and reported with regard to commercial opportunities as they often could serve to mitigate a commercial risk. The system's efficacy is tested on a continuous basis. Besides the formal risk management policy, as explained in the remainder of this section, the risk management and opportunities system is based upon Evotec's general guidelines of corporate management and the Code of Conduct, as described in the Declaration of Corporate Management.

According to the Company's *risk management policy*, Evotec engages in businesses and incurs risks only when the businesses are in line with its strategy, when they have a risk profile consistent with industry norms, when there is a corresponding opportunity for an increase in value and when the risks can be managed using established methods and measures within Evotec's organisation. Management engages in monthly financial reviews with a strong emphasis on cash and cash forecasts and key financial performance drivers such as revenues, order book status and gross margins as well as careful cost analysis. Currency exposures are reduced through natural hedges and, where appropriate, hedging instruments. It is Company policy not to speculate on foreign exchange movements, but to manage the risks arising from underlying business activities, for example to secure foreign exchange certainty against the value of signed customer contracts. Financial investments are made in low-risk categories (products or financial institutions rated A- or better (Standard & Poor's ratings)). The Management Board is directly involved in all key decisions concerning financial assets and manages all businesses and transactions considered to be material for the Company.

To cover other risks associated with the Company's business, including those that would not have a short-term financial impact, Evotec performs regular commercial project portfolio reviews. Strict application of project and investment approval processes, legal contract review procedures and signing authorities are also standardised procedures. In addition, the Company emphasises its information technology security throughout the Group and regularly reviews its insurance coverage. Compliance with the regulatory environment, for example environment, health and safety has a high priority at all sites of the Group and appropriate training programmes are in place. The Company also takes its Corporate Governance responsibilities very seriously. A declaration according to section 161 AktG was made by the Management Board and the Supervisory Board of the Company. This declaration regarding the Company's compliance with the Corporate Governance Codex is accessible to the shareholders on Evotec's website.

Evotec's *risk and opportunities management system* is regularly reviewed by the Group's Compliance Officer, the Management Board and the Audit Committee of the Supervisory Board in order to quickly adjust to changing environments, risk profiles and business opportunities.

The risk management system comprises the following elements:

(i) a **Risk and opportunities early detection system** to identify risks as early as possible; to precisely describe them, quantify them and estimate their probability of occurrence; and to report them to management in a timely fashion as to allow management to deal with them from their very onset. The Risk Owners have primary responsibility for the identification of risks and opportunities. Through *Prompt Notifications* and *Quarterly Risk Reports* any risks that are either outside the normal course of business or might have a material impact on the Company's financial performance, are raised and reported by the Risk Owners to the Group Risk Manager together with a summary and assessment of the specific risk and the countermeasures to be taken. The Group Risk Manager together with the Chief Financial Officer evaluates and summarises the risk reports above into a report for the Management Board. This report also includes a cash stress test to examine whether Evotec could bear the cash effect of all captured risks should they fully materialise in parallel. To date, Evotec has always passed this cash stress test.

In addition, any triggering information for an ad hoc notification required under German statutory laws (German Securities Trading Act (WpHG)) would be reported directly to the Management Board immediately after the detection of such an event. An ad hoc committee convenes once a week to ensure that all relevant circumstances are evaluated properly with regard to ad hoc related stipulations.

(ii) a **Risk prevention system** to monitor the risks incurred and/or the development of measures and systems to prevent potential risks from occurring. Therefore, all internal reports are formally included in the Company's risk management system and will be provided to the responsible managers regularly. This procedure increases general alertness to risk and risk management and also emphasises the principle of risk prevention across the Group.

## INTERNAL CONTROLS OVER FINANCIAL REPORTING

Section 289 paragraph 5 of the German Commercial Code (HGB) requires the Management Board to take responsibility for adhering to and reporting on an internal control system for reliable financial reporting. The internal control system is part of the risk management system and primarily secures the preparation of financial statements according to regulatory and legal requirements. It is continually developed and is an integral part of the accounting and financial reporting process in all relevant legal entities and central functions. The internal control system comprises all the principles, processes and measures (such as preventive and detective controls) that are applied to secure effective, economical and proper accounting and compliance with the pertinent legal provisions. Evotec complies fully with the requirements of the German Commercial Code.

According to the German Commercial Code Evotec's Management Board is required to annually assess the effectiveness of internal controls over financial reporting. In order to ensure the utmost effectiveness of the control environment Evotec has decided to maintain almost all of the Key Controls from the processes defined to comply with the Sarbanes-Oxley Act despite the formal deregistration of the Company from the SEC in March 2011. These controls will be tested on an ongoing basis and once a year will be subject to testing by an expert and independent third party. These internal assessments identified no material weaknesses and detected deficiencies were remediated immediately. The effectiveness of Evotec's internal controls over the processes relating to the consolidated financial statements is also audited during the year-end audit by its independent registered public accounting firm. The Audit Committee of the Supervisory Board is informed regularly and reviews and discusses the auditing activities.

Evotec maintains an adequate internal control system both to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the firm's financial statements for external reporting purposes in accordance with applicable International Financial Reporting Standards and to avoid risks from fraud. The Company's control system is based upon the following:

- various automated and manual preventive and detective controls;
- a clear segregation of financial related duties; and
- a strict adherence to Evotec's policies.

Among other things, Evotec regularly checks that:

- issues relevant for financial reporting and disclosure from agreements entered into are recognised and appropriately presented;
- processes exist for the segregation of duties and for the "four-eyes principle" in the context of preparing financial statements;
- risks related to relevant information technology (IT) accounting systems are mitigated by a well-defined set of IT controls, such as restricted authorisation and defined rules for access, change and system recovery.

Management has determined that Evotec's internal controls over financial reporting based on the integrated framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) were effective in their design and operation.

Evotec routinely engages external specialists in order to minimise

the risk in relation to specific issues, for example to value share-based compensation or to derive deferred taxes.

Specific risks related to Group accounting may arise, for example, from the conclusion of unusual or complex business transactions. In addition, business transactions not processed by means of routine operations and the discretion necessarily granted to employees for the recognition and measurement of assets and liabilities may also generate Group accounting-related risks.

However, the internal control measures aimed at securing proper and reliable Group accounting ensure that business transactions are fully recorded in a timely manner in accordance with the legal provisions. The control operations also ensure that accounting records provide reliable and comprehensible information.

Evotec is confident that the systems and processes that have been implemented significantly reduce the risk of negative impacts on the financial reporting and enable specific company-related issues to be appropriately recognised in the consolidated financial statements. However, due to the very nature of business activity, discretionary decision-making, faulty checks, criminal acts or specific circumstances that might restrict the efficacy of internal controls, the Group-wide application of the risk management systems cannot completely guarantee the accurate, complete and timely recording of facts in Group accounting.

## RISKS

Evotec AG is exposed to a range of risks entirely consistent with its business undertaking. The business, financial condition and results of Evotec may be materially adversely affected by each of these risks. If not stated differently, the risks mentioned below are unchanged in comparison to 2011.

Evotec has summarised the most important of these risks in the following categories: Business environment and industry risks, Performance-related risks, Commercial risks, Strategy risks, Financial risks, Intellectual property risks, Legal risks, HR risks and IT risks.

### **BUSINESS ENVIRONMENT AND INDUSTRY RISKS** **RISKS INHERENT TO DRUG DISCOVERY ALLIANCES**

Evotec's discovery alliance platform is well established within the industry and has generated a growing revenue stream over past years. A satisfied customer base, increased efficiency and superior service quality allow Evotec to generate value through its leveraged research platform and positive gross margin contributions. However, the market environment is marked by *pricing pressures* originating from funding restrictions of some biotechnology customers, the restructuring activity of major pharmaceutical companies and from evolving and strengthening competition in individual drug discovery disciplines in low-cost countries. Therefore, firm cost management, continuous enhancement of capabilities and technologies, careful market positioning and sales from high-value, results-based contracts are critical for Evotec.

### **RISKS INHERENT TO PROPRIETARY DRUG DISCOVERY AND DEVELOPMENT**

Evotec has a clear strategic focus on drug discovery alliances and engages in limited proprietary discovery activities only in order to kick-start such alliances. Later-stage clinical development projects are only undertaken if a partner is funding the development costs. Evotec expects to achieve significant payments when any one of its drug candidates is either out-licensed to a pharmaceutical or biotechnology company or when Evotec decides to partner the drug. This concept was again proven in 2012 when Evotec entered into two licence and collaboration agreements with Janssen on *CureBeta* in July 2012 and on the EVT100 series in December 2012. From these agreements Janssen receives the exclusive rights to these drug discovery programmes, including all developments conducted by Evotec. In return, Evotec received significant upfront payments, together with the potential for milestones and significant royalties.

Although Evotec's proprietary investments are limited, drug discovery and development always carries inherent risk. Today, the Company has no commercial drug products and there is no assurance that Evotec or its strategic partners will successfully develop and commercialise potential drugs. Significant returns are only expected to materialise when successful research leads to upfront and milestone payments and when potential royalties from future drug sales are received. However, if the development of an in-licensed or acquired project or drug candidate is not as expected, an impairment of the intangible asset may be required. The associated risks are those inherent to the biotechnology and drug development industry in general.

— Evotec acts carefully and responsibly to prove that clinical product candidates are safe and effective for human use and approvable by regulatory agencies. Drug discovery and development, however, is expensive, time consuming and subject to a *high degree of failure*. At each stage, there is an inherent risk that developments need to be aborted or delayed due to unpredictable results. The rate of failure is higher the earlier the stage of a programme. However, the cost of failure tends to be higher the later the stage of development and pre-clinical studies and early clinical trials involving limited numbers of patients may not accurately predict the results obtained in later-stage clinical testing. Even if Evotec identifies promising compounds to valuable targets or in-licences or otherwise acquires promising projects or drug candidates, any resulting internal R&D project could experience delays or even fail and it could take several years before the Company could sell or license any drug candidates, if at all.

— Research and development activities as well as the approval and marketing of a pharmaceutical product are subject to extensive *regulation* by the USA FDA, the European Medicines Agency (EMA) and similar regulatory agencies elsewhere. The approval of the relevant authorities is required before a product can be tested in humans and later sold in a given market. The regulatory approval process is intensive and time-consuming and the timing of receipt of regulatory approval is difficult to predict. Therefore, even if the further development of Evotec's drug candidates is successful, regulatory approval might not be received, might be restricted to certain geographical regions or indications, later withdrawn or significantly delayed, which could significantly impact the receipt of product revenues, if any. Evotec seeks early discussions

with the regulatory bodies at all stages of development to ensure that investments are in conformity with legal and ethical requirements.

— The use of any of Evotec's product candidates in clinical trials may expose Evotec to *product liability claims* in excess of Evotec's limited insurance coverage, although it is diligently assessed for each trial. As of today, Evotec is not aware of any pending threats of product liability claims.

#### **PERFORMANCE-RELATED RISKS**

Alongside the Company's drug discovery alliances certain performance-related risks need to be managed:

— Even with a stable revenue stream, *fluctuating capacity utilisation and resource allocation* between different parts of the business can significantly impact profitability and therefore this needs to be carefully managed. In addition, *dependence on individual large customer contracts* needs to be closely monitored. In 2012, Evotec's largest customer accounted for 16% of total revenues (see table "TOP 10 Alliances" on page 43).

— Some of the service contracts contain *scientific or technical delivery risks*, which can be only partly mitigated with high-quality project work. It is an explicit goal of Evotec to grow the business to the scale required to leverage such risks.

— Evotec's past success was built in part on *customer recognition and branding*. It is therefore of utmost importance to maintain this good reputation and avoid any negative impact on its branding. Evotec has protected its trade name in all active countries and has increased its awareness to strengthen and protect its global market position.

#### **COMMERCIAL RISKS**

Commercial risks include the following:

— The Company continues to be engaged in a selected number of active drug discovery and early development programmes that it intends to license to pharmaceutical companies for clinical development and commercialisation. As outlined above, this strategy was again proven when Evotec entered into two licence and collaboration agreements with Janssen.

The *market environment* and competitive landscape for licensing and licensed projects or individual drug candidates, in general or for individual treatments, however, might change while engaging in individual projects. The actual timing and commercial values of, or the financial proceeds from, partnering individual projects could therefore deviate significantly from earlier projections.

— Evotec's ongoing efforts to serve as an innovative source of drug candidates to the pharmaceutical industry make it *dependent on individual, larger out-licensing or partnering events* and hence on individual, typically larger customers. The total amount of payments and the split of these payments obtained in a future out-licensing agreement are unknown and depend on many factors, such as the degree of innovation and the IP position as well as on external factors

not within the control of the Company. In addition, the reliance on corporate partners is subject to additional risks. For example, Evotec's collaboration partner may not devote sufficient time and resources to the development, introduction and marketing of Evotec's products or may not pursue further development and commercialisation of the products resulting from the collaboration. To control this risk to the extent possible, detailed project reporting is established within Evotec and stipulated in any collaboration agreement.

— Even if drug products are approved and commercialised by Evotec or its licence partner, hospitals, physicians or patients may conclude that Evotec's products are less safe or less effective or otherwise less attractive than existing drugs. In addition, Evotec's *competitors* may achieve product commercialisation or patent protection earlier than Evotec and/or develop new products that could be more effective or less costly, or seem more cost-effective, than Evotec's products.

Evotec's financial planning is not based on any product commercialisation and therefore the business is sustainable even in the absence of such an event.

#### **STRATEGY RISKS IMPLEMENTATION AND ACHIEVEMENT OF STRATEGIC GOALS**

Evotec implemented in March 2009 a strategic plan Action Plan Evotec 2012 – Focus and Grow to concentrate on drug discovery alliances and to engage only in selective proprietary discovery and development activities. Action Plan 2012 was set to drive the Company to profitability and long-term sustainability by 2012. Overall, the main elements of the plan were put into effect slightly earlier than initially anticipated. In March 2012, Action Plan 2016 – Innovation Efficiency was announced. This is a five-year mid-range plan that defines the corporate strategy until 2016 (see chapter "Corporate Objectives and Strategy" on page 41 of this report).

Following this Plan, Evotec continued in 2012 to focus its internal R&D activities on its most valuable assets in order to decrease its risk exposure. At present, the Company has no plans to build-up a more extensive pipeline, but it will concentrate its efforts on bringing proprietary products from its existing portfolio and from collaborations with scientific institutions to important value inflection points or to partner them.

The implementation of a company strategy always bears the risk of misjudgements concerning future developments. Investments in wrong products, partnerships and technology decisions, unsuccessful commercialisation strategies or the lack of market acceptance for newly discovered products could lead to significant negative impact on Evotec's market position which could lead to significant negative impact on business objectives and financial goals.

Overall, the biotech industry is currently experiencing rapid market changes and tough competition. In this critical market environment it is more difficult to design and achieve long-term strategies. Thanks to Evotec's long-standing market experience, broad international positioning and the conclusion of important partnerships and strategic alliances, associated risks are considered as medium.



## **RISKS FROM M&A**

Evotec's market position is well established and Evotec is known for its first-class services by its customers. However, following Action Plan 2016 the Company is pursuing ambitious goals regarding its growth rate through both internal organic growth development and opportunistic acquisitions of financially rewarding and complementary service capacities and capabilities. In 2012, this was exemplified in the acquisition of CCS in Hamburg which became effective as of 01 January 2013. However, such merger and acquisition activities contain specific risks that need to be managed.

The acquisition of CCS bears the risk that the integration of the company into the Evotec Group may be difficult and expensive to achieve. Transactions inevitably present challenges to Evotec's management, including the integration of operations and personnel. In addition, mergers and acquisitions may present specific risks, including unanticipated liabilities, unexpected costs, management attention being diverted and the loss of personnel. Evotec believes that these risks can be assessed as low, as CCS is only a small entity that fits well into Evotec's existing cell culture operations and therefore the integration should not be complex.

Intangible assets and goodwill, resulting from past acquisitions, account for a significant portion of Evotec's assets. If management's expectations with regards to the future potential of these acquisitions cannot be realised, there is an impairment risk for these assets.

## **FINANCIAL RISKS**

Evotec's financial risk management is characterised by the clear allocation of responsibilities and the conscious alignment of the instruments deployed with the requirements of its business.

### **LIQUIDITY RISKS**

— Expenditures on internal discovery and early development programmes and other costs as well as reduced revenues, might negatively impact Evotec's short- to mid-term profitability and cash reserves. To actively address any related risk, Evotec's management has defined minimum *liquidity levels* and prepared a scenario planning to safeguard its cash position. Evotec believes that existing liquidity reserves are sufficient to cope with the cumulative impact of all identified risks.

— Evotec is currently well-financed and has no plans or necessity to raise capital in the near- to mid-term. However, the option of *increasing capital* is always considered. This additional financing might be required if new opportunities arise in terms of M&A or in-licensing. The Company does not intend to engage in projects unless adequate funding is allocated or secured.

— Evotec has not had any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as *structured finance or special-purpose entities*, established for the purpose of facilitating off-balance-sheet arrangements or other contractually narrow or limited purposes. Therefore, Evotec is not materially exposed to any

financing, liquidity, market or credit risk that could arise if it had been engaged in these relationships.

Evotec is currently well-financed.

## **DEFAULT RISKS**

— Evotec's customers are generally financially stable pharmaceutical companies, foundations and larger biotech companies. There has been no history of significant *doubtful receivables* and this is not expected to change.

— The general risk of losing a significant amount of cash in cash investments is continuously mitigated by spreading the investments across several different banks in high-quality credit instruments in full compliance with the Company's approved *investment policy*. Evotec monitors its banks and investments on an ongoing basis.

## **CURRENCY RISKS**

— Evotec's business and reported profitability are affected by *fluctuations in foreign exchange rates* between the US dollar, Pound Sterling, the Indian Rupee and the Euro. The Company manages this exposure via natural hedges and selective hedging instruments. The hedging instruments used do not expose the Company to any material additional risk. Currency exchange movements also impact Evotec's reported liquidity primarily through the translation of liquid assets held in US dollars or Pound Sterling into Euros. A portion of the funds are held in currencies other than the Euro in order to meet local operating needs and due to different currencies defined in customer contracts.

## **INTELLECTUAL PROPERTY RISKS**

The intellectual property (IP) associated risks includes the following:

— Evotec is *dependent on patents and proprietary technology*, both its own and those licensed from others and places great emphasis on patent protection and patent monitoring. The Company's success depends in part on its ability and the ability of its licensors to obtain patent protection for technologies, processes and product candidates; to preserve trade secrets; to defend patents against third parties seeking to invalidate such patents; and to reinforce rights against infringing parties. Any disputes could result in sizeable additional expenses, project delays and absorption of management attention and in a dramatic reduction of project values or even in full project abandonment.

— Evotec holds *licences granted* by Roche for the EVT100 compound family and for EVT201 and EVT302 and by other parties related to certain of its proprietary pre-clinical research projects. Any termination of these licences could result in the loss of significant rights and could harm Evotec's ability to commercialise its drug candidates or endanger existing partnering collaborations. However, Evotec maintains long-term and trustful relationships with its partners and is therefore confident that such license agreements will remain unaffected.

**LEGAL RISKS**

— As reported in 2010 and 2011, in a letter on 19 August 2010, the Federal Financial Supervisory Authority (BaFin) requested certain information with regard to an ad hoc release made by the Company on 12 August 2010. The Company provided such information in a detailed letter on 13 September 2010. BaFin informed the Company on 14 October 2010 that there might be an indication that the timing of the ad hoc publication constituted an infringement of section 15 WpHG and that an administrative offence may have occurred. In a letter on 5 September 2012, BaFin requested additional information with regard to the circumstances in 2010. Again, the Company provided such information and explained in detail its refusal of any alleged infringement of section 15 WpHG. The timing and content of the respective ad hoc release in August 2010 was based on an in-depth and thorough legal examination and in line with some acknowledged expert opinion in the legal literature. No further information has been received from BaFin up to the date of this report.

**HR RISKS:****DEPENDENCE ON KEY PERSONNEL**

— Evotec, like many biotechnology companies, is highly dependent on the key members of its management and scientific staff. The loss of any of Evotec's key employees or key consultants could impede the achievement of Evotec's research and development objectives. However, Evotec has set up its management such that the Company's knowledge is shared amongst key employees. Furthermore, recruiting and retaining qualified scientific personnel to perform research and development work in the future is critical to Evotec's success. If Evotec is unable to attract and to retain personnel on acceptable terms despite its strong corporate culture and industry leadership position, this may delay Evotec's development efforts or otherwise harm its business.

In the recent past, Evotec has not encountered difficulties in attracting and retaining qualified employees despite strong growth in recent years and no change is currently foreseen.

**IT-RISKS**

— Business processes and the communications of Evotec are increasingly dependent on information technology systems. Major disruptions or failure of global or regional business systems may result in *loss of data and/or impairment of business processes*.

Evotec uses constantly updated and newly developed hardware and software to prevent potential security risks in the area of IT. Business data is backed up regularly. Technical precautions such as data recovery and continuity plans have been established to address this risk.

— To minimise organisational risks such as manipulation and unauthorised access, access is protected by passwords that must be changed regularly. Moreover, Company guidelines relating to *data protection*, which also regulate the assignment of access rights, must be observed.

**OTHER RISKS**

Other risks, such as environmental risks, compliance risks and risks involving production and procurement, are not considered to be significant and remain stable in relation to the previous year.

Evotec does not foresee any material warranty or future liability claims.

**MANAGEMENT BOARD'S ASSESSMENT OF RISK SITUATION**

The Management Board provides an overview of the probability of occurrence and the potential financial impact of the key individual risks in the table below. This assessment of overall risk is based on the risk management system used by Evotec as outlined above. The Management Board will continue to monitor effectiveness of Evotec's risk management to be able to identify, investigate and assess potential risks even more quickly and implement appropriate countermeasures.

**Corporate risks overview**

	Probability of occurrence	Potential financial impact	Comparison to prior year
<b>Business environment and industry risks</b>			
<b>a. Risk inherent to drug discovery alliances</b>			
Pricing pressure	medium	medium	unchanged
<b>b. Risk inherent to proprietary drug discovery and development</b>			
Risk of failure	high	low/medium	unchanged
Risk of extensive regulation	medium	low	unchanged
Product liability claims	low	high	unchanged

<b>Performance-related risks</b>			
Fluctuating capacity and resource allocation	medium	medium	unchanged
Dependence on individual larger customer	medium	high	unchanged
Scientific or technical delivery risks	medium	medium	unchanged
Maintenance of customer recognition and branding	low	medium	unchanged
<b>Commercial risks</b>			
Changing market environment	low	medium	unchanged
Dependence on individual out-licensing events	medium	medium	unchanged
Outperformance by competitors	low	medium	unchanged
<b>Strategy risks</b>			
Implementation and achievement of strategic goals	medium	high	unchanged
Risk from M&A	low	low	unchanged
<b>Financial risks</b>			
Liquidity risks	low/medium	medium/high	unchanged
Default risks	low	medium/high	unchanged
Currency risks	medium	medium	unchanged
<b>IP risks</b>			
Dependence on technology patents and proprietary technology	low/medium	medium/high	unchanged
Dependence on licences granted for partnered assets	low	medium/high	unchanged
<b>Legal risks</b>	low/medium	low	slightly increased
<b>HR risks</b>			
Dependence on key personnel	low	medium	unchanged
<b>IT risks</b>			
Loss of data	low	medium/high	unchanged
Data integrity and protection	low	medium	unchanged
<b>Other risks</b>			
Environmental risks	low	low	unchanged
Compliance risks	low	low	unchanged
Risks involving production	low	low	unchanged
Risks involving procurement	low	low	unchanged

Based on the general principles for estimating risk factors described above the Management Board believes that although the risks in any drug discovery and development business are significant, the Company has great opportunities to create long-term value that outweigh the foreseeable risks. At present, no risks have been identified that either individually or in combination could endanger the continued existence of Evotec and the Evotec Group. Furthermore, no material changes to risks were identified compared to 2011.

Evotec has no external credit rating.

# POST-BALANCE SHEET EVENTS

Effective 01 January 2013, Evotec AG acquired the Hamburg-based company CCS. With the initial payment of the purchase price Evotec became the sole owner of CCS.

CCS supports the cell culture needs of a worldwide customer base of biotech and pharmaceutical companies. The integration of the unique capabilities of CCS, such as frozen cell preparations and bulk cell transfection for cell-based screening will enable Evotec's partners to access the latest science and the best-in-class technology infrastructure to increase efficiency in their drug discovery process.

The purchase price consists of a cash consideration of € 1.15 m and an earn-out component in cash of up to € 1.4 m. The earn-out component will become due only one year after the acquisition and depends upon the achievement of certain pre-defined revenue targets.

# OUTLOOK

Information set forth in this section contains forward-looking statements. These statements are neither promises nor guarantees, but are subject to a variety of risks and uncertainties, many of which are beyond Evotec's control and which could cause actual results to differ materially from those contemplated in these forward-looking statements.

## EXPECTED GENERAL MARKET AND HEALTHCARE DEVELOPMENT

### ECONOMIC DEVELOPMENT

Last year, we again experienced periods of turbulence in the industry and capital markets. However, on the whole 2012 turned out to be a surprisingly good year for many investors and companies.

In the coming years, global economic development will again vary widely from region to region. Overall, analysts are forecasting a very volatile year in 2013. Global gross domestic product (GDP) will expand moderately in real terms, again significantly faster in the emerging markets than in the Western industrialised countries. The forecast for economic growth in 2013 is around 2%, but depends very much on the industry and region. GDP growth in Europe is estimated to be only around 1% and therefore around the same rate that was achieved in 2012. In the USA, economic growth is expected to accelerate in 2013. For Asia growth forecasts are significantly stronger, but no longer reaching double-digit growth from the years 2010 and 2011. These expectations, relating to the overall situation, are subject to considerable uncertainties due to the financial and economic crisis. However, Evotec is confident that these factors will not have a major impact on the Company's expected corporate development or performance.

### THE MARKET FOR DRUG DISCOVERY ALLIANCES

Despite the challenging global environment, the global drug discovery market is expected to experience continued growth. According to studies from Kalorama Information (June 2010) and Visiongain (2012), the global drug discovery market including later-stage *in vivo* work is expected to grow strongly, reaching \$ 14 bn in 2014. According to Visiongain, in 2011 the global revenues generated in the overall drug discovery outsourcing amounted to \$ 9.7 bn. Also, according to Visiongain, by 2023 total global revenues generated by drug discovery outsourcing could even reach \$ 35.7 bn. The growth in outsourcing will be stimulated by Pharma and biotech companies focusing on more efficient drug discovery solutions and switching to a variable cost model. This will result in core capabilities and capacities being outsourced at a lower cost. Most importantly, expertise in required areas will be accessed externally, avoiding the need to build additional infrastructure

and capabilities internally. This innovation efficiency demand will be increasingly met by companies such as Evotec.

The overall outsourcing trend in the pharmaceutical industry is toward larger strategic research contracts favouring big alliance partners, which feature a lower perceived commercial risk. This presents a challenge for the highly fragmented drug discovery outsourcing industry. However, Evotec is ideally positioned to take full advantage of these market developments. The Company is one of the few drug discovery businesses that can execute a comprehensive outsourcing strategy, because it is able to undertake integrated drug discovery projects. In addition, the Company has an outstanding track record in the industry and is financially stable.

### TRENDS IN RESEARCH AND DEVELOPMENT

The significant increase in costs to take a drug to market has led to a number of key trends, including an increase in outsourcing and a focus by major Pharma companies concentrating on fewer core disease areas. In terms of proprietary research and development of novel drug compounds, experts believe that sufficient financial resources will remain a critical competition advantage for biotechnology companies as funding availability will continue to be limited for the coming years. There has been a reduction in venture capital for new enterprises since 2009 and this situation is not expected to change. Hence, many companies across the globe are expected to continue to cut non-core programmes and focus on a few high-value assets.

### BUSINESS DIRECTION AND STRATEGY

Evotec aims to be the leading provider of drug discovery solutions. In 2009, Evotec implemented Action Plan 2012 – Focus and Grow, which brought the Company into profitability and established a solid platform for further expansion. With Action Plan 2016 – Innovation Efficiency, Evotec defined the next goals the Company wants to achieve in the years to come.

The three building blocks (as described in “Corporate objectives and strategy” on page 41 of this report) will help us to achieve long-term leadership in the drug discovery solutions market.

The goals defined for 2013 in the context of Action Plan 2016 are as follows:

EVT Execute	EVT Integrate	EVT Innovate
<ul style="list-style-type: none"> <li>— Continue to expand technology offering to increase range of customer solutions</li> <li>— Expand and optimise footprint with services closer to our customers</li> <li>— Further improve service levels, gross margins and profitability</li> </ul>	<ul style="list-style-type: none"> <li>— Further expansion of portfolio with new strategic multi-target alliances</li> <li>— Increase in milestones achieved in ongoing alliances</li> <li>— Increase in number of biotech and mid-sized Pharma customers</li> </ul>	<ul style="list-style-type: none"> <li>— Define one or two more Cure X initiatives</li> <li>— Commercialise one Cure X initiative</li> <li>— Expand academic innovation network</li> </ul>

## EXPECTED RESEARCH AND DEVELOPMENT, NEW PRODUCTS, SERVICES AND TECHNOLOGIES

All of Evotec’s new products, services or technologies are based on internal R&D activities, technology agreements with other companies and the acquisition of assets. Evotec is continually upgrading its capabilities to maintain the best infrastructure and skills to meet its partner’s needs in drug discovery. This trend is expected to continue in 2013 and beyond.

In terms of in-house research, the Company will continue to invest into a selected number of highly innovative approaches to address key medical areas. An important part of this is the Company’s Cure X initiative, whereby Evotec accesses and accelerates early academic or research initiatives in innovative areas of disease biology and develops and positions such assets for commercial partnering. The CureBeta and CureNephron initiatives were started with Harvard University in March 2011 and February 2012, respectively. In order to continue the progression of the Cure X initiatives, Evotec is currently developing CureNeuron and CureHeart internally and is exploring potential collaboration opportunities. In December 2012 Evotec expanded this strategy by signing an agreement with Yale University, whereby both institutions will accelerate targets to a suitable partnering position within this “open innovation alliance”. These projects and others that are currently under development are expected to lead to an increasing number of large strategic alliances with pharmaceutical companies in the future. CureBeta is a great example of this as it entered an alliance with Janssen in 2012 and has since then been externally funded.

Evotec maintains its strategy to only participate in clinical development programmes in partnerships with pharmaceutical partners who fund all the development costs.

## FINANCIAL OUTLOOK FOR 2013

### EXPECTED OPERATING RESULTS

In 2013, total Group *revenues* are expected to see strong percentage growth and be between € 90 m and € 100 m. This assumption is based on the current order book, expected new contracts and contract extensions, as well as the achievement of certain milestone payments. Milestones are difficult to predict, but they are a fundamental part of the business model of Evotec.

On this basis, 2013 *gross margins* are expected to improve slightly on those achieved in 2012. However, quarterly margins will continue to be volatile, as they are dependent upon the timing of significant milestone payments.

Evotec expects *research and development (R&D) expenses* in 2013 to increase above the levels of 2012. This is primarily due to additional investments in the strategic Cure X franchise primarily in the fields of metabolic diseases and regenerative medicine. In total, R&D expenditure is expected to be around € 10 m in 2013.

Evotec's Group *operating result* before impairment and changes in contingent consideration, if any, is expected to improve from its 2012 level for the year 2013.

### EXPECTED FINANCING AND FINANCIAL POSITION

In 2013, Evotec will continue to drive its long-term growth aspirations through investment in technology platforms and capacity. However, overall capital expenditure will be below the 2012 level. It is planned that approximately € 7 m will be invested in the long-term upgrading of Evotec's capacities.

The Evotec Group started 2012 with a *liquidity* of just over € 64 m. At constant year-end 2012 currencies, the Company expects to maintain its strong liquidity position in excess of € 60 m at the end of 2013. This excludes any potential cash outflow for M&A or similar transactions.

Regarding the *funding situation and financing of the Company*, the implementation of Action Plan 2012 – Focus and Grow delivered its expected results. Evotec stopped the continued cash outflow of previous years and is now “cash neutral/positive”, despite significant capital expenditures and its continued commitment to R&D. Evotec's cash situation is also expected to remain strong throughout 2013. Hence, 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.

## DIVIDENDS

Payment of dividends is dependent upon Evotec's financial situation and liquidity requirements, the general market conditions and statutory, tax and regulatory requirements. Evotec currently intends to retain any potential future profits and reinvest them in the Company. Nevertheless, given the very solid growth path, dividend payments will be carefully considered in the mid-term.

## OPPORTUNITIES

Evotec operates in a market which continues to have excellent growth opportunities. There is a clear trend towards larger, multi-year contracts within a full-service outsourcing model, meaning increased opportunities for alliance partners, such as Evotec, which offer integrated drug discovery capabilities and project management from across the entire discovery value chain.

Evotec has entered into partnerships with pharmaceutical companies for a number of its development programmes. A highlight of 2012 was the successful partnering of the program EVT100 series with Janssen. After partnering, all development costs are covered by the partner and as Evotec is not investing itself, there is no financial risk for the Company. The upside, however, may be significant. In case of clinical and commercial success, Evotec will benefit from significant milestone payments and double-digit royalties.

## GENERAL STATEMENT OF EXPECTED DEVELOPMENT BY THE MANAGEMENT BOARD

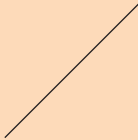
Evotec continues to strengthen its business and become a leader in the provision of drug discovery solutions. Evotec is therefore well-positioned to deliver value to the pharmaceutical and biotechnology industry, addressing the industry's growing demand for innovation.

The Management Board believes that Evotec will benefit from the outsourcing trend in the pharmaceutical industry and partner with an increasing number of customers.

On this basis, the Management Board expects Evotec to show strong revenue growth in 2013 and continued profitability. The Company's strong cash position will provide a firm foundation to consider potential M&A opportunities that might strengthen the business and increase shareholder value.



# CONSOLIDATED FINANCIAL STATEMENTS (IFRS) 2012



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**Evotec AG and Subsidiaries –  
Consolidated statement of financial position as of 31 December 2012**

in T€ except share data	footnote reference	as of 31 December 2012	as of 31 December 2011
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	4	39,065	17,777
Investments	4	25,094	44,651
Trade accounts receivables	5	15,053	10,393
Inventories	6	2,445	3,556
Current tax receivables		480	201
Other current financial assets	7	1,478	1,355
Prepaid expenses and other current assets	8	4,489	2,965
Assets classified as held for sale	9	-	62
<b>Total current assets</b>		<b>88,104</b>	<b>80,960</b>
<b>Non-current assets:</b>			
Long-term investments	10	10	10
Property, plant and equipment	11	27,181	24,946
Intangible assets, excluding goodwill	12	63,266	67,652
Goodwill	13	42,342	42,202
Deferred tax asset	18	2,815	2,373
Other non-current financial assets		75	70
Other non-current assets	14	1,634	-
<b>Total non-current assets</b>		<b>137,323</b>	<b>137,253</b>
<b>Total assets</b>		<b>225,427</b>	<b>218,213</b>

*See accompanying notes to consolidated financial statements*



## *Consolidated statement of financial position* 81

in T€ except share data	footnote reference	as of 31 December 2012	as of 31 December 2011
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>Current liabilities:</b>			
Current loan liabilities	15	13,223	13,174
Current portion of finance lease obligations		1	32
Trade accounts payable		6,363	10,134
Advanced payments received		232	782
Provisions	16	6,914	11,045
Deferred revenues	17	5,548	5,875
Current income tax payables	18	502	492
Other current financial liabilities		234	1,147
Other current liabilities		865	152
<b>Total current liabilities</b>		<b>33,882</b>	<b>42,833</b>
<b>Non-current liabilities:</b>			
Non-current loan liabilities	15	4,178	2,359
Long-term finance lease obligations		-	1
Deferred tax liabilities	18	2,099	9,904
Provisions	16	18,817	14,618
Deferred revenues	17	12,516	9
Other non-current financial liabilities		1,388	1,244
<b>Total non-current liabilities</b>		<b>38,998</b>	<b>28,135</b>
<b>Stockholders' equity:</b>			
Share capital*	20	118,547	118,316
Treasury shares purchased on stock exchange		-	(1)
Additional paid-in capital		665,918	663,820
Accumulated other comprehensive income		(25,501)	(25,995)
Accumulated deficit		(606,417)	(608,895)
<b>Equity attributable to shareholders of Evotec AG</b>		<b>152,547</b>	<b>147,245</b>
Non-controlling interest		-	-
<b>Total stockholders' equity</b>		<b>152,547</b>	<b>147,245</b>
<b>Total liabilities and stockholders' equity</b>		<b>225,427</b>	<b>218,213</b>

\* 153,991,907 and 153,622,738 shares, 1€ nominal amount, authorised at 31 December 2012 and 2011, respectively  
118,546,839 and 118,315,864 shares issued and outstanding in 2012 and 2011, respectively

*See accompanying notes to consolidated financial statements*

**Evotec AG and Subsidiaries –  
Consolidated income statement for the period from 1 January to 31 December 2012**

in T€ except share and per share data	footnote reference	Year ended 31 December 2012	Year ended 31 December 2011
Revenues	21	87,265	80,128
Costs of revenue		(56,242)	(45,143)
<b>Gross profit</b>		<b>31,023</b>	<b>34,985</b>
<b>Operating income and expenses</b>			
Research and development expenses	22	(8,340)	(8,437)
Selling, general and administrative expenses	23	(16,301)	(15,760)
Amortisation of intangible assets	12	(2,768)	(1,703)
Impairment of intangible assets	12	(3,505)	(2,058)
Reversal of impairment of intangible assets	12	-	1,501
Other operating income	24	2,202	1,426
Other operating expenses	24	(5,513)	(4,747)
<b>Total operating expenses</b>		<b>(34,225)</b>	<b>(29,778)</b>
<b>Operating income (expense)</b>		<b>(3,202)</b>	<b>5,207</b>
<b>Other non-operating income (expense)</b>			
Interest income		655	413
Interest expense	25	(1,859)	(1,858)
Other income from financial assets		406	-
Other expense from financial assets		-	(77)
Foreign currency exchange gain (loss), net	26	(1,185)	1,360
Other non-operating income		171	211
<b>Total non-operating income (expense)</b>		<b>(1,812)</b>	<b>49</b>
<b>Income before taxes</b>		<b>(5,014)</b>	<b>5,256</b>
Current tax income (expense)	18	(793)	(1,153)
Deferred tax income (expense)	18	8,285	2,548
<b>Total taxes</b>		<b>7,492</b>	<b>1,395</b>
<b>Net income</b>		<b>2,478</b>	<b>6,651</b>
<b>thereof attributable to:</b>			
Shareholders of Evotec AG		2,478	6,749
Non-controlling interest		-	(98)
<b>Weighted average shares outstanding</b>		<b>117,295,847</b>	<b>116,022,213</b>
<b>Net income per share (basic)</b>		<b>0.02</b>	<b>0.06</b>
<b>Net income per share (diluted)</b>		<b>0.02</b>	<b>0.06</b>

See accompanying notes to consolidated financial statements

**Evotec AG and Subsidiaries –  
Consolidated statement of comprehensive income for the period from 1 January to 31 December 2012**

in T€	footnote reference	Year ended 31 December 2012	Year ended 31 December 2011
<b>Net income</b>		<b>2,478</b>	<b>6,651</b>
<b>Other comprehensive income</b>			
Foreign currency translation		808	284
Revaluation and disposal of available-for-sale securities		(314)	400
<b>Other comprehensive income</b>		<b>494</b>	<b>684</b>
<b>Total comprehensive income</b>		<b>2,972</b>	<b>7,335</b>
<b>Total comprehensive income (loss) attributable to:</b>			
Shareholders of Evotec AG		2,972	7,433
Non-controlling interest		-	(98)

*See accompanying notes to consolidated financial statements*

**Evotec AG and Subsidiaries –  
Consolidated statement of cash flows for the year ended 31 December 2012**

in T€	footnote reference	Year ended 31 December 2012	Year ended 31 December 2011
<b>Cash flows from operating activities:</b>			
<b>Net income</b>		<b>2,478</b>	<b>6,651</b>
<b>Adjustments to reconcile net income to net cash used in operating activities</b>			
Depreciation of property, plant and equipment	11	6,048	4,504
Amortisation of intangible assets	12	2,768	1,703
Depreciation of current assets		291	401
Impairment of intangible assets	12	3,505	2,058
Reversal of impairment of intangible assets	12	-	(1,501)
Stock compensation expense	19	1,514	929
Non-cash foreign exchange gain		503	(1,052)
Interest expense (benefit)		1,093	1,302
Gain on sale of financial assets		(406)	-
Loss on derivatives		-	24
Loss on sale of property, plant and equipment		130	45
Gain on sale of property, plant and equipment		-	(150)
Deferred tax expense (benefit)	18	(8,285)	(2,548)
<b>Decrease (increase) in:</b>			
Accounts receivable		(4,677)	2,338
Inventories		831	(1,098)
Other assets		(3,546)	784
<b>Increase (decrease) in:</b>			
Accounts payable		(3,854)	2,304
Advanced payments received		(550)	(638)
Deferred revenues		12,198	(6,295)
Provisions		1,848	(909)
Current income taxes payable		339	161
Other liabilities		(53)	1,646
<b>Cash received during the year for:</b>			
Interest		660	408
<b>Cash paid during the year for:</b>			
Interest		(549)	(446)
Taxes		(329)	(475)
<b>Net cash provided by operating activities</b>		<b>11,957</b>	<b>10,146</b>
<b>Cash flows from investing activities:</b>			
Purchase of current investments		(62,515)	(77,551)
Purchase of investments in affiliated companies	3	(3,000)	(12,196)
Purchase of property, plant and equipment		(8,175)	(8,139)
Purchase of intangible assets	12	(2,000)	-
Proceeds from sale of property, plant and equipment		46	562
Proceeds from sale of current investments		81,419	82,256
<b>Net cash provided by (used in) investing activities</b>		<b>5,775</b>	<b>(15,068)</b>

*See accompanying notes to consolidated financial statements*

in T€	footnote reference	Year ended 31 December 2012	Year ended 31 December 2011
<b>Cash flows from financing activities:</b>			
Proceeds from option exercise	20	814	298
Proceeds from issuance of loans		2,446	15,928
Acquisition of non-controlling interests		-	(1,700)
Purchase of treasury stock		(113)	(67)
Repayment of loans		(544)	(12,320)
<b>Net cash provided by financing activities</b>		<b>2,603</b>	<b>2,139</b>
<b>Net increase in cash and cash equivalents</b>			
Exchange rate difference		953	(531)
Cash and cash equivalents at beginning of year		17,777	21,091
<b>Cash and cash equivalents at end of the period*</b>		<b>39,065</b>	<b>17,777</b>
<b>Supplemental schedule of non-cash activities:</b>			
Acquisition of subsidiaries by issuance of shares		-	7,922
<i>*thereof restricted cash</i>		416	434

*See accompanying notes to consolidated financial statements*

**Evotec AG and Subsidiaries –****Consolidated statement of changes in stockholders' equity for the year ended 31 December 2012**

		Share Capital			
in T€ except share data	footnote reference	Shares	Amount	Additional paid-in capital	Treasury shares purchased on stock exchange
<b>Balance at 1 January 2011</b>		<b>115,595,729</b>	<b>115,596</b>	<b>658,888</b>	-
Capital increase	20	2,597,403	2,597	5,325	-
Exercised stock options	19	122,732	123	175	-
Stock option plan	19	-	-	929	-
Acquisition of non-controlling interests in Evotec (India)		-	-	(1,466)	-
Acquisition of non-controlling interests in DeveloGen AG		-	-	(31)	-
Purchase of treasury shares		-	-	-	(67)
Transfer of treasury shares		-	-	-	66
<b>Total comprehensive income (loss)</b>					
<b>Balance at 31 December 2011</b>		<b>118,315,864</b>	<b>118,316</b>	<b>663,820</b>	<b>(1)</b>
Exercised stock options	19	230,975	231	584	-
Stock option plan	19	-	-	1,514	-
Purchase of treasury shares		-	-	-	(113)
Transfer of treasury shares		-	-	-	114
<b>Total comprehensive income (loss)</b>					
<b>Balance at 31 December 2012</b>		<b>118,546,839</b>	<b>118,547</b>	<b>665,918</b>	<b>-</b>

*See accompanying notes to consolidated financial statements*

*Consolidated statement of changes in stockholders' equity* 87

Accumulated other comprehensive income						
	Foreign currency translation	Revaluation reserve	Accumulated deficit	Equity attributable to shareholders	Non-controlling interests	Total stockholders' equity
	<b>(33,634)</b>	<b>6,955</b>	<b>(615,644)</b>	<b>132,161</b>	<b>476</b>	<b>132,637</b>
	-	-	-	7,922	-	7,922
	-	-	-	298	-	298
	-	-	-	929	-	929
	-	-	-	(1,466)	(234)	(1,700)
	-	-	-	(31)	(144)	(175)
	-	-	-	(67)	-	(67)
	-	-	-	66	-	66
	284	400	6,749	7,433	(98)	7,335
	<b>(33,350)</b>	<b>7,355</b>	<b>(608,895)</b>	<b>147,245</b>	-	<b>147,245</b>
	-	-	-	815	-	815
	-	-	-	1,514	-	1,514
	-	-	-	(113)	-	(113)
	-	-	-	114	-	114
	808	(314)	2,478	2,972	-	2,972
	<b>(32,542)</b>	<b>7,041</b>	<b>(606,417)</b>	<b>152,547</b>	-	<b>152,547</b>

**Evotec AG and Subsidiaries – Consolidated fixed asset movement schedule for the year ended 2012**

		Acquisition and manufacturing costs						
T€	1 January 2012	Foreign exchange	Additions	Disposals	Reclass	31 December 2012		
<b>I. Intangible assets</b>								
1. Patents and licences	5,780	-	2,000	-	-	7,780		
2. Goodwill	42,202	140	-	-	-	42,342		
3. Developed technology	125,309	(387)	-	-	-	124,922		
4. Customer list	37,045	(104)	-	213	-	36,728		
	<b>210,336</b>	<b>(351)</b>	<b>2,000</b>	<b>213</b>	<b>-</b>	<b>211,772</b>		
<b>II. Property, plant and equipment</b>								
1. Buildings and leasehold improvements	11,767	238	1,565	1,189	-	12,381		
2. Plant, machinery and equipment	37,053	213	4,653	972	1,393	42,340		
3. Furniture and fixtures	8,314	107	789	754	65	8,521		
4. Purchased software	1,313	-	72	22	-	1,363		
5. Finance leases	210	5	-	-	(197)	18		
6. Assets under construction	1,358	2	1,113	-	(1,261)	1,212		
	<b>60,015</b>	<b>565</b>	<b>8,192</b>	<b>2,937</b>	<b>-</b>	<b>65,835</b>		

**Evotec AG and Subsidiaries – Consolidated fixed asset movement schedule for the year ended 2011**

		Acquisition and manufacturing costs						
T€	1 January 2011	Foreign exchange	Additions	Business combination	Disposals	Reclass	31 December 2011	
<b>I. Intangible assets</b>								
1. Patents and licences	5,780	-	-	-	-	-	5,780	
2. Goodwill	25,979	750	-	15,694	221	-	42,202	
3. Developed technology	117,299	940	-	7,070	-	-	125,309	
4. Customer list	31,678	820	-	4,547	-	-	37,045	
	<b>180,736</b>	<b>2,510</b>	<b>-</b>	<b>27,311</b>	<b>221</b>	<b>-</b>	<b>210,336</b>	
<b>II. Property, plant and equipment</b>								
1. Buildings and leasehold improvements	10,639	190	878	60	-	-	11,767	
2. Plant, machinery and equipment	29,402	9	4,493	3,508	595	236	37,053	
3. Furniture and fixtures	7,140	80	1,585	179	830	160	8,314	
4. Purchased software	1,176	-	119	18	-	-	1,313	
5. Finance leases	485	1	-	-	-	(276)	210	
6. Assets under construction	222	20	1,236	-	-	(120)	1,358	
	<b>49,064</b>	<b>300</b>	<b>8,311</b>	<b>3,765</b>	<b>1,425</b>	<b>-</b>	<b>60,015</b>	

*See accompanying notes to consolidated financial statements*



*Consolidated fixed asset movement schedule* 89

Depreciation, amortisation and writedowns							Net book value		
1 January 2012	Foreign exchange	Additions	Disposals	Impairment	Reclass	31 December 2012	31 December 2012	31 December 2011	
5,008	-	892	-	391	-	6,291	1,489	772	
-	-	-	-	-	-	-	42,342	42,202	
63,644	(325)	376	-	3,114	-	66,809	58,113	61,665	
31,830	(53)	1,500	213	-	-	33,064	3,664	5,215	
<b>100,482</b>	<b>(378)</b>	<b>2,768</b>	<b>213</b>	<b>3,505</b>	-	<b>106,164</b>	<b>105,608</b>	<b>109,854</b>	
7,072	126	1,014	1,143	-	-	7,069	5,312	4,695	
20,937	74	3,753	824	-	157	24,097	18,243	16,116	
5,842	61	1,157	740	-	9	6,329	2,192	2,472	
1,039	-	124	21	-	-	1,142	221	274	
179	4	-	-	-	(166)	17	1	31	
-	-	-	-	-	-	-	1,212	1,358	
<b>35,069</b>	<b>265</b>	<b>6,048</b>	<b>2,728</b>	-	-	<b>38,654</b>	<b>27,181</b>	<b>24,946</b>	

Depreciation, amortisation and writedowns							Net book value		
1 January 2011	Foreign exchange	Additions	Disposals	Impairment	Reversal of impairment	Reclass	31 December 2011	31 December 2011	31 December 2010
4,788	-	220	-	-	-	-	5,008	772	992
-	-	-	-	-	-	-	-	42,202	25,979
62,106	684	297	-	2,058	1,501	-	63,644	61,665	55,193
30,248	399	1,183	-	-	-	-	31,830	5,215	1,430
<b>97,142</b>	<b>1,083</b>	<b>1,700</b>	-	<b>2,058</b>	<b>1,501</b>	-	<b>100,482</b>	<b>109,854</b>	<b>83,594</b>
6,081	141	850	-	-	-	-	7,072	4,695	4,558
17,504	131	3,209	78	-	-	171	20,937	16,116	11,898
5,664	65	929	849	-	-	33	5,842	2,472	1,476
947	-	92	-	-	-	-	1,039	274	229
381	2	-	-	-	-	(204)	179	31	104
-	-	-	-	-	-	-	-	1,358	222
<b>30,577</b>	<b>339</b>	<b>5,080</b>	<b>927</b>	-	-	-	<b>35,069</b>	<b>24,946</b>	<b>18,487</b>

Evotec AG and Subsidiaries

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2012

## *(1) Business description and basis of presentation*

Evotec AG, Essener Bogen 7, Hamburg, Germany, and subsidiaries (“Evotec” or the “Company”) is a drug discovery alliance and development partnership company. The Company operates worldwide and has leading scientific experts, state-of-the-art technologies as well as key therapeutic area expertise, covering neuroscience, pain, metabolic diseases, oncology and inflammation. The core of Evotec’s business is drug discovery research in collaboration with a large number of Pharma. Evotec’s business offering ranges from straight fee-for-service, where Evotec commits to the delivery of a specific short-term end goal, to risk-shared alliances and collaborations with customers on proprietary projects. The approach to all of Evotec’s collaborations with customers is based upon providing best-in-class drug discovery solutions in the most efficient manner and thereby maximising the customer’s opportunities to progress candidates into the clinic and beyond.

Evotec was founded on 8 December 1993 as EVOTEC BioSystems GmbH. Evotec completed an initial public offering in Germany on 10 November 1999 on Frankfurt Stock Exchange under the trading symbol “EVT”. On 5 May 2008, Evotec became listed on the NASDAQ Global Market in the US under the trading symbol “EVTC”. Effective 30 November 2009, Evotec voluntarily delisted from the NASDAQ Global Market in the US. End of March 2011, the deregistration from the NASDAQ Global Market was effective.

All amounts in the notes are shown in thousands of Euro (T€), unless indicated otherwise. The Euro is the functional currency of the Company.

On 12 March 2013, the Management Board authorised the consolidated financial statements for issue.

## *(2) Summary of significant accounting policies*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations as issued by the International Accounting Standards Board (IASB) as adopted by the European Union (EU), as well as the additional

requirements of German commercial law pursuant to § 315a par. 1 HGB (German Commercial Law). The consolidated financial statements have been prepared on the historical cost basis except for derivatives and available-for-sale financial instruments, which are measured at fair value. The accounting policies below have been applied consistently to all periods presented in the consolidated financial statements and have been applied consistently by all entities except as explained in the section “Recently issued accounting pronouncements” which addresses changes in accounting policies.

### USE OF ESTIMATES

The preparation of the accompanying consolidated financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses during the reporting period as well as the disclosure of contingent assets and liabilities as of the date of the main financial statements. Main estimates and assumptions affect acquisitions (Note 3), impairment testing (Note 12 and 13), provisions (Note 16), measurement of compensation expenses (Note 19) and the recognition of deferred tax assets (Note 18). Actual results could differ from management’s estimates, which include uncertainties. In addition, changes in the current economic conditions and other events could also have a significant effect on reported amounts.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods effected.

### PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Evotec and all companies which are under its control. All intercompany transactions and balances have been eliminated in the consolidation.

In connection with the acquisition of Renovis, Inc. in 2008, the Company issued 3,060,473 shares to a trust as replacement for share-based compensation arrangements. Those shares were included in the consolidated financial statements in accordance with SIC-12 as of 31 December 2011. In 2012, the remaining shares were released from the trust and the trust agreement terminated.

## TRANSLATION OF FOREIGN CURRENCY DENOMINATED TRANSACTIONS AND FOREIGN OPERATIONS

The assets and liabilities including goodwill of foreign subsidiaries with functional currencies other than the Euro are translated into Euro using the exchange rates at the end of the reporting period, while the income statements of such subsidiaries are translated using monthly average exchange rates during the period. Gains or losses resulting from translating foreign functional currency financial statements are reported directly in accumulated other comprehensive income in stockholders' equity.

Transactions in foreign currencies are translated into Euro using the average foreign exchange rate of the month of the transaction. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Euro using the exchange rates at the end of the period. Gains or losses resulting from foreign currency denominated transactions are included in other non-operating income and expense.

The transaction in foreign currency included in the consolidated statement of cash flows are translated at average exchange rates during the period.

## CASH AND CASH EQUIVALENTS

The Company considers all highly liquid short-term investments with original maturities of three months or less to be cash equivalents.

## NON-DERIVATIVE FINANCIAL INSTRUMENTS

Non-derivative financial instruments consist of certain long-term and short-term investments, trade accounts and other receivables, cash and cash equivalents, loans, finance lease obligations, trade accounts and other payables. These instruments are recognised if Evotec becomes party to the contractual provisions of the financial instrument. Evotec accounts for financial assets and financial liabilities at the date of contract conclusion with the settlement amount.

Financial assets are derecognised if either the rights to the cash flows arising from the instrument have expired or substantially all risks and rewards attributable to the instrument have been transferred. Financial liabilities are derecognised if the obligations have expired or have been discharged or cancelled.

Financial assets and liabilities are offset and the net amount presented in the financial position when, and only when, Evotec has the legal right to offset the amounts and either to settle on a net basis or to realise the asset and settle the liability simultaneously.

At initial recognition, non-derivative financial instruments are measured at fair value plus transactions costs. The subsequent measurement of the financial instruments at Evotec depends on the designation of the financial instruments to the following categories as defined in IAS 39:

### — Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction cost. Subsequent to the initial recognition financial instruments of this category are measured at amortised cost using the effective interest

method less any impairment losses. Loans and receivables include trade accounts and other receivables.

### — Available-for-sale financial assets

Evotec's long-term and short-term investments, unless accounted for under the equity method in accordance with IAS 28 or as held-to-maturity investments, are classified as available-for-sale financial assets. Available-for-sale financial assets are measured at fair value at the balance sheet date or, if this value cannot be determined, at cost. Unrealised gains and losses resulting from changes in fair value are reported in equity, net of any tax effect. Changes in fair value are not recognised in the income statement until the asset is sold or until an impairment loss is recorded. Investments that qualify as equity instruments are measured at cost if their fair value cannot be determined based on quoted prices or by reference to the current fair value of comparable instruments, or by using appropriate pricing models (in cases where cash flows are volatile or cannot be reliably determined).

### — Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed maturity and fixed or determinable payments that are quoted in an active market. If Evotec has the intent and ability to hold long-term and short-term investments to maturity, those assets are classified as held-to maturity. Held-to maturity financial assets are initially measured at fair value plus transactions costs. Subsequent to the initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment losses.

## DERIVATIVE FINANCIAL INSTRUMENTS INCLUDING HEDGE ACCOUNTING

Derivative financial instruments, such as foreign currency exchange contracts and interest rate swap contracts, are measured at fair value. Accounting for the change in fair value of derivatives depends on whether they are designated as hedging instruments and qualify as part of a hedge relationship under IAS 39. If these conditions are not met, even if there is an economic hedge relationship with an underlying transaction, changes in fair value of the derivatives are recognised directly in the income statement. Derivatives embedded in host contracts are accounted for separately if the economic characteristics and risk of the host contract and the embedded derivative are not closely related. The Company uses foreign currency derivative financial instruments as well as interest swaps to hedge its exposure to foreign exchange risks and interest rate fluctuations. In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading purposes.

Evotec's foreign currency derivative financial instruments are economic hedges, however, they are not accounted for as hedges in accordance with IAS 39. Therefore, all changes in the fair value of the foreign currency derivative financial instruments are recognised in foreign currency exchange gains and losses.

### BASIS FOR DETERMINING FAIR VALUES OF FINANCIAL INSTRUMENTS

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments.

The fair value of financial assets at fair value through profit or loss and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date unless the available-for-sale financial assets are unquoted equity instruments or financial assets without an active market.

Unquoted equity instruments are measured at cost. Available-for-sale financial assets without an active market are estimated using a valuation technique based on assumptions that are not supported by prices from observable markets.

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then the fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate.

The fair value of interest rate swaps is determined by reference to broker quote.

The fair value of contingent considerations arising in a business combination is calculated on the basis of discounted expected payment amounts and related probabilities.

Unless otherwise reported, the fair values of financial instruments equal the carrying amounts.

### INVENTORIES

In accordance with IAS 2, inventories are valued at the lower of cost or net realisable value, with cost being generally determined on the basis of an average method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Costs consist of purchased component costs and manufacturing costs, which are comprised of direct material and labour costs and systematic allocated costs. Costs are removed from inventories to costs of revenue based on specific identification.

### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment acquisitions, including leasehold improvements, are recorded at cost less any vendor rebates. Leased property, plant and equipment meeting certain criteria are capitalised at the lower fair value or present value of the minimum lease payments.

Depreciation of property, plant and equipment, which also includes depreciation of assets under finance leases, is calculated using the straight-line method over the estimated useful lives of the assets. Depreciation of leasehold improvements is calculated using the straight-line method over the shorter of the related lease term or the estimated useful life. The useful lives are as follows:

Buildings and leasehold improvements	6–35 years
Plant, machinery and equipment	3–20 years
Furniture and fixtures	3–15 years
Computer equipment and software	3–5 years
Assets under finance lease	3 years

The depreciation period is reviewed at each balance sheet date. Differences from previous estimates are accounted for as a change in an accounting estimate in accordance with IAS 8. The costs included in property, plant and equipment related to assets under construction are not depreciated until the assets are placed into service by the Company. Upon sale or retirement, the costs and the related accumulated depreciation are removed from the respective accounts and any gain or loss is included in other operating income and expense. Maintenance and repairs are expensed as incurred.

### INTANGIBLE ASSETS, EXCLUDING GOODWILL

Intangible assets, excluding goodwill, consist of separately identified intangible assets such as developed technologies, customer lists and patents, which were acquired in business combinations, purchased licenses and patents.

Intangible assets with definite useful lives are recorded at cost and are amortised using the straight-line method over the estimated useful lives of the assets:

Developed technologies	18 years
Customer list	2–5 years
Patents and licenses	15 years or shorter life

Developed technologies acquired in business combinations are amortised as soon as the intangible assets start to generate sustainable benefits and tested for impairment at least annually.

The amortisation period is reviewed at each balance sheet date.

### GOODWILL

Goodwill recognised in a business combination according to the acquisition method is recognised as an asset. Goodwill is measured at the acquisition date as

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interest in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount of the identifiably assets acquired and liabilities assumed at fair value.

### REVENUE RECOGNITION

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Company based upon the

performance requirements of the respective agreements, the revenue can be reliably measured regardless of when the payment is being made and collectibility is reasonably assured. The Company assesses collectibility based on a number of factors, including past transaction history with the customer and the customer's credit-worthiness.

The Company has entered into multiple-element contracts and thoroughly determined whether the different revenue-generating elements are sufficiently separable and whether there exists sufficient evidence of their fair values to separately account for some or all of the individual elements of the contracts. Only if an element is considered to meet these criteria it represents a separate unit of accounting.

Evotec's revenues include service fees, FTE-based research payments revenue for delivered goods and deliverable kind of services, compound access fees as well as licenses, royalties and milestone fees.

— Service fees and FTE based research payments

Revenues generated from contracted services are recognised as the services are rendered. Payments for contracted services are generally paid in advance and recorded as deferred revenue until earned.

— Revenue for deliverable goods and deliverable kind of services

Deliverable kind of contracted services are recorded as revenue upon delivery. Payments for deliverable kind of contracted services are generally paid in advance and recorded as advanced payments received.

— Compound access fees

Revenue from compound access fees is recognised pro rata over the related forecasted service period.

— Milestone fees

Revenue contingent upon the achievement of certain milestones is recognised in the period the milestone is successfully achieved. This typically occurs when the Company's contract partner agrees that the requirements stipulated in the agreement have been met.

— Licenses

Revenue from the sale of licenses is recognised at the date of the sale. Revenue from out licensing in combination with a collaboration is realised pro rata over the collaboration period.

— Royalties

Revenue from royalties, which are dependent on other company's respective product sales, is recognised in the period in which the royalty report or the payment is received.

## INTEREST INCOME AND EXPENSE

Interest is recorded as expense or income in the period to which it relates. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method. All other interest income and expense including the unwind of the discount on contingent considerations are also recognised in the income statement using the effective interest rate method.

Evotec has no qualifying assets according to IAS 23 and therefore does not capitalise interest expenses.

## INCOME TAXES

Income taxes comprise the current taxes on income in the individual countries as well as the deferred taxes. Income taxes are recorded in the income statement except to the extent it relates to a business combination, or for those items recorded directly in stockholders' equity.

Current taxes are the expected tax payables or receivables on the taxable income or loss for the year, using the tax rates enacted at the balance sheet date. Additionally, any adjustment to taxes in respect of previous years are also included.

Under the liability method, deferred tax assets and liabilities are recognised for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases as well as for tax loss carry forwards. Deferred tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realised or settled based on enacted or substantially enacted tax rates.

The effect on deferred tax assets and liabilities of a change in tax rates is recognised in the period that includes the date of enactment or substantial enactment. In assessing the recoverability of deferred tax assets, management considers whether it is probable that some portion or all of the deferred tax assets will not be realised. Deferred tax assets are not recognised to the extent that it is not probable that the related tax benefit will be realised.

No deferred taxes are recognised for goodwill related to business combinations.

In determining the amount of current and deferred tax Evotec takes into account the impact of uncertain tax positions and whether additional taxes and interest maybe due. The Company believes that the accruals for tax liabilities are adequate for all open tax years based on assessment of multiple factors including interpretations of tax laws and experience. This assessment relies on estimates and assumptions and may involve a series of judgement about future events. New information maybe become available that forces the Company to change its judgement regarding the adequacy of existing tax liabilities. Such changes to tax liabilities will impact tax expenses in the period in which such determination is made.

## RESEARCH AND DEVELOPMENT

Research and development costs that are generated through internal projects are expensed or capitalised depending on whether the expenditure incurred falls under the classifications of research or development expenditure as defined by IAS 38. When it is not certain that research and development projects will generate probable future economic benefits to the Company, such costs are expensed as incurred. Those projects which are expected to generate probable future economic benefits are capitalised as an intangible asset and amortised if all criteria set out in IAS 38 are met. This principle is also used for the accounting of developed software. However, the software included in property, plant and equipment consists only of purchased software. Evotec did not capitalise any development costs in 2012 and 2011.

Research and development costs that are acquired in a business combination are capitalised when those research and development projects are expected to generate probable future economic benefits to the Company. Research and development costs acquired in a business combination are

not amortised until they are likely to generate benefits.

The Company receives grants from government authorities for the support of specific research and development projects. The grants are requested when qualifying expenses have been incurred and are recognised as a reduction mainly of research and development expense when they are received. No grants were received for capitalised development expenditures. The amounts recognised as a reduction of the Company's research and development expenses were T€ 240 in 2012 and T€ 911 in 2011.

Under the terms of the grants, governmental agencies generally have the right to audit qualifying expenses submitted by the Company.

#### **IMPAIRMENT OF NON-FINANCIAL NON-CURRENT ASSETS AND GOODWILL**

The Company reviews non-financial non-current assets (property, plant and equipment and intangible assets including goodwill) for impairment, to estimate the value in use or the fair value less cost to sell, in accordance with IAS 36. An impairment review is performed at least annually for intangible assets with indefinite useful lives, intangible assets not yet available for use and goodwill, or whenever events or changes in circumstances indicate that the carrying amount of an asset or a group of assets may not be recoverable. In line with the Company's policy concerning the impairment of intangible assets with indefinite useful lives and goodwill, the Company carried out an impairment test in the fourth quarter of 2012 and 2011 (see Note 12 and 13).

An impairment loss is recognised if the carrying amount of an asset (or a group of assets when considering a cash generating unit) exceeds its recoverable amount which is the higher of its fair value less costs to sell or value in use. The value in use for an asset or cash generating unit is calculated by estimating the net present value of future cash flows arising from that asset or cash generating unit. The discount rate used to calculate the value in use is determined to reflect the risks inherent for each asset or cash generating unit. The evaluation of the net cash flow of the further use is based on a mid range or where applicable long range forecast. Considerable management judgment is necessary to estimate discounted future cash flows.

Any impairment is reported as a separate component of operating expenses in the consolidated income statement. An impairment of tangible assets and intangible assets excluding goodwill is reversed if there has been a change in the estimates used to determine the value in use leading to an increase in value for a previously impaired asset as one cash generating unit. It is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been previously recognised. Impairments of goodwill are not reversed.

#### **SHARE CAPITAL**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares are recognised as a deduction from equity.

The Company applies the regulations of IAS 32 in accounting for treasury shares. When ordinary shares recognised as equity are reacquired, the amount of the consideration paid for those treasury shares is recognised

as a deduction from equity. If treasury shares are subsequently sold or granted, the proceeds will be recognised as an increase in equity.

#### **STOCK COMPENSATION**

The Company applies the regulations of IFRS 2 with regard to the accounting for options granted under its stock option plans and under its share performance plan. All plans are settled in shares. Compensation cost from the issuance of employee and Management Board stock options is measured using the fair value method at the grant date and is charged straight-line to expense over the vesting period in which the employee or member of the Management Board renders services. This is also the case for the grant of share performance awards to employees. The share performance awards from the share performance plan granted to members of the Management Board are measured using the fair value method at the grant date and is charged to expense as graded vesting over the vesting period in which the members of the Management Board renders services.

#### **PENSION AND SIMILAR OBLIGATIONS**

The Company's net obligation for defined benefit and other post-retirement benefit plans have been calculated using the projected unit credit method. Actuarial gains and losses are recognised in the income statement using the 10% corridor.

Service and interest costs for pensions and other postretirement obligations are recognised as an expense in the operating result.

The Company's obligations for contributions to defined contribution plans are recognised as expense in the income statement.

#### **PROVISIONS**

Provisions are recognised when the Company has a present obligation as a result of a past event which will result in a probable outflow of economic benefits that can be reliably estimated. The amount recognised represents the best estimate of the settlement amount of the present obligation as of the balance sheet date. Non-current provisions are recognised at present value by discounting the expected future cash flows. Expected reimbursements of third parties are not offset, but recorded as a separate asset if it is highly probable that the reimbursements will be received.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from such a contract are lower than the unavoidable expenses of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected expenses of terminating the contract and the expected net expense of continuing with the contract. Before a provision is established Evotec recognises any impairment expense on the assets associated with that contract.

The Company accrues for estimated losses from legal actions or claims, including legal expenses, when such losses or expenses are more likely than not and they can be reliably estimated.

#### **NET INCOME PER SHARE**

Basic net income per share is calculated by dividing the net income (loss)

by the weighted-average number of ordinary shares outstanding for the period, excluding common stock equivalents.

The weighted average number of ordinary shares are calculated as follows:

Shares in thousands	2012	2011
Issued ordinary shares 1 January	118,316	115,596
Treasury shares (2011: Shares in trust (SIC-12) 1 January)	(1,329)	(1,329)
Effect of share options exercised	309	83
Effect of shares issued relating to a business combination	-	1,672
<b>Weighted average number of ordinary shares 31 December</b>	<b>117,296</b>	<b>116,022</b>

Diluted net income per share is computed by dividing the net income attributable to shareholders of Evotec, by the weighted-average number of ordinary shares and share equivalents outstanding for the period determined using the treasury-stock method. For purposes of this calculation, stock options and share performance awards are considered to be common stock equivalents and are only included in the calculation of diluted net income per share when their effect is dilutive. In 2012, dilutive shares amounted to 1,054,051 stock options and share performance awards (2011: 1,219,158).

#### RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In 2012, the Company adopted the following accounting pronouncement:

In October 2010, the IASB issued Amendment to IFRS 7 “Financial Instruments: Disclosures transfer of Financial Assets” which has been endorsed on 22 November 2011 by the EU. The amendments are effective for annual periods beginning on or after 1 July 2011. This interpretation has no impact on the Company’s consolidated financial statements.

#### RECENT ACCOUNTING PRONOUNCEMENTS, NOT YET ADOPTED

All of the following IFRS pronouncements that were issued by the IASB and the IFRIC and endorsed by the EU and were not effective for annual periods beginning on 1 January 2012, have not been applied in the preparation of the consolidated financial statements as of 31 December 2012.

The IASB has issued amendments to IAS 12 in December 2010. IAS 12 requires an entity to measure the deferred tax relating to property held as financial investment by introducing a presumption that recovery of the carrying amount will normally be through sale. This amendment has an effective date of 1 January 2013. It will have no impact on the consolidated financial statements of the Company because Evotec does not own property held as financial investment. This amendment was endorsed by the EU on 11 December 2012.

In June 2011, the IASB issued “Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)”, which requires the grouping of items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently. This amendment is effective for reporting periods beginning on or after 1 July 2012. The Company is currently assessing the impacts on the consolidated financial statements of the Company. This amendment was endorsed by the EU on 5 June 2012.

In June 2011, the IASB issued amendments to IAS 19 “Employee Benefits”. The amended IAS 19 eliminates the corridor approach and requires recognition of actuarial gains and losses in Other Comprehensive Income. This amendment has an effective date of 1 January 2013 and was endorsed by the EU on 5 June 2012. This will have no material impact on the consolidated financial statements of the Company.

In December 2011, the IASB issued amendments to IAS 32 “Financial Instruments: Presentation” and IFRS 7 “Financial Instruments: Disclosures regarding offsetting of financial assets and financial liabilities”. The amendment to IAS 32 clarifies the existing offsetting rules and is effective for reporting periods beginning on or after 1 January 2014, early application is permitted, however it requires the application of the amendments to IFRS 7. These amendments to IFRS 7 expand the disclosure requirements for financial assets and financial liabilities offset in the statements of financial position including netting agreements where netting is subject to certain future events. This amendment is effective for reporting periods beginning on or after 1 January 2013. This change was endorsed by the EU in November and December 2012. The Company is currently assessing the impacts on the consolidated financial statements of the Company.

In May 2011, the IASB published its improvements to the accounting and disclosure requirements for consolidation, off balance sheet activities and joint arrangements by issuing IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements”, IFRS 12 “Disclosure of Interests in Other Entities and consequential amendments to IAS 27, Separate Financial Statements (amended 2011)” and IAS 28 “Investments in Associates and Joint Ventures (amended 2011)”. IFRS 10 builds on existing principles by identifying a comprehensive concept of control as the determining factor in whether an entity should be included within the Consolidated Financial Statements. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 11 provides guidance for the accounting of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and off balance sheet vehicles. IFRS 10, 11, 12 and the consequential amendments to IAS 27 and IAS 28 are effective for annual periods beginning on or after 1 January 2014. These new or amended standards may be adopted early, however all as of the same date, except that an entity may early adopt the disclosure provisions of IFRS 12. The standards are to be applied on a retrospective basis and were endorsed by the EU on 11 December 2012. The Company is currently assessing the impacts on the consolidated financial statements of the Company.

In May 2011, the IASB issued IFRS 13 “Fair Value Measurement”. The new standard defines fair value and standardises disclosures on fair value measurements of both financial and non-financial instrument items. The new standard is applicable for annual periods beginning on or after 1 January 2013. This standard was endorsed by the EU on 11 December 2012.

In 2009 and 2010, respectively, the IASB issued IFRS 9 “Financial Instruments” as the first step in its project to replace IAS 39 “Financial Instruments: Recognition and Measurement”. The EU has not yet endorsed this regulation. IFRS 9 introduces new requirements for classifying and measuring financial assets. It uses a single approach to determine whether a financial asset is measured at amortised cost or at fair value, replacing the different rules in IAS 39. With respect to financial liabilities, the provisions of IAS 39 were substantially transferred to IFRS 9. The new standard also requires a single impairment method to be used replacing the different impairment methods in IAS 39. The new standard is applicable for annual reporting periods beginning on or after 1 January 2015; early adoption is permitted. The delay is a result of the outstanding publication of step 2 (impairment) and 3 (hedge accounting). The Company is currently evaluating the effect of those changes on the Company’s consolidated financial statements.

The IASB issued various other pronouncements. These recently adopted pronouncements as well as pronouncements not yet adopted do not have a material impact on Evotec’s consolidated financial statements.

### (3) *Acquisitions*

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

Effective 1 June 2011, the Company acquired 100% of the shares in Compound Focus, Inc., South San Francisco, US. The purchase price of T€ 11,625 in cash included a potential earn out. The estimated maximum potential earn out payment amounted to T€ 2,250 before discounting.

The net income of Evotec for the twelve months ended 31 December 2011 included a net loss of T€ 193 from Compound Focus as well as revenues of T€ 6,357.

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

T€	Year ended December 2011
Pro-forma revenues	82,682
Pro-forma net income	6,541
Pro-forma basic income per share	0.06
Pro-forma diluted income per share	0.06

In 2011, Evotec acquired 100% of the shares of Kinaxo Biotechnologies GmbH, Munich (Evotec (München)). The acquisition was effective as of 18 April 2011 and included a share as well as a cash component. The purchase price of T€ 14,746 comprised the fair value of the shares issued from authorised capital as well as a cash component of T€ 3,000 and the fair values determined for the potential earn out. The estimated maximum potential earn out payment amounted to T€ 4,000 before discounting.

The net income of Evotec for the twelve months ended 31 December 2011 included a net loss of T€ 955 from Evotec (München) as well as

revenues of T€ 1,601. The following pro forma information is based on the assumption that the investment in Evotec (München) occurred as of 1 January 2011:

T€	Year ended December 2011
Pro-forma revenues	80,702
Pro-forma net income	6,129
Pro-forma basic income per share	0.05
Pro-forma diluted income per share	0.05

### (4) *Cash and cash equivalents and investments*

As of 31 December 2012 and 2011, an amount of T€ 416 and T€ 434, respectively, of cash and cash equivalents was pledged as security.

Investments in mutual funds, which invest in debt instruments to manage the fund investors’ liquidity, including debt instruments with an initial maturity beyond three months, are reported as current investments and carried at cost that approximate their fair value. Included in investments are also corporate bonds. The investments are classified as available-for-sale financial assets. As of 31 December 2012 unrealised gains in the amount of T€ 3 were recognised in equity relating to those assets.

### (5) *Trade accounts receivables*

The Company has assessed the non-payment risk of all trade accounts receivables which resulted in an allowance of T€ 72 and T€ 54 in 2012 and 2011, respectively. The allowance was recognised for the full amount of each relating trade accounts receivable. There are no use restrictions on trade accounts receivable.

The ageing of trade receivables at the year end was:

T€	31 December 2012	31 December 2011
Not past due	12,026	9,273
Past due 0–30 days	2,292	252
Past due 31–120 days	516	82
Bad debt 31–120 days	(19)	-
More than 120 days	291	840
Bad debts more than 120 days	(53)	(54)
<b>Total trade accounts receivable</b>	<b>15,053</b>	<b>10,393</b>

The increase of the trade accounts receivables as of 31 December 2012 relates to milestones and down payments in the amount of T€ 7,051 (2011: T€ 2,500). Included in the trade accounts receivables not past due is an amount of T€ 3,630 for which a payment schedule exists.



## (6) Inventories

Inventories consist of the following:

T€	31 December 2012	31 December 2011
Raw materials	2,028	1,743
Work-in-progress	417	1,813
<b>Total inventories</b>	<b>2,445</b>	<b>3,556</b>

Raw materials consist mainly of compound libraries. Additionally, biological materials and substances as well as chemicals are included. Work-in-progress as of 31 December 2012 and 2011 consists of costs incurred on customer projects, which were not completed at year end. The decrease in work-in-progress as of 31 December 2012 compared to last year results mainly from a significant reduction on fee for service contracts.

Allowance on inventories:

T€	31 December 2012	31 December 2011
Raw materials	969	1,113
Work-in-progress	-	-
<b>Total inventories</b>	<b>969</b>	<b>1,113</b>

## (7) Other current financial assets

Other current financial assets mainly include deposits in the amount of T€ 701 (31 December 2011: T€ 634).

## (8) Prepaid expenses and other current assets

Prepaid expenses as of 31 December 2012 mainly relate to a payment regarding the collaboration with Harvard which is recognised over time. From this collaboration, an amount of T€ 1,634 is included in the other non-current assets.

T€	31 December 2012	31 December 2011
Prepaid expenses	3,327	2,306
Other	1,162	659
<b>Total prepaid expenses and other current assets</b>	<b>4,489</b>	<b>2,965</b>

## (9) Assets classified as held for sale

The assets classified as held for sale as of 31 December 2011 related to property, plant and equipment and were sold in 2012.

## (10) Long-term investments

Long-term investments consist of the investment in the European ScreeningPort GmbH, Hamburg.

In 2007, Evotec founded together with the City of Hamburg the European ScreeningPort GmbH ("ESP"), Hamburg, with an ownership of 19.9% interest. As of 31 December 2012 and 2011, the carrying amount of the investment is T€ 10. This investment is classified as available-for-sale financial asset.

The long-term investment of Evotec does not have undistributed profits.

In 2012 and 2011, the Company recorded revenues in the amount of T€ 0 and T€ 591, respectively with ESP. Additionally in 2008, the Company has granted ESP a loan in the amount of T€ 1,500 of which T€ 1,386 is drawn as of 31 December 2012 and 2011. The drawn portion of the loan is fully written off. No further material transactions with investments of the Company were recorded.

## (11) Property, plant and equipment

With respect to the development of property, plant and equipment, please refer to the consolidated fixed asset movement schedule.

In 2012, additions related to investments in new areas of instrumentation to support Evotec's drug discovery as well as replacing and upgrading equipment. Further investments have been made to house the *in vivo* pharmacology in the new facility of Evotec in Hamburg. The main additions in 2011, relate to capital expenditures in the new facility of Evotec in Hamburg as well as investments in new areas of instrumentation including screening, protein production and chemical proteomics. Upon completion of the assets under construction, costs are transferred into their respective fixed assets classification. Depreciation expense amounted to T€ 6,048 and T€ 5,080 in 2012 and 2011, respectively.

Laboratory premises in Abingdon, United Kingdom were tested for impairment in 2012. During the asset impairment review, as permitted under IAS 36, management estimated the asset impairment using a method based on the physical usage of the laboratory premises. This has resulted in no change to the carrying value of the asset as of 31 December 2012 (2011: T€ 0).

The net book values included in fixed assets, which are held under finance leases, relate to plant and machinery as well as fixture and fittings of T€ 0 and T€ 1 as of 31 December 2012, respectively (31 December 2011: T€ 11 and T€ 17, respectively). The related depreciation amounts to T€ 10 and T€ 5 in 2012, T€ 66 and T€ 12 in 2011, respectively.

The net book values of property, plant and equipment as of 31 December 2012 can be allocated to Germany in the amount of T€ 15,337, UK T€ 8,750, India T€ 2,024 and to the US T€ 1,070.

## (12) Intangible assets, excluding goodwill

With respect to the development of intangible assets please refer to the consolidated fixed asset movement schedule.

Intangible assets consist of developed technologies, customer list and acquired patents and licenses.

The main addition to the intangible assets in 2012 relates to the license from 4-Antibody in the amount of T€ 2,000 which is amortised over 2 years. In 2011, the main additions related to acquired developed technologies amounting to T€ 7,070 from the acquisition of Kinaxo Biotechnologies GmbH (“Kinaxo”) effective 18 April 2011 and the acquired customer list amounting to T€ 4,547 in the business combination with Compound Focus, Inc with an effective date of 1 June 2011.

Amortisation expenses of intangible assets amounted to T€ 2,768 in 2012 and T€ 1,703 in 2011. In 2012, additionally, an extraordinary impairment in the amount of T€ 391 on acquired patents and licences was recognised, since they are not in use any longer.

The developed technologies acquired in a business combination are amortised as soon as the intangible assets start to generate sustainable benefits. Part of the developed technologies acquired in the business combination with DeveloGen (now: Evotec International GmbH) with historical acquisition costs of T€ 6,774 started to be amortised in 2011 due to revenues generated with this technology. The carrying amount at 31 December 2012 amounted to T€ 6,006 (31 December 2011: T€ 6,382). The developed technologies were tested for impairment on the annual designated test date in October 2012. The impairment test in 2012 is based on discounted cash flow models by using the assumptions in the table below.

31 December 2012		
Developed technologies		
Evotec International GmbH	Evotec (US), Inc. (formerly Renovis, Inc.)	Evotec (München) GmbH (formerly Kinaxo)

Denominated in	EUR	USD	EUR
Basis for cash flow model	PP 12–16 years	PP 15–16 years	PP 14–16 years
Discount rate	10.45%	10.45%	8.25%

*PP = Project planning*

The developed technologies acquired in the business combination with DeveloGen AG and ENS Holding, Inc. are recognised in Evotec International GmbH as of 30 September 2012.

The discount rate is calculated with a risk free interest rate, a beta-factor determined on the basis of peer groups and a risk premium.

These tests resulted in 2012 in an impairment of the USD denominated

developed technologies from the acquisition of Renovis, Inc. (now: Evotec (US), Inc.) in the amount of T€ 3,114. This impairment is a result of a decision taken by Pfizer Inc., on the basis of a portfolio analysis, to terminate this project.

No further impairments were made.

The impairment test in 2011 was based on a discounted cash flow model by using the assumptions in the table below.

31 December 2011			
Developed technologies			
ENS Holdings, Inc.	Renovis, Inc.	DeveloGen AG	Kinaxo

Denominated in	EUR	USD	EUR	EUR
Basis for cash flow model	PP 14–16 years	PP 16–17 years	PP 13–17 years	PP 8–10 years
Discount rate	10.27%	10.27%	10.27%	7.75%

*PP = Project planning*

As a result of these tests in 2011 the Company recorded an impairment in the amount of T€ 2,058 relating to the developed technologies from the acquisition of ENS Holdings, Inc.

No further impairments were made in 2011.

In 2012, the discounted cash flow model for some developed technology was altered by extending the estimated life of this technology. This extension is a result of changed assumptions regarding the marketed period. This change in estimate has an effect in the amount of T€ 1,024 and results in a lower impairment expense of T€ 1,024. Furthermore, the assumption of one other discounted cash flow model was changed. The patient population changed from animal treatment to human patients. The effect of this change cannot be precisely quantified.

For some developed technologies the estimated patent life was extended during the annual impairment test in 2011. This extension of patent lives was incorporated because the assumed time in the market before the extension was relatively short. The effect in 2011 from this change in estimate amounted to T€ 7,360 and resulted in a related lower impairment of intangible assets.

In the first quarter of 2012, the milestone for DiaPep277<sup>®</sup> was reached which was included in the net present value model of the developed technology from the acquisition of DeveloGen. Based on the payment now received and the related decreased net present value of the value in use, the Company reviewed the relating developed technologies for impairment and concluded that no impairment has to be recorded.

In the third quarter of 2012, the Company reviewed one of the developed technologies from the acquisition of DeveloGen for impairment, because one phase of the research period was extended, which results in lower and later development milestones in the future. The Company concluded that no impairment of this developed technology has to be recorded.

In 2011, Evotec entered into an agreement with a top tier animal health company regarding the Evotec compound EVT401. This event made the Company review the related developed technologies during 2011 for a reversal of impairment. As a result, the Company concluded that a reversal of impairment in the amount of T€ 1,501 was deemed necessary.

The estimated cash flows for the above described cash generating projects used in the impairment tests are based on past experience. In addition, following key assumptions were used in the models:

- The possibilities of reaching each development phase were obtained from external publications of attrition rates, which were adjusted according to the individual circumstances where necessary.
- The estimated timing of the different development phases in each cash generating project was individually set based on the past experience and scientific knowledge of management.
- Market size was projected using market research databases. Management estimated the Company's market share based on experience in the specific market environment and by comparing with similar products.
- Milestone and royalty revenues for cash generating projects were taken from the out-licensing agreements (partnered assets) or estimated based on comparable deal structures in the market and in the Company (unpartnered assets).

In addition to these key assumptions used in all models, commercialisation success rates are only used in some models. They are estimated based on the current knowledge of management.

Management has identified the discount rate and the commercialisation success rate as the two key assumptions that have the potential to vary and thereby cause the decrease of the recoverable amount to be lower than the carrying amount. The following tables show the amount by which those two assumptions have to change individually in order for the estimated recoverable amount to be equal to the carrying amount in 2012 and 2011.

in %-points	Discount rate	Commercialisation
	2012	success rate 2012
Developed technologies Evotec (München)	0.0 to 2.5	not applicable
Developed technologies Evotec International	0.5 to 11.3	not applicable
Developed technologies Evotec (US)	0.9	(1.0)

The commercialisation success rate is not applicable once the developed technology is partnered.

in %-points	Discount rate	Commercialisation
	2011	success rate 2011
Developed technologies DeveloGen	3.0 to 3.3	not applicable
Developed technologies Renovis	0.1 to 1.0	(4.2) to (0.2)
Developed technologies ENS Holdings	0.9	(3.5)

The categories listed above consist of several developed technologies.

## (13) Goodwill

For the purpose of impairment testing, goodwill is allocated to Evotec's operating divisions, which represent the lowest level within the Company at which the goodwill is monitored for internal management purposes. The Company has tested the cash generating units for impairment on the annual designated test date October 2012 based on the net book values as of 30 September 2012. The impairment tests are based on a discounted cash flow model.

In 2012, the goodwill acquired in the business combination with DeveloGen AG and ENS Holdings, Inc. is merged in Evotec International GmbH, because due to legal restructuring the cash generating units were merged. Additionally, the cash generating units of Renovis, Inc. and Compound Focus, Inc. were merged in 2012 to Evotec (US), Inc. With respect to the development of goodwill please refer to the consolidated fixed asset movement schedule and the following detailed schedule.

TC	OAI	Evotec International	Evotec (India)	Evotec (München)	Evotec (US)	Total
<b>31 December 2011</b>	<b>14,849</b>	<b>8,700</b>	<b>2,166</b>	<b>7,983</b>	<b>8,504</b>	<b>42,202</b>
Additions	-	-	-	-	-	-
Disposal	-	-	-	-	-	-
FX revaluation	371	-	(59)	-	(172)	140
<b>31 December 2012</b>	<b>15,220</b>	<b>8,700</b>	<b>2,107</b>	<b>7,983</b>	<b>8,332</b>	<b>42,342</b>

In the tables below is specified the assumptions for the discounted cash flow model, the discount rate considering the risks and rewards of the

activities used in the impairment test and the growth rate for determining the terminal value.

		31 December 2012 Cash generating units				
	OAI	Evotec International	Evotec (India)	Evotec (München)	Evotec (US)	
Denominated in	GBP	EUR	INR	EUR	USD	
Basis for cash flow model	MRP	PP 12–16 years	MRP	PP 14–16 years	MRP/PP 15 years	
Discount rate	9.00%	10.45%	10.50%	8.25%	8.25%/10.45%	
Growth rate for Terminal Value	0.0%	0.0%	0.0%	0.0%	0.0%	

MRP = Mid range Plan 2013–2017 PP = Project planning

		31 December 2011 Cash generating units				
	OAI	ENS Holdings	Evotec (India)	DeveloGen	Kinaxo	Compound Focus
Denominated in	GBP	EUR	INR	EUR	EUR	USD
Basis for cash flow model	MRP	PP 14–17 years	MRP	PP 13–22 years	MRP & PP 8–10 years	MRP
Discount rate	9.24%	10.27%	10.75%	10.27%	7.75%	9.25%
Growth rate for Terminal Value	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

MRP = Mid range Plan 2012–2016 PP = Project planning

In 2012 and 2011, the Company recorded no impairment as a result of these tests.

One of the defined earn outs relating to the Compound Focus acquisition that was included in the net present value model of the goodwill was not achieved. Based on this event the Company reviewed in the second quarter of 2012 the relating goodwill for impairment and concluded that no impairment has to be recorded.

The estimated cash flows for the impairment test of the goodwill in Evotec International GmbH are mainly based on the same key assumptions as the underlying developed technologies. The estimated cash flows for the goodwill of Evotec (München) GmbH are based on the key assumptions of the underlying developed technologies as well as on management expectations for the future.

The impairment tests of the goodwill in Evotec (India) Private Ltd. and Oxford Asymmetry International plc (“OAI”) and the relating estimated cash flows are based on past experience and expectations for the future. In addition, the following key assumptions were used in the models:

- The estimates of revenues were based on knowledge of overall market conditions combined with specific expectations of customer growth and product performance.
- Cost estimates were developed using the 2013 budgeted cost base projected forward for volume increases, mix changes, specific investments and inflationary expectations.
- The exchange rates and interest rates used were based on current market expectations and predictions.

Management has identified the discount rate as one key assumption that has the potential to vary and thereby cause the recoverable amount to decrease and to be lower than the carrying amount. The following tables

show the amount by which this assumption has to change individually in order for the estimated recoverable amount to be equal to the carrying amount in 2012 and 2011.

in %-points	Discount rate 2012
Goodwill Evotec (US)	1.5
Goodwill Evotec (München)	0.0
Goodwill Evotec (India)	1.0
Goodwill Evotec International	13.1
Goodwill OAI	10.4

in %-points	Discount rate 2011
Goodwill Compound Focus	3.9
Goodwill Kinaxo	14.8
Goodwill DeveloGen	2.9
Goodwill Evotec (India)	3.3
Goodwill ENS Holdings	7.7
Goodwill OAI	12.0

Management has identified another key assumption, which has an impact on the estimated cash flows for the impairment test of the goodwill in Evotec (India). If the expected revenue over a 5 years period from today’s point of view would decline by 6%, the net book value of the goodwill in Evotec (India) would decrease by T€ 1,204.

**(15) Loans**

Regarding the impairment test of the goodwill in Evotec (München), Management has identified the gross profit as additional key assumption. If the expected gross profits over a period of 16 years from today's point of view would decrease by 15%, the net book value of the goodwill in Evotec (München) would decrease by T€ 1,868.

Throughout the year 2012 and 2011, Evotec met all covenants with regard to liquidity of Evotec under the various loan agreements shown below. All loans are unsecured. Evotec has to maintain in 2012 and 2011 a minimum liquidity of T€ 35,000.

**(14) Other non-current assets**

Other non-current assets as of 31 December 2012 consist of prepaid expenses regarding the cooperation with Harvard University in the amount of T€ 1,634 which did not exist as of 31 December 2011.

Country of lender	Currency	Nominal interest rate	Maturity until	31 December 2012 Fair Value (T€)	31 December 2012 carrying amount (T€)	31 December 2011 Fair Value (T€)	31 December 2011 carrying amount (T€)
Germany	EUR	Euribor + 1.3%	2013	6,500	6,500	-	-
Germany	EUR	Euribor + 1.25%	2013	6,500	6,500	-	-
Germany	EUR	Euribor + 1.3%	2012	-	-	6,500	6,500
Germany	EUR	Euribor + 1.3%	2012	-	-	6,500	6,500
Germany	EUR	2.04%	2014	-	-	273	274
Germany	EUR	Euribor + 1.05%	2014	3,887	4,000	2,000	2,000
Germany	EUR	1.85%	2014	398	401	-	-
Germany	EUR	2.45%	2015	-	-	259	259
				<b>17,285</b>	<b>17,401</b>	<b>15,532</b>	<b>15,533</b>

Current loans and borrowings:

T€	31 December 2012	31 December 2011
Current unsecured bank loans	13,223	13,174
Current secured bank loans	-	-
<b>Total</b>	<b>13,223</b>	<b>13,174</b>

The Company maintains lines of credit totalling T€ 415 and T€ 2,313 to finance its short-term capital requirements, of which the entire balance is available as of 31 December 2012 and 31 December 2011, respectively.

**(16) Provisions**

The current provisions consist of the following:

T€	31 December 2012	31 December 2011
Earn out	2,147	5,774
Bonus accruals	2,106	2,952
Accrued vacation	766	605
Accrued lease expenses	48	746
Severance payments	18	151
Other provisions	1,829	817
<b>Total current provisions</b>	<b>6,914</b>	<b>11,045</b>

The non-current provisions consist of the following:

T€	31 December 2012	31 December 2011
Earn out	16,543	13,804
Accrued lease expenses	2,068	609
Other provisions	206	205
<b>Total non-current provisions</b>	<b>18,817</b>	<b>14,618</b>

The following table summarises the development of total provisions recorded during 2012:

T€	1 January 2012	Consumption	Release	Foreign Exchange	Additions	31 December 2012
Earn out	19,578	3,139	1,250	-	3,501	18,690
Personnel expenses	3,557	2,843	350	10	2,498	2,872
Accrued lease expenses	1,355	58	-	15	804	2,116
Other provisions	1,022	456	54	(27)	1,550	2,035
Severance payments	151	151	-	-	18	18
<b>Total</b>	<b>25,663</b>	<b>6,647</b>	<b>1,654</b>	<b>(2)</b>	<b>8,371</b>	<b>25,731</b>

The earn out provision as of 31 December 2012 consists of earn outs relating to the three following acquisitions:

- DeveloGen in the amount of T€ 18,190 (2011: T€ 14,952), including an unwind of discount in the amount of T€ 1,029 (2011: T€ 1,108) a fair value adjustment in the amount of T€ 2,348 (2011: T€ 0) and a consumption in the amount of T€ 139 (2011: T€ 1,168).
- Kinaxo in the amount of T€ 500 (2011: T€ 2,446) including an unwind of discount in the amount of T€ 54 (2011: T€ 122) as well as a consumption of T€ 2,000 (2011: T€ 1,500) and
- Compound Focus in the amount of T€ 0 (2011: T€ 2,180) including an unwind of discount in the amount of T€ 70 (2011: T€ 34), a release in the amount of T€ 1,250 (2011: T€ 0) as well as a consumption of T€ 1,000 (2011: T€ 0).

The unwind of the discount on the earn out is shown as addition in the provision table.

The provision for personnel expenses consists mainly of bonus accruals and accrued vacation. The provision for personnel costs may differ from the actual amounts due to the fact that the actual percentage of the variable portion of the remuneration may differ from the estimates. The actual amounts of the earn out may vary from the provision if the underlying future revenues differ from the estimate or the underlying estimated milestones do not occur. The actual consumption of the accrued lease expenses may vary from the estimated if the lease period changes.

Other current provisions consist of the following:

T€	31 December 2012	31 December 2011
Licence fees	724	-
Interest SWAP	333	202
Supervisory Board fees	280	268
Other provisions	492	347
<b>Total other current provisions</b>	<b>1,829</b>	<b>817</b>

## (17) *Deferred revenues*

As of 31 December 2012, deferred revenues mainly relate to the collaboration and license contract with Bayer Pharma AG amounting to T€ 11,512 as well as to the license and collaboration agreement with Janssen amounting to T€ 5,418. As of 31 December 2011, the deferred revenues mainly relate to the license and collaboration agreement with MedImmune Limited amounting to T€ 2,697.

## (18) *Income taxes*

Income taxes comprise the current taxes (paid or owed) on income in the individual countries as well as the deferred taxes. For the calculation of current taxes, tax rates are used which are applicable on the balance sheet date. For the deferred taxes tax rates are used which for the expected period of reversion are enacted or substantively enacted at the balance sheet date.

Deferred taxes are accounted for as tax expenses or income in the income statement unless they relate to items included in equity in which case they are accounted for as part of equity.

Income tax benefit and expense for the years ended 31 December 2012 and 2011 is as follows:

T€	Years ended	
	31 December 2012	31 December 2011
<b>Current taxes:</b>		
Germany	(642)	(798)
Foreign	(151)	(355)
<b>Total current taxes</b>	<b>(793)</b>	<b>(1,153)</b>
<b>Deferred taxes:</b>		
Tax loss carry forwards	5,508	2,373
Temporary differences	2,777	175
<b>Total deferred taxes</b>	<b>8,285</b>	<b>2,548</b>
<b>Total income tax benefit</b>	<b>7,492</b>	<b>1,395</b>

In 2012, current tax expense for prior periods in the amount of T€ 23 have been recorded (2011: T€ 124 tax income). In 2012 income from deferred taxes for prior periods in the amount of T€ 59 was recognised (2011: T€ 17). Current taxes in 2011 were reduced by T€ 2,150 because of tax losses carried forward for which no deferred tax assets have been recorded in prior years (2012: T€ 0).

The tax rate in the UK for the year ended 31 December 2012 and 2011 amounted to 23% and 25%, respectively. In the US the tax rate for the year ended 31 December 2012 amounted to 39.834% (2011: 40.746%). This is a combined tax rate of federal state tax (34%) and single state tax (8.84%) (2011: 34% and 8.84%, respectively). The single state tax is deductible for federal state tax purposes. For the years ended 31 December 2012 and 2011, the actual combined German federal corporation income tax rate (15.83%) and trade tax rate (16.45%) amounted to 32.28%.

The income tax benefit differs from the expected income tax benefit determined using the combined German tax rate of 32.28% (2011: 32.28%) as follows:

T€	Years ended	
	31 December 2012	31 December 2011
Expected income tax benefit (expense)	1,619	(1,897)
R&D tax credits	887	852
Non-deductible expenses and trade tax additions	(321)	(1,413)
Foreign tax differential	2,021	948
Change in tax rates	(513)	250
Change in recognition of deferred tax assets	3,839	2,450
Non-periodic taxes	36	141
Other	(76)	64
<b>Actual income tax benefit</b>	<b>7,492</b>	<b>1,395</b>

Deferred income tax assets and liabilities calculated with the anticipated tax rates of each entity as of 31 December 2012 and 2011 relate to the following:

T€	31 December 2012	31 December 2011
<b>Deferred tax assets</b>		
Loss carry forward	92,938	96,686
Interest carry forward	2,454	2,572
Tax credits	914	927
Property, plant und equipment	799	709
Intangible assets	4,121	6,904
Non-current financial assets	836	731
Provisions and deferred revenues	3,242	1,091
Other	837	1,439
<b>Total</b>	<b>106,141</b>	<b>111,059</b>
<b>Non-recognition of deferred tax assets</b>	<b>(82,354)</b>	<b>(96,497)</b>
<b>Netting</b>	<b>(20,972)</b>	<b>(12,189)</b>
<b>Total deferred tax assets</b>	<b>2,815</b>	<b>2,373</b>
<b>Deferred tax liabilities</b>		
Property, plant and equipment	2,074	2,485
Intangible assets	18,025	19,210
Non-current financial assets	24	69
Current financial assets	760	328
Provisions and deferred revenues	2,185	-
Other	3	1
<b>Total</b>	<b>23,071</b>	<b>22,093</b>
<b>Netting</b>	<b>(20,972)</b>	<b>(12,189)</b>
<b>Total deferred tax liabilities</b>	<b>2,099</b>	<b>9,904</b>

Deferred tax assets and liabilities are netted, if the Company has the right to net the current income tax assets and liabilities and if the deferred tax assets and liabilities are related to the current income taxes. Foreign currency translation resulted in deferred taxes that do not affect income in the amount of T€ 29 (2011: T€ 175) through equity and T€ 67 (2011: T€ 57) through other foreign currency exchange differences between 31 December 2012 and 2011. In 2011, additional deferred taxes that do not affect income in the amount of T€ 3,187 were caused by the acquisitions of Compound Focus, Inc. and Kinaxo Biotechnologies GmbH. For outside basis differences for undistributed foreign subsidiaries earnings, temporary differences in the amount of T€ 1,020 were not recorded according to IAS 12.39 (2011: T€ 916).

The Company's deferred tax assets are recorded to the extent it is probable that such tax benefits would be realised in future years.

As of 31 December 2012, one German entity recognised an amount of T€ 2,815 (2011: T€ 2,373) as deferred tax asset since it is expected that this entity will be profitable in the future. Due to the continuing loss history of the other German entities, no additional deferred tax asset on tax loss carry forwards, exceeding the recognised deferred tax liabilities, was recognised.

As of 31 December 2012, tax losses carried forward for Germany of T€ 218,631 (2011: T€ 227,958) for corporate income tax and T€ 220,116 (2011: T€ 224,675) for trade tax do not expire. The interest carry forward as of 31 December 2012 in the amount of T€ 9,052 (2011: T€ 9,132)

relates only to Germany and does not expire. Tax losses carried forward as of 31 December 2012 for US of T€ 60,156 (2011: T€ 56,206) for corporate tax expire from 2020 onwards and of T€ 39,839 (2011: T€ 40,773) for state tax expire from 2014 onwards. The tax credits in the amount of T€ 914 (2011: T€ 927) expire from 2028 onwards. The German tax losses carried forward can only be offset against an amount of 60% of future taxable income after exceeding a fully deductible amount of T€ 1,000 per year.

No deferred tax assets are set up for the US tax losses carried forward and the tax credits as of 31 December 2012 (T€ 100,908). As of 31 December 2012, no deferred tax assets are recorded for the German interest carry forward (T€ 9,052) and for corporate income tax losses carry forward (T€ 168,756; 2011: T€ 178,538) and for trade tax losses carry forward (T€ 170,301; 2011: T€ 181,245). A net asset position for temporary differences in the amount of T€ 3,837 (2011: T€ 28,338) was not set up.

## (19) *Stock-based compensation*

To further incentivise executives via variable long-term incentive compensation, the Annual General Meeting in June 2012 approved the contingent capital necessary to support the share performance plan 2012 (“SPP 2012”). Under this plan, Share Performance Awards (“SPA”) may be granted to a level that may result in up to 4,000,000 bearer shares of the Company being issued at maturity to members of the Management Board and other key employees. Each SPA grants up to two subscription rights to company shares, each of which in turn, entitle the holder to the subscription of one company share. SPAs can be exercised after a vesting period of four years after the date of their grant but no later than five years after the respective grant. The holder has to contribute € 1.00 per share at the date of issue. 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. The Supervisory Board determines key performance indicators for each individual tranche of awards. If a member of the Management Board leaves the company during the performance measurement period, he is entitled to receive proportionate Share Performance Awards. The selected key employees generally do not have this entitlement. The SPP 2012 is subject to certain restrictions regarding issuing periods and the allocation of the grants to members of the Management Board and other key employees.

Share Performance Awards and resulting subscription rights can always be exercised continuously within the exercise period. Lock-up periods are excluded. The following time periods are considered lock-up periods: (i) those three-week time periods that each end on the day of the annual press conference and on the day on which a quarterly report or semi-annual report of the company is made available to the public; (ii) the time period from the beginning of the day, on which the company publishes an offer for the purchase of new shares, or bonds with conversion and/or option right or conversion obligation, in the company publications, until the expiration of the (extended, if need be) subscription period; and (iii) the time period from expiry of the 37th day before an Annual General Meeting until the beginning of the 21st day before an Annual General Meeting (not counting the day of the Annual General Meeting).

A summary of the status of the share performance plan as of

31 December 2012 and the changes during the year then ended is presented as follows:

31 December 2012	Share Performance Awards (SPAs)	Weighted average exercise price (€ per share)
Outstanding at beginning of the year	-	-
SPAs granted	909,693	1.00
SPAs exercised	-	-
SPAs expired	-	-
SPAs forfeited	-	-
SPAs waived (re-issuable)	-	-
<b>Outstanding at end of the year</b>	<b>909,693</b>	<b>1.00</b>
<b>Thereof exercisable</b>	-	-

445,293 SPAs were granted to the members of the Management Board.

The fair value of the grant of share performance awards was estimated on the date of grant using a Monte-Carlo-Simulation model with the following assumptions:

7 September 2012	
Risk-free interest rate in %	0.30
Volatility in %	40.0
Fluctuation in %	0.0–5.0
Exercise price in Euro	1.00
Share price at grant date in Euro	2.55
Fair value at grant date per SPA in Euro	1.35

The performance measurement period for this vesting started on 1 January 2012. The expected dividend yield is zero, the expected life is 4 years.

The Annual General Meeting on 7 June 1999 established a stock option plan (“Option Plan 1999”) and authorised the granting of stock options for up to 1,466,600 shares. The plan is subject to certain restrictions regarding the number of stock awards that may be granted in a single year and the allocation of the grants to members of the Management Board, other key management personnel and all other employees. The Annual General Meeting in 2000 and 2001 provided for the authorisation of additional 949,000 and 1,129,600 stock options, respectively.

Under the terms of the plan, each option entitles the holder to purchase one share of the Company’s stock within ten years of the grant date at a set strike price. For all options granted in 1999, the strike price was the price of the initial public offering of € 13.00 (€ 6.50 after stock split). Options granted in 2000 and 2001 can be exercised at a strike price equal to the closing price of the shares or at a strike price equal to the closing price of the shares plus 5% on the trading day before the option was granted. Options have a graded vesting: a maximum of one-third of which can be exercised at the earliest after two years, a maximum of further two-thirds after three years and all remaining awarded options after four years. Options can only be exercised within certain specified two weeks periods starting on the third day after one of the following events: (i) release of the



quarterly results, (ii) annual press conference on the financial statements, or (iii) Annual General Meeting of the Company. The options can only be exercised if the stock price exceeds the strike price by at least 5%.

The terms of the stock option plan further provide that a grant of options is allowed if the average closing price of the Company's stock has increased by at least 30% when comparing the last quarter of the last business year before the grant with the last quarter of the preceding year. The Supervisory Board, however, has the authority to override this restriction and to authorise the granting of options to employees if such a decision is considered necessary for the interests of the Company.

The Annual General Meetings on 7 June 2005, 30 May 2007 and 28 August 2008 established new stock option plans ("Option Plan 2005, 2007 and 2008") and authorised the granting of stock options for up to 1,741,481, 2,140,000 and 3,400,000 shares in 2005, 2007 and 2008, respectively. The plans are subject to certain restrictions regarding the number of stock awards that may be granted in a year and the allocation of the grants to members of the Management Board, other key management personnel and all other employees. Within one calendar year, no more than 40% of options from the Option Plan 2005 and 2007 and not more than 50% of options from the Option Plan 2008 shall be granted.

Each option entitles the holder to purchase one share of the Company's stock at a strike price equal to the price of one share at the time of the grant of the option. Options can be exercised after a vesting period of three years after the date of their grant but no later than six years after the respective grant. The Option Plan 2005, 2007 and 2008 stipulates an exercise hurdle of a 33% price increase against the share price at the time of granting. The option holder may exercise his options only if this hurdle is achieved on the day three years after the respective date of granting. In case the hurdle is not achieved, the same increase after four or five years, respectively, would make the options exercisable.

The Annual General Meeting on 4 June 2009 decided to change the exercise periods of the options under the Option Plan 2005, 2007 and 2008 to be generally exercisable throughout the year. Options cannot be exercised during certain specified three weeks periods ending on the day of the following events: (i) Annual General Meeting of the Company, (ii) annual press conference on the financial statements, or (iii) release of the quarterly results. The options under the Option Plan 2005, 2007 and 2008 used to be exercisable within the specific two weeks period relevant also to the other option programs.

The Annual General Meeting on 16 June 2011 established a new stock option plan ("Option Plan 2011") and authorised the granting of stock

options for up to 1,200,000 shares in 2011. The plan is subject to certain recommendations regarding the number of stock awards that may be granted in a year. All options under the Option Plan 2011 are destined for grant to members of the Executive Board. Each option entitles the holder to purchase one share of the Company's stock at a strike price equal to the price of one share at the time of the grant of the option. Options can be exercised after a vesting period of four years after the date of their grant but no later than eight years after the respective grant. The Option Plan 2011 stipulates an exercise hurdle of a 20% price increase against the share price at the time of granting. The option holder may exercise his options only if this hurdle is achieved on one relevant day during the waiting period. The "relevant day" is respectively the day prior to the annual financial report, the quarterly report, an interim report or the half-year financial report is made available to the public.

Through the acquisition of Renovis, Inc. in 2008, the Company assumed the former equity instruments issued under the original Renovis stock option plan ("Renovis Plan") which included options in the amount of 508,038 and restricted stock units ("RSUs") in the amount of 913,106. As part of the acquisition accounting these equity instruments were remeasured on the date of acquisition, 2 May 2008. The original terms of the equity instruments did not change upon assumption by the Company and under the terms of the Renovis Plan each option entitles the holder to purchase two shares of the Company's stock at a strike price equal to the share price of one share of Renovis at the time of the grant of the option. The options generally vested at the rate of 1/48 per months. Additionally, under the Renovis Plan, each RSU entitles the holder to receive one share of the Company's stock at no cost. The RSUs vested monthly from one year to three years. The corresponding new shares were held in trust and were released according to the relevant agreements. In 2011, no new shares held in trust were exercised. In the first quarter of 2012, the remaining shares were released from the trust and are now available for other uses.

In 2012, no stock options held by employees continued to be valid after termination of the relating employment. Stock options in the amount of 11,000 held by employees of the Company continue to be valid after termination of the relating employment in 2011. This transaction was recognised as accelerated vesting.

A summary of the status of the stock option plans as of 31 December 2012 and 2011 and the changes during the years then ended is presented as follows:

	<b>31 December 2012</b>	<b>31 December 2012</b>	31 December 2011	31 December 2011
	<b>Options</b>	<b>Weighted average exercise price € per share</b>	Options	Weighted average exercise price € per share
Outstanding at beginning of the year	7,153,000	2.27	5,334,780	2.37
Options granted	-	-	2,731,050	2.56
Options exercised	(761,328)	1.06	(122,732)	2.43
Options expired	(285,100)	3.12	(602,965)	4.39
Options forfeited	(496,597)	2.58	(6,300)	2.47
Options waived (re-issuable)	-	-	(180,833)	2.44
<b>Outstanding at end of the year</b>	<b>5,609,975</b>	<b>2.36</b>	<b>7,153,000</b>	<b>2.27</b>
<b>Thereof exercisable</b>	<b>1,956,175</b>	<b>2.30</b>	<b>2,149,446</b>	<b>2.83</b>

A summary of the stock options outstanding as of 31 December 2012 is as follows:

Range of exercise prices € per share	Outstanding	Exercisable	Weighted average remaining contractual life	Weighted average exercise price € per share
0.61–0.97	817,760	817,760	2.11 years	1.35
1.66–3.68	4,615,065	961,265	7.40 years	2.50
5.97–6.29	177,150	177,150	0.91 years	6.21

The fair value of each option grant was estimated on the date of grant using a binomial model with the following assumptions:

	29 May 2007	17 December 2007	17 October 2008	6 March 2009
Risk-free interest rate in %	4.39	4.19	3.44	2.61
Volatility in %	42.4	42.7	55.0	64.0
Fluctuation in %	5.0	15.0	0.0	0.0
Price range in Euro	3.50–3.68	2.64	0.97	0.61
Fair value per option	1.35–1.55	0.91	0.47	0.41

	22 May 2009	3 December 2009	9 June 2010	2 December 2010
Risk-free interest rate in %	2.89	2.67	1.81	2.22
Volatility in %	65.0	64.0	50.0	35.0
Fluctuation in %	10.0	0.0	0.0–10.0	0.0–10.0
Price range in Euro	0.71	2.17	1.93	2.69–2.73
Fair value per option	0.39	1.23	0.87–0.90	0.90–1.02

	16 March 2011	14 September 2011
Risk-free interest rate in %	2.66	1.23
Volatility in %	33.0	44.0
Fluctuation in %	0.0–10.0	0.0
Price range in Euro	2.65–2.79	2.23
Fair value per option	0.75–0.94	0.96

The expected dividend yield is zero, the expected life is 6 years in all models.

The Company recognised compensation expense in 2012 and 2011 for all stock options and share performance awards totalling T€ 1,514 and T€ 929, respectively, which was reflected as operating expenses in the consolidated income statement.

## **(20) Stockholders' equity**

On 31 December 2012, there are 118,546,839 shares issued and outstanding with a nominal amount of €1.00 per share including equity instruments acquired in the business combination with Renovis. Management is not aware of any restriction of the voting rights or the right to transfer. No binding lock-up agreements have been made with any shareholder, and neither stock loans, nor pre-emptive stock purchase rights are known to the Company.

Furthermore, authorised but unissued shares as of 31 December 2012 consist of a conditional capital (bedingtes Kapital) and an authorised capital (genehmigtes Kapital). The conditional capital consist of 11,781,896 shares available with respect to the share performance plan and the stock option plans and 23,663,172 shares available to issue non-par-value bearer shares to owners or creditors of convertible bonds and/or warrant-linked bonds, participation rights and/or income bonds (or a combination of such instruments). The remaining authorised capital (genehmigtes Kapital) amounts to 23,663,172 shares.

As of 31 December 2011, Evotec recorded treasury shares according to section 71 paragraph 1 number 8 of the German Stock Corporation Act (Aktiengesetz), which were acquired at the stock exchange for the remuneration of the Supervisory Board.

At the Annual General Meeting on 14 June 2012, the Management Board of the Company was authorised to issue up to 23,663,172 shares for cash or contributions in kind. Under German law, the shareholders of a stock corporation may empower the Management Board to issue shares in a specified aggregate nominal value not exceeding 50% of the issued share capital at the time of the shareholder vote, in the form of authorised capital (genehmigtes Kapital). The authorisation expires on 13 June 2017.

Evotec owns 798,271 of Evotec's shares as of 31 December 2012, representing 0.7% of Evotec's nominal capital. In the course of the acquisition of Renovis, Inc. by Evotec AG, certain options and deferred stock units ("DSU") held by Renovis employees were transformed into Evotec American Depository receipts ("ADR") delivered into an irrevocable Company Trust for the benefit of the Renovis employees. One ADR represented two Evotec shares.

In accordance with the Trust Agreement between Renovis, Inc. and the Trustee, on 12 March 2012 all remaining ADRs held by the Company Trust were delivered to Evotec AG, as all obligations of the Trust to deliver ADRs under the option agreements or the DSU agreements were satisfied or otherwise expired (e.g. due to an expiry of exercise periods or non-occurrence/ discontinuance of exercise conditions). In 2012, Evotec AG used some of the transferred ADRs to serve exercised options under its stock option programmes rather than using contingent capital.

## **(21) Revenues**

Revenues include in 2012 milestone payments amounting to T€ 12,339 (2011: T€ 10,543) royalty income in the amount of T€ 1,615 in 2012 (2011: T€ 1,646) also included are license revenues from discovery collaborations in the amount of T€ 6,742 (2011: T€ 12,680).

Regarding revenues by region, 46% of Evotec's revenues are generated with customers in the US, 19% with customers in Germany and 11% with customers in Japan.

## **(22) Research and Development**

In 2012, research and development expense mainly relate to discovery projects amounting to T€ 2,972 (2011: T€ 1,897), platform R&D in the amount of T€ 1,942 (2011: T€ 1,101) clinical projects amounting to T€ 516 (2011: T€ 2,512) as well as overhead expenses in the amount of T€ 2,910 (2011: T€ 2,927). The overhead expenses consist mainly of patent costs and overhead personnel expenses.

## **(23) Selling, general and administrative expenses**

Included in selling, general and administrative expenses are expenses for sales and marketing in the amount of T€ 2,616 (2011: T€ 2,160). Other administrative expenses amount to T€ 13,685 in 2012 (2011: T€ 13,600).

## **(24) Other operating income and expense**

In 2012, other operating expense mainly relate to the fair value adjustment of the provision for the earn out relating to the acquisition of DeveloGen in the amount of T€ 2,348 as well as the parallel usage of the old facility and the new Manfred Eigen Campus both in Hamburg and the resulting planned underutilisation of parts of those buildings during the transition period amounting to T€ 2,078 (2011: T€ 3,098).

Other operating income in 2012, mainly relate to the release of the provisions for earn out relating to the acquisition of Compound Focus in the amount of T€ 1,250 (2011: T€ 0).

## **(25) Interest expense**

Interest expense in 2012, include the unwind of discounts of earn-out provisions in the amount of T€ 1,153 (2011: T€ 1,264).

## **(26) Foreign currency exchange gain (loss), net**

During 2012, Evotec liquidated the subsidiaries Evotec (Asia) Pte. Ltd., ENS Holdings, Inc. and Evotec, Inc., which resulted in a realisation of foreign currency exchange gain previously recorded in equity as unrealised in the amount of T€ 503.

In accordance with IAS 21, the Company recognised in 2011 a foreign exchange gain of T€ 1,052 as a result of the reduction in the capital reserve of a subsidiary, paid to Evotec AG in 2011. This is deemed to be a

repayment of share capital resulting in the cumulative foreign exchange gains related to the investment in this subsidiary, which were previously recorded as a component of equity, being reclassified into the Company's income statement in 2011.

## (27) 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 management reporting does not identify several segments. The allocation of resources and the internal evaluation of Evotec's performance by the management are for the entire Evotec Group. Therefore, Evotec does not report segment information.

## (28) Financial instruments

### FINANCIAL RISK MANAGEMENT

Evotec is exposed to the following risks arising from financial instruments:

- currency risks
- interest rate risks
- liquidity risks (see note (29))
- capital management (see note (29))
- credit risks (see note (29))
- market risks (see note (29))

The Management Board has overall responsibility for the establishment and oversight of the Company's management framework. The Management Board has installed a Group Risk Manager, who is responsible for developing and monitoring the risk management policies. The Group Risk Manager reports regularly to the Management Board on its activities. The Audit committee oversees how management monitors compliance with the Company's risk management policies and procedures.

### CURRENCY RISKS

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in currency other than the functional currency of Evotec. The currencies in which these transactions are primarily denominated are US Dollar, UK Sterling, the Indian Rupee and the Euro. A strengthening (weakening) of the Euro as indicated below against the US Dollar and UK Sterling at 31 December would have increased (decreased) equity and net profit/(loss) by the amounts shown below. This analysis relates to financial instruments classified as held for sale and assumes that all other variables remain constant and ignores any impact of sales and purchases.

T€	Variance 2012		Variance 2011	
	Equity	Profit and loss	Equity	Profit and loss

USD (10% movement)	542	542	27	27
GBP (10% movement)	4	4	16	16

	Average rate		31 December	
	2012	2011	2012	2011

USD	0.76310	0.71897	0.75670	0.77230
GBP	1.23068	1.15275	1.22340	1.19360
INR	0.01399	0.01538	0.01384	0.01423

The Company periodically enters into derivative transactions including foreign currency forward contracts. The objective of these transactions is to reduce the risk of exchange rate fluctuations of the Company's foreign currency denominated cash flows. Evotec does not enter into derivative transactions for trading or speculative purposes. As of 31 December 2012 and 2011, the Company held US Dollar forward contracts with Euro equivalent notional amounts of T€ 18,161 and a fair value of T€ (68) (2011: T€ 4,486 and T€ 148, respectively). Foreign currency contracts are carried at fair value which is determined using quoted market prices or discounted cash flows. The maturity for all foreign currency contracts held by the Company is short-term. The fair value of the foreign currency contracts is included in current liabilities on 31 December 2012 and 2011. Gains and losses from the fair value accounting related to foreign currency derivatives are included in non-operating income and expense and amounted to T€ 105 and T€ 17 for the years ended 31 December 2012 and 2011, respectively.

Derived from the summary quantitative data about the Company's currency risks based on the report to the Management Board, the expected future USD cash flows are hedge with USD forward contracts with a nominal value of TUSD 24,000.

The fair value of cash and cash equivalents, investments, trade accounts receivable and trade accounts payable approximate their carrying values in the consolidated financial statements due to their short-term nature. Financial assets are accounted for at the settlement date.

### INTEREST RATE RISKS

The Company is exposed to interest rate risks in Germany, India, UK and US due to current investments as well as loans and finance leases. Financial instruments with fixed interest rates or those covered by an interest rate swap are not subject to interest rate risks and therefore are not included in the sensitivity analysis. Financial instruments with variable interest rates as of 31 December 2012 and 2011 are included in the sensitivity analysis for the period of their existence. If the interest rate had been 100 basis points higher (lower) at 31 December 2012 the effect on net income would have been T€ 260 higher (lower) (31 December 2011: net income T€ 186 higher (lower)). Shareholders' equity is impacted in the same amount.

The fair value of debt varies from the carrying amount, if there is a difference between the underlying interest rate to the market interest rate. The fair value is then determined using an appropriate market interest rate. The fair values of the long-term loans and finance leases

with variable interest rates as of 31 December 2012 and 2011 would vary by the following amounts:

T€	31 December 2012	31 December 2011
Variable interest rate +1%-point	74	57
Variable interest rate -1%-point	(74)	(57)

A three-year interest rate swap was signed in August 2011 with a German Bank to exchange Euribor against a fixed rate at 1.75% for a notional of T€ 6,500. This results in a combined fixed interest rate for the T€ 6,500 credit line of 3.0%. In addition, a similar three-year interest swap transaction was agreed with another German Bank to hedge the interest rate risk on the T€ 6,500. This resulted in a combined fixed interest rate for the year of 2.875%. The Company is not recording the fair value of financial assets and liabilities with fixed interest rates.

The Company is exposed to interest rate risk through variable interest-bearing loans. These interest rate risks are deemed not to be significant.

#### OTHER PRICE RISKS

The Company is not exposed to any price risks associated to their financial instruments.

## (29) Risks

#### LIQUIDITY RISKS

Expenditures on internal discovery and early development programmes and other costs as well as reduced revenues might negatively impact Evotec's short- to mid-term profitability and cash reserves. To actively address any related risk, Evotec's management has defined minimum

liquidity levels and prepared a scenario planning to safeguard its cash position. Evotec believes that existing liquidity reserves are sufficient to cope with the cumulative impact of all identified risks. Evotec is currently well-financed and has no plans or necessity to raise capital in the near- to mid-term. However, the option of increasing capital is always considered. This additional financing might be required if new opportunities arise in terms of M&A or in-licensing. The Company does not intend to engage in projects unless adequate funding is allocated or secured. Evotec assesses the financial associated risks to be low/medium, remaining unchanged in comparison to the previous year.

The general risk of losing a significant amount of cash in cash investments is continuously mitigated by spreading the investments across several different banks in high-credit quality instruments in full compliance with the Company's approved investment policy. Evotec monitors its banks and investments on an ongoing basis. Therefore, Evotec assesses the current default risks to be low, remaining unchanged in comparison to the previous year.

The Company has important collaborations with pharmaceutical and biotechnology companies. Any termination of such collaborations or failure to achieve contracted milestones would likely have an adverse impact on the Company's financial position, results of operations and cash flows.

Evotec's business and reported profitability are affected by fluctuations in foreign exchange rates between the US Dollar, UK Sterling, the Indian Rupee and the Euro. The Company manages this exposure via natural hedges and selective hedging instruments. The hedging instruments used do not expose the Company to any material additional risk. Currency exchange movements also impact Evotec's reported liquidity primarily through the translation of liquid assets held in US Dollars or UK Sterling into Euros. A portion of the funds are held in currencies other than Euro in order to meet local operating needs.

At 31 December 2011, the Company had a guarantee outstanding of T€ 190 related to securing certain payment obligations of the European ScreeningPort GmbH. In 2012, the guarantee expired. Other guarantees outstanding at 31 December 2012 amounted to T€ 446 (31 December 2011: T€ 307).

The contractual maturities of financial liabilities, including estimated interest payments as of 31 December 2012 and 2011 are included in the following table:

T€	Carrying amount	31 December 2012			
		Contractual cash flow	Due in 1 year	Due in 2-5 years	More than 5 years
<b>Non-derivative financial liabilities</b>					
Loans	(17,401)	(17,831)	(13,565)	(4,266)	-
Finance lease obligations	(1)	(1)	(1)	-	-
Trade accounts payable	(6,363)	(6,363)	(6,363)	-	-
Contingent consideration	(18,689)	(38,691)	(2,265)	(6,029)	(30,397)
Current income tax payables	(502)	(502)	(502)	-	-
Other current financial liabilities	(234)	(234)	(234)	-	-
<b>Total non-derivative financial liabilities</b>	<b>(43,190)</b>	<b>(63,622)</b>	<b>(22,930)</b>	<b>(10,295)</b>	<b>(30,397)</b>
<b>Derivative financial liabilities</b>					
Interest rate swap	(333)	(333)	-	(333)	-
<b>Total derivative financial liabilities</b>	<b>(333)</b>	<b>(333)</b>	<b>-</b>	<b>(333)</b>	<b>-</b>

T€	Carrying amount	31 December 2011			
		Contractual cash flow	Due in 1 year	Due in 2–5 years	More than 5 years
<b>Non-derivative financial liabilities</b>					
Loans	(15,533)	(15,842)	(13,404)	(2,438)	-
Finance lease obligations	(33)	(34)	(33)	(1)	-
Trade accounts payable	(10,134)	(10,134)	(10,134)	-	-
Contingent consideration	(19,578)	(34,479)	(5,845)	(5,128)	(23,506)
Current income tax payables	(492)	(492)	(492)	-	-
Other current financial liabilities	(1,147)	(1,147)	(1,147)	-	-
<b>Total non-derivative financial liabilities</b>	<b>(46,917)</b>	<b>(62,128)</b>	<b>(31,055)</b>	<b>(7,567)</b>	<b>(23,506)</b>
<b>Derivative financial liabilities</b>					
Interest rate swap	(202)	(202)	-	(202)	-
<b>Total derivative financial liabilities</b>	<b>(202)</b>	<b>(202)</b>	<b>-</b>	<b>(202)</b>	<b>-</b>

### CAPITAL MANAGEMENT

Evotec actively manages its funds to primarily ensure liquidity and principal preservation while seeking to maximise returns. Evotec's cash and short-term investments are located at several different banks and financial investments are made in liquid, highly diversified investment instruments in low risk categories (products or financial institutions rated A- or better (Standard & Poor's ratings or equivalent).

The following table shows the total assets, equity as well as equity ratio and net cash:

T€	Years ended	
	31 Dec 2012	31 Dec 2011
Total assets	225,427	218,213
Equity	152,547	147,245
Equity ratio (in %)	67.7	67.5
Net cash	21,663	2,211

The net cash, consisting of cash and cash equivalents less loans and finance leases, increased in 2012 due to less cash and cash equivalents being invested into investments in mutual funds, which are reported as investments.

To manage short-term and medium-term liquidity, the Company makes use of bank loans and asset financing, the latter primarily for equipment used to maintain and further develop its discovery platform. As of 31 December 2012 and 2011, the debts are unsecured. However, Evotec has to hold a minimum level of cash in the amount of T€ 35,000 in 2012 and 2011, respectively. The sum of these debt instruments – including both long-term and current portions – at the end of 2012 is T€ 17,402 (2011: T€ 15,566).

Evotec remains well financed with an equity ratio of 67.7% as of 31 December 2012 (31 December 2011: 67.5%) and currently has no plans or necessity to raise capital in the near to mid-term. However, the option to increase capital may be considered if new opportunities arise in terms of M&A or in-licensing which require additional financing.

No capital requirements are stipulated in Evotec's statutes. The

Company has obligations to issue shares out of the conditional capital relating to the exercise of stock options on the basis of miscellaneous stock option plans as well as share performance awards on the basis of a share performance plan. Please refer with regard to the authorised capital and the conditional capital to Note 20.

### CREDIT RISKS

Credit risk is the risk of financial loss to the Company if a customer fails to meet its contractual obligations and arises primarily from the receivables from customers and investment securities. The Company assesses the credit risk in connection with failures by counterparties to discharge their obligations to be immaterial. The maximum exposure to credit risk for trade receivables including related parties at the reporting date by geographic region was:

T€	31 December	31 December
	2012	2011
Germany	675	3,873
United States	5,346	3,737
Rest of Europe	3,899	1,684
United Kingdom	998	633
Rest of the world	4,135	466
	<b>15,053</b>	<b>10,393</b>

The Company has exposure to credit risk primarily with respect to its trade accounts receivables and its short-term and long-term investment which primarily invest in debt instruments. The Company performs ongoing credit evaluations of its customers' financial condition and maintains an appropriate allowance for uncollectible accounts receivable based upon the expected collectibility of all accounts receivable. The Company's accounts receivables are generally unsecured and are not backed by collateral from its customers. As of 31 December 2012, one customer accounted for 24% of trade receivables (31 December 2011:

29%). Concentrations of credit risk with respect to trade accounts receivables are generally limited by a number of geographically diverse customers and the Company's monitoring procedures.

Evotec's customers are generally financially stable pharmaceutical companies, foundations and larger biotech companies. There has been no history of doubtful receivables and this is not expected to change.

In 2012, the Company further expanded its customer base. However, the three (2011: three) largest customers of Evotec, each having a share of more than 10% of the group revenues in 2012, represented in total more than 38% of the group revenues in 2012 and more than 47% in 2011. A termination of these business relations could have adverse impacts on the Company's financial results.

## MARKET RISKS

The market environment and competitive landscape for licensing and licensed projects or individual drug candidates, in general or for individual treatments might change while engaging in individual project.

## (30) Fair values

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

T€	31 December 2012		31 December 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Cash and cash equivalents</b>	39,065	39,065	17,777	17,777
<b>Available-for-sale financial assets</b>				
— Investments	25,094	25,094	44,651	44,651
— Long-term investments	10	10	10	10
<b>Total available-for-sale financial assets</b>	25,104	25,104	44,661	44,661
<b>Financial assets measured at fair value</b>				
— Other non-current financial assets	75	75	70	70
<b>Loans and receivables</b>				
— Trade accounts receivables	15,053	15,053	10,393	10,393
— Other current financial assets	1,478	1,478	1,355	1,355
<b>Total loans and receivables</b>	16,531	16,531	11,748	11,748
<b>Financial liabilities measured at cost</b>				
— Current loan liabilities	(13,223)	(13,223)	(13,174)	(13,174)
— Non-current loan liabilities	(4,178)	(4,062)	(2,359)	(2,358)
— Current portion of finance lease obligations	(1)	(1)	(32)	(32)
— Long-term finance lease obligations	-	-	(1)	(1)
— Trade accounts payable	(6,363)	(6,363)	(10,134)	(10,134)
— Other current financial liabilities	(234)	(234)	(1,147)	(1,147)
<b>Total financial liabilities measured at cost</b>	(23,999)	(23,883)	(26,847)	(26,846)
<b>Financial liabilities measured at fair value</b>				
— Derivative Financial instruments	(333)	(333)	(202)	(202)
— Contingent consideration	(18,689)	(18,689)	(19,578)	(19,578)
<b>Total financial liabilities measured at fair value</b>	(19,022)	(19,022)	(19,780)	(19,780)
	37,754	37,870	27,629	27,630
<b>Unrecognised (gain)/loss</b>		(116)		(1)

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

T€	31 December 2012			Total
	Level 1	Level 2	Level 3	
Available-for-sale financial assets	25,094	-	10	25,104
Financial assets measured at fair value	-	75	-	75
Financial liabilities measured at fair value	-	(333)	(18,689)	(19,022)

T€	31 December 2011			Total
	Level 1	Level 2	Level 3	
Available-for-sale financial assets	44,651	-	10	44,661
Financial assets measured at fair value	-	70	-	70
Financial liabilities measured at fair value	-	(202)	(19,578)	(19,780)

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.

### (31) Pension plan

The Company operates a defined contribution Group Personal Pension Plan (GPPP) and makes contributions to employees' own schemes. The pension charge for the year represents contributions payable by the Company to the fund (and to employees' own pension schemes) and amounted to T€ 533 (2011: T€ 510). Contributions amounting to T€ 85 (2011: T€ 79) were payable to the fund at the year end 2012 and are included in provisions. The Company's contribution rate is employee specific and is determined by the level of an employee's contribution. There were no changes in the basis for such contributions during the year. The statutory retirement insurances are defined as contribution plan under IAS 19, but are not included in the amounts stated above. Further the Company has a 401k in the US the contribution to this plan amounted to T€ 69 during 2012 (2011: T€ 33).

The Company operates a defined benefit pension plan for one former member of the Management Board of Evotec AG. The provision for this pension is calculated using the projected unit credit method in

accordance with IAS 19. An actuarial report was prepared in 2012 and 2011 for this purpose. The calculations are based on assumed pension increases of 2.0% and a discount rate of 3.0% in 2012 and 4.6% in 2011. The discount rate reflects market conditions. Actuarial gains and losses are recorded using the 10% corridor method. The provision amounted to T€ 122 and T€ 116 as of 31 December 2012 and 2011, respectively. Total expense for the period for the defined benefit plan amounted to T€ 6 (2011: T€ 5) and consist of the following:

T€	Years ended	
	31 Dec 2012	31 Dec 2011
Pension liability beginning of the year	116	111
Interest cost	6	5
Amortisation of actuarial losses	-	-
Pension payments	-	-
<b>Pension liability year end</b>	<b>122</b>	<b>116</b>

## (32) Commitments and contingencies

### (a) OPERATING LEASE OBLIGATIONS

The Company leases office and laboratory space and other equipment under operating leases in accordance with IAS 17. The longest of these obligations extends through 2023. Certain leases contain rent increases, rent holidays and renewal options. The total rents due under these leases are recognised on a straight-line basis over the lease term. The future minimum lease payments under non-cancellable operating leases are approximately as follows:

	T€
2013	4,190
2014	3,926
2015	3,747
2016	3,299
2017	3,225
Thereafter	19,309
<b>Total</b>	<b>37,696</b>

The majority of operating lease obligations are related to rent expenses for facilities. The rent expense for such leases amounted to T€ 6,018 and T€ 5,074 for the years ended 31 December 2012 and 2011, respectively.

### (b) OTHER COMMITMENTS AND CONTINGENCIES

The Company has entered into consultancy contracts. During 2012 and 2011, expenses under consultancy contracts totalled T€ 240 and T€ 194,



respectively. The future minimum payments associated with long-term consultant and other miscellaneous long-term commitments total approximately T€ 3,909 and T€ 2,040 at 31 December 2012 and 2011, respectively.

As of 31 December 2012 and 2011, the Company has entered into purchase commitments in the amount of T€ 1,552 and T€ 1,683, respectively.

The Company has, in the sale and purchase agreement for all the shares in Evotec Technologies GmbH, provided certain guarantees customary for such agreements. No current liabilities from this guarantee exist as of 31 December 2012.

The Company has licensed or acquired certain third party intellectual property for use in its business. Under these agreements, the Company is required to pay milestones, dependent on development progress and/or royalties and milestones dependent on present and future net income or on sublicensing fees received from third parties. The Company also agreed with several third parties on getting access to their technology and know how for use in Evotec's business or within collaborations. Under those agreements, the Company is required to pay a revenue share to those third parties.

The Company is obliged under an agreement with a third party to provide consulting services free of charge upon request of the third party. The Company is not aware of any material litigations as of 31 December 2012.

### **(33) Related party transactions**

According to IAS 24 the Company discloses related party transactions where Supervisory Board members and Management Team members of the Company hold positions in other entities that result in them having significant influence over the financial or operating policies of these entities (the figures reflect the total group).

In 2012, the Company entered into a collaboration agreement with 4-Antibody AG. Roland Oetker considered himself as potentially conflicted regarding this transaction with 4-Antibody. In his function as member of the Supervisory Board of Evotec AG, he elected not to participate in any related discussion. A Supervisory Board approval for this collaboration was not required.

Dr Flemming Ørnskov was Head General Medicine of Bayer HealthCare AG until 31 December 2012. The Company recognised revenues with the Bayer Group in the ordinary course of business in the amount of T€ 512 and T€ 26 in 2012 and 2011 respectively. The accounts receivables amounted to T€ 39 and T€ 0 as of 31 December 2012 and 2011, respectively.

Dr Walter Wenninger is chairman of the Supervisory Board of Noxxon Pharma AG. Evotec recognised revenues with Noxxon Pharma AG in the ordinary course of business in the amount of T€ 57. The respective accounts receivables amounted to T€ 0 at 31 December 2012.

Evotec AG recorded revenues in the amount of T€ 0 and T€ 22 with related parties in 2012 and 2011, respectively. Subsidiaries of Evotec AG recorded revenues with related parties in the amount of T€ 57 and T€ 38 in 2012 and 2011, respectively.

Administrative services provided by the Company to Management Board or Supervisory Board members for their private purposes, if any are reimbursed to the Company at cost.

### **(34) Personnel expenses and cost of material**

The personnel expenses of the Company amounted to T€ 35,554 of which T€ 17,386 relate to personnel expenses outside Germany mainly in India, the UK and US (2011: T€ 31,194 and T€ 15,029, respectively). Thereof expenses for the statutory retirement insurance amounted to T€ 1,823 of which T€ 654 relate to expenses outside Germany mainly in India, the UK and US (2011: T€ 2,028 and T€ 1,126, respectively).

Cost of materials amounted to T€ 15,006, thereof T€ 6,110 are cost of materials outside Germany mainly in India, the UK and US (2011: T€ 18,877 and T€ 8,048, respectively).

### **(35) Other disclosures**

The following additional disclosures are required by German law in accordance with the European Directives on Accounting and the Corporate Governance Codex.

#### **(a) NUMBER OF EMPLOYEES**

The average number of persons employed by the Company in 2012 was 625 (2011: 590).

#### **(b) REMUNERATION OF THE AUDITOR**

In 2012, remunerations, shown as expenses, to KPMG AG Wirtschaftsprüfungsgesellschaft and other KPMG companies totalled T€ 340 (2011: T€ 283) broken down into auditing of financial statements (T€ 323; 2011: T€ 264), other attestation services (T€ 16; 2011: T€ 17) as well as other services (T€ 1; 2011: T€ 1). The amount for auditing the financial statements included in 2011 T€ 42 relating to the prior year financial statements.

#### **(c) CORPORATE GOVERNANCE CODEX**

A declaration according to § 161 AktG was made by the Management Board and the Supervisory Board of the Company. This declaration regarding the Company's compliance with the Corporate Governance Codex is accessible to the shareholders on Evotec's website.

#### **(d) CONSOLIDATED SUBSIDIARIES AND EQUITY INVESTEES**

Information below shows Evotec AGs direct and indirect voting interests in their subsidiaries and other investments.

2012
% Company's voting interest

Subsidiaries	
Evotec (UK) Ltd., Abingdon, UK	100.0
Evotec International GmbH, Hamburg*	100.0
Evotec (Hamburg) GmbH, Hamburg	100.0
Evotec (India) Private Limited, Thane, India	100.0
Evotec (US), Inc., South San Francisco, California, US**	100.0
Evotec (München) GmbH, Munich***	100.0
Other investments	
European ScreeningPort GmbH, Hamburg (unaudited)	19.9

\* formerly *EVOTEC NeuroSciences GmbH*

\*\* formerly *Renovis, Inc.*

\*\*\* formerly *Kinaxo Biotechnologies GmbH*

Evotec, Inc., ENS Holdings, Inc. and Evotec (Asia) Pte. Ltd. were liquidated during 2012.

Evotec (Göttingen) AG (formerly DeveloGen AG) was merged into EVOTEC NeuroSciences GmbH during 2012. Thereafter EVOTEC NeuroSciences GmbH was renamed into Evotec International GmbH.

Compound Focus, Inc. was merged into Renovis, Inc. as of 31 December 2012 and simultaneously renamed to Evotec (US), Inc.

The subsidiaries listed in this table are included in the consolidated financial statements. The investment in European ScreeningPort GmbH is included in the consolidated financial statements at cost.

The Group investments in subsidiaries, associated companies and other investments are not hedged as those currency positions are considered to be long-term in nature.

#### (e) MANAGEMENT BOARD

Dr Werner Lanthaler, Business Executive, Hamburg (CEO),  
Colin Bond, Chartered Accountant, Hamburg (CFO),  
Dr Cord Dohrmann, Biologist, Göttingen (CSO) and  
Dr Mario Polywka, Chemist, Oxfordshire, UK (COO).

The remuneration paid to the members of the Management Board in the financial year 2012 totalled T€ 1,983 (2011: T€ 1,740) of which T€ 695 (2011: T€ 511) was variable remuneration. The Management Board received also share performance awards in 2012 (in 2011: stock options) as components with a long-term incentive effect with a fair value in 2012 of T€ 601 (2011: T€ 1,525). Fixed remuneration includes base salaries, contributions to personal retirement insurance, premiums for accident and accidental death insurances as well as the benefit derived from the use of company cars. The variable remuneration of the Management Board is based on a bonus scheme. The respective objectives are specified every year by the Remuneration and Nomination Committee of the Supervisory Board, and subsequently approved by the Supervisory Board.

For 2012 and 2011, 80% of the bonus of the Company's Chief Executive Officer, Dr Werner Lanthaler, was based on the achievement of

corporate targets, and the remaining 20% on the achievement of personal objectives. For Colin Bond, Dr Cord Dohrmann and Dr Mario Polywka, as the other members of the Management Board, 60% of their bonus was based on the same corporate targets, and the remaining 40% on the achievement of personal objectives.

For the business year 2012, the variable pay in 2013 is based on the achievement of four sets of corporate milestones (strategic targets) and multiple personal objectives. The Company has accrued T€ 433 for this purpose, which is composed of T€ 184 for Dr Werner Lanthaler, T€ 75 for Colin Bond, T€ 87 for Dr Cord Dohrmann and T€ 87 for Dr Mario Polywka.

%	Achievement of corporate targets	Achievement of corporate financial targets	Personal objectives
---	--	--	------------------------

Dr Werner Lanthaler	48	32	20
Colin Bond	36	24	40
Dr Cord Dohrmann	36	24	40
Dr Mario Polywka	36	24	40

For the business year 2011, the variable pay in 2012 was based on the achievement of five sets of corporate targets (strategic targets) and multiple personal objectives. The Company has accrued T€ 719 for this purpose, which is composed of T€ 310 for Dr Werner Lanthaler, T€ 128 for Colin Bond, T€ 128 for Dr Cord Dohrmann and T€ 153 for Dr Mario Polywka.

%	Achievement of corporate targets	Achievement of corporate financial targets	Personal objectives
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Dr Werner Lanthaler	64	16	20
Colin Bond	48	12	40
Dr Cord Dohrmann	48	12	40
Dr Mario Polywka	48	12	40

In addition to their fixed and variable remuneration, the members of the Management Board received 445,293 Share Performance Awards (SPA) in 2012 under the Company's share performance plan. These Share Performance Awards vest after four years according to achievement versus defined key performance indicators over a three-year performance measurement period. The fair values of all Share Performance Awards granted as of the grant date amounted to a total of T€ 601.

Under the Company's stock option plans, 1,660,000 options were granted to the members of the Management Board in 2011. The options granted in 2011 are subject to the stipulation of various Option Plans and may be exercised at the earliest after three and four years if the success targets of these plans are met. The fair values of the options are described in Note 19 and are recognised over their respective vesting periods. The fair values of options as of the grant dates in 2011 amounted to a total of T€ 1,525.

	2012 Fixed remuneration in T€	2012 Variable remuneration in T€	2012 Share Performance Awards in pcs	2012 Fair values of SPAs granted in T€	2012 Total remuneration in T€
Dr Werner Lanthaler	407	307	209,877	283	997
Colin Bond	269	126	76,190	103	498
Dr Cord Dohrmann	270	126	76,190	103	499
Dr Mario Polywka	342	136	83,036	112	590
<b>Total</b>	<b>1,288</b>	<b>695</b>	<b>445,293</b>	<b>601</b>	<b>2,584</b>

	2011 Fixed remuneration in T€	2011 Variable remuneration in T€	2011 Stock options in pcs	2011 Fair values of options granted in T€	2011 Total remuneration in T€
Dr Werner Lanthaler	376	294	640,000	597	1,267
Colin Bond	276	52	290,000	261	589
Dr Cord Dohrmann	266	42	290,000	261	569
Dr Mario Polywka	311	123	440,000	406	840
<b>Total</b>	<b>1,229</b>	<b>511</b>	<b>1,660,000</b>	<b>1,525</b>	<b>3,265</b>

The contracts of the Management Board members contain a change-of-control clause that would allow them to terminate their current contracts in the event of a change in control. Such a change-of-control occurs when a third party assumes more than 30% of the shares of the Company. Upon contract termination, the Management Board members Bond and Dr Dohrmann are entitled to severance payments of one year's base salary plus bonus (following new contracts effective July and September 2013, respectively the payment shall be equal to 18 months base salary plus bonus). This is calculated as the sum of payments (including the bonus) made to them over the last twelve months before receipt of the declaration of termination. Dr Polywka is entitled to severance payments of 18 months base salary, while Dr Lanthaler is entitled to 24 months base salary. In no case, the respective severance payment shall be higher than the total compensation due for the remaining term of the respective Management Board member's contract.

The Company has a Directors and Officers (D&O) insurance policy in place for the Management Board, the Supervisory Board, its senior management and the directors of subsidiary companies. The insurance expense amounted to T€ 117 in total in 2012 (2011: T€ 124) and was paid by the Company. For the members of the Management Board, a deductible in line with the stipulations of the legal provisions of the Act on Appropriateness of Management Board Compensation (VorstAG) was agreed.

In 2011, a variable remuneration for the business year 2010 in the amount of T€ 63 was paid to Dr Klaus Maleck relating to his time as former Management Board member. Apart from this payment, no payments were made to any former Management Board member.

Dr Werner Lanthaler is Member of the Verwaltungsrat of Pantec Biosolutions AG, Ruggell, LI. Dr Mario Polywka is Non-Executive Chairman of the Board of Directors of Pharminox Ltd, Oxfordshire, UK. Since 28 January 2013, Colin Bond is Non-Executive Chairman of the Board of Directors of the European ScreeningPort GmbH.

#### (f) SUPERVISORY BOARD

- Dr Flemming Ørnskov, Zurich, CH, since 2 January 2013 Designated CEO Shire plc. (Chairman);
- Dr Walter Wenninger, Leverkusen, DE, Former Member of the Management Board of Bayer AG;
- Dr Hubert Birner, Gräfelfing, DE, Managing Director, TVM Life Science Management GmbH;
- Roland Oetker, Duesseldorf, DE, Managing Partner ROI Verwaltungsgesellschaft mbH;
- Prof Dr Andreas Pinkwart, Leipzig, Principal and Managing director of HHL – Leipzig Graduate School of Management;
- Mary Tanner, New York, NY, US, since 15 January 2013 Senior Managing Director, Burrill & Company.

The remuneration accrued for the members of the Supervisory Board in the financial year 2012 was as follows:

T€	2012 Cash remuneration	2012 Value of share-based remuneration	2012 Total
Dr Flemming Ørnskov	48.8	30.0	78.8
Dr Walter Wenninger	40.0	30.0	70.0
Dr Hubert Birner	25.0	20.0	45.0
Roland Oetker	18.7	10.0	28.7
Prof Dr Andreas Pinkwart	18.7	10.0	28.7
Mary Tanner	18.8	10.0	28.8
<b>Total</b>	<b>170.0</b>	<b>110.0</b>	<b>280.0</b>

The remuneration accrued for the members of the Supervisory Board in the financial year 2011 was as follows:

T€	2011		2011 Total
	Cash remuneration	Value of share-based remuneration	
Dr Flemming Ørnskov	48.8	30.0	78.8
Dr Walter Wenninger	41.7	30.0	71.7
Dr Hubert Birner	25.0	20.0	45.0
Roland Oetker	10.2	5.4	15.6
Prof Dr Andreas Pinkwart	10.2	5.4	15.6
Mary Tanner	18.8	10.0	28.8
Dr Peter Fellner	8.5	4.6	13.1
<b>Total</b>	<b>163.2</b>	<b>105.4</b>	<b>268.6</b>

In 2012 and 2011, the remuneration of each Supervisory Board member amounted to T€ 15 per year, with the chairman receiving three times that amount and the vice chairman twice that amount. Members of Supervisory Board committees additionally receive T€ 3.75 per year, with the chairperson receiving T€ 10. In addition to the fixed remuneration, the members of the Supervisory Board receive payments in the form of Evotec shares. Ordinary members of the Supervisory Board receive shares valued at T€ 10 (chairman three times, vice chairman twice this amount) and Committee chairman receive additional shares valued at T€ 10. In addition, if Evotec shareholders are paid a dividend, every Supervisory Board member will receive an extra T€ 0.5 for every cent that the dividend per share exceeds € 0.15.

The total remuneration accrued for the Supervisory Board members in 2012 totalled T€ 280 (2011: T€ 269). The Company has a Directors and Officers (D&O) insurance policy in place for the Management Board, the Supervisory Board, its senior management and the directors of subsidiary companies. The insurance expense amounted to T€ 117 in total in 2012 (2011: T€ 124) and was paid by the Company. For the members of Supervisory Board, an appropriately sized deductible was agreed.

The Supervisory Board and their additional memberships in supervisory boards and memberships in comparable governing bodies of enterprises according to § 125 par. 1 fifth sentence of the AktG are listed at the end of this report.

## (36) *Subsequent events*

Effective 1 January 2013 Evotec acquired all shares in CCS Cell Culture Service GmbH (CCS), a Hamburg-based company which supports the cell culture needs of a world-wide customer base of biotech and Pharmaceutical companies. CCS is one of the leading suppliers of custom cells and cell-based reagents such as recombinant assay cell lines, assay-ready frozen instant cells, qualified membranes, and proteins for high throughput screening with more than ten years experience in bulk cell production. The purchase price amounts to T€ 1,150 plus an earn-out payment which is dependent on the future business performance.

# SUPERVISORY BOARD AND MANAGEMENT BOARD

## Supervisory Board

<p><b>Dr Flemming Ørnkov</b> <i>Chairman of the Supervisory Board</i> Zurich/CH Designated CEO Shire plc. (since 2 January 2013)</p>	<p><b>Non-Executive Chairman of the Board of Directors:</b> Santaris Pharma A/S, Hoersholm/DK (until December 2012) <b>Non-Executive Member of the Board of Directors:</b> PCI Biotech Holding ASA, Oslo/NO (until January 2013); Spepharm Holding BV, Amsterdam/NL (until May 2012)</p>
<p><b>Dr Walter Wenninger</b> <i>Vice Chairman of the Supervisory Board</i> Leverkusen/DE Former Member of the Management Board of Bayer AG</p>	<p><b>Chairman of the Supervisory Board:</b> Noxxon Pharma AG, Berlin/DE <b>Non-Executive Chairman of the Board of Directors:</b> Santaris Pharma A/S, Hoersholm/DK (since December 2012; formerly member of the board of directors) <b>Non-Executive Member of the Board of Directors:</b> Recordati S.p.A., Milano/IT <b>Member of the Advisory Group:</b> Novo A/S, Hellerup/DK</p>
<p><b>Dr Hubert Birner</b> <i>Member of the Supervisory Board</i> Gräfelfing/DE Managing Director, TVM Life Science Management GmbH</p>	<p><b>Non-Executive Chairman of the Board of Directors:</b> Argos Therapeutics Inc., Durham, NC/US <b>Non-Executive Member of the Board of Directors:</b> Horizon Therapeutics, Northbrook, IL/US (until June 2012); Proteon Therapeutics, Inc., Waltham, MA/US; Spepharm Holding BV, Amsterdam/NL; Transmolecular, Inc., Cambridge, MA/US (until March 2011)</p>
<p><b>Roland Oetker</b> <i>Member of the Supervisory Board</i> Duesseldorf/DE Managing Partner, ROI Verwaltungsgesellschaft mbH</p>	<p><b>Non-Executive Member of the Board of Directors:</b> Deutsche Post AG, Bonn/DE; Rheinisch-Bergische Verlagsgesellschaft mbH, Duesseldorf/DE <b>Member of the Board of Trustees:</b> RAG-Stiftung, Essen/DE (until August 2012)</p>
<p><b>Prof Dr Andreas Pinkwart</b> <i>Member of the Supervisory Board</i> Leipzig/DE Principal and Managing Director, HHL – Leipzig Graduate School of Management</p>	<p><b>Member of the Board of Trustees:</b> RAG-Stiftung, Essen/DE (since October 2012)</p>
<p><b>Mary Tanner</b> <i>Member of the Supervisory Board</i> New York, NY/US Senior Managing Director, Burrill &amp; Company (since 15 January 2013)</p>	<p><b>Non-Executive Member of the Board of Directors:</b> Lineagen, Inc., Salt Lake City, UT, US</p>

## Management Board

<p><b>Dr Werner Lanthaler</b> <i>Chief Executive Officer</i> Hamburg/DE, Business Executive</p>	<p><b>Member of the Verwaltungsrat:</b> Pantec Biosolutions AG, Ruggell, LI</p>
<p><b>Colin Bond</b> <i>Chief Financial Officer</i> Hamburg/DE, Chartered Accountant</p>	<p><b>Non-Executive Chairman of the Board of Directors:</b> European ScreeningPort GmbH, Hamburg/DE (since 28 January 2013)</p>
<p><b>Dr Cord Dohrmann</b> <i>Chief Scientific Officer</i> Göttingen/DE, Biologist</p>	
<p><b>Dr Mario Polywka</b> <i>Chief Operating Officer</i> Oxfordshire/UK, Chemist</p>	<p><b>Non-Executive Chairman of the Board of Directors:</b> Pharminox Ltd, Oxfordshire, UK</p>

# AUDITOR'S REPORT

We have rendered the Auditor's Report in German, which was translated as follows:

## "Auditor's Report

We have audited the consolidated financial statements prepared by the Evotec AG, Hamburg, comprising the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statements of changes in stockholder's equity, the consolidated statement of cash flows and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2012. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by EU and the additional requirements of German commercial law pursuant to Section 315a par. 1 HGB (Handelsgesetzbuch „German Commercial Code“) are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB [„Handelsgesetzbuch“: „German Commercial Code“] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial

statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a par. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the group's position and suitably presents the opportunities and risks of future development.”

Hamburg, 6 and 12 March 2013  
KPMG AG  
Wirtschaftsprüfungsgesellschaft

**Kniese**  
German Public Auditor  
(Wirtschaftsprüfer)

**Zander**  
German Public Auditor  
(Wirtschaftsprüfer)

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# RESPONSIBILITY STATEMENT

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



**Dr Werner Lanthaler**  
Chief Executive Officer

**Evotec AG**  
**The Management Board**

Hamburg, 12 March 2013



**Dr Mario Polywka**  
Chief Operating Officer



**Colin Bond**  
Chief Financial Officer



**Dr Cord Dohrmann**  
Chief Scientific Officer

**Editor:** Evotec AG; **Chief Editors and Project Leaders:** Accounting, Corporate Communications & Investor Relations; **Content:** Colin Bond, Dr Cord Dobrmann, Dr Werner Lantbaler, Dr Mario Polywka; **Concept and Graphic Design:** alessandridesign, Rufgasse 3, 1090 Vienna, Austria; **Lithography:** R12, Fockygasse 29, 1120 Vienna, Austria; **Print:** C. Angerer & Göschl, Gschwandnergasse 32, 1170 Vienna, Austria; **Publisher:** Evotec AG, Manfred Eigen Campus, Essener Bogen 7, 22419 Hamburg; +49.(0)40.56081-0, +49.(0)40.56081-222 (Fax) **The Evotec Annual Report published on 26 March 2013 containing the consolidated financial statements according to German Commercial Code (Handelsgesetzbuch) is available in English and German. For further information on Evotec, please be invited to visit our website at [www.evotec.com](http://www.evotec.com). You can also contact us by email: [info@evotec.com](mailto:info@evotec.com) Publication Date: 26.03.2013**

**Disclaimer/Forward-Looking Statements** Information set forth in this annual 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.

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