

Evotec AG Tomorrow's Drugs Today™

Consolidated Financial Statements and Management Report 2007

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Management Report

General Business Description

Company Structure and Business Operations

Evotec AG (www.evotec.com) is a drug discovery and development company focused on important diseases of the central nervous system, or CNS, and other diseases. Delivering research results to partners to support the treatment of unmet medical needs and discovering and developing new therapies are the primary goals of the Company.

Evotec is a publicly listed stock corporation operating under German law, with all of its shares (73,868,447 as of December 31, 2007) registered for trading on the Frankfurt Stock Exchange. The Company has subsidiaries in Hamburg, Germany, Oxford, UK and North Potomac, Maryland, USA and employed 386 people at the end of 2007. In September 2007, Evotec proposed to acquire 100% of the shares of Renovis, Inc., a company incorporated in Delaware and located in South San Francisco, USA, active in research and development of drugs for pain and inflammatory conditions. This transaction is subject to anti-trust clearance, Renovis stockholder approval, and a successful listing of Evotec's shares on NASDAQ and is planned to close in the second quarter of 2008.

In 2007, Evotec also acquired all of the shares of the privately held French company Neuro3d S.A. in exchange for 5,726,012 newly issued ordinary shares of Evotec. As a result of the acquisition, Evotec acquired a minimum of € 18.9 m of net cash, financial investments and some early stage CNS discovery assets. Neuro3d has been consolidated in Evotec's financial statements since April 1, 2007.

The Company today is organized as two business segments. In its proprietary R&D activities, Evotec's Pharmaceuticals Division specializes in finding new treatments for CNS diseases, building a pipeline of drug candidates for partnering. At the end of 2007, the Company had three programs in Phase I and II clinical trials. Evotec also leverages its drug discovery and disease expertise in collaborations with biotechnology and pharmaceutical companies to identify novel drug candidates and advance them into clinical phases of development. Its Services Division provides partners with a choice of integrated research support capabilities from 'target to clinic', including assay development, screening, medicinal and computational chemistry, all of which can be provided as individual disciplines or as integrated research solutions.

In 2006 and 2007, Evotec divested businesses that were not essential to its strategy of focusing on higher-value discovery projects. Effective January 1, 2007, Evotec sold its 89% interest in Evotec Technologies GmbH (ET, Evotec's former Tools and Technologies Division) to PerkinElmer for € 23.9 m in cash. Evotec Technologies GmbH accounted for € 17.3 m, or 20.5%, of Evotec's total revenue for the fiscal year 2006. ET was not consolidated in the results of the 2007 fiscal year.

On November 30, 2007, Evotec completed the sale of its Chemical Development Business to Aptuit, Inc. for a purchase price of £30.3 m (€ 42.5 m, converted with the exchange rate of the closing date, November 30, 2007) after customary working capital adjustments. The Chemical Development Business represented Evotec's fee-for-service activities in the development and manufacture of drug compounds and formulations. With approximately 200 employees, the Chemical Development Business accounted for € 21.5 m, or 39.5%, of Evotec's total 2007 revenue. This business was not consolidated in the Evotec Group accounts after November 30, 2007.

In addition, in 2007, according to Evotec's strategy to focus its capabilities on high value-added research, the Company transferred its library business to India. In a joint venture with Research Support International Limited (RSIL), Evotec-RSIL Ltd. offers the design, synthesis, management and commercialization of compound libraries at competitive prices for customers. In 2006, the library business generated revenues of € 6.6 m.

As a result, all 2007 and 2006 amounts shown and discussed in the following disclosures relate to continuing operations. The discontinued operations are stated separately in the consolidated financial statements, and the analysis of the Chemical Development Business sold to Aptuit is reported separately in this report.

The Evotec Group is governed by the common German dual board structure: a Supervisory Board (Aufsichtsrat) consisting of six members representing the interests of the shareholders and a Management Board (Vorstand) consisting of three members responsible for the strategic and operational management of the Group together with Evotec's extended Management Team. This Team draws its membership from the senior executives with diverse expertise and experience in Research, Clinical Development, Business Development, Finance, Investor Relations and Human Resources.

Business and Operating Environment (1)

Global Business Environment in 2007

Globalization and the relentless growth of the 'new economies' of China and India, including their growth in private wealth and consumer spending, a weakening US Dollar and US economy, an emerging crisis in global capital markets and continuous reform of healthcare legislation and regulation are the dominant factors influencing our macro environment.

Globalization Increases Competition

Globalization has in the last decade led to a borderless world where communication and business exchanges take place daily, even among countries separated by broad geographies. As the industrialization of China, India and other Asian countries continues apace, increasingly skilled local entrepreneurs are fueling local growth by creating new high-value industries that can effectively compete with Western companies on the basis of lower labor inputs. Just as the information technology industry exploded in India and in China in the 1990's, life science support services are emerging in under-developed but emerging economies to respond to the high cost of biotechnology and pharmaceutical drug discovery and development. To date, the new entrants had their primary focus on delivering stand alone services, in particular in chemistry, out-competing their Western competition on cost and pushing Western companies to higher value added and more integrated offerings.

Weak US Dollar Negatively Impacts Financial Performance of Non-Dollar Denominated Competitors

During 2007, the US Dollar continued to weaken against both Evotec's functional currency (Euro) and the currency of its UK operations (UK Sterling). The impact of this for non-US based companies is a reduction in revenues and an increase in the cost base. Smaller companies like Evotec can only partly offset these effects by increasing activities in the US, i.e. increased clinical development activities, or cost reduction initiatives. Overall, in 2007 Evotec lost approximately € 1.3 m gross profit due to movements in foreign exchange rates compared to 2006.

Global Capital Markets Severely Hit by US Housing Crisis

The summer of 2007 saw the beginning of a severe down-turn in global capital markets as a consequence of the dramatic cooling down of an overheated US housing credit market (sub-prime credit market). Global financial institutions needed to make massive write downs and US financial authorities reduced interest rates despite fear of rising inflation. In this environment share prices have come under enormous pressure and the ability of many companies to raise new equity has been adversely affected.

Business Environment in the Biotechnology Sector in 2007

Strong Start and Dramatic Decline of Financing Environment in 2007

Overall conditions for financings began favorably for biotechnology companies in the first half of 2007. 2007 was the second largest year after 2000 for biotech financing. In 2007, a total of \$30.7 billion (2006: \$29.7 billion) was raised, including \$2.9 billion in IPOs, \$4.3 billion in follow-ons, \$7.1 billion in venture capital, and \$16.4 billion in other fundraising. The funding, however, slowed dramatically towards year-end due to concerns about the state of the US economy and the state of capital markets. Expectations are that financing will remain restricted at least into the first half of 2008, and potentially much longer depending on how well the financial system is coping with the aftermath of the crisis.

FDA Focus on Safety is Setting Higher Hurdles for New Product Approvals

For years, the FDA (Food and Drug Administration) has been criticized for failing to protect the US public from late-developing adverse effects of drugs. It has been suggested that safety assessments have been insufficiently weighted in the drug approval process, and that the FDA has poorly enforced imposed post-approval clinical studies designed to assess safety issues that may only appear when significantly large numbers of patients are taking a new medication. The Vioxx® case of 2004 created the public perception that the FDA was responsible for not having adequately monitored the safety of a blockbuster therapy. This public focus on safety and the politicization of drug regulation has reshaped the American regulatory environment. Lawmakers have made it clear that they expect the FDA to apply laws and regulations in ways that minimize the incidence of negative surprises. Today, the FDA is being pressured to ensure the safety of new medicines at registration and to resist approvals requiring post registration clinical studies. In addition to raising the safety bar, the FDA is showing signs of unwillingness to take the risk of admitting a new treatment without drug manufacturers demonstrating its superiority over existing therapies. The result is a higher level of uncertainty for companies engaged in clinical development, the evidence of which has been a spate of recent approvable letters requiring additional clinical studies prior to marketing approval. Regulatory risk-aversion has made certain kinds of drug development less predictable, creating expectations for different kinds of data, and rendering efforts to bring new therapies to patients more expensive.

Pharmaceutical Companies under Continuous Pressure

Evotec operates in an economic environment where healthcare spending is under significant public pressure in most developed countries. At the same time, the aging population is generating higher healthcare needs and spends ever more significant portions of available income on healthcare. Evotec expects that total spending on therapeutics will continue to increase, despite a larger number of cheaper generic drugs coming onto the market, and reimbursement remaining under pressure. For the pharmaceutical industry, the challenges are significant. High revenues historically enjoyed by companies from blockbuster drug sales are increasingly in jeopardy due to expiring patents and market fragmentation, whilst at the same time the costs of developing a new drug have increased dramatically. The industry is responding to these pressures with cost reductions, for example by outsourcing individual elements of traditional discovery, and with pipeline building to offset revenue losses from generic competition. Large pharmaceutical companies are increasingly turning to the biotechnology industry as a prime source of new products or drug candidates – either by in-licensing or acquisitions.

Pharma Continues to In-license Drugs at Increasingly Lucrative Terms for Biotech Companies

Again in 2007, the pharmaceutical industry continued to experience a shortage of new product launches with only 17 New Molecular Entities (NMEs) being approved in the USA (2006: 18). As the pressure to add new pipeline products further increased, pharmaceutical companies continued to in-license products from the biotech industry and to acquire companies. Consequently, 2007 saw significant partnership activity within and between the various segments of the biotechnology and pharmaceutical industries. Large companies acquired small and mid-sized biotechnology companies owning promising product assets. In turn, some of the mid-sized and small biotechnology companies also undertook mergers and acquisitions to consolidate and enhance their portfolios. Relatively speaking, product licensing deals even outpaced M&A deal flow and terms became increasingly lucrative. Due to increasing licensing competition, the estimated average cost of in-licensing a late stage drug increased from around \$70 m in 2000 to more than \$400 m currently. Analysts expect this trend to continue in 2008, i.e. lucrative in-licensing terms and relatively modest M&A activities.

Impact of Business Environment on Evotec's Strategy

Evotec is Well Positioned to Cope with the Challenges From a More Adverse Environment

In 2005, Evotec embarked on a strategy of building its own proprietary pipeline and securing adequate financing through disposal of non-core assets, M&A and other means of financing. Disposals as described above and the acquisition of Neuro3d have led to an increase of available funds of approximately € 83 m during 2006 and 2007 and a liquidity position (liquidity = cash and cash equivalents and investments) of € 93.7 m at the end of 2007. The approximately 40% revenue reduction and a significant increase in R&D spend has led to a dramatic change in the structure of Evotec's P&L going forward. Despite increasing operating losses as a consequence of conscious investments into its own pipeline and into assets as a basis for higher value added collaborations, Evotec believes itself to be on the right track to create shareholder value. One of the strongest CNS pipelines and sufficient funding are a strong basis for future success.

Acquisition of Renovis Provides Evotec with a Footprint in the US, an Even Stronger CNS Pipeline and Funds to Develop those Assets

The capital markets for biotech companies and the vivid, innovative climate in the US dominate the worldwide biotech efforts. Direct access to this market represents a clear asset for a company such as Evotec and would potentially enhance the Company's shareholder value and future growth. At the same time, it would reduce the Company's dependence on the US Dollar exchange rate.

Evotec has identified Renovis, a biopharmaceutical company with late-stage preclinical programs in pain and inflammation, as an ideal combination to build an even stronger CNS pipeline and achieve a footprint in the US market, in addition to \$86 m of funds at the time of the merger announcement. Evotec's proposed acquisition of Renovis is subject to anti-trust clearance, Renovis stockholder approval and Evotec's successful listing on NASDAQ.

Out-licensing Opportunities at Increasingly Attractive Terms

There is an opportunity for a company such as Evotec to benefit from the trend of increasing value of out-licensing drug candidates through its proprietary drug pipeline focused on CNS-related diseases. Evotec has multiple CNS discovery projects and had three compounds in clinical development at the end of 2007. The Company intends to dedicate its funds to advance its pipeline of clinical candidates with the goal of out-licensing them in the next few years and to drive its pipeline of preclinical projects into the clinic. The proposed acquisition of Renovis announced in September 2007 will add an innovative preclinical pipeline of product candidates, that complement Evotec's programs, and that include candidates expected to enter Phase I clinical trials in 2008 for neurological and inflammatory diseases.

Additional Patient Benefit and Strong Safety Profile of New Drugs is Imperative

Additional patient benefit and a strong safety profile are important prerequisites for approval of new drugs by the FDA. EVT 201, Evotec's lead compound for the treatment of insomnia, has shown strong Phase II proof-of-concept data in primary insomnia patients. Compared to current sleep aids, EVT 201 has the potential to have a superior profile in terms of helping patients fall asleep quickly and maintain their sleep throughout the night while at the same time enabling them to wake in the morning feeling rested and without hangover effects. Although the area of insomnia is competitive and challenging, Evotec believes that this profile and data package makes EVT 201 attractive because it addresses key limitations of competitive insomnia therapies currently on the markets.

Focus Collaborations Business on High Value-Added Research

Evotec has established a strong position in drug discovery collaborations. Cost is an important consideration in drug discovery and development but by far not the only one. Evotec's reputation for delivering the highest quality results within agreed budgets and timescales has been at the core of the Company's success. Based on these strengths, Evotec decided to sell its more commoditized fee-for-service Chemical Development Business and increasingly focus its collaborations business on research programs providing disease biology expertise as well as its fully integrated drug discovery process know-how. Such higher value, results-driven activities allow the Company to share in its customers' success through royalties and milestones along with substantial research fees. Most competitors lack the scale and breadth of capabilities to compete at this level, or have chosen to focus on other specific niche areas.

Financial Report

As previously mentioned, the financial discussion below focuses primarily on the continuing operations of the Evotec Group. In the Financial Report, this is referred to as 'Group', unless explicitly stated differently. The detailed results of the Chemical Development Business (discontinued operations) and its consolidated contributions to the different elements of the Group financial statements can be found separately in this report as well as in the Financial Statements.

Condensed Profit & Loss Statement			
		2006	2007
Revenues	T€	40,575	32,885
Gross margin	%	33.9	24.4
– R&D expenses	T€	30,307	36,938
– SG&A expenses	T€	15,029	17,806
– Amortization and impairment	T€	2,663	11,135
– Restructuring expenses	T€	–	356
– Other operating expenses (income)	T€	285	(97)
Operating income (loss)	T€	(34,516)	(58,115)
Net loss			
continuing business	T€	(29,000)	(48,053)
Net income			
discontinued operations	T€	1,295	36,897
Net loss total	T€	(27,705)	(11,156)

Results of Operations (2)

Review of 2007 Financial Objectives

Evotec's financial objectives as stated in the outlook of the 2006 annual report had been revised to reflect the major transactions occurred during the year. Final results for the fiscal year 2007 were in line with the financial guidance which was adjusted in September following the announcement of the sale of Evotec's Chemical Development Business to Aptuit. With € 32.9 m of revenues and € 93.7 m of liquidity, the Company met its targets for the continuing operations of € 30–35 m of revenues and € 93–98 m of liquidity, respectively.

Revenues

Strategic Transformation and 2006 Milestone Payments

Evotec Group revenues were € 32.9 m, 19% below last year's level (2006: € 40.6 m) due to delayed milestone payments, the divestiture of the library business and exchange rate effects. Adjusting for these factors, revenues would have grown by 9%.

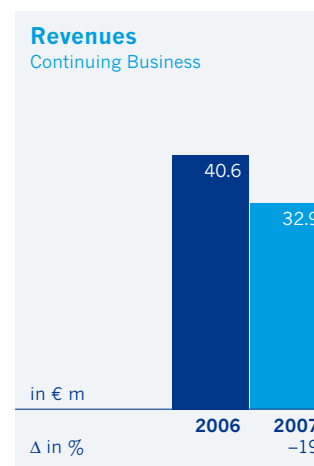
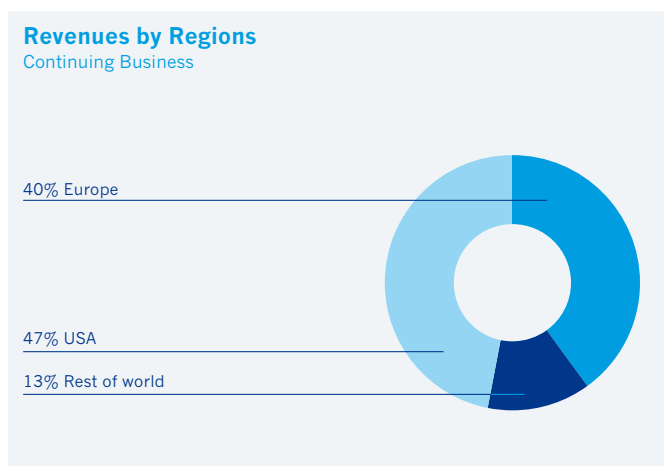
Almost half of the decline is a result of the achievement of two single-digit million Euro milestone payments in 2006, one from Boehringer Ingelheim (Services Division) and one from Takeda (Pharmaceuticals Division). In addition, library synthesis revenues declined markedly by € 5.7 m (86%) over 2006 following the successful completion of the multi-year library synthesis collaboration with Merck & Co. at the end of 2006 and the transfer of this business into a joint venture with the Indian RSIL in October 2007. Because of the movements

in the exchange rate of the US Dollar and also the UK Sterling, particularly in the fourth quarter, versus Evotec's reporting currency, the Euro, revenues were € 1.5 m (4.2%) lower than would have been the case if 2006 average currency rates had been maintained during the year.

For the reasons described above, total revenues in Evotec's Services Division declined to € 32.2 m (2006: € 37.5 m). Assay development, screening and discovery chemistry services continued to perform strongly. This is particularly satisfying because the increased focus on higher value collaborations with downstream elements means that the Company is foregoing some short-term revenues (lower direct R&D funding) in exchange for later milestones and royalties. The decrease against the previous year resulted from the decline of the custom library business, the lack of milestones and adverse exchange rate effects as described above.

Total revenues in Evotec's Pharmaceuticals Division were € 0.9 m, primarily from database access fees in the Takeda collaboration which ended in August 2007. Last year's revenues of € 3.2 m had included a milestone payment for the exclusive rights to a novel Alzheimer's disease target candidate and FTE-based payments from Takeda.

The geographical spread of revenues for the Group continues to be diverse and matches the main markets for Evotec's products and services.



Cost of Revenue

Focus on Capacity Optimization

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 e.g. screening involves lower personnel cost, but higher relative facility cost and material cost.

Costs of revenue were € 24.9 m (2006: € 26.8 m). The total cost of revenue of the Pharmaceuticals Division amounted to € 0.1 m and that of the Services Division to € 24.9 m in 2007 (2006: € 0.4 m and € 26.4 m, respectively).

Gross Margin

Milestone Payments Lead to Margin Volatility

In general, the Evotec gross margin is driven by the changing revenue mix within and between the two operating Divisions. The margin in the Pharmaceuticals Division is relatively high as it primarily represents database access fees from the Takeda collaboration, future potential milestones, and more significant income from the potential out-licensing of product candidates. These revenues have very little or no cost directly associated. The margin of the Services Division is in general highly volatile as it is strongly influenced by the achievement of milestones in results-based projects, but also by the mix of the varying drug discovery offerings. In 2007, the Pharmaceuticals Division had a margin of 93.6%, the Services Division 22.7%. The Group's overall gross margin for 2007 was 24.4% (2006: 33.9%). The decline from last year's level is primarily the result of the following effects:

- (i) The first and third quarter 2006 each included a single-digit million Euro milestone payment from collaborations. Those payments contributed approximately 6% points to the 2006 gross margin. Milestones are unpredictable. While Evotec had expected milestones for 2007, changes in the research plan shifted the opportunity to obtain such milestones into 2008.
- (ii) Currency fluctuations contributed approximately -3% points to the 2007 margin, which resulted from the weakening of the US Dollar in relation to the Euro. Applying 2006 exchange rates, Evotec's gross profit would have been € 1.3 m higher.
- (iii) The remaining gap is mainly a result of a different mix of revenues towards projects with higher risk-bearing, milestone-earning discovery projects, for which the reward includes potential future milestones and royalties instead of only short-term profits, as well as traditional fee-for-service projects at lower FTE rates.

Research & Development

Creating Pipeline Value

Research & Development (R&D) expenditure increased by 22% to € 36.9 m (2006: € 30.3 m). Group R&D expenditure before in-licensing grew by 56% from € 23.7 m to € 36.9 m. The majority of the Group R&D expenditure was directed towards further pipeline value creation within the Pharmaceuticals Division. The operational expenses for Evotec's discovery and development programs grew significantly – especially in the second, third and fourth quarter, due to the sizable clinical development program for EVT 201, EVT 302 and the EVT 100 family. R&D expenses in the first quarter 2006 were above the annual level because they included major parts of the acquisition cost for the EVT 300 program from Roche. Overall, the division spent € 35.3 m (2006: € 28.1 m). Thereof internal discovery projects accounted for approximately 24%, focused on delivering assets to the development pipeline in future years, and clinical programs approximately 67%. Evotec's clinical development program in 2007 included:

- > Two US Phase II studies of Evotec's lead compound, EVT 201, in primary insomnia patients. Both were completed successfully during the year.
- > Two Phase Ib dose finding studies with EVT 101 in cognition. Results will be reported in H1 2008.
- > The Phase I program with EVT 302 to explore safety and tolerability as well as therapeutic dose levels. The main study has been completed successfully at the end of the year demonstrating that the compound was very well tolerated.

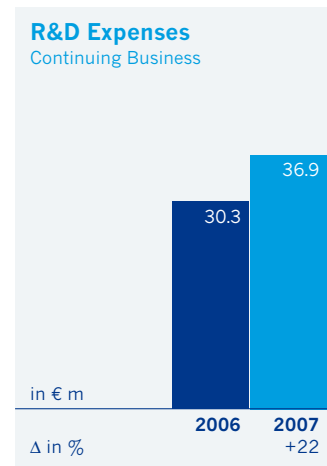
Due to the nature and timing of the various clinical programs during the year there has inevitably been volatility in the Pharmaceuticals Division's R&D expenditure between quarters, with R&D amounting to € 7.1 m, € 8.7 m, € 9.9 m and € 9.6 m in Q1 to Q4 respectively.

Out of the Group's total R&D spend € 2.1 m (2006: € 2.7 m) was used by the Services Division to further support specific platform technologies. Such platform R&D was focused on Evotec's capabilities in structural biology as well as fragment-based screening.

R&D Expenses		Pharmaceuticals Division	
		2006	2007
EVT 201	T€	5,845	9,773
EVT 100 family	T€	3,898	5,605
EVT 302	T€	1,831	8,046
EVT 301 ¹⁾	T€	8,531	118
Discovery projects ²⁾	T€	5,594	8,574
Overhead expenses	T€	2,403	3,205
Pharmaceuticals Division's research & development expenses			
	T€	28,102	35,321

¹⁾ EVT 301 includes in-licensing costs in the amount of € 6.6 m for 2006. 2007 costs are subsequent expenses from the prior year as the development of the project was discontinued in September 2006.

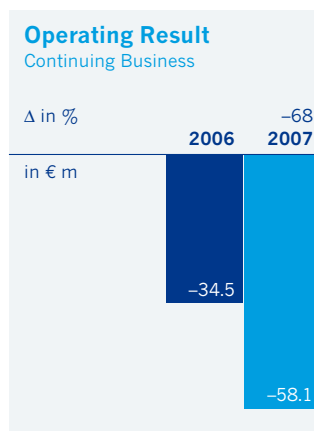
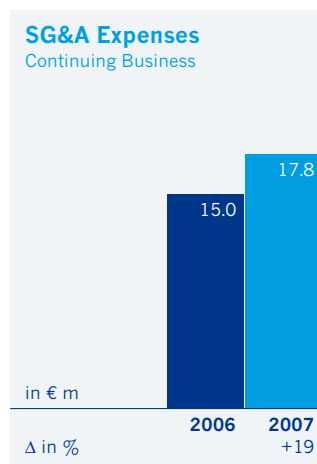
²⁾ Discovery projects are those that have not reached the clinical phase.



Selling, General & Administration

Extraordinary Expenses from Acquisitions

Selling, general & administration (SG&A) expenses increased by 19 % to € 17.8 m (2006: € 15.0 m). The increase is mainly accounted for in the Pharmaceuticals Division and is primarily a result of expenses related to corporate transactions, including costs for the filing of the prospectus in context of the NASDAQ listing, as well as increased investment in Business Development and licensing resources. The set-up of a new Enterprise Resource Planning (ERP) system also contributed to these increases. In both years the Company incurred expenses from non-recurring management consultancy projects.



Operating Result

Higher Operating Loss Mainly Due to Increased R&D Investment, Lower Gross Profit and Impairment

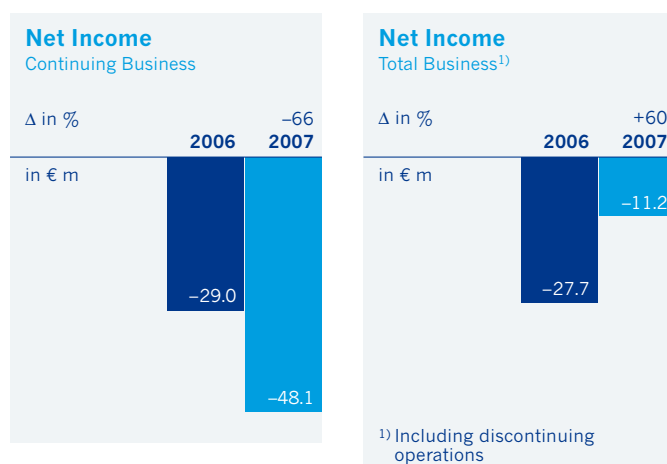
The Group operating loss amounted to € 58.1 m (2006: € 34.5 m). The majority of the Group's operating loss arose from the Pharmaceuticals Division reflecting the Company's focused investments in proprietary research. The increase is mainly a result of the high investment in the advancement and enhancement of Evotec's R&D pipeline and related SG&A activities as well as a lower gross profit level. In addition, as a result of the Company's regular impairment review, a non-cash impairment of goodwill (€ 5.8 m) and of intangible assets (€ 3.3 m) was recognized in the 2007 result (for a more detailed explanation see 'Net Assets' section). The majority of the goodwill impairment charge was related to the acquisition of Oxford Asymmetry International plc in 2000 and the impairment of intangible assets to early preclinical projects acquired with Evotec Neurosciences. Regular amortization of intangible assets declined to € 2.6 m (2006: € 3.3 m) due to certain intangible assets acquired with Evotec Neurosciences in 2005, which were completely amortized during 2007.

Other operating income and expenses in 2007 resulted from the sublease of facilities and administrative support services rendered to Evotec Technologies/PerkinElmer with a positive profit contribution (€ 0.1 m). The other operating expenses (€ 0.3 m) shown in 2006 resulted from the planned unused capacities in the Services Division and are now fully included into the costs of goods sold due to expected improvements of utilization and reductions of facility space.

Net Loss

Higher Deferred Tax Benefit, Interest Income and Foreign Exchange Gains, Contributions of Discontinued Operations

The Evotec Group net loss increased to € 48.1 m (2006: € 29.0 m). The main factors that impacted the net loss position positively below the operating line are deferred tax benefits, interest income and foreign exchange gains. Deferred tax benefit of € 6.4 m (2006: € 5.0 m) was primarily due to the recognition of deferred tax assets on tax loss carryforwards of Evotec Neurosciences, which was utilized by the reversal of the deferred tax liabilities incurred after the acquisition in 2005. The net interest income amounted to € 1.5 m and resulted from higher average cash balances and higher deposit interest rates (2006: € 0.7 m). The foreign exchange gain amounted to € 1.6 m (2006: loss of € 0.2 m). As explained in the risk section, the Company enters into foreign exchange hedging contracts to provide predictability of revenues. With the volatility of foreign exchange markets and the duration of the revenue streams that are being protected, theoretical or actual gains or losses are experienced during the year.



Segment Reporting Services Division

Key Financial Figures
Continuing Business

		2006	2007
Revenues	T€	37,542	32,235
– Thereof third-party	T€	37,453	32,235
Gross profit	T€	11,128	7,311
Gross margin	%	29.6	22.7
– Research & development expenses	T€	2,666	2,051
– Selling, general & administrative expenses	T€	9,943	10,898
– Amortization of intangible assets	T€	67	117
– Impairment of goodwill	T€	–	5,819
– Impairment of intangible assets	T€	–	–
– Impairment of tangible assets	T€	(593)	(589)
– Restructuring expenses	T€	–	356
– Other operating expenses	T€	285	1,274
– Other operating income	T€	–	(1,407)
Operating income (loss)	T€	(1,240)	(11,208)
Operating income (loss) before amortization and impairment	T€	(1,766)	(5,861)
– Total assets	T€	93,051	64,834
– Total liabilities	T€	16,753	12,339
– Capital expenditures	T€	2,618	2,496

Segment Reporting Pharmaceuticals Division

Key Financial Figures
Continuing Business

		2006	2007
Revenues	T€	3,198	891
– Thereof third-party	T€	3,122	651
Gross profit	T€	2,755	833
Gross margin	%	86.2	93.6
– Research & development expenses	T€	28,102	35,321
– Selling, general & administrative expenses	T€	4,033	6,970
– Amortization of intangible assets	T€	3,189	2,472
– Impairment of goodwill	T€	–	–
– Impairment of intangible assets	T€	–	3,316
– Impairment of tangible assets	T€	–	–
– Restructuring expenses	T€	–	–
– Other operating expenses	T€	–	2,744
– Other operating income	T€	–	(2,871)
Operating income (loss)	T€	(32,569)	(47,119)
Operating income (loss) before amortization and impairment	T€	(29,380)	(41,431)
– Total assets	T€	66,520	48,616
– Total liabilities	T€	7,637	11,754
– Capital expenditures	T€	659	796

Total net loss including contributions of the discontinued operations improved to € 11.2 m (2006: € 27.7 m). This is primarily a result of the non-operating profits resulting from the two divestments: The Chemical Development Business to Aptuit (€ 25.2 m) and Evotec Technologies to PerkinElmer (€ 11.2 m). This translates into a total net loss per share of Evotec of € 0.16 (2006: € 0.42). The weighted average number of shares used in calculating basic earnings per share (EPS) increased by 5,473,387 shares to 71,828,980 following the acquisition of Neuro3d and the exercise of stock options.

Financing and Financial Position (3)

Financial Management Principles

The Evotec Group seeks to manage financial resources to pursue its strategy of taking clinical programs through development to stages where partnering is value-creating to the Company. The clinical assets to be developed are derived from the Company's proprietary discovery projects, or identified externally and in-licensed or acquired. Sufficient funds therefore need to be available to successfully pursue these programs. The Company takes advantage of selected bank debt offerings when appropriate and raises capital through issuance of new shares. Apart from bank debt and asset finance there are no major long-term financial obligations or liabilities on the business. Evotec retains liquidity primarily to fund its R&D programs.

Capital expenditure proposals are carefully evaluated by management as to their contribution to implement the business strategy, either by maintaining and enhancing the Company's platform technologies and capacities or furthering its proprietary research. The Company adheres to the principle of cost consciousness without compromising on long-term viability.

Cash Flow

Cash Flow from Operations Dominated by R&D Expenditure

Group cash flow from operating activities was € (33.4) m (2006: € (12.6) m) and is mainly the result of the depressed gross margin and the continued high level of investment in the advancement and enhancement of Evotec's R&D pipeline including related SG&A activities. In addition, a € 2.5 m change in working capital contributed, which included the effects from the acquisition of Neuro3d (€ (2.8) m) and the divestiture of the Chemical Development Business (€ 3.6 m), that almost offset each other.

Cash flow from investing activities was € 22.8 m (2006: € 17.8 m) and results primarily from the proceeds from the disposal of Evotec's Chemical Development Business for £30.3 m (€ 42.5 m converted at exchange-rate at closing date November 30, 2007). The cash flow from investing activities is reduced by a net investment in money market funds of € 16.1 m and by a net investment in money market funds of € 16.1 m and by capital expenditure in the amount of € 3.1 m, including € 1.1 m related to the assets acquired from Combinature Biopharm. No development expenditures have been capitalized.

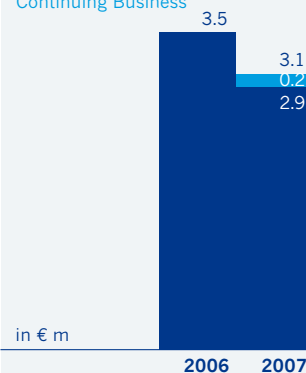
Condensed Cash Flow Statement

Continuing Business

T€	2006	2007
Net cash provided by (used in)		
– Operating activities	(12,613)	(33,405)
– Investing activities	17,776	22,834
– Financing activities	16,118	(156)
Net increase/decrease in cash and cash equivalents	21,281	(10,272)
Exchange rate difference	(59)	(8,831)
Cash and cash equivalents		
– At beginning of year	36,327	57,549
– At end of year	57,549	37,991
– Cash chemical development business	647	–
– Investments	20,527	55,685
Liquidity at end of year	78,723	93,676

Capital Expenditure¹⁾

Continuing Business

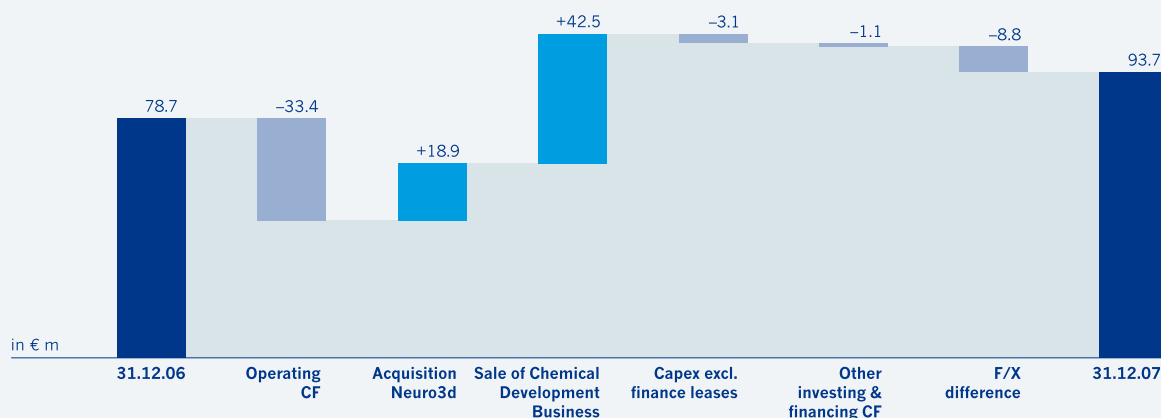


in € m

■ Purchase PPE (fixed assets)
■ Purchase intangible assets
¹⁾ Without finance lease.

Cash Development¹⁾

Continuing Business



¹⁾ Including investments.

Net cash flow from financing activities was € (0.2) m (2006: € 16.1 m). The movement was driven by taking advantage of selected bank debt offerings and the repayments of bank loans.

The exchange rate difference on net increase in cash and cash equivalents in the amount of € (8.8) m resulted from the significant weakening of the UK Sterling in relation to the Euro comparing the balance sheet date rates of 2007 and 2006 and their effect on historical book values. Of this effect, however, only € (1.8) m effected the liquidity position.

Liquidity and Hedging

Strong Liquidity of € 93.7 m for Pipeline Value Creation

The Group closed 2007 with € 93.7 m (2006: € 78.7 m) of cash, cash equivalents or investments. All of the liquid funds can be accessed within a period of less than three months. The increased emphasis on investment in proprietary programs necessitates forward looking management of liquidity in line with such plans and the Company's risk management policies (see 'Risk Management and Risk Report' section below).

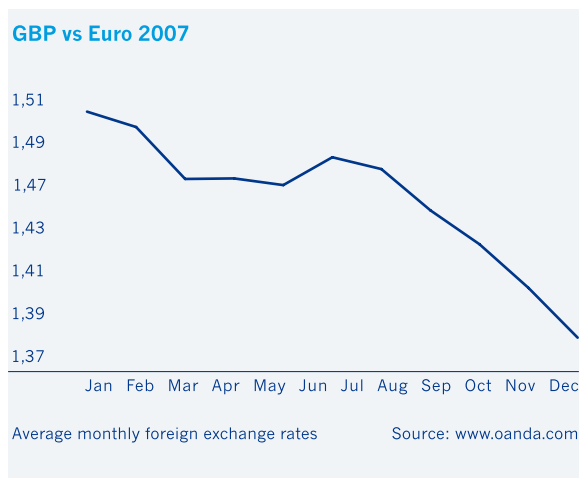
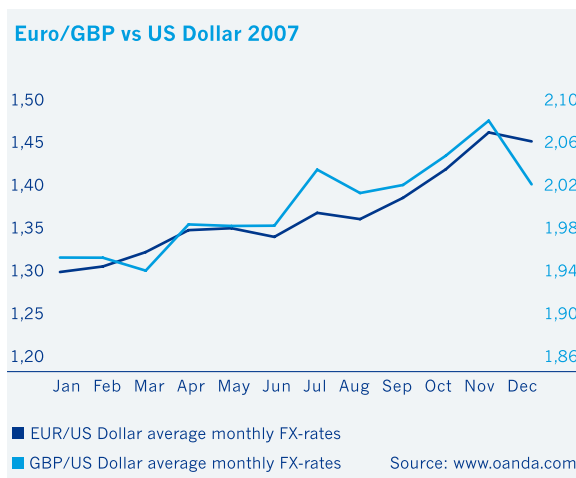
Deposits are held in the three major currencies in which the Group trades – Euro, UK Sterling and US Dollar. At the end of 2007, the Group cash balance consisted of € 49.9 m in Euro, € 36.0 m in UK Sterling and € 7.8 m in US Dollars. Evotec actively manages its cash pool to maximize the return. Financial investments are made in low risk categories (products or financial institutions rated A or better (Standard & Poor's ratings)).

A Challenging Cash Management Environment

The Evotec Group is exposed to both transactional and translational foreign currency risk. Operating units are exposed to transactional risks arising from revenues and expenses denominated in currencies other than those of the local currency. The decline of the US Dollar against both the Euro and UK Sterling through most of 2007 negatively affected reported revenues. To protect against unfavorable currency movements the Company used financial instruments to reduce the risk, predominantly during the first half of the year, by selling US Dollars against UK Sterling. The Group also takes increasing advantage of natural hedging opportunities; for example matching clinical trial US Dollar denominated costs with US Dollar revenues. The translation exposure primarily relates to the income statement and balance sheet of its UK based subsidiary which has a UK Sterling denominated cost and asset base. The Company does not use financial instruments to hedge its translation exposures. The cash translation exposure is mitigated by anticipated future costs denominated in the UK Sterling.

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 notional amounts of currency related financial instruments held at December 31, 2007 were \$0 m (2006: \$1.5 m).

As an additional tool to manage short-term and medium-term liquidity, the Company makes use of long-term bank loans and asset finance, the latter primarily for equipment used to maintain and further develop its discovery platform. The sum of these debt elements – including their current portions – at the end of 2007 was € 11.7 m (2006: € 11.9 m). The currency of the year end debt position was € 11.6 m in Euro and € 19 thousand in UK Sterling (2006: € 10.5 m and € 1.4 m respectively). No other financing tools, for example off-balance-sheet financing structures, have been used by the Company.



Assets and Liabilities (4)

Capital Structure

New Shares Issued for Acquisition of Neuro3d

Evotec increased its share capital in the second quarter of 2007 due to the issuance of 5.7 m new shares for the acquisition of Neuro3d S.A. in a share-for-share transaction. The price per share amounted to € 3.69. With Neuro3d, Evotec acquired net cash and financial investments of € 18.9 m in 2007, potential further cash proceeds and some early-stage CNS discovery assets. As a result of this transaction, Evotec's share capital increased to € 73.9 m (2006: € 68.1 m), and total equity changed to € 170.6 m (2006: € 168.3 m). Only a relatively small number of employees exercised their employee share options during the year, such that the amount of share capital in issue was not significantly affected. Evotec's equity ratio came back to the strong historical levels, amounting to 82.0%, from the lower 2006 level (69.2%) when a prepayment was received from the divestment of the Tools & Technologies business. At € 11.7 m, Evotec continues to hold a low amount of debt (see 'Liquidity and Hedging' above).

Net Assets and Liabilities

Regular Impairment Review Performed

The Company owns fixed assets consisting of property (not land) and capitalized leasehold improvements to property, predominantly through laboratory fit out, and scientific and technical equipment for use in these laboratories. In addition, the Company has offices and information technology to support both operational and overhead areas. Evotec seeks at all times to make the most efficient use of its property and intangible assets (see 'Financial Management Principles').

With effective date November 30, 2007, Evotec sold its Chemical Development Business including machinery, equipment and various transferred leases. The laboratory operations on the Oxford site were consolidated into two buildings from the previous three. Other operational fixed assets were added (see 'Cash Flow' section). In total, tangible fixed assets in the Group decreased to € 18.6 m (2006: € 34.7 m).

The Company performed its annual regular review of tangible and intangible assets for impairment under IFRS during the final quarter of 2007. This has resulted in the Group taking an impairment charge of € 5.8 m against the carrying value of the goodwill attributable to the laboratory-based Oxford operations. This reflects

Evotec management's strategic decision to prioritize proprietary drug discovery programs and collaborative research over significant top-line revenue growth from fee-for-service collaborations. The goodwill originates from the acquisition of Oxford Asymmetry International (OAI) in 2000 and was allocated to the Services Division at this time (see also the P&L impact above).

A review of previously impaired tangible fixed assets resulted in an unimpairment of € 0.6 m being recognized against certain operational assets due to improved asset utilization in one of the two remaining buildings at the Oxford site.

The Company also performed an impairment review under IFRS of the intangible assets acquired from Evotec Neurosciences (ENS) in 2005. The developed technologies acquired are capitalized and carried forward according to IAS 38. Whereas the clinical programs EVT 201 and the EVT 100 series increased their value during the past years, an impairment charge of € 3.2 m was taken against some of the earlier discovery projects that were discontinued for strategic prioritization reasons. Further € 0.1 m of intangible assets were impaired in relation to the acquisition of Neuro3d.

Regular amortization of acquired intangible assets declined in 2007 to € 2.6 million (2006: € 3.3 m) as the amortization associated with the customer list of Takeda acquired with ENS was completed in September 2007. Total group intangible assets (including goodwill) amounted to € 76.4 m at the end of 2007 (2006: € 91.9 m).

The delta working capital requirements for the Group amounted to € 2.5 m for the year 2007. Ignoring the effects from the acquisition of Neuro3d (€ (2.8 m)) and the divestiture of the Chemical Development business (€ 3.6 m), which almost offset each other, higher inventories and lower deferred revenues contributed to an increase in working capital diminished by an increase in trade account payables resulting from the increase in R&D expenditure towards the end of the year.

Maturing bank debt was either repaid or rescheduled in 2007, leading to a decrease in the long-term (non-current) portion and corresponding increase in the current portion of bank debt. Most of the other elements of non-current liabilities (finance leases, deferred revenues, provisions, deferred tax liabilities) were reduced such that non-current liabilities in total were decreased to € 13.0 m (2006: € 19.3 m).

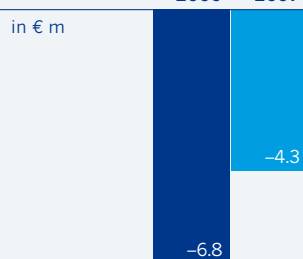
Condensed Balance Sheet		
Total Business		
T€	2006	2007
Cash, cash equivalents and investments	78,723	93,676
Inventories	4,782	2,394
Other current assets	10,885	15,771
Property, plant and equipment	34,669	18,561
Intangible assets and Goodwill	91,904	76,399
Other non-current assets	2,036	1,077
Assets held for disposal	20,124	–
Total assets	243,123	207,878
Provisions	5,232	5,123
Pre-payment ET divestment	22,167	–
Other current liabilities	21,041	19,214
Long-term liabilities	12,875	11,391
Deferred tax liabilities	6,453	1,597
Liabilities held for disposal	7,035	–
Total stockholders' equity	168,326	170,553
Minority interest	(6)	–
Total liabilities and stockholders' equity	243,123	207,878

Working Capital¹⁾

Total Business

Δ in %

	2006	2007
		+36



¹⁾ Calculation method changed over annual report 2006, now excluding current debt.

Working Capital Calculation

Total Business

T€	2006	2007
Trade accounts receivable	6,643	5,137
Inventories	4,782	2,394
Other current assets	4,242	10,634
Assets	15,667	18,165
Trade accounts payable	11,484	15,093
Prepayments	3,388	900
Accruals	5,232	5,123
Other current liabilities	2,386	1,385
Liabilities	22,490	22,501
Working Capital	(6,823)	(4,336)
Δ Working Capital		2,487

Intellectual Property, Assets not Shown in Balance Sheet

Clinical Development Costs Expensed, not Capitalized

By virtue of the significant expenditure on research and development within the Company, both for the maintenance and enhancement of the platform technologies and for the generation of clinical assets internally or through in-licensing, Evotec generates intellectual property (IP) that is often not represented on the balance sheet as an asset.

Pursuant to agreements with Roche, Evotec has exclusively in-licensed several drug candidates, including EVT 201, EVT 101 and EVT 302, which are protected by diverse patent families covering such drug candidates as well as their use in treatment of disorders in major countries worldwide. The acquisition costs were directly expensed.

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

As of December 31, 2007, Evotec had more than 100 patent and utility model 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. 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 for its strategy and the scope of protection provided.

In addition to the selective in-licensing of product candidates, Evotec pursues its own discovery projects and thereby intends to build a sustainable pipeline of drug candidates that have the potential to provide a steady flow of compounds for partnering. With this end in mind, Evotec monitors the activities and results of in-house research in order to identify potentially patentable drug candidate series. Several patent applications for potential drug candidate compounds have been filed so far.

Furthermore, 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 years, Evotec has built an extensive patent portfolio that covers the use of such targets for diagnostic and drug discovery purposes.

Evotec has developed a number of assays, i.e. methods to measure the chemical or biological activity of any combination of targets and compounds, which are also patent protected.

Patents and patent applications for detection and other platform technologies support Evotec's intellectual property position. Evotec owns a portfolio of patent families as well as utility models on such technologies, many of which have been out-licensed to PerkinElmer Cellular Technologies Germany GmbH, Evotec's re-named former subsidiary Evotec Technologies GmbH. Furthermore, Evotec is the holder of non-exclusive licenses for technologies owned by PerkinElmer Cellular Technologies Germany GmbH, Olympus Corporation and other third parties.

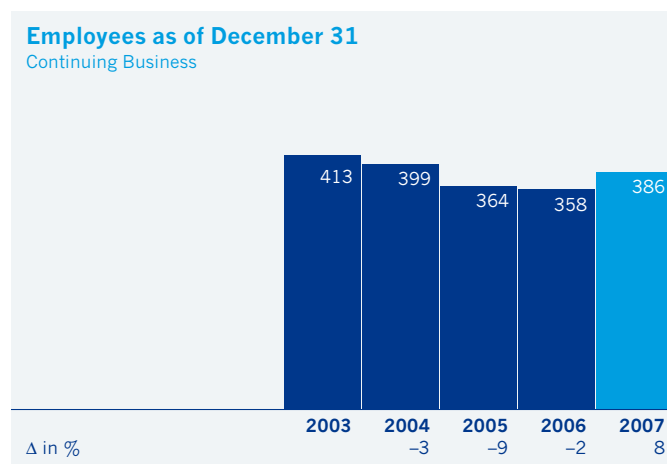
Other assets of the Company are its broad customer network, serving approximately 40 companies each year, and the strong brand Evotec has built within the industry over the past years.

Human Resources

Sharpening the Focus on Proprietary Research

With the sale of the Chemical Development Business all employees of this business unit transferred to Aptuit during the second half of 2007. Consequently, Evotec's group-wide headcount decreased from 527 to 386 during the year. On a like for like basis, just considering the continuing business, the number of employees increased by almost 8% from 358 to 386.

This growth in human capital very much reflects the transformation of Evotec into a CNS drug discovery and development company. Evotec continued to bring in junior and experienced senior staff from pharmaceutical companies to grow the number of employees supporting its own proprietary pipeline programs as well as research collaborations. In parallel, the Company aligned its administrative staff with the reduced services operations, retaining its performance and organizational flexibility.



Headcount Analysis by Area and Qualification as of December 31, 2007
Continuing Business

	Total	Male	Female	Biologists/ Bio- chemists	Chemists	Physicians/ Pharma- cologists	Physicists, Engineers (R&D)/ IT experts	Others
- Discovery Hamburg	109	43	66	26	6	3	10	64
- Discovery Oxford	191	126	65	15	109	0	0	67
- Clinical Development	9	4	5	3	1	3	0	2
- Sales & Administration	68	37	31	9	16	0	9	34
- Corporate	9	4	5	2	0	0	0	7
Total	386	214	172	55	132	6	19	174

Chemical Development Business Discontinued Operations

The Chemical Development Business of Evotec AG consisted of the chemical development business of Evotec (UK) Ltd and the formulation business of Evotec (Scotland) Ltd. Effective November 30, 2007 Evotec (Scotland) Ltd and the associated assets of the business within Evotec (UK) Ltd were sold to Aptuit Inc. Since the announcement of the deal in September 2007 this business section was reported as discontinued operations. The Chemical Development Business was part of the Services Division of the Evotec Group.

The Chemical Development Business develops and manufactures Active Pharmaceutical Ingredients (API) and parenteral formulated drug products for the pharmaceutical and biotechnology industries. The business has a strong emphasis on designing processes for the manufacture of New Chemical Entities (NCEs) as they move into the early stages of clinical development and onwards. The business works with the leading pharmaceutical companies through to small, virtual biotechnology companies around the world.

Financial Report

The financials of the discontinued Chemical Development Business reported here comprise its financial results after consolidation. Only revenues with third parties are reported, all costs are taken net of intra-group margins, and its assets and liabilities are considered only where they relate to third parties.

Consolidated Key Financial Figures			
Chemical Development Business			
		2006	2007
Revenues	T€	26,779	21,498
Gross profit	T€	9,183	5,472
Gross margin	%	34.3	25.5
– Research & development expenses			
	T€	–	–
– Selling, general & administrative expenses			
	T€	3,776	3,135
– Amortization of intangible assets			
	T€	–	–
– Impairment of goodwill			
	T€	6,560	–
– Restructuring expenses			
	T€	–	–
Other operating expenses			
	T€	1,321	–
Operating income (loss)	T€	(2,474)	2,337
Operating income (loss) before amortization and impairment			
	T€	4,086	2,337
– Total assets			
	T€	21,695	–
– Total liabilities			
	T€	3,306	–
– Capital expenditures			
	T€	1,866	1,190

Results

Revenues for the period up to the effective date November 30, 2007 were € 21.5 m, 20% lower than the full year 2006 (2006: € 26.8 m) . The reduction in revenues, apart from the shorter reporting period, is primarily due to a strategic decision to utilize the pilot plant for internal development and manufacture of Evotec's own proprietary products and a lower than anticipated growth in the formulation business based in Glasgow. New sterile suites in this facility were delayed leading to the lower than expected manufacturing revenue. The laboratory operations activity, involving custom preparation and process research and development grew over the 2007 period.

The gross margin for the eleven months in 2007 was 25.5% versus 34.3% for full year 2006. In 2006, the pilot plant benefited from a strategic under recovery, giving a like for like margin in 2006 of 29.4%, indicative of the reduction in third-party business in the plant due to the manufacture of internal products. In addition, lower than anticipated revenues in formulation against increased fixed cost following the expansion of capacity in 2007 as well as currency effects contributed. No research & development expenses occurred in both years for this business area. Selling, general & administrative expenses decreased by 17% to € 3.1 m (2006: € 3.8 m). The strategic under recovery was reported as other operating expense in 2006 (€ 1.3 m). In 2006, the laboratory-based development chemistry business took an impairment charge of € 6.6 m against the carrying value of the goodwill.

Due to the lower gross profit levels, the operating result before amortization and impairment decreased to € 2.3 m (2006: € 4.1 m).

Balance Sheet

Total consolidated assets of the discontinued operations which were sold effective November 30, 2007 amounted to € 20.6 m and included € 0.4 m of cash. The relating total consolidated liabilities amounted to € 2.4 m.

Headcount

Overall headcount of the Chemical Development Business was 203 as of November 30, 2007. Along with the transfer of direct operational employees 13 headcount were transferred from SG&A functions from the Oxford facility.

Outlook

From December 1, 2007 onwards it will be up to Aptuit how best to extract value from the business acquired. Aptuit as the new parent will add strength to the Chemical Development Business through enhanced sales efforts and their global strategy in drug development.

Risk Management and Risk Report (6)

Risk and Opportunity Management System

Comprehensive and Reliable Risk Management Systems in Place

To increase the chances of successfully capturing business opportunities, and at the same time limiting the associated risks, Evotec places substantial emphasis on risk management as an ongoing management task. Evotec employs a comprehensive risk management policy and risk management system which forms an integral part of the Group's management processes and complies with the legal requirements as laid out in the German Corporate Sector Supervision and Transparency Act (KonTraG).

According to the Company's **risk management policy**, Evotec engages in businesses only when this is in line with its strategy and with risks common within the industry, and when adequate reward potential is offered. At least once a year the Management Board defines the Group's specific affinity to financial risk in accordance with the prevailing business and financial condition, including in particular the definition of minimum cash levels and milestones critical to short and mid-term financial performance. 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. Currency exposures are reduced through natural hedges and hedging vehicles. It is Company policy not to speculate on foreign exchange movements, but to manage the risks arising from underlying business activities, for example, to gain 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)).

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, R&D project, and R&D portfolio reviews. Strict application of R&D project and investment approval processes, legal contract review procedures and signing authorities are also standardized procedures. In addition, the Company emphasizes its IT security throughout the Group and reviews its insurance coverage regularly. Compliance with the regulatory environment, for example for environment and health and safety, has high priority at all operational sites of the Group, and corresponding training programs are in place. The Company also complies with the German Corporate Governance Codex, with the only exception being employee share options exercisable independent of the development of various comparison parameters, as recommended in section 4.2.3 of the Code.

Evotec's **risk management system** is regularly reviewed in order to adjust to changing environments, risk profiles and business opportunities. Since January 2007, preparations for an upgraded system were ongoing, which became effective in its current form in April 2007. This system comprises the following elements:

Through *Internal Ad Hoc Notifications*, any risks, that might have a material impact on the Company's financial performance, are raised and reported as they emerge by the manager concerned. The manager compiles a summary and assessment of the specific risk and the counter measures taken and reports the foregoing to the Group Risk Manager and to the responsible superior line management without any undue delay. On a regular basis, responsible line managers forward periodical risk reports which (i) give an update on the risks described in the interim Internal Ad Hoc Notifications, (ii) report about any other material risk occurred even when beneath the pre-defined thresholds, and (iii) monitor the success of any measure taken to deal with the previously reported risks. The Group Risk Manager evaluates and summarizes the various risk sheets into a quarterly report for the Management Board. In addition, all regular internal reports and meeting minutes that could be of relevance to important risk categories are formally included in the Company's risk management system (Risk Prevention System). This procedure increases general alertness to risk and risk management, and also emphasizes the principle of risk prevention across the Group.

Change-of-Control – Information Pursuant Section 315, Paragraph 4, of the German Commercial Code

Evotec's management focuses on value creation. To that degree, any change-of-control or takeover offer, that realizes some of the embedded value of the Company for the benefit of current shareholders, is carefully analyzed 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 prior to the effective date of such transaction cease to own more than 30% of the outstanding voting shares in the merged entity.

There are no specific takeover-defense measures in place. All shares are bearer shares and have the same voting rights, and existing stock option schemes do not allow for immediate vesting or additional issuance in the case of a takeover offer. Also, 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. Also, the Company does not control voting rights of any shares owned by employees. No shareholder holds the right to have representatives in the Company's Supervisory Board, or is restricted or bound to specific votes at annual shareholder meetings. Only two organizations, TVM V Life Science Ventures GmbH & Co. KG and ROI Verwaltungsgesellschaft mbH, together with its affiliates, hold each more than 5% and 10% of the shares respectively as at December 31, 2007.

The Management Board (Vorstand) is elected by the Supervisory Board for a maximum of three years and has only customary change-of-control rights. Their individual contracts contain a change-of-control clause, which would allow management to terminate their current contracts in the event of a change-of-control. The resulting severance entitlement is one year base salary and bonus calculated on the basis of the prior year's remuneration. The remuneration of the Management Board is reported in detail in Note 29f to the Financial Statements. As of December 31, 2007 the Company was not authorized to purchase Evotec stock to a larger extent. It has only been authorized by the last shareholder meeting to repurchase stock to the degree needed for Supervisory Board compensation. The Company was allowed to issue new stock up to 50% of existing capital (Authorized Capital). Any shares to be issued on this basis will be subject to the statutory subscription rights of Evotec's shareholders. It can be done without pre-emptive purchase rights of existing shareholders only under certain well defined conditions. In addition, the shareholders of Evotec approved conditional capital in an amount of up to € 7,199,380.00. The capital increase takes effect only to the extent that holders of stock options awarded by Evotec on the basis of a shareholders' resolution exercise their rights to subscribe the new shares. Further detail regarding this capital can be found in the Company's articles of association. An amendment to the Company's articles of association requires a shareholder resolution. The shareholder resolution requires an affirmative vote of at least three quarters of the Company's share capital present at the general shareholder meeting.

In summary, current shareholders are free to choose the best route to capture the value of their stock, be it by agreeing to a proposed take over offer or be it by holding on to it believing in an increased internal value creation of the Company.

Systematic Management Approach to Capturing Business Opportunities

Evotec's businesses rely on its access to innovation, for example via academic partnerships or in-licensing and acquisition opportunities from industry partners, and to partnership business with pharmaceutical or biotechnology companies. Identifying and capturing opportunities therefore requires active and systematic management as much as the confinement of the associated risks. The Company has established regular

scouting for interesting technologies and projects that might qualify for in-licensing, acquisition or partnering. The Company's business development teams also closely monitor the pharmaceutical and biotechnology industries' R&D needs in order to provide a focused approach to their customers.

Based on solid market intelligence, R&D and revenue budgets and mid range plans are established that then allow maximum entrepreneurial flexibility, to select the individual project content and content portfolio with the best overall risk-adjusted value generation. The timing of partnering certain drug candidates is discussed and decided only after balancing short-term goals and needs against longer-term financial opportunities. The management of all these opportunities is made possible through the various processes described above and in addition through the high motivation and ambition of the Company's employees. The Management Team of the Company and the management bodies dedicated to discovery, development and research collaborations strive for consensus decisions that will maximize the business opportunities and achieve the Company's long-term aims. Such decision processes are supported by incentive schemes that align with the Company's and the Management Board's objectives.

Specific Business Risks

Evotec's operating segments differ in their specific risk profiles, reflecting their different approaches to value creation within the pharmaceutical R&D sector.

Evotec's **Pharmaceuticals Division** engages in proprietary discovery and development activities that promise significant returns when such programs are successful, but also carry higher scientific and financial risk, concentrated on fewer individual projects. Significant returns are expected to materialize when upfront and milestone payments and potential royalties from future drug sales are received. Evotec expects to achieve this when any one of the drug candidates is either out-licensed to a pharmaceutical or biotechnology company, or when Evotec decides to partner the drug whilst still retaining some marketing rights. The associated risks are those inherent to the biotechnology and drug development industry in general:

- > Drug discovery and development is subject to a high degree of failure, which can only partly be alleviated by the devotion of significant resources. Evotec acts carefully and responsibly to prove that its clinical product candidates are safe and effective for human use and approvable by regulatory agencies. There is, however, an inherent risk that such developments need to be aborted or delayed due to unpredictable results. Even if Evotec identifies promising compounds to valuable targets, or in-licenses 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. To reduce the dependence on the success of individual projects Evotec seeks to build a broader and more balanced project portfolio, to the degree affordable.
- > The market environment and competitive landscape for licensing and licensed projects or individual drug candidates, as well as the regulatory and reimbursement environment, in general or for individual treatments, might change while engaging in individual projects. The timing and commercial values of, or financial proceeds from partnering individual projects could therefore deviate significantly from earlier projections, for better or worse. While the regulatory environment has become less predictable in the recent past, in particular in the US, the market value of licensable projects and drug candidates has in general significantly increased.
- > Evotec's strategy to serve as an innovative source of drug candidates to the pharmaceutical industry makes it highly dependent on individual larger out-licensing or partnering events and hence on individual, typically larger customers. The amount of total payments and the split of these payments obtained in a future out-licensing agreement is unknown and depends on many factors, such as degree of innovation and IP position as well as on external factors not to be influenced by the Company.
- > Evotec depends on external contract research organizations as well as the professionalism and commitment of its own personnel, in particular of its scientists and project managers. However, it depends to a lesser degree on individuals, as it has built strong discovery and development teams and processes to share knowledge.

- > Evotec's intellectual property might be challenged by, depend upon or be restricted by third parties, or, when built internally, it might fail to be accepted for patent protection. This 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 abortion. To reduce these risks, Evotec puts a high emphasis on patent protection and patent monitoring.
- > Evotec's expenditures on internal discovery and development programs or related acquisitions of technologies or intellectual property rights are likely to reduce its short- to mid-term profitability and cash reserves. Evotec intends to reduce part of this financial exposure through early partnering agreements with sizeable down-payments by the partner, to the degree possible and advisable when trying to maximize longer term returns. Evotec management defines minimum cash levels which should be maintained. If the Company should not be successful in partnering or new opportunities arise that require additional financing, the option to improve the financing situation through capital increases, be it against cash or acquired assets, for example as part of an in-licensing agreement, might always be considered. The Company does not intend to engage in projects or project phases unless appropriate funding is allocated or secured.

The Company views the current cash reserves as sufficient under the risk management plan to cope with all cumulated, identified risk implications.

Evotec's collaborations business (**Services Division**) is well established within the industry, and has generated a steady revenue stream over the last years. The continuous drive for increasing research efficiency, combined with superior service quality, allows Evotec to generate value through positive cash contributions, and a shared and leveraged research platform with its customers. In addition, the Service Business helps building customer networks, also beneficial to the Pharmaceuticals Division, for example through giving them access to jointly developed drug candidates. However, in this context, business specific risks also need to be managed:

- > The market environment is marked by pricing pressures, originating from funding restrictions of some biotechnology customers 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 mandatory. In addition, Evotec continues to explore ways to capture some of the cost advantages in countries like India, as exemplified in the set-up of a joint venture with RSIL to improve the cost basis of the chemical library business.
- > Evotec intends to employ increasing parts of its capacity for results-based deals, with the goal to keep a higher share of value creation. In return, there are scientific and technical delivery risks in the shorter term, which can expose Evotec's financial performance and particular the service business margins to the possible failure or delay of certain milestone payments. Overall, this value strategy has been validated to date with only a few customers, and the experiences might not be transferable to other customers and contracts.
- > Even when exhibiting a steady revenue stream, fluctuating capacity utilization and resource allocation between different parts of the business can significantly decrease profitability, unless these are carefully and flexibly adjusted. In addition, dependence on individual larger customer contracts needs to be carefully monitored. To date, Evotec's revenues are fairly well split amongst a large number of customers. In 2007, the largest volume generated with one single customer was 25% in the continuing business.
- > Some of the service contracts contain scientific or technical delivery risks, which can be only partly mitigated with high quality project work.
- > With a high proportion of sales denominated in US Dollar currency exposure, in particular relative to the UK Sterling, creates a risk to Evotec's profitability. The Company manages this exposure through either natural hedges with US Dollar expenses of the Pharmaceuticals Division and, possibly, in the future through Evotec's new research site in San Francisco, or through active hedging techniques during service contract work.

Overall and across the two divisions, the Company's success depends on its ability to attract and retain highly skilled staff and to recognize and adapt to changing technologies and market environments as well as customer expectations. If Evotec fails to retain its key people and to adapt to market needs, its ability to create longer term value could suffer, a risk that is mitigated by the Company's strong corporate culture and its presence in two biotech clusters. Financing risks are manageable through active R&D portfolio decisions, including termination of some of the R&D projects, and through access to external financing.

Separate business risks of Evotec Technologies (ET) and of the Chemical Development Business (CPD) have been removed through the divestment of ET to PerkinElmer and of CPD to Aptuit. The surviving risks here are limited to customary guarantees given to the acquirer as well as the risk of terminating existing sublease and administrative service agreements with Evotec AG. The Company believes that these are limited and existing precautionary measures are sufficient. Similarly, the risks assumed in the acquisition of Neuro3d are limited to customary guarantees given to the old shareholders. Evotec does not foresee any material warranty of future liability claims.

In conjunction with the proposed merger with Renovis Inc., Evotec faces the risk that the Renovis shareholders vote against the merger proposal. Evotec management believes that the proposed merger creates value for the combined shareholder base, independent of the Evotec share price development in the short-term. Capital markets in general and for CNS focused biotech companies in particular have significantly weakened since the date of the merger announcement in September 2007. The combined entity would have a unique drug development portfolio and the financial strength necessary to further enhance the product pipeline value. The Renovis Board of Directors underscores this assessment and recommends voting for the merger.

Management Summary Risk Assessment

The Company's management believes that the business opportunities outweigh the foreseeable risks and that it is able to create long-term value through building its own pipeline of drug candidates and maintaining a highly competitive research collaborations business. With the Company's efficient infrastructure and its high level and breadth of skills, supported by adequate risk and opportunity management systems, Evotec is well prepared to deliver on its strategy.

This self-assessment is supported by the perception of relevant participants in the financial markets. Despite not being profitable in its Pharmaceuticals Division and on a Group level, Evotec continues to receive regular debt finance by its banks, underlining the trust in the business. Also, since launch of the Pharmaceuticals Division in early 2005, equity investors have repeatedly supported Evotec's strategy through their participation in capital increases, most recently in April 2006. Management believes that this generally positive attitude of the equity capital markets will continue, whilst Evotec's corporate milestones are being met, in particular the progression of the majority of its proprietary drug candidates through clinical development.

Post-Balance Sheet Events and Outlook

Post-Balance Sheet Events (5)

On January 7, 2008, Evotec reported on the successful completion of a Phase I safety and tolerability study with EVT 302. EVT 302, a reversible and highly selective inhibitor of MAO-B in development for smoking cessation, was well tolerated up to the highest dose levels. EVT 302 further strengthens Evotec's pipeline and adds another value driver to the portfolio. The first Phase II study is expected to start in Q1 2008.

On February 14, 2008, Evotec reported a three-year contract extension with CHDI for integrated drug discovery support in the search of novel drug candidates for the treatment of Huntington's Disease. This contract extension is worth up to \$37 m in research payments for Evotec and covers Evotec's entire drug discovery offering, including its expertise in medicinal chemistry, biology and compound sourcing.

Outlook (7)

Forward Looking Statements

Information set forth in this management report contains forward-looking statements, which involve a number of risks and uncertainties. Such forward-looking statements include, but are not limited to, statements about the anticipated benefits of Evotec's products and services, the amount and timing of payments that Evotec may receive under its collaboration agreements, the anticipated timing and results of Evotec's clinical and pre-clinical programs, and other statements that are not historical facts. Evotec cautions readers that any forward-looking information is not a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking information as a result of risks and uncertainties. These include risks and uncertainties relating to: Evotec's ability to complete its merger with Renovis because conditions to the closing of the merger may not be satisfied; the failure to successfully integrate the businesses of Renovis following the merger; unexpected costs or liabilities resulting from the merger; the risk that synergies from the merger may not be fully realized or may take longer to realize than expected; disruption from the merger making it more difficult to maintain relationships with customers, employees or suppliers; competition and its effect on pricing, spending, third-party relationships and revenues; the need to develop new products and adapt to significant technological change; implementation of strategies for improving internal growth; development, use and protection of intellectual property; general worldwide economic conditions and related uncertainties; future legislative, regulatory, or tax changes as well as other economic, business and/or competitive factors; and the effect of exchange rate fluctuations on international operations.

The risks included above are not exhaustive. The section entitled 'Risk Management and Risk Report' and elsewhere throughout this Management Report contains additional factors that could impact the combined company's businesses and financial performance. Evotec expressly disclaims any obligation or undertaking to publicly update or revise any such statements to reflect any change in its expectations or any change in events, conditions or circumstances on which any such statement is based.

Additional Information

Evotec has filed a Registration Statement on Form F-4 with the US Securities and Exchange Commission in connection with its proposed merger with Renovis, Inc. Evotec and Renovis expect to mail a joint proxy statement/prospectus, which forms part of the Registration Statement on Form F-4, to shareholders of Renovis in connection with the proposed merger. The proxy statement/prospectus will contain important information about the merger and should be read before any decision is made with respect to the merger. Investors and stockholders will be able to obtain free copies of this document and any other documents filed or furnished by Evotec or Renovis through the website maintained by the Securities and Exchange Commission at www.sec.gov. Free copies of these documents may also be obtained from Evotec, by directing a request to Evotec's

Investor Relations department at Schnackenburgallee 114, 22525 Hamburg, Germany, or from Renovis, by directing a request to Renovis' Investor Relations department at Two Corporate Drive, South San Francisco, California 94080. In addition to the documents referenced above, Renovis files or furnishes annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any reports, statements or other information filed or furnished by Renovis at the SEC's Public Reference Room at Station Place, 100 F Street, N.E., Washington, D.C. 20549. You can request copies of these documents by writing to the SEC and paying a fee for the copying cost. Please call the SEC at 1-800-SEC-0330 for more information about the operation of the Public Reference Room. Renovis's SEC filings are also available to the public at the SEC's web site at www.sec.gov, or at their web site at www.renovis.com.

Business Direction

Transformation into a CNS Focused Biopharmaceutical Company

During the past two years Evotec executed on a strategy to complete its transformation into a fully integrated drug discovery and development company. The Company divested non-core activities for cash and announced an agreement to acquire Renovis Inc. and thereby, enhance its proprietary pipeline. Evotec's business is now based on two pillars: internal development programs for proprietary drug candidates and innovative research collaborations in which customers fund research. The focus of Evotec's internal programs is predominantly diseases of, or related to, the central nervous system (CNS) and inflammation. In its research collaborations, the Company works with customers on a wide variety of disease areas and target classes. Evotec is working towards increasing its level of participation through results-based partnerships with pharmaceutical companies, resulting in milestones and royalties for Evotec in addition to research payments. The customer segments addressed include pharmaceutical and biotechnology companies as well as academia and not-for-profit organizations. Geographically, North America and Europe are expected to contribute more than 80% to revenues, as these are the largest markets for drug discovery and development.

Evotec has a broad spectrum of integrated drug discovery and development skills and assets. To maintain its competitive advantage, Evotec will continue to leverage advanced technologies, superior know-how and expertise in areas such as fragment-based drug discovery, multiple target classes, in particular ion channels and GPCRs, and profound domain knowledge in CNS related diseases.

Acquisition of Renovis to Further Strengthen CNS Pipeline

On September 18, 2007, Evotec signed a definitive agreement to acquire the shares of Renovis, the US-based biopharmaceutical company, in a share-for-share transaction. Renovis has multiple preclinical programs for the treatment of pain and inflammatory conditions, two of which are expected to progress into clinical trials in 2008. The combination with Renovis creates what could be considered one of the strongest CNS related pipelines in the biotech industry. In addition, at the time of the merger announcement Renovis had \$86 m in cash – sufficient to see the development of their programs through to anticipated value-enhancing milestones.

Upon the successful closing of this transaction, Evotec will issue to Renovis shareholders American Depository Shares (ADSs) representing 1.0542 Evotec shares in exchange for each outstanding share of Renovis. After the closing of the transaction, current Evotec stockholders would own approximately 68.8% of the combined company and Renovis stockholders would own up to 31.2%. The transaction is expected to close during the second quarter of 2008 and is subject to the approval of Renovis' stockholders, approval of Evotec's NASDAQ listing and antitrust regulatory clearance, as well as other customary closing conditions.

Market Environment

Well Positioned in a More Adverse Market Environment

The business environment in the biotechnology sector in 2007 including future trends and the impact on Evotec's business strategy are described in detail in the section 'Business and Operating Environment' above.

In summary, with its pipeline of CNS drug candidates and its large cash position Evotec expects to be well positioned in difficult financial markets and a more challenging regulatory environment. The pharmaceutical industry remains under pressure to increase R&D productivity and the prices for drug candidates continue to rise due to increased licensing competition. Analysts expect this trend to continue. Companies supplying product candidates and delivering innovation and R&D productivity in research collaborations, such as Evotec, can benefit enormously.

Profitability Outlook

Evotec's financial objectives in this outlook section are those of the combined new Evotec Group based on the assumption that the merger with Renovis will close in the first half of 2008. Actual results as well as individual contributions from revenues and costs could materially deviate from these projections.

Evotec continues to invest in **research & development (R&D)**. The Company expects R&D expenses before employee stock compensation to amount to € 46 to € 51 m in 2008. The increase is mainly driven by progress in the clinical pipeline and the Renovis acquisition. Evotec expects to create value by advancing two drug candidates into the clinic and start Phase II development of EVT 302 and EVT 101. Evotec is seeking to out-license its lead insomnia compound EVT 201 to a pharmaceutical partner in 2008, but also considers co-development arrangements with pharmaceutical partners or further in-house differentiation studies in order to enhance value creation for EVT 201 in future partnering discussions. It plans to partner EVT 302 upon proof-of concept in 2009. The Company expects to continue to run internal discovery projects to support results-based collaborations with customers and to feed into its proprietary pipeline. However, assuming no further in-licensing, R&D expenses in 2009 are expected to decline due to reduced clinical development costs. Evotec anticipates that at least part of its R&D expenditures will be offset by income from out-licensing payments and milestones obtained from various collaborations and license agreements.

Evotec's Group **operating result** for the year 2008, before out-licensing income and assuming no 2008 impairment charge, is expected to be in the approximate range of 2007. With successful out-licensing of clinical candidate profitability could significantly improve.

In 2008, total Group **revenues** before out-licensing income are expected to reach € 34 to € 36 m. These assumptions are based on the current order book, expected new contracts and contract extensions as well as, to a lesser extent, the achievement of certain research milestones. Depending on the contribution from out-licensing and additional milestone income, revenues may also be substantially higher. However, such income is uncertain and subject to successful research and development activities. While revenues from collaborations are expected to remain stable over the next two years, both results-based deals and clinical out-licensing are likely to lead to more revenue volatility in 2008 and in the mid-term.

Gross margins are also expected to become more volatile, as they are dependent upon contributions from high margin milestones or out-licensing payments. SG&A expenses are influenced by the recent transactions and expected to increase following the addition of Renovis and cost reductions in all parts of the Group.

A future 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 profits generated when out-licensing its clinical candidates, and to re-invest to build pipeline value.

Finance Outlook

The Evotec Group (excluding Renovis) started the year 2008 with € 93.7 m in cash reserves. On a pro-forma basis, including Renovis after anticipated transaction costs, the cash position would amount to € 141 m. Including cash expected to be generated by the Services Division, this amount is expected to be sufficient to develop Evotec's post-merger pipeline projects, provided that the Company successfully out-licenses its clinical assets after proof-of-concept. The principal assumptions for milestones and out-licensing fees in 2008 are partnering the lead insomnia drug EVT 201 and payments associated with milestones related to the Boehringer Ingelheim collaboration.

In the absence of financing events, Evotec's liquidity position is expected to develop to a large degree in line with operating result before amortization, stock compensation or impairment charges, if any. It is therefore likely to show a certain degree of volatility – decreases due to R&D spending, and increases due to out-licensing or milestone revenues. Liquidity at the end of 2008, after the merger with Renovis, is targeted to exceed € 85 m excluding out-licensing payments. Assuming the Company's ambitious portfolio development goals, as explained under research & development above, and assuming no major out-licensing event, the cash position is currently expected to be sufficient to fund Evotec's development programs over the next three years.

Management's Mid-Term Assessment

Evotec has executed transactions during the last two years that allow the Company to benefit from the value-creation opportunities in the pharmaceutical industry more than it has in the past. Evotec is responding to the pharmaceutical industry's urgent need (i) for clinical drug candidates that complement the industry' drug pipelines, and (ii) for collaborations that give access to innovation and research productivity.

Competing demand for Evotec's products and collaborative product offerings could therefore result in higher retained value for the Company. In the light of an aging population and increasing incidences of CNS-related dysfunction, the lack of attractive R&D assets for new CNS therapeutics will remain one of the key bottlenecks within the pharmaceutical industry.

Evotec is well positioned to address these needs. Management's core strategy is for Evotec to continue to provide high R&D productivity and to develop differentiated solutions for important medical needs. Should Evotec be able to leverage those assets and successfully manage the build-up of (i) its pipeline of proprietary, differentiated clinical candidates, and (ii), multiple results-based collaborations, the Company has an opportunity to build very significant long-term value for its shareholders.

Consolidated Financial Statements

Evotec AG and Subsidiaries
Consolidated Balance Sheets as of December 31, 2007

T€ except share data	Footnote reference	as of Dec 31, 2007	as of Dec 31, 2006 restated
Assets			
Current Assets			
– Cash and cash equivalents	(6)	37,991	58,196
– Investments	(6)	55,685	20,527
– Trade accounts receivables	(7)	4,908	6,189
– Accounts receivables due from related parties	(27)	229	454
– Inventories	(8)	2,394	4,782
– Current tax receivables		4,030	1,127
– Other current financial assets	(9)	2,451	–
– Prepaid expenses and other current assets		4,153	3,115
– Assets classified as held for sale		–	20,124
Total current assets		111,841	114,514
Non-current assets			
– Long-term investments	(10)	10	–
– Long-term investments accounted for using the equity method	(10)	648	–
– Property, plant and equipment	(11)	18,561	34,669
– Intangible assets, excluding goodwill	(12)	37,421	42,989
– Goodwill	(12)	38,978	48,915
– Other non-current financial assets	(13)	419	2,036
Total non-current assets		96,037	128,609
Total assets		207,878	243,123
Liabilities and stockholders' equity			
Current liabilities			
– Current maturities of long-term loans	(15)	1,297	2,586
– Current portion of finance lease obligations	(16)	539	1,197
– Trade accounts payable		14,655	11,480
– Accounts payable to related parties	(27)	438	4
– Advanced payments received		47	413
– Provisions	(17)	5,123	5,232
– Deferred revenues		853	2,975
– Current income tax payables	(19)	344	–
– Other current financial liabilities		630	1,037
– Other current liabilities	(18)	411	23,516
– Liabilities classified as held for sale		–	7,035
Total current liabilities		24,337	55,475
Non-current liabilities			
– Long-term loans	(15)	9,125	6,296
– Long-term finance lease obligations	(16)	700	1,827
– Deferred tax liabilities	(19)	1,597	6,453
– Deferred revenues		550	1,119
– Provisions	(17)	1,016	1,653
– Other non-current financial liabilities		–	1,980
Total non-current liabilities		12,988	19,328
Stockholders' equity			
– Share capital ¹⁾	(21)	73,868	68,079
– Treasury shares		(99)	(83)
– Additional paid-in capital		628,629	612,476
– Reserve		(36,751)	(28,208)
– Accumulated deficit		(495,094)	(483,938)
– Equity attributable to shareholders of Evotec AG		170,553	168,326
– Minority interests		–	(6)
Total stockholders' equity		170,553	168,320
Total liabilities and stockholders' equity		207,878	243,123

¹⁾ 117,917,391 and 107,188,373 shares, 1.00 € nominal amount, authorized at December 31, 2007 and 2006, respectively 73,868,447 and 68,078,819 shares issued and outstanding in 2007 and 2006, respectively.

Evotec AG and Subsidiaries
Consolidated Statements of Operations for the period January 1 to December 31, 2007

T€ except share and per share data	Footnote reference	Continuing operations		Discontinued operations		Total	
		Years ended 2007	December 31, 2006 restated	Years ended 2007	December 31, 2006 restated	Years ended 2007	December 31, 2006 restated
Revenue							
– Drug discovery products & development of technologies		12	12	–	17,327	12	17,339
– Drug discovery services		32,873	40,563	21,498	26,779	54,371	67,342
Total revenue		32,885	40,575	21,498	44,106	54,383	84,681
Costs of revenue							
– Drug discovery products & development of technologies		7	5	–	9,667	7	9,672
– Drug discovery services		24,855	26,802	16,026	17,596	40,881	44,398
Total costs of revenue		24,862	26,807	16,026	27,263	40,888	54,070
Gross profit		8,023	13,768	5,472	16,843	13,495	30,611
Operating costs and expenses							
– Research and development expenses		36,938	30,307	–	3,136	36,938	33,443
– Selling, general and administrative expenses		17,806	15,029	3,135	9,166	20,941	24,195
– Amortisation of intangible assets	(12)	2,589	3,256	–	811	2,589	4,067
– Impairment of goodwill	(12)	5,819	–	–	6,560	5,819	6,560
– Impairment of intangible assets	(12)	3,316	–	–	–	3,316	–
– Reversal of impairment	(11)	(589)	(593)	–	–	(589)	(593)
– Restructuring expenses		356	–	–	606	356	606
– Other operating income		(2,162)	–	–	–	(2,162)	–
– Other operating expenses		2,065	285	–	1,322	2,065	1,607
Total operating costs and expenses		66,138	48,284	3,135	21,601	69,273	69,885
Operating income (loss)		(58,115)	(34,516)	2,337	(4,758)	(55,778)	(39,274)
Other non-operating income (expense)							
– Interest income		1,960	1,271	164	121	2,124	1,392
– Interest expense		(483)	(578)	(75)	(128)	(558)	(706)
– Loss from equity investments	(10)	(22)	–	–	–	(22)	–
– Other income from financial assets		528	5	36,392	–	36,920	5
– Foreign currency exchange gain (loss), net		1,578	(128)	207	(48)	1,785	(176)
– Other non-operating expense		(20)	(280)	–	(268)	(20)	(548)
– Other non-operating income		169	555	–	6,872	169	7,427
Total non-operating income		3,710	845	36,688	6,549	40,398	7,394
Income (loss) before taxes		(54,405)	(33,671)	39,025	1,791	(15,380)	(31,880)
– Current tax income (expense)	(19)	(53)	(321)	(366)	(497)	(419)	(818)
– Deferred tax benefit	(19)	6,405	4,992	(1,762)	1	4,643	4,993
Net income (loss)		(48,053)	(29,000)	36,897	1,295	(11,156)	(27,705)
Weighted average shares outstanding		71,828,980	66,355,593	71,828,980	66,355,593	71,828,980	66,355,593
Net income (loss) per share (basic and diluted)		(0.67)	(0.44)	0.51	0.02	(0.16)	(0.42)

See accompanying notes to consolidated financial statements.

Evotec AG and Subsidiaries
Consolidated Statements of Cash Flows for the Year ended December 31, 2007

T€	Years ended Dec 31, 2007	2006 restated
Cash flows from operating activities:		
Net loss	(11,156)	(27,705)
Adjustments to reconcile net loss to net cash used in operating activities:		
– Depreciation of property, plant and equipment	5,985	6,875
– Amortization of intangible assets	2,589	4,067
– Change in valuation allowances for current assets	55	242
– Depreciation of current assets	368	–
– Reversal of impairment of tangible assets	(589)	(593)
– Impairment of goodwill	5,819	6,560
– Impairment of intangible assets	3,316	–
– Net loss from equity investments	22	–
– Stock compensation expense	1,024	1,127
– Gain on sale of shares in subsidiaries	(11,692)	(5)
– Gain on sale of the chemical development business	(25,227)	–
– Loss on sale of property, plant and equipment	61	92
– Gain on sale of property, plant and equipment	(2)	(4)
– Deferred tax benefit	(4,643)	(4,993)
Decrease (increase) in:		
– Accounts receivable	1,165	3,297
– Inventories	1,779	(1,311)
– Other assets	(42)	(2,426)
Increase (decrease) in:		
– Accounts payable	3,709	4,409
– Advanced payments received	(366)	468
– Deferred revenues	(2,444)	38
– Provisions	(483)	1,643
– Current non-income taxes payable	344	411
– Other liabilities	(358)	2,851
Cash paid during the year for:		
– Interest	(370)	(560)
– Taxes	(536)	(263)
Net cash used in operating activities	(31,672)	(5,780)
Cash flows from investing activities:		
– Acquisition costs	(281)	–
– Purchase of current investments	(16,551)	(4,661)
– Purchase of long-term investments	(1,375)	(266)
– Purchase of property, plant and equipment	(4,112)	(3,399)
– Purchase of intangible assets	(237)	(1,515)
– Cash acquired in connection with the acquisition of Neuro3d	332	–
– Proceeds from sale of property, plant and equipment	–	24
– Proceeds from sale of discontinued operations	42,526	22,167
– Proceeds from sale of shares in associated companies	500	5
– Proceeds from sale of current investments	496	–
Net cash provided by investing activities	21,298	12,355
Cash flows from financing activities:		
– Proceeds from capital increase	147	18,766
– Transaction costs	(1,111)	(727)
– Proceeds from issuance of loans	6,043	7,900
– Purchase of own stock	(59)	(83)
– Repayment of loans	(6,020)	(10,006)
Net cash used in financing activities	(1,000)	15,850
Net increase (decrease) in cash and cash equivalents	(11,374)	22,425
Exchange rate difference	(8,831)	(59)
Cash and cash equivalents at beginning of year	58,196	37,998
Cash and cash equivalents at end of year	37,991	60,364
thereof included in assets held for sale	–	2,168

Evotec AG and Subsidiaries**Consolidated Statements of Cash Flows for the Year ended December 31, 2007**

T€	Years ended Dec 31,	
	2007	2006 restated
Supplemental schedule of non-cash activities:		
- Acquisition of long-term investments	21,129	-
- Additions to finance leases	218	936
See accompanying notes to consolidated financial statements.		

Evotec AG and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity for the Year ended December 31, 2007

T€ except share data	Footnote reference	Share capital		Additional paid-in capital	Treasury shares
		Shares	Amount		
Balance at January 1, 2006, as previously reported		62,759,424	62,759	596,525	–
Restatements	(3)				
Revaluation reserve		–	–	–	–
Decrease of depreciation of certain fixed assets		–	–	–	–
Increased management compensation		–	–	–	–
Share capital in ENS Holdings, Inc.		–	–	2,252	–
Acquisition of ENS Holdings, Inc.		–	–	153	–
Decrease in impairment of goodwill		–	–	–	–
Income tax effects		–	–	–	–
Balance at January 1, 2006, as restated		62,759,424	62,759	598,930	–
Capital increase	(21)	5,228,701	5,229	12,605	–
Capital increase (stock options)	(20)	90,694	91	114	–
Stock option plan	(20)	–	–	817	–
Purchase of treasury stock		–	–	–	(83)
Minority interests		–	–	10	–
Recognized income and expense:					
– Foreign currency translation		–	–	–	–
– Revaluation		–	–	–	–
Total income and expense recognized directly in equity		–	–	–	–
Net loss as restated		–	–	–	–
Total recognized income and expense		–	–	–	–
Balance at December 31, 2006, as restated		68,078,819	68,079	612,476	(83)
Capital increase	(21)	5,726,012	5,726	15,403	–
Capital increase (stock options)	(20)	63,616	63	85	–
Stock option plan	(20)	–	–	665	–
Purchase of treasury stock		–	–	–	(58)
Transfer of treasury shares		–	–	–	42
Minority interests		–	–	–	–
Income and expense recognized directly in equity:					
– Foreign currency translation		–	–	–	–
– Revaluation		–	–	–	–
Total income and expense recognized directly in equity		–	–	–	–
Net loss		–	–	–	–
Total recognized income and expense		–	–	–	–
Balance at December 31, 2007		73,868,447	73,868	628,629	(99)

See accompanying notes to consolidated financial statements.

Reserve			Equity attributable to shareholders of Evotec AG				Total stockholders' equity
Unearned compensation	Foreign currency translation	Asset Revaluation reserve	Accumulated deficit		Minority interests		
(1,622)	(35,856)	1,271	(474,408)	148,669	-	148,669	
-	-	(744)	744	-	-	-	
-	-	(527)	527	-	-	-	
-	3	-	(1,141)	(1,138)	-	(1,138)	
-	-	-	-	2,252	-	2,252	
-	-	7,060	-	7,213	-	7,213	
-	-	-	18,478	18,478	-	18,478	
-	-	-	(399)	(399)	-	(399)	
(1,622)	(35,853)	7,060	(456,199)	175,075	-	175,075	
-	-	-	-	17,834	-	17,834	
-	-	-	-	205	-	205	
310	-	-	-	1,127	-	1,127	
-	-	-	-	(83)	-	(83)	
-	-	-	(4)	6	(6)	-	
-	1,897	-	-	1,897	-	1,897	
-	-	-	(30)	(30)	-	(30)	
-	1,897	-	(30)	1,867	-	1,867	
-	-	-	(27,705)	(27,705)	-	(27,705)	
-	-	-	-	(25,838)	-	(25,838)	
(1,312)	(33,956)	(7,060)	(483,938)	168,326	(6)	168,320	
-	-	-	-	21,129	-	21,129	
-	-	-	-	148	-	148	
359	-	-	-	1,024	-	1,024	
-	-	-	-	(58)	-	(58)	
-	-	-	-	42	-	42	
-	-	-	-	-	6	6	
-	(8,871)	-	-	(8,871)	-	(8,871)	
-	-	(31)	-	(31)	-	(31)	
-	(8,871)	(31)	-	(8,902)	-	(8,902)	
-	-	-	(11,156)	(11,156)	-	(11,156)	
-	-	-	-	(20,058)	-	(20,058)	
(953)	(42,827)	7,029	(495,094)	170,553	-	170,553	

Evotec AG and Subsidiaries
Consolidated Fixed Asset Movement Schedule for the Year ended December 31, 2007

T€	Acquisition and manufacturing costs							Dec 31, 2007
	Jan 1, 2007	Foreign exchange	Discontinued operations	Additions	Business combination	Disposals	Reclass	
I. Intangible assets								
1. Patents and licences	5,543	-	-	237	-	-	-	5,780
2. Goodwill	48,915 ¹⁾	(3,833)	285	-	-	5,819	-	38,978
3. Developed technology	69,313	-	-	-	100	-	-	69,413
4. Customer list	27,917	-	-	-	-	-	-	27,917
	151,688	(3,833)	285	237	100	5,819	-	142,088
II. Property, plant and equipment								
1. Buildings and leasehold improvements	28,266	(2,408)	13,451	26	-	1,617	3	10,819
2. Plant, machinery and equipment	51,243	(3,667)	19,121	2,105	-	6,566	-	23,994
3. Furniture and fixtures	11,905	(869)	1,935	618	-	2,146	-	7,573
4. Purchased software	1,188	-	-	14	-	82	-	1,120
5. Finance leases	6,339	(547)	2,646	-	-	-	-	3,146
6. Assets under construction	1,035	(119)	900	420	-	23	(3)	410
	99,976	(7,610)	38,053	3,183	-	10,434	-	47,062
	251,664	(11,443)	38,338	3,420	100	16,253	-	189,150

¹⁾ net of accumulated amortisation as of 31 December 2001 of T€ 162,195 and impairment as of 2002, 2004 and 2006 of T€ 109,389, T€ 55,824 and T€ 6,600, respectively.

The consolidated fixed asset schedule is part of the notes to the consolidated financial statement.

Depreciation, amortization and writedowns						Net book value		
Jan 1, 2007	Foreign exchange	Discontinued operations	Additions	Disposals	Impairment	Dec 31, 2007	Dec 31, 2007	Dec 31, 2006
3,507	-	-	359	-	-	3,866	1,914	2,036
-	-	-	-	-	-	-	38,978	48,915
30,785	-	-	-	-	3,316	34,101	35,312	38,528
25,492	-	-	2,230	-	-	27,722	195	2,425
59,784	-	-	2,589	-	3,316	65,689	76,399	91,904
15,208	(1,443)	9,486	1,300	890	(248)	4,441	6,378	13,058
35,540	(2,649)	15,556	1,638	3,736	(341)	14,896	9,098	15,703
10,081	(810)	1,776	665	1,993	-	6,167	1,406	1,824
1,048	-	-	51	82	-	1,017	103	140
3,430	(377)	2,014	941	-	-	1,980	1,166	2,909
-	-	-	-	-	-	-	410	1,035
65,307	(5,279)	28,832	4,595	6,701	(589)	28,501	18,561	34,669
125,091	(5,279)	28,832	7,184	6,701	2,727	94,190	94,960	126,573

Evotec AG and Subsidiaries
Consolidated Fixed Asset Movement Schedule for the Year ended December 31, 2006

T€	Acquisition and manufacturing costs					Dec 31, 2006
	Jan 1, 2006	Foreign exchange	Discontinued operations	Additions	Disposals	
I. Intangible assets						
1. Patents and licences	6,251	-	(708)	-	-	5,543
2. Goodwill	54,317 ¹⁾	1,198	-	-	6,600	48,915
3. Capitalised development expenses	1,177	-	(1,177)	-	-	-
4. Developed technology	69,272	618	(577)	-	-	69,313
5. Customer list	28,758	450	(1,291)	-	-	27,917
	159,775	2,266	(3,753)	-	6,600	151,688
II. Property, plant and equipment						
1. Buildings and leasehold improvements	27,663	607	-	117	121	28,266
2. Plant, machinery and equipment	57,164	1,074	(1,855)	802	5,942	51,243
3. Furniture and fixtures	11,937	216	(562)	572	258	11,905
4. Purchased software	1,355	-	(275)	108	-	1,188
5. Finance leases	5,753	128	(467)	925	-	6,339
6. Assets under construction	42	13	-	988	8	1,035
	103,914	2,038	(3,159)	3,512	6,329	99,976
	263,689	4,304	(6,912)	3,512	12,929	251,664

¹⁾ net of accumulated amortisation as of 31 December 2001 of T€ 162,195 and impairment as of 2002, 2004 of T€ 109,389 and T€ 55,824, respectively. The consolidated fixed asset schedule is part of the notes to the consolidated financial statement.

Depreciation, amortization and writedowns							Net book value		
Jan 1, 2006	Foreign exchange	Discontinued operations	Additions	Disposals	Reversal of Impairment	Dec 31, 2006	Dec 31, 2006	Dec 31, 2005	
3,248	-	(45)	304	-	-	3,507	2,036	3,003	
-	-	-	-	-	-	-	48,915	54,317	
163	-	(163)	-	-	-	-	-	1,014	
30,244	618	(77)	-	-	-	30,785	38,528	39,028	
22,348	450	(258)	2,952	-	-	25,492	2,425	6,410	
56,003	1,068	(543)	3,256	-	-	59,784	91,904	103,772	
13,984	342	-	1,410	120	(408)	15,208	13,058	13,679	
38,617	776	(709)	2,796	5,755	(185)	35,540	15,703	18,547	
9,595	198	(447)	981	246	-	10,081	1,824	2,342	
1,201	-	(213)	60	-	-	1,048	140	154	
2,354	66	(72)	1,082	-	-	3,430	2,909	3,399	
-	-	-	-	-	-	-	1,035	42	
65,751	1,382	(1,441)	6,329	6,121	(593)	65,307	34,669	38,163	
121,754	2,450	(1,984)	9,585	6,121	(593)	125,091	126,573	141,935	

Evotec AG and Subsidiaries

Notes to Consolidated Financial Statements for the Year 2007

(1) Business description and basis of presentation

Evotec AG, Schnackenburgallee 114, 22525 Hamburg, Germany and subsidiaries (“Evotec” or the “Company”) is a biotechnology group dedicated to the discovery and development of novel small molecule drugs through both its own discovery programs and through research collaborations. The Company provides innovative and integrated solutions from target to clinic through a range of capabilities, including early stage assay development and screening through to medicinal chemistry and drug manufacturing. In proprietary projects, Evotec specializes in finding new treatments for diseases of the Central Nervous System (CNS). The Company’s Instrument Business, sold effective January 1, 2007, is shown in the discontinued operations and is focused on high-end technologies for automated cell biology. Also included in discontinued operations is the Chemical Development Business, sold effective November 30, 2007, which comprises Evotec’s capabilities in process research & development, custom preparation, analytical development, pilot plant manufacturing and formulation.

Evotec was founded on December 8, 1993 as EVOTEC BioSystems GmbH. Evotec completed an initial public offering in Germany on November 10, 1999.

All amounts herein are shown in thousands of Euro (T€), unless indicated otherwise. The Euro is the functional currency of the Company.

On February 27, 2008 the Management Board authorized 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), as adopted by the EU, and 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 derivative financial instruments and available-for-sale financial instruments which are measured at fair value. The following is a summary of significant accounting policies followed in the preparation of the accompanying consolidated financial statements.

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 consolidation. Because of the sale of Evotec Technologies GmbH (ET) including their subsidiary Evotec Technologies Inc., Cincinnati, Ohio, USA, effective January 1, 2007, and the sale of the Chemical Development Business which includes Evotec (Scotland) Ltd., Glasgow, UK, and also a part of Evotec (UK) Ltd. operations, effective November 30, 2007, the consolidated financial statements of 2007 and 2006 are not fully comparable.

Investments where Evotec does not have a controlling interest, but is in a position to influence the operating or capital decisions of the investee are carried at equity.

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 recognized if Evotec becomes party to the contractual provisions of the financial instrument. Evotec accounts for financial assets at settlement date.

Financial assets are derecognized if either the rights to the cash flows arising from the instrument have expired or substantially all risk and rewards attributable to the instrument have been transferred. Financial liabilities are derecognized if the obligations have expired or have been discharged or cancelled.

At initial recognition, non-derivative financial instruments are measured at fair value plus transactions costs unless the financial instruments are classified at fair value through profit and loss. The Company does not have any non-derivative financial instruments classified at fair value through profit and loss or held-to-maturity. 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

Financial instruments of this category are measured at amortized 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 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 amortized cost. Unrealized gains and losses resulting from changes in fair value are reported in equity, net of any tax effect. Changes in fair value are not recognized in the statement of operations until the asset is sold or until an impairment loss is recorded. Investments that qualify as equity instruments are measured at amortized 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).

Derivative financial instruments

The Company uses foreign currency derivative financial instruments to hedge its exposure to foreign exchange risks. In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognized initially at cost. Subsequent to initial recognition, derivative financial instruments are stated 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 recognized directly in income.

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 recognized in foreign currency exchange gains and losses.

Inventories

In accordance with IAS 2, inventories are valued at the lower of cost or net realizable value, with cost being generally determined on the basis of an average method. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Cost consists of

purchased component costs and manufacturing costs, which are comprised of direct material and labor 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. Depreciation of leasehold improvements is calculated using the straight-line method over the shorter of the related lease term or the estimated useful life. Leased property, plant and equipment meeting certain criteria are capitalized and the present value of the related lease payments are recorded as a liability.

Depreciation of property, plant and equipment, which includes depreciation of assets under finance leases, is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and leasehold improvements	11–35 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	3–5 years

The depreciation period and method 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 amortized using the straight-line method over the estimated useful lives of the assets:

Developed technologies	3–5 years
Customer list	2–5 years
Patents and licenses	15 years or shorter life
Capitalised development expenditures (included in discontinued operations)	3–5 years

Developed technologies acquired in the business combination with ENS Holdings, Inc. (ENS) are not amortized until the intangible assets are likely to generate benefits.

The amortization period and method is reviewed at each balance sheet date.

Goodwill

Goodwill acquired in a business combination represents the exceeding amount of a payment made by the Company in anticipation of future economic benefits not capable of being individually identified and separately recognized. The Company recognizes separately the acquired identifiable assets, liabilities and contingent liabilities at the acquisition date. The Company's goodwill results mainly from its acquisition of Oxford Asymmetry International plc. in October 2000. Additional goodwill acquired in a business combination has arisen from the acquisition of ENS in May 2005. The balance sheet as of December 31, 2006 includes an additional goodwill arisen from the acquisition of the remaining minority interests in Evotec (Scotland) Ltd. from its founding directors in May 2004 and from the University of Strathclyde in September 2005.

Basis for determining fair values

The following summarizes 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.

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 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.

Unless otherwise reported the fair values of financial instruments equal the carrying amounts.

Discontinued operations

The discontinued operation is a component of the Company being disposed of, and represents a separate major line of business operations. According to IFRS 5, discontinued operations are separately disclosed from the continuing operations. From the date of a decision to dispose a major line of business onwards, the assets and liabilities relating to discontinued operations are separately disclosed in the balance sheet. The relating income and expenses for discontinued operations are retrospectively separated in the statements of operations. The Company decided in the fourth quarter of 2006 to dispose of the Instrument Business and in the third quarter of 2007 to dispose of the Chemical Development Business. Due to the decisions of disposing these major lines of business all data presented for the statements of operations was restated to account for these businesses as discontinued operations. The assets and liabilities of the Instrument Business are reported as held for sale at December 31, 2006. Therefore, the consolidated balance sheets are not fully comparable. Discontinued operations are described on the face of the statement of operations and in Note 14.

Revenue recognition

The Company recognizes revenue from service contract arrangements and chemical compound sales within its Services Division and long-term collaborative agreements within its Pharmaceuticals Division; and diagnostic equipment sales within its Tools and Technologies Segment that is included in discontinued operations in 2006.

Revenue is recognized 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. Advance payments received in excess of amounts earned are recorded as deferred revenue.

Product and chemical compound sales are recorded as revenue upon delivery if the Company has received a customer order, the price is determinable 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.

Service revenues generated from contracted services are recognized as the services are rendered. Revenue from compound access fees is recognized ratably over the related forecasted service period. Payments for contracted services are generally paid in advance and recorded as deferred revenue until earned.

Revenue under long-term collaborative agreements includes, but is not limited to, the following:

1. Database Access Fees—revenue from database access fees is recognized ratably over the related contract period.
2. Research Payments—revenue from research payments finances both direct costs incurred in connection with the Company's ongoing research and development activities and indirect costs incurred as part of an allocation of certain other administrative expenses. Revenue from research payments is recognized ratably over the related forecasted research period as services are provided.

3. Success Payments—revenue contingent upon the attainment of certain milestones is recognized 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.

Part of the discontinued operations revenues are generated from the sale of systems, equipment and devices. Such revenues are recognized when the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Company. For the recognition of revenue Evotec has transferred to the buyer the significant risks and rewards of ownership of the goods, with Evotec retaining neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold. In addition, the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenues from the sale of systems, equipment and devices are recorded at the time of delivery, title transfer or upon final acceptance by the customer as required by agreement. Advance payments received are recorded as prepayments received.

The Company has entered into multiple-element contracts and carefully 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. The Company has no refund obligations included in their service agreements.

Under the terms of various contractual arrangements, Evotec receives royalty payments which are incremental to the other company's respective product sales. Royalty income of T€ 1,628 and T€ 523 is included in revenue from continuing operations for 2007 and 2006, respectively.

Finance income and expense

Interest is recorded as expense or income in the period to which it relates. The Company does not capitalize interest expenses incurred in connection with the purchase or production of assets. The interest expense component of finance lease payments is recognized in the statement of operations using the effective interest rate method.

Interest income is recognized in the statement of operations as it accrues, using the effective interest method. Dividend income is recognized in the statement of operations on the date the entity's right to receive payments is established.

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 statement of operations except for those items recorded directly in stockholders' equity.

Under the liability method, deferred tax assets and liabilities are recognized 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 realized 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 recognized 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 realized. Deferred tax assets are not recognized to the extent that it is not probable that the related tax benefit will be realized.

Research and development

Research and development costs that are generated for internal projects are capitalized or expensed depending on whether the expenditure incurred falls under the classifications of research or development expenditure given 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 capitalized as an intangible asset and amortized 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 capitalize any research and development costs in 2007.

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 recognized as a reduction of research and development expense when they are received. No grants were received for capitalized development expenditures. The amounts recognized as a reduction of the Company's research and development expense from continuing operations were T€ 169 and T€ 187 in 2007 and 2006, respectively.

Under the terms of the grants, governmental agencies generally have the right to audit qualifying expenses submitted by the Company.

Translation of foreign operations and foreign currency denominated transactions

The assets and liabilities of foreign subsidiaries with functional currencies other than the Euro are translated into Euro using period-end exchange rates, while the revenues and expenses of such subsidiaries are translated using rates of the date of the transaction during the period. Gains or losses resulting from translating foreign functional currency financial statements are reported as a separate component of stockholders' equity.

Transactions in foreign currencies are translated into Euro using the foreign exchange rate ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Euro using period-end exchange rates. Gains or losses resulting from foreign currency denominated transactions are included in other non-operating income and expense.

Impairment of long-lived assets and goodwill

The Company reviews long-lived assets (tangible 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 annually for intangible assets with indefinite useful lives 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 our policy in previous years concerning the impairment of long-lived assets and goodwill, the Company carried out an impairment test in the fourth quarter of 2007 (see Note 12). An impairment loss is recognized if the carrying amount of an asset (or a group of assets when considering a cash generating unit) in the accounts exceeds the greater 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 pre-tax net present value of future cash flows arising from that asset or cash generating unit. The pre-tax 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 five year forecast. Considerable management judgment is necessary to estimate discounted pre-tax future cash flows.

Any impairment is reported as a separate component of operating costs and expenses in the consolidated statement of operations. 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. 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 amortization, if no impairment loss had been previously recognized. Impairments of goodwill are not reversed.

Stock compensation

The Company applies the provisions of IFRS 2 in accounting for options granted under its stock option plan. Compensation cost from the issuance of employee stock options is measured using the fair value method at the measurement date and is charged straight-line to expenses over the vesting period in which the employee renders services.

Pension and similar obligations

The Company's net obligation for defined benefit and other postretirement benefit plans have been calculated using the projected unit credit method. Actuarial gains and losses are recognized using the 10% corridor.

Service cost and interest costs for pensions and other postretirement obligations are recognized as an expense in income from operations.

The Company obligations for contributions to defined contribution plans are recognized as expense as incurred.

Provisions

Provisions are recognized 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 reasonably estimated. The amount recognized represents the best estimate of the settlement amount of the present obligation as of the balance sheet date. Expected reimbursements of third parties are not offset, but recorded as a separate asset if it is virtually certain that the reimbursements will be received. Where the effect of the time value of money is material, provisions are discounted using a risk adjusted market rate.

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

Provisions for restructuring costs are recognized when the Company has a detailed formal plan for the restructuring and has notified the affected parties.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

The Company accrues for estimated losses from legal actions or claims, including legal expenses, when events exist that make the realization of the losses or expenses probable and they can be reasonably estimated.

Net loss per share

Basic net loss per share is calculated by dividing the net loss by the weighted-average number of common shares outstanding for the period, without consideration for common stock equivalents. Diluted net loss per share is computed by dividing the net loss by the weighted-average number of common share and share equivalents outstanding for the period determined using the treasury-stock method. For purposes of this calculation, stock options are considered to be common stock equivalents and are only included in the calculation of diluted net loss per share when their effect is dilutive. There are no dilutive shares in 2007 and 2006 as a result of net losses from continuing operations. Anti-dilutive common stock equivalents consist of 166,515 and 482,849 stock options in 2007 and 2006, respectively.

Use of estimates

The preparation of the accompanying consolidated financial statements requires management to make estimates and assumptions that affect both the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the main financial statements as well as the reported amounts of revenues and expenses during the reporting period. Main estimates and assumptions affect impairment testing (Note 12), provisions (Note 17), measurement of compensation expenses (Note 20) and the recognition of deferred tax assets (Note 19). Actual results could differ from management's estimates. In addition, changes in the current economic conditions and other events could also have a significant effect on reported amounts.

Recent pronouncements

All of the following IFRS pronouncements that were issued by the IASB and the IFRIC and were not effective as of December 31, 2007, have not been applied in the preparation of the consolidated financial statements as of December 31, 2007.

In November 2006, the IASB issued IFRS 8 “Operating Segments,” which replaces IAS 14 “Segment Reporting.” IFRS 8 has been endorsed by the EU in November 2007. Pursuant to IFRS 8, reporting on the financial performance of the segments has to be prepared in accordance with the so-called management approach. Accordingly, the identification of the segments and the disclosures for these segments are based on the information which is used internally by management in evaluating segment performance and deciding how to allocate resources. The application of this standard is compulsory for financial years beginning on or after January 1, 2009. Currently, Evotec does not expect the adoption of the standard to have a material impact on the Company’s consolidated financial statements.

In March 2007, the IASB issued a revised version of IAS 23 “Borrowing Costs” which is not yet endorsed by the EU. Accordingly, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of the asset. The current option of immediately recognizing borrowing costs as an expense will be removed. The application of the revised Standard is compulsory for financial years beginning on or after January 1, 2009. The revision will have no significant impact on the consolidated financial statements.

In September 2007, the IASB issued IAS 1 “Presentation of Financial Statements” (revised 2007) which is not yet endorsed by the EU. The revision is aimed at improving a user’s ability to analyze and compare the information given in financial statements. IAS 1 sets requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. The new standard is effective for financial periods beginning on or after January 1, 2009, early adoption being permitted. The Company will determine the expected effect of the revised IAS 1 and determine an adoption date.

In November 2006, the IFRIC issued IFRIC 11 “IFRS 2—Group and Treasury Share Transactions.” IFRIC 11 has been endorsed by the EU in June 2007. This interpretation addresses how to apply IFRS 2 “Share-based Payment” to share-based payment arrangements involving an entity’s own equity instruments or equity instruments of another entity in the Group. The application of the interpretation is compulsory for financial years beginning on or after March 1, 2007, while earlier application is permitted. The Company does not expect the adoption of this interpretation to have a material impact on the consolidated financial statements.

In November 2006, the IFRIC issued IFRIC 12 “Service Concession Arrangements”, which is not yet endorsed by the EU, to provide guidance to private sector entities on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. Service concession arrangements are arrangements whereby a government or other body grants contracts for the supply of public services to private operators. The application of the interpretation is compulsory for financial years beginning on or after January 1, 2008, while earlier application is permitted. The Company does not expect the adoption of the Interpretation to have an impact on the consolidated financial statements.

In June 2007, the IASB published interpretation IFRIC 13 “Customer Loyalty Programmes” dealing with the recognition and measurement of such programs. This regulation is not yet endorsed by the EU. The application of the interpretation is compulsory for financial years beginning on or after July 1, 2008, while earlier application is permitted. This interpretation does not have any impact on the Company’s consolidated financial statements.

In July 2007, the IFRIC issued IFRIC 14 “IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction” which is not yet endorsed by the EU. The application of the interpretation is compulsory for financial years beginning on or after January 1, 2008, while earlier application is permitted. Since the Company does not have any funded defined benefit plan, management does not expect the adoption of the Interpretation to have an impact on the consolidated financial statements.

In February 2008, the IASB issued IAS 32 “Presentation of Financial Instruments” (revised 2007) which is not yet endorsed by the EU. The revision amended IAS 32 for puttable instruments and obligations arising on liquidation. IAS 32 sets requirements for the presentation of financial instruments, guidelines for their structure and minimum requirements for their content. The new standard is effective for financial periods beginning on or after January 1, 2009. The Company will determine the expected effect of the revised IAS 32 and determine an adoption date.

In January 2008, the IASB issued a revised version of IFRS 3 “Business Combinations” and an amended version of IAS 27 “Consolidated and Separate Financial Statements” which are both not yet endorsed by the EU. The revised version of IFRS 3 and the amended version of IAS 27 sets requirements for the presentation of business combinations and financial instruments, guidelines for their structure and minimum requirements for their contents. The new standards are effective for financial periods beginning on or after July 1, 2009. The Company will determine the expected effect of the revised version of IFRS 3 and the amend version of IAS 27 and determine an adoption date.

(3) Restatement of consolidated financial statements

The consolidated statements of operations and consolidated balance sheets have been restated to reflect certain adjustments to previously reported financial information for the correction of an error mainly related to the accounting for the acquisition of ENS Holdings, Inc., the revaluation of certain fixed assets, deferred income taxes and the presentation of certain investments and cash equivalents and the earn out of founding shareholders in the context of the acquisition of Evotec (Scotland) Ltd.

The Company has retrospectively adjusted the presentation of the acquisition of ENS Holdings, Inc. under IFRS. As part of the purchase price allocation, goodwill in the amount of T€ 18,478 had been capitalized and immediately impaired in the consolidated financial statements according to IFRS for the year ended December 31, 2005, which resulted in a charge against earnings. Following a review of the accounting of the business combination, the purchase price exceeding the net assets acquired was allocated mainly to developed technologies acquired (“In-process Research and Development”) in the amount of T€ 38,528, in particular to Evotec’s clinical programs EVT 201 and the EVT 100 series, which according to IFRS has to be capitalized and carried forward according to IAS 38. T€ 7,124 was allocated to customer list and T€ 461 to goodwill. The capitalization of intangible assets from a business combination resulted in net deferred tax liabilities of T€ 13,923. Additionally, an asset revaluation surplus in the amount of T€ 7,060 relating to the interest in ENS held by Evotec before the acquisition was recognized.

Subsequently, Evotec recognized a tax benefit for net operating losses generated after consummation, which can be used by the reversal of the deferred tax liabilities recognized in the business combination for ENS. In addition, the Company had previously recorded changes in estimated useful lives or residual values of property, plant and equipment in revaluation reserves directly in equity. However, such changes in estimates have to be considered prospectively in determining depreciation expense. An earn-out agreement with the founding shareholders of Evotec (Scotland) Ltd. who sold their interest to Evotec AG is recorded as compensation expense rather than goodwill.

The Company previously reported investments in mutual funds, which invest in debt instruments, including debt instruments with maturities beyond 3 months as cash equivalents. Such investments are now reported separately and outside cash and cash equivalents in the consolidated balance sheet and the consolidated statement of cash flows.

The following tables summarize the effects of the adjustments on previously reported financial information.

Consolidated statements of operations:

T€ except per share data	2006
Net loss previously reported	(32,468)
Increased management compensation	(229)
Income tax effects	4,992
Net loss as restated	(27,705)
Net loss as restated per share	0.42

Consolidated balance sheets:

T€	Dec 31, 2006	Jan 1, 2006
Decrease in cash and cash equivalents	(20,527)	(15,522)
Increase in current investments	20,527	15,522
Increase in assets held for sale	695	-
Increase in intangible assets	38,528	38,528
Decrease in goodwill	(1,626)	(677)
Increase in other non-current		
financial assets	1,980	-
Decrease in other non-current assets	(1,980)	-
Total assets	37,597	37,851
Increase in deferred tax liabilities	6,453	11,445
Increase in equity attributable to		
shareholders of Evotec AG	31,144	26,406
Total liabilities and stockholder's		
equity	37,597	37,851

Consolidated statements of cash flows:

T€	2006
Net Cash provided by (used in) investing activities	
previously reported	16,080
Net cash provided by (used in) investing activities,	
as restated	12,355

(4) Acquisitions

The Company acquired in a share-for-share transaction 100% of shares in Neuro3d S.A., Mulhouse, France, a company previously operating in the field of drug discovery and development in CNS, which had ceased operations prior to the transaction. This acquisition was effective as of April 1, 2007. Evotec issued 5,726,012 shares to acquire the underlying shares.

The pre-acquisition carrying amounts of Neuro3d, which equal the recognized amounts as of the date of the acquisition, for total assets were T€ 22,799 including cash and investments in the amount of T€ 18,915, and the total liabilities were T€ 1,059. Fair value adjustments have been recorded for potential future obligations in context of the Neuro3d acquisition in the amount of T€ 711 as well as an amount of T€ 100 for proprietary assays and know-how. The cost of T€ 21,129 comprises the fair value of the shares issued of € 3.69 per share which was determined based on the stock price of Evotec at the date of acquisition. The net loss of Evotec for 2007 included a net income of T€ 9 from Neuro3d.

T€	April 1, 2007 Carrying Amount	April 1, 2007 Fair Value
Cash and cash equivalents	332	332
Investments	18,583	18,583
Developed Technology	-	100
Other assets	3,884	3,884
Other current liabilities	(773)	(1,484)
Accounts payable	(286)	(286)
Net assets	21,740	21,129
Less cash and cash equivalents acquired	-	(332)
Less fair values of shares issued	-	(21,129)
Cash Inflow (-) from acquisition	-	(332)

(5) Use restrictions on the Company's technology

Evotec was subject to certain restrictions concerning technologies arising in the course of its cooperations with Glaxo SmithKline (GSK) and Novartis.

A fourth amendment to the contract with GSK, entered into in May 2001, allows Evotec through its Instrument Business, sold effective January 1, 2007, to sell detection systems and liquid handling devices, which have a restricted throughput of compounds per day. As part of the amendment, GSK grants Evotec the right to enter into other collaborative agreements with two additional funding partners.

Pursuant to its agreement with Novartis, Evotec is obligated to pay royalties equal to 5% of qualifying revenue to Novartis for a period of ten years. This obligation terminates on March 16, 2008. The Company has recorded related royalty expenses of T€ 53 and T€ 31 in 2007 and 2006, respectively.

Evotec was subject to certain restrictions concerning intellectual property arising in the course of its collaboration with Takeda. During the period of Takeda's exclusive access to Evotec's target database, Evotec will not grant access to the target database to any third party for purposes of exploration in the field of neurodegenerative disease. This exclusivity period access has ended on August 28, 2007.

(6) Cash and cash equivalents and investments

Of December 31, 2007 and 2006, an amount of T€ 275 and T€ 275, 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 a maturity beyond three months, are reported as current investments and carried at cost that approximates their fair value. Those investments are classified as available-for-sale financial assets.

(7) Trade accounts receivables

The Company has assessed the non-payment risk of all trade accounts receivables which resulted in an allowance of T€ 55 and T€ 123 in 2007 and 2006, respectively. There are no use restrictions on trade accounts receivable.

The aging of trade receivables at the year end was:

T€	2007	2006
Not past due	2,222	5,264
Past due 0–30 days	1,353	749
Past due 31–120 days	644	176
More than 120 days	689	–
Total	4,908	6,189

(8) Inventories

Inventories consist of the following:

T€	Dec 31, 2007	Dec 31, 2006
Raw materials	1,768	2,942
Work-in-progress	626	1,840
Total inventories	2,394	4,782

Raw materials consist of biological materials and substances as well as chemicals. Work-in-progress in 2007 and in 2006 primarily consists of costs incurred on customer projects which were not completed at year end. The Company carries an allowance on raw materials of T€ 1,581 and T€ 1,360, included in the amounts above, as of December 31, 2007 and 2006, respectively. No allowance on work-in-progress as of December 31, 2007 and 2006 is included in the amounts above. Write-ups of previously written down inventories did not occur.

(9) Other current financial assets

Other current financial assets mainly consist of the portion of the purchase price for the sale of Evotec Technologies GmbH including their subsidiary Evotec Technologies Inc., Cincinnati, Ohio, USA, in the amount of T€ 1,980, which is transferred to an escrow account.

(10) Long-term Investments

Long-term investments consist of the following:

T€	Dec 31, 2007	Dec 31, 2006
Evotec RSIL Ltd., Maharashtra (Thane),		
India	648	–
European ScreeningPort GmbH i. Gr.,		
Hamburg	10	–
Total long-term investments	658	–

On October 18, 2007, Evotec acquired a 49% ownership interest in the common stock of Evotec RSIL Ltd. (RSIL), Maharashtra, India, which is accounted for under the equity method of accounting. The Company's share of the net loss of RSIL amounted to T€ 22 in 2007. As of December 31, 2007, the carrying amount of the investment is T€ 648.

In 2007, Evotec founded together with the City of Hamburg the European ScreeningPort GmbH i. Gr., Hamburg, with an ownership of 19.9% interest. As of December 31, 2007 the carrying amount of the investment is T€ 10. This investment is classified as available-for-sale financial asset. The European ScreeningPort GmbH i. Gr. is still in the formation phase.

In 2002, Evotec acquired a 3.88% ownership interest in the common stock of Prolysis Ltd. as part of a three year drug discovery agreement whereby Evotec received the shares as consideration for performing certain services for Prolysis. A financing round diluted Evotec's share in Prolysis to 2.38%. An additional capital increase of Prolysis in 2006 diluted Evotec's share in Prolysis to 2.1%. Due to a warrants exercise in November 2007 Evotec's share in Prolysis was diluted to 1.93%. The shares are held as a long-term investment at cost and are subject to a regular fair value impairment review, at least once a year. In December 2004, the value of the investment was fully impaired. This impairment amounted to T€ 354 in 2004. As of December 31, 2007 and 2006, the carrying amount of the investment is T€ 0.

In November 2005, Evotec transferred their shares in Sirenade Pharmaceuticals AG to KeyNeurotek AG ("KeyNeurotek"), Magdeburg in return against shares in KeyNeurotek. The original investment was partly paid by services provided in a drug discovery agreement between Evotec and SiREEN AG. Following this transfer, Evotec became the holder of 98 shares in KeyNeurotek, Magdeburg, representing a shareholding in KeyNeurotek of 0.06%. This investment is accounted for at cost. The impairment review in 2005 concluded that the value of the investments is uncertain and that the investment should be fully impaired, due to certain financial risks. As of December 31, 2007 and 2006 the carrying amount of the investment is T€ 0.

Evotec had a 22.72% voting interest by virtue of a 65.0% investment in the common stock of DIREVO Biotech AG ("Direvo"), which was accounted for under the equity method of accounting. Due to the redeemable feature of the preferred shares, the Company reduced the investment in Direvo to zero in 2001. The Company's share of the net loss of Direvo amounted to T€ 0 in 2007 and 2006. In 2007 the investment was sold. The sales price was T€ 500 and resulted in other income from financial assets of T€ 500.

Evotec acquired a 46.36% investment in the common stock of Vmax Ltd. ("Vmax") on August 22, 2002, which was accounted for under the equity method of accounting. Due to a capital increase by Vmax in 2004 the ownership interest of Evotec decreased from 46.36% to 30.6%. In 2006, Vmax was liquidated by winding up. On winding up, Vmax Evotec received a partial repayment of the assets and agreed to waive the remaining balance of loan stock.

The long-term investments of Evotec continue to have losses and, therefore, do not have undistributed profits.

The Company has recorded no revenues in the ordinary course of business with the investments in Sirenade Pharmaceuticals AG as the predecessor of KeyNeurotek and Prolysis Ltd. in 2007 and 2006. 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 consolidated fixed asset movement schedule.

The main additions in the continuing operations in 2007 relate to assets acquired in the nuclear magnetic resonance (NMR) field from Combinature Biopharm AG with effective date June 1, 2007, amounting to T€ 733 for machinery and equipment, T€ 147 for laboratory equipment. Upon completion of the assets under construction, costs are transferred into their respective fixed assets classification. Depreciation expense amounted to T€ 4,595 and T€ 5,002 in 2007 and 2006, respectively.

The Pilot Plant cash generating unit located in Abingdon, United Kingdom was tested for impairment in 2004 according to IAS 36 due to underutilized capacities identified. The Pilot Plant cash generating unit was reassessed for impairment in 2006, with the result that no further impairment, nor any reversal of impairment, is deemed necessary. The Pilot Plant cash generating unit has been allocated to the Service Division and was part of the discontinued operations sold to Aptuit (Edinburgh) Limited (Aptuit) effective November 30, 2007.

Laboratory premises in Abingdon, United Kingdom were also tested for impairment. The laboratory premises have been allocated to the Services Division. 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 a partial reversal of T€ 593 in continuing operations in 2006 of the previously recognized asset impairment. The asset impairment review in 2007 resulted in a partial reversal of T€ 589 which was allocated to continuing operations. This is reflected as reversal of impairment in the consolidated statements of operations for the period January 1 to December 31, 2007.

The net book values included in the fixed assets, which are held under finance leases, relate to plant and machinery as well as fixture and fittings of T€ 1,139 and T€ 27 as of December 31, 2007 and T€ 2,859 and T€ 50 as of December 31, 2006, respectively. The related depreciation amounts to T€ 908 and T€ 33 in 2007, T€ 722 and T€ 31 in 2006, respectively.

(12) Other intangible assets and goodwill

With respect to the development of intangible assets and goodwill please refer to consolidated fixed asset movement schedule.

The main additions in the continuing operations in 2007 relate to intangible assets acquired in the nuclear magnetic resonance (NMR) field from Combinature Biopharm AG with effective date June 1, 2007, amounting to T€ 237. Amortization expense of intangible assets from continuing operations amounted to T€ 2,589 and T€ 3,256 in 2007 and 2006, respectively. The customer lists acquired through the acquisition of ENS in 2005 have remaining years of amortization as of December 31, 2007 of approximately 0.2 years.

The developed technologies acquired in a business combination are not amortized until they are likely to generate benefits. The developed technologies from the acquisition of ENS Holdings Inc. with a carrying amount of T€ 38,528 at December 31, 2006 as part of continuing operations was tested for impairment on the annual designated test date of October 31, 2007. The impairment test is based on a discounted cash flow model by using the assumptions of the Mid Range Plan (MRP) for 2008 to 2012, together with a terminal value calculation to determine a value for the cash generating projects. The discount rate considering the risks and rewards of the activities used in the impairment test was 11.2%. As a result of that test, the Company concluded that an impairment is deemed necessary in the amount of T€ 3,216.

The developed technology from the acquisition of Neuro3d effective April 1, 2007 in the amount of T€ 100 was fully impaired in 2007.

The goodwill for Evotec (Scotland) Ltd, Glasgow, UK (Evotec (Scotland)) amounted to T€ 285 as of December 31, 2006 which was fully allocated to the Services Division. The goodwill associated with Evotec (Scotland) was assessed as part of the annual impairment review under IAS 36 and found not to be impaired in 2006. Evotec (Scotland) was sold to Aptuit, effective November 30, 2007.

Goodwill from the acquisition of Oxford Asymmetry International plc, with a carrying amount of T€ 38,517 and T€ 48,864 at December 31, 2007 and 2006, respectively, has been allocated to the Services Division. The Company has tested its Services Division for impairment on the annual designated test date of October 31, 2007. The impairment test is based on a discounted cash flow model by using the assumptions of the Mid Range Plan for 2008 to 2012, together with a terminal value growth rate of 1%. The pre-tax discount rate considering the risks and rewards of the activities used in the impairment test were in the range of 13.6% to 14.7%. As a result of that test, the Company concluded that an impairment in the amount of T€ 5,819 was due for the goodwill carried as of that date which is reported in continuing operations. In 2006, the impairment review resulted in an impairment of T€ 6,560 which was part of the Chemical Development Business and is reported retrospectively in discontinued operations.

In May 2005 the Company acquired ENS Holdings, Inc. which resulted in goodwill in the amount of T€ 461 which is also the carrying amount at December 31, 2007. The goodwill has been allocated to the Pharmaceuticals Division in continuing operations. The Company has tested the cash generating unit for impairment on the annual designated test date of October 31, 2007. As a result of this test, the Company concluded that no impairment has to be recorded in 2007 and 2006.

The total amount of foreign exchange differences related to goodwill denominated in a foreign currency amounted to T€ 3,833 and T€ 1,198 in 2007 and 2006, respectively and are recorded directly in equity.

(13) Other non-current financial assets

Other non-current financial assets in 2006 mainly consist of the portion of the purchase price for the sale of Evotec Technologies GmbH, Duesseldorf, including its subsidiary Evotec Technologies Inc. located in Cincinnati, Ohio, USA, which was transferred to an escrow account in the amount of T€ 1,980. This amount was also reflected in the other non-current liabilities as of December 31, 2006, because the sale became effective on January 1, 2007. As of December 31, 2007 the escrow account in the amount of T€ 1,980 is classified to other current financial assets.

(14) Discontinued operations

In the third quarter 2007 the Company signed an agreement with Aptuit for the disposition of Evotec (Scotland) Ltd as well as a part of Evotec (UK) Ltd, which forms the Chemical Development Business. The sales price amounts to T€ 42,476. It was paid in cash in two portions amounting to T€ 1,680 on September 29, 2007 and T€ 41,178 on November 30, 2007. An anticipated purchase price adjustment on the basis of a working capital adjustment is expected to amount to T€ 382, to be offset and paid by the Company. The sale resulted in a gain of T€ 25,227. This disposition was consummated in the fourth quarter 2007. The activities of the business are included in discontinued operations for all periods presented in the statements of operations.

In 2006, the Company signed a purchase agreement for the sale of Evotec Technologies GmbH, Duesseldorf, for T€ 24,147. Evotec Technologies GmbH made up the Instruments Business. This purchase became effective as of January 1, 2007. The main portion of T€ 22,167 was already paid on December 29, 2006. The purchase price was decreased in 2007 in the amount of T€ 261. This amount was paid in cash by the Company in 2007. The last portion in the amount of T€ 1,980 will be received in 2008. This transaction resulted in a gain of T€ 11,165. The assets and liabilities classified as held for sale as of December 31, 2006 are valued at the lower of cost or market, and operations in 2006 was presented as discontinued.

The assets and liabilities reflecting the Evotec Technologies Instrument Business shown in the consolidated balance sheet as of December 31, 2006 are classified as held for sale, and related to the following:

T€	Dec 31, 2006
Current assets:	
– Cash and cash equivalents	2,168
– Trade accounts receivables	3,761
– Inventories	6,932
– Prepaid expenses and other current assets	618
Total current assets	13,479
Non-current assets:	
– Property, plant and equipment	2,034
– Intangible assets, excluding goodwill	3,916
– Goodwill	695
Total non-current assets	6,645
Assets classified as held for sale	20,124
Current liabilities:	
– Current portion of finance lease obligations	294
– Trade accounts payable	1,089
– Advanced payments received	856
– Provisions	2,755
– Deferred revenues	1,141
– Current tax payables	418
– Other current liabilities	395
Total current liabilities	6,948
Non-current liabilities:	
– Long-term finance lease obligations	87
Total non-current liabilities	87
Liabilities classified as held for sale	7,035

The condensed cash flows of the discontinued operations are as follows:

T€	Dec 31, 2007	Dec 31, 2006
Net cash provided by operating activities	1,733	6,833
Net cash used in investing activities	(1,161)	(5,421)
Net cash provided by (used in) financing activities	(844)	(268)
Net increase (decrease) in cash and cash equivalents	(272)	1,144

(15) Long-term loans

On December 27, 2007, the Company has entered into a T€ 3,000 loan agreement with a bank of which T€ 3,000 is outstanding at December 31, 2007. This loan carries a variable interest rate of 1.15% over six month EURIBOR per annum and is repayable in total on December 10, 2009.

On December 19, 2007, EVOTEC NeuroSciences GmbH (ENS) entered into a T€ 3,000 loan agreement with a bank of which T€ 3,000 is outstanding at December 31, 2007. The loan carries a variable interest rate of 1.2% over six months EURIBOR per annum and is repayable in one bullet payment at maturity in 2012. ENS has pledged potential future cash flows from commercialisation of certain assets vis-à-vis the bank to secure repayment of the loan.

Further the ENS has entered in 2006 into a T€ 5,000 loan agreement with a bank of which T€ 4,375 is outstanding at December 31, 2007 (2006: T€ 5,000). This loan carries a fixed interest rate of 5.4% per annum and is repayable in semi-annual installments of T€ 625 starting on December 31, 2007 and ending on December 31, 2011. ENS has pledged potential future cash flows from commercialisation of certain assets vis-à-vis the bank to secure repayment of the loan.

On May 18, 2005 Evotec entered into an unsecured loan of T€ 569. The loan is repayable in equal installments over a period of three years and carries an interest rate of 1.2% over three months Euro LIBOR. At December 31, 2007 the total balance of the loan still outstanding was T€ 47 (2006: T€ 238).

A further loan facility of T€ 5,812 was agreed on the same date. It was repaid in full during 2006. This loan was then re-negotiated and a loan facility of T€ 2,970 was agreed on March 29, 2006. This loan is contracted to Evotec (UK) Ltd for the purpose of group financing. At December 31, 2006 T€ 802 had been drawn down against this facility by Evotec (Scotland) an eligible party to the loan and former subsidiary of Evotec. The loan was due for repayment in full on February 28, 2009. The loan was repaid as part of the transactions with Aptuit.

Evotec (Scotland), sold to Aptuit, effective November 30, 2007, had total loan fundings of T€ 1,006 at the balance sheet date 2006. The loans were repayable in installments through 2009. In 2006 the current year maturities included a loan in Evotec (Scotland) of T€ 74. The loan was repaid as part of the transactions with Aptuit.

On February 4, 2003, the Evotec (UK) Ltd entered into a loan agreement with another bank for the amount of T€ 2,937 which was secured by a charge on buildings and chattels in the United Kingdom and of which T€ 0 and T€ 1,362 is still outstanding as per December 31, 2007 and 2006, respectively. The loan carried an interest rate of 1.35% over three months Euro LIBOR per annum and was repayable in equal installments over a period of five years. The loan was repaid in full in 2007 as the assets against which the loan was secured were sold unencumbered as part of the transaction with Aptuit.

In July 2002, the Company entered into a T€ 5,000 loan agreement with a bank of, which T€ 0 and T€ 1,277 was utilized and outstanding as per December 31, 2007 and 2006, respectively. This loan carried a fixed interest rate of 5.84% per annum and was repaid in monthly installments of T€ 216 (interest and repayment), starting on August 31, 2005 and ending on June 30, 2007. This loan was secured by certain fixed assets. The net book values of those assets amounted T€ 0 as of December 31, 2006.

In February 1998, the Company entered into a T€ 5,113 loan agreement with a bank of which T€ 0 is outstanding at the balance sheet date 2006. This loan carried a fixed interest rate of 5% per annum and was repayable in semi-annual installments of T€ 320 ending on September 30, 2006.

At the year end 2007, Evotec met all covenants under the various loan agreements described above.

The annual maturities of these debts are as follows:

T€	
2008	1,297
2009	4,250
2010	1,250
2011	625
2012	3,000
Therafter	-
Total	10,422

Non-current loans and borrowings:

T€	2007	2006
Secured bank loans	6,125	6,174
Unsecured bank loans	3,000	122
	9,125	6,296

Current loans and borrowings:

T€	2007	2006
Current portion of secured bank loans	1,250	2,322
Current portion of unsecured bank loans	47	264
	1,297	2,586

The currency structure of loans is as follows: T€ 10,375 in Euro and T€ 47 in GBP. The Evotec interest rates are 50% fixed rates and the rest mainly on a variable interest rate basis of 1.15% to 1.2% per annum over three to six month EURIBOR.

The Company maintains lines of credit totaling T€ 2,842 and T€ 2,296 to finance its short-term capital requirements, of which the entire balance is available as of December 31, 2007 and December 31, 2006, respectively. These lines of credit provide for borrowings at various interest rates and have various expiration dates as well as no stated expiration date.

The fair value of the long-term loans is equal to the notional amounts as of December 31. As of December 31, 2006 the fair value amounted to T€ 5,547. The interest rate used for determining the fair value for 2006 was 4.3%.

(16) Finance lease obligations

Liabilities under finance leases are recognized as financial obligations and the leased assets are capitalized. These assets consist of laboratory equipment. The Company is obligated under finance leases of T€ 1,239 and T€ 3,024 as of December 31, 2007 and 2006, respectively that expire at various dates during the next five years.

Those finance leases include property, plant and equipment. The future minimum lease payments under finance leases are as follows:

T€	Capital	Interest	Total
2008	539	50	589
2009	356	26	382
2010	222	12	234
2011	99	4	103
2012	23	1	24
Total principal payable on finance leases	1,239	93	1,332

The split into current and non-current finance lease obligations are as follows:

T€	2007	2006
Current portion of finance lease liabilities	539	1,197
Non-current portion of finance lease liabilities	700	1,827
	1,239	3,024

The fair value of the long-term finance lease obligation is equal to the notional amounts as of December 31, 2007. As of December 31, 2006 the fair value amounted to T€ 1,727. The interest rate used for determining the fair value for 2006 was 4.3%.

The expiration of the fair value is as follows:

T€	2006
1-5 years	1,727
More than 5 years	-
	1,727

(17) Provisions

The provisions consist of the following:

T€	Dec 31, 2007	Dec 31, 2006
Bonus accruals	2,669	2,553
Contingent considerations	–	1,002
Accrued lease expenses	953	1,571
Accrued vacation	628	571
Other provisions	1,889	1,188
Total provisions	6,139	6,885

The following table summarizes the provisions recorded during 2007:

T€	Jan 1, 2007	Consumption	Disposal	Foreign exchange	Discontinued Operations	Additions	Dec 31, 2007
Personnel expenses	3,124	2,458	311	(81)	(82)	3,105	3,297
Contingent considerations	1,002	916	–	(86)	–	–	–
Accrued lease expenses	1,571	95	316	(135)	(236)	164	953
Other provisions	1,188	538	31	(73)	(8)	1,351	1,889
Total	6,885	4,007	658	(375)	(326)	4,620	6,139

As of December 31, 2007, other provisions mainly consist of provisions with regard to the acquisition of Neuro3d (T€ 711) as well as a provision for social security claims (T€ 55). 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 estimated accrual for the contingent consideration may differ from the actual amounts payable due to the fact, that the agreed performance targets are either not met or are exceeded. The actual consumption of the accrued lease expenses may vary from the estimated if the lease period changes.

An amount of T€ 1,016 as per December 31, 2007 (2006: T€ 1,653) is expected to be paid after one year and therefore is shown under non-current provisions. This amount mainly derives from accrued lease expenses. The fair values of those non-current liabilities as of December 31, 2007 amount to T€ 518 (2006: T€ 1,045).

(18) Other current liabilities

In 2007 the other current liabilities mainly consist of outstanding social security. In 2006 other current liabilities mainly consist of the purchase price already received for the sale of Evotec Technologies GmbH effective January 1, 2007 in the amount of T€ 22,167. This purchase price was subject to adjustments due to contractual agreements after the balance sheet date. The purchase price decreased by T€ 261 in 2007.

(19) 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 continuing and discontinued operations. 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 re-version are enacted or substantively enacted at the balance sheet date.

Loss before income taxes is attributable to the following geographic regions for the years ended December 31, 2007 and 2006:

T€	2007	2006
Germany	(31,935)	(30,027)
Foreign	16,555	(1,853)
Total	(15,380)	(31,880)

Income tax benefit (expense) for the years ended December 31, 2007 and 2006 is as follows:

T€	2007	2006
Current taxes:		
– Germany	(38)	(804)
– Foreign	(381)	(14)
Total current taxes	(419)	(818)
Deferred taxes:		
– Germany	6,453	4,992
– Foreign	(1,810)	1
Total deferred taxes	4,643	4,993
Total income tax benefit	4,224	4,175

The tax rate in the UK for the years ended December 31, 2007 and 2006 amounted to 30%. For the years ended December 31, 2007 and 2006, the actual combined German federal corporation income and trade tax rate amounted to 40.38%. In July 2007 a tax rate change was enacted in Germany for periods starting after 2007. For periods starting on April 1, 2008 a tax rate change was enacted in 2007 in UK. The tax rate for UK will change to 28% and the combined German tax rate will change to 32.28%.

The income tax benefit differs from the expected income tax benefit determined using the combined German tax rate of 40.38% as follows:

T€	2007	2006
Expected income tax benefit	6,210	12,873
Non-deductible goodwill impairment	(2,350)	(2,649)
R&D tax credits	1,829	1,824
Other permanent differences	4,057	–
Foreign tax differential	3,099	503
Change in recognition of deferred tax assets	(9,225)	(9,514)
Tax rate change	114	–
Other	490	1,138
Actual income tax benefit	4,224	4,175

Deferred income tax assets and liabilities calculated with the enacted tax rate of 32.28% as of December 31, 2007 and 40.38 % as of December 31, 2006 relate to the following:

T€	2007	2006
Deferred tax assets:		
– Loss carry forward	68,824	65,388
– Intangible assets	–	1,022
– Other	160	2,456
Total	68,984	68,866
Non-recognition of deferred tax assets	(54,100)	(52,717)
Total deferred tax assets	14,884	16,149
Deferred tax liabilities:		
– Property, plant and equipment	3,498	4,740
– Intangible assets	11,485	17,396
– Undistributed subsidiaries earnings	469	79
– Other	1,029	387
Total deferred tax liabilities	16,481	22,602
Deferred tax liabilities, net	1,597	6,453

Net deferred tax liabilities are recognized in the balance sheets as of December 31, 2007 and 2006, in the amount of T€ 1,597 and T€ 6,453, respectively.

For the years ended December 31, 2007 and 2006, Evotec recorded additional valuation allowances with respect to tax benefits of tax losses carried forward of T€ 3,436 and T€ 8,398, respectively. The valuation allowances on the Company's deferred tax assets are not recorded to the extent it is probable that such tax benefits would be realized in future years. Evotec has not generated taxable income in Germany since the start of operations and does not expect to in the foreseeable future. The rationale behind the valuation allowances is based on the potentially unlikely prospect of generating taxable income and, to a significant extent, the questionable nature, availability and benefit of the tax losses carried forward generated in Germany prior to material equity transactions in the past. Tax losses carried forward for Germany of T€ 177,131, France of T€ 40,280 and the UK of T€ 5,573 do not expire. 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.

The tax rate change in UK has led to a deferred tax income in the amount of T€ 114. Due to the whole valuation allowance on the deferred taxes in Germany the tax rate change in Germany did not lead to an effect on the deferred taxes in Germany.

Deferred taxes are accounted for as tax expenses or income in the statements of operations unless they relate to items included in equity in which case they are accounted for as part of equity.

(20) Stock-based compensation

The shareholders' meeting on June 7, 1999 established a stock option plan ("Option Plan 1999") and authorized 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 year and the allocation of the grants to members of the Management Board, other key management personnel and all other employees. The annual shareholders' meeting in 2000 and 2001 provided for the authorization 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 period 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 shareholders' 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: 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 authorize the granting of options to employees if such a decision is considered necessary for the interests of the Company.

The shareholders' meeting on June 7, 2005 and on May 30, 2007 established new stock option plans ("Option Plan 2005 and 2007") and authorized the granting of stock options for up to 1,741,481 and 2,140,000 shares in 2006 and in 2007, 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 these options 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 and 2007 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.

Options under the Option Plan 2005 and 2007 can only be exercised within the specific two weeks period relevant also to the other option programmes.

Through the acquisition of ENS Holdings, Inc. in 2005 the Company acquired a stock option plan under which shares in the amount of 323,749 were granted on the date of consolidation May 26, 2005. Under the terms of the plan, each share which has to be treated as an option entitles the holder to receive one share of the Evotec AG's stock until April or November 2014 at a set strike price of zero. The corresponding new shares are being held in escrow and are released by an individually set amount every quarter as well as on achievement of individual milestones.

Stock options in the amount of 541,307 held by employees of Evotec Technologies continue to be valid after Evotec sold this company to PerkinElmer effective January 1, 2007. Through the disposal of the Chemical Development Business to Aptuit effective November 30, 2007 an amount of 325,716 stock options continue to be valid. Those transactions were recognized as accelerated vesting.

A summary of the status of the plans as of December 31, 2007 and 2006, and the changes during the years then ended is presented as follows:

pcs. and € per share	2007		2006	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding at beginning of the year	3,742,674	6.02	3,126,635	6.78
Options granted	595,000	3.38	818,196	3.30
Options exercised	(63,616)	2.32	(90,694)	2.25
Options forfeited	(27,365)	12.61	(33,114)	17.66
Options waived (re-issuable)	(213,646)	6.24	(78,349)	7.32
Outstanding at end of the year	4,033,047	5.63	3,742,674	6.02
Thereof exercisable	1,959,450	8.27	1,721,547	9.33

A summary of the stock options outstanding as of December 31, 2007 is as follows:

		Outstanding pcs.	Exercisable pcs.	Weighted average remaining contractual life years	Weighted average exercise price € per share
Range of exercise price	1.66 – 3.66 € per share	2,765,562	691,965	5.56	2.98
Range of exercise price	5.97 – 6.80 € per share	887,075	887,075	4.15	6.53
Range of exercise price	10.15 – 12.48 € per share	47,150	47,150	3.93	12.48
Range of exercise price	24.30 € per share	333,260	333,260	2.90	24.30

Evotec's stock option plans result in unearned compensation, a component of stockholders' equity amounting to T€ 953 and T€ 1,312 as of December 31, 2007 and 2006, respectively. The Company recognized compensation expense in 2007 and 2006 for all options totaling T€ 1,024 and T€ 1,127, respectively, which was reflected as operating costs and expenses in the consolidated statements of operations.

The fair value of each option grant was estimated on the date of grant for the fiscal years ended December 31, 2007, 2006 and 2005 using a binomial model with the following assumptions:

	Jan 6, 2004	Nov 18, 2004	Mar 4, 2005	Mar 7, 2005
Risk-free interest rate in %	3.81	3.30	3.32	3.32
Volatility in %	67.1	55.6	58.4	58.4
Fluctuation in %	10.0	10.0	10.0	10.0
Price range in Euro	5.97	2.52–2.65	0.00	3.61
Fair value per option	2.89–3.35	1.12–1.32	2.87–2.90	1.59–1.82

	July 11, 2005	Aug 30, 2005	Dec 16, 2005	June 7, 2006	Nov 6, 2006
Risk-free interest rate in %	2.85	2.79	3.14	3.95	3.68
Volatility in %	56.4	49.1	34.8	45.1	50.5
Fluctuation in %	10.0	10.0	10.0	10.0	10.0
Price range in Euro	2.82	2.71–2.80	2.59–2.73	3.19	3.49–3.66
Fair value per option	1.30–1.48	1.09–1.23	0.84–0.98	1.22	1.47–1.73

	May 29, 2007	Dec 17, 2007
Risk-free interest rate in %	4.39	4.19
Volatility in %	42.4	42.7
Fluctuation in %	5.0	15.0
Price range in Euro	3.50–3.68	2.64
Fair value per option	1.35–1.55	0.91

The expected dividend yield is zero, the expected remaining life 6 years in all models.

(21) Stockholders' equity

On December 31, 2007, there are 73,868,447 shares issued and outstanding with a nominal amount of Euro 1 per share including converted ENS options held in escrow. Furthermore, authorized but unissued shares consist of a conditional capital (bedingtes Kapital) of 7,199,380 shares available with respect to the stock option plan and an approved capital (genehmigtes Kapital), of 36,849,564 shares. A capital increase out of the conditional capital in the amount of 169,319 shares in connection with the share options has not yet been registered in the trade register. As of balance sheet date, the Company holds 24,692 treasury shares for the remuneration of the Supervisory Board.

At the annual shareholders' meeting on June 7, 2005, the Management Board of the Company was also authorized to issue up to 26,143,506 shares for cash or contributions in kind. In addition conditional capital had been authorized in the amount of 1,741,481 shares.

Effective April 27, 2006, the Company increased its stockholders' equity by issuing 5,228,701 new shares against cash out of the approved capital (genehmigtes Kapital). The price per share amounted to € 3.55. Relating transaction costs in the amount of T€ 727 were recognized.

At the annual shareholders' meeting on June 8, 2006, the Management Board of the Company was authorized to issue up to 33,986,558 shares for cash or contributions in kind.

Effective May 8, 2007, the Company increased its stockholders' equity by issuing 5,726,012 new shares against contributions in kind out of the approved capital (genehmigtes Kapital) to be used as consideration for the acquisition of Neuro3d S.A. The price per share amounted to € 3.69.

At the annual shareholders' meeting on May 29, 2007, the Management Board of the Company was authorized to issue up to 36,849,564 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 approved capital (genehmigtes Kapital). The authorization expires on June 7, 2012.

(22) Segment information

Segmentation is performed on the basis of risks and opportunities; recognition is based on the internal organization and management structure as well as on internal management reporting. Therefore the Company's primary segments after giving effect to the discontinuation of operations are: (i) Pharmaceuticals Division, and (ii) Services Division.

(i) The Pharmaceuticals Division is specialized in finding new treatments for diseases of the Central Nervous System (CNS). It is engaged in selected research and development activities to develop compounds for outlicensing. The strategic objective of this division is to generate or augment proprietary intellectual property that can provide the Company with additional long-term upside through more significant milestones and royalties.

(ii) The Services Division provides integrated contract research support in drug discovery and development to a large group of global customers. It provides innovative and integrated solutions including assay development, screening through and medicinal chemistry.

Net sales and operating expenses in the segments include both sales to customers and inter-segment transfers, which are priced to recover cost plus an appropriate profit margin according to the at arms length principle.

Revenues in the consolidated statements of operations are differentiated by products and by services. This definition is close to the definition used in the segment reporting. Differences between the revenue splits are mainly due to product deliveries from our service unit, which are reported in the Services segment.

The accounting policies of the segments are equivalent to those described in the summary of significant accounting policies (see Note 2).

The following represents segment data of the Company's primary segments for the year ended December 31, 2007:

T€	Year ended December 31, 2007			Total 2007
	Pharmaceuticals Division	Services Division	Not allocated	
Revenues:				
– Drug discover products and technologies	–	12	–	12
– Drug discovery services	891	32,223	(241)	32,873
Total revenues	891	32,235	(241)	32,885
Costs of revenue:				
– Drug discover products and technologies	–	7	–	7
– Drug discovery services	58	24,917	(120)	24,855
Total costs of revenue	58	24,924	(120)	24,862
Gross profit	833	7,311	(121)	8,023
Research and development expenses	35,321	2,051	(434)	36,938
Selling, general and administrative expenses	6,970	10,898	(62)	17,806
Amortization of intangible assets	2,472	117	–	2,589
Impairment of goodwill	–	5,819	–	5,819
Impairment of intangible assets	3,316	–	–	3,316
Reversal of impairment	–	(589)	–	(589)
Restructuring expense	–	356	–	356
Restructuring income	–	–	–	–
Other operating expenses	2,744	1,274	(1,953)	2,065
Other operating income	(2,871)	(1,407)	2,116	(2,162)
Operating loss	(47,119)	(11,208)	212	(58,115)
Interest income	–	–	1,960	1,960
Interest expense	–	–	(483)	(483)
Loss from equity investments	–	–	(22)	(22)
Other income from financial assets	–	–	528	528
Foreign currency exchange gain (loss), net	–	–	1,578	1,578
Other non-operating expense	(20)	–	–	(20)
Other non-operating income	391	85	(307)	169
Net loss before taxes	(46,748)	(11,123)	3,466	(54,405)
Total assets	48,236	64,834	94,808	207,878
Total liabilities	11,754	12,339	13,232	37,325
Capital expenditures	796	2,496	128	3,420

The following represents segment data of the Company's primary segments for the year ended December 31, 2006:

T€	Year ended December 31, 2006			Total 2007
	Pharmaceuticals Division	Services Division	Not allocated	
Revenues:				
– Drug discover products and technologies	–	12	–	12
– Drug discovery services	3,198	37,530	(165)	40,563
Total revenues	3,198	37,542	(165)	40,575
Costs of revenue:				
– Drug discover products and technologies	–	5	–	5
– Drug discovery services	443	26,409	(50)	26,802
Total costs of revenue	443	26,414	(50)	26,807
Gross profit	2,755	11,128	(115)	13,768
Research and development expenses	28,102	2,666	(461)	30,307
Selling, general and administrative expenses	4,033	9,943	1,053	15,029
Amortization of intangible assets	3,189	67	–	3,256
Impairment of intangible assets	–	(593)	–	(593)
Other operating expenses	–	285	–	285
Operating loss	(32,569)	(1,240)	(707)	(34,516)
Interest income	–	–	1,271	1,271
Interest expense	–	–	(578)	(578)
Other income from financial assets	–	–	5	5
Foreign currency exchange gain (loss), net	–	–	(128)	(128)
Other non-operating expense	–	–	(280)	(280)
Other non-operating income	328	274	(47)	555
Net loss before taxes	(32,241)	(966)	(464)	(33,671)
Total assets	66,520	93,051	83,552	243,123
Total liabilities	7,637	16,753	50,413	74,803
Capital expenditures	659	2,618	266	3,543

Not allocated to the Pharmaceuticals and Services Division are cash and current investments (2007: T€ 93,676, 2006: T€ 78,723) as well as loans and finance leases (2007: T€ 11,661, 2006: T€ 11,906) and other assets and liabilities including taxes. Depreciation included in the operating loss of Pharmaceuticals Division and the Services Division, amounts to T€ 560 and T€ 4,460 in 2007, respectively (2006: T€ 466 and T€ 4,551, respectively).

The Company's secondary segment split is based on geographical aspects. Revenues from continuing operations can be split based on customers' locations, in the following geographical regions:

T€	Years ended December 31,	
	2007	2006
Germany	5,270	7,045
United Kingdom	1,484	1,077
Rest of Europe	6,554	11,172
United States	15,466	15,783
Rest of the World	4,111	5,498
Total	32,885	40,575

Total assets of T€ 167,664 and T€ 110,401 are located in foreign countries (primarily the U.K.) and the remaining amounts of T€ 40,214 and T€ 132,722 are located in Germany as of December 31, 2007 and 2006, respectively. Capital expenditures of the continuing operations in the amount of T€ 1,091 and T€ 2,059 have been made in foreign countries (primarily the U.K.) and the remaining amounts of T€ 2,329 and T€ 1,484 are in Germany as of December 31, 2007 and 2006, respectively. Long-lived assets of T€ 50,985 and T€ 76,809 are located in foreign countries (primarily the U.K.) and the remaining amounts of T€ 45,052 and T€ 57,857 are in Germany as of December 31, 2007 and 2006, respectively.

(23) Financial instruments

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. The credit risk in connection with failures by counterparties to discharge their obligations is assessed by the Company to be immaterial. 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 Company is exposed to interest rate risk through variable interest-bearing loans and finance lease liabilities. These interest rate risks are deemed to not be significant.

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 December 31, 2007, the Company held U.S. Dollar forward contracts with Euro equivalent notional amounts of T€ 0 and a fair value of T€ 0 (2006: T€ 1,182 and T€ 45, 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 December 31, 2006. Gains and losses from the fair value accounting related to foreign currency derivatives are included in other non-operating income and expense and amounted to T€ 0 and T€ 45 for the years ended December 31, 2007 and 2006, respectively.

The maximum exposure to credit risk for trade receivables including related parties at the year end by geographic region was:

T€	Years ended December 31,	
	2007	2006
Germany	113	91
United Kingdom	775	2,367
Rest of Europe	1,098	1,768
United States	2,843	2,231
Rest of World	308	186
Total	5,137	6,643

	Average rate		Reporting date rate	
	2007	2006	2007	2006
USD	0.73082	0.79730	0.67942	0.75980
GBP	1.46206	1.46725	1.35707	1.48516
CHF	0.60883	0.63585	0.60324	0.62163

Currency risks

The Company is in connection with all financial instruments recorded at December 31, 2007 significantly exposed to currency risks associated with the US Dollar and UK Sterling due to financial instruments held in currencies which are not the functional currency of Evotec. The subsidiaries of Evotec AG situated in UK, are additionally exposed to the currency risks associated with the Euro in relation to their functional currency. If the Euro had gained (lost) 10 percent against the US Dollar at December 31, 2007 the hypothetical effect on net income (loss) would have been T€ 776 higher (lower) (December 31, 2006: T€ 288 higher (lower)).

Shareholders' equity is impacted in the same amount. If the Euro had gained (lost) 10 percent against the UK Sterling at December 31, 2007 the hypothetical effect on net income (loss) would have been T€ 920 higher (lower) (December 31, 2006: T€ 1,495 higher (lower)). Shareholders' equity is impacted in the same amount.

Interest rate risks

The Company is exposed to interest rate risks, mainly in Germany, France and UK due to current investments as well as loans and finance leases. Financial instruments with fixed interest rates are not subject to interest rate risks and therefore are not included in the sensitivity analysis. Financial instruments with variable interest rates as of December 31, 2007 are included in the sensitivity analysis for the period of their existence. If the interest rate had been 100 basis points higher (lower) at December 31, 2007 the hypothetical effect on net income (loss) would have been T€ 492 higher (lower) (December 31, 2006: T€ 107 higher (lower)). Shareholders' equity is impacted in the same amount.

The fair values of the long-term loans and finance leases as of December 31, 2007 would have been hypothetical T€ 241 lower (higher) (December 31, 2006: T€ 200 lower (higher)) if the relating interest rate used for determining fair values had been 100 basis points higher (lower) at December 31, 2007.

Other price risks

The Company is not exposed to any price risks associated to their financial instruments.

(24) Risks

Liquidity risks

The Company expects that its current cash funds, together with operating revenues will be sufficient to finance its operations for at least two to three years, depending on the various circumstances related to the Company's investments and strategic development. The Company's future cash requirements will depend on various factors, including its success in developing Evotec's pipeline projects, increasing sales of both existing and new services, expenses associated with sales growth as well as competition and the general economic situation. Expenditures on internal development programs or related acquisitions of technologies or intellectual property rights are likely to reduce the Company's short-to mid-term profitability and cash reserves. The Company intends to reduce part of this financial exposure by entering into early stage collaboration agreements, to the degree possible and advisable when trying to maximize returns. In addition, the option to improve the financing situation through capital increases either against cash or acquired assets, e.g. pursuant to an in licensing agreement, is always being considered. The Company does not intend to engage in projects or project phases unless appropriate funding is allocated or secured.

The Company conducts clinical trials which have a risk of failure. This might have a negative impact on the Company's financial position, results of operations and cash flows.

The Company has important collaborations with pharmaceutical and biotechnology companies within all operating segments. 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.

With a high proportion of sales denominated in U.S. Dollar currency exposure creates a risk to our profitability, in particular relative to the UK Sterling with the respect to the subsidiaries in the United Kingdom. A weakening of the U.S. Dollar when accompanied by a relative strengthening of the UK Sterling against the Euro will reduce revenues and profitability and constitutes a significant risk to the Company's financial situation. The hedging activities undertaken by the Company aim to mitigate the impact on its result before taxation.

Credit risks

The Company has exposure to credit risk primarily with respect to its investment in mutual funds which invest in debt instruments and trade accounts receivables. 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. None of the customers of the Company accounted for more than 10% of all accounts receivables in 2006. In 2007 one customer accounted

for more than 20% of all trade accounts receivables. Concentrations of credit risk with respect to trade accounts receivables are limited by a number of geographically diverse customers and the Company's monitoring procedures.

The Company has further expanded its customer's base. However the two largest customers of Evotec combined represent more than 35% of the group revenues in continuing operations in 2007 and more than 25% in 2006. A termination of these business relations could have adverse impacts on the Company's financial results.

At December 31, 2007 and 2006 no guarantees were outstanding.

Market risks

Globalization and the relentless growth of the "new economies" of China and India, including their growth in private wealth and consumer spending, a weakening U.S. Dollar and U.S. economy, an emerging crisis in global capital markets and continuous reform of healthcare legislation and regulation are the dominant factors influencing the Company's macro environment.

The market environment is marked by pricing pressures, originating from funding restrictions of some biotechnology customers 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 mandatory. In addition, Evotec continues to explore ways to capture some of the cost advantages in countries like India, as exemplified in the set-up of a Joint-Venture with RSIL to improve the cost basis of the chemical library business.

The market environment and competitive landscape for licensing and licensed projects or individual drug candidates, as well as the regulatory and reimbursement environment, in general or for individual treatments, might change while engaging in individual projects. The timing and commercial values of, or financial proceeds from partnering individual projects could therefore deviate significantly from earlier projections, for better or worse. While the regulatory environment has become less predictable in the recent past, in particular in the US, the market value of licensable projects and drug candidates has in general significantly increased.

(25) Fair values

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

	December 31, 2007		December 31, 2006	
	Carrying Amount	Fair value	Carrying Amount	Fair value
Cash and cash equivalents	37,991	37,991	58,196	58,196
Available-for-sale-financial assets				
– Investments	55,685	55,685	20,527	20,527
– Long-term investments	10	10	–	–
Total available-for-sale-financial assets	55,695	55,695	20,527	20,527
Loans and receivables				
– Trade accounts receivables	4,908	4,908	6,189	6,189
– Accounts receivables due from related parties	229	229	454	454
– Current tax receivables	4,030	4,030	1,127	1,127
– Other current financial assets	2,451	2,451	–	–
– Other non-current financial assets	419	419	2,036	2,036
Total loans and receivables	12,037	12,037	9,806	9,806
Secured and unsecured loans				
– Current maturities of long-term loans	(1,297)	(1,297)	(2,586)	(2,586)
– Long-term loans	(9,125)	(9,125)	(6,296)	(5,547)
Total secured and unsecured loans	(10,422)	(10,422)	(8,882)	(8,133)
Finance lease liabilities				
– Current portion of finance lease obligation	(539)	(539)	(1,197)	(1,197)
– Long-term finance lease obligations	(700)	(700)	(1,827)	(1,727)
Total finance lease liabilities	(1,239)	(1,239)	(3,024)	(2,924)
Trade and other payables				
– Trade accounts payable	(14,655)	(14,655)	(11,480)	(11,480)
– Accounts payable to related parties	(438)	(438)	(4)	(4)
– Current income tax payables	(344)	(344)	–	–
– Other current financial liabilities	(630)	(630)	(1,037)	(1,037)
– Other non-current financial liabilities	–	–	(1,980)	(1,980)
Total trade and other payables	(16,067)	(16,067)	(14,501)	(14,501)
	77,995	77,995	62,122	62,971
Unrecognized gain		–		849

(26) 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€ 803 (2006: T€ 659). Contributions amounting to T€ 92 (2006: T€ 144) were payable to the fund at the year end and are included in provisions. The Company's contribution rate is determined by the employees contribution and their age. 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.

The Company operates a 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 2007 for this purpose. The calculations are based on assumed pension increases of 1.75% and a usual discount rate. The discount rate reflects market conditions. Actuarial gains and losses are recorded using the 10% corridor method. The provision amounted to T€ 107 and T€ 102 as of December 31, 2007 and 2006, respectively.

The actuarial report was prepared in 2006 the first time under IFRS. The resulting difference to the beginning balance was recorded in equity (T€ 30).

Total expenses for the period for the defined benefit plan amounted to T€ 5 (2006: T€ 11) and consist of the following:

T€	Years ended December 31,	
	2007	2006
Pension liability beginning of the year	102	91
Current service cost	-	-
Interest cost	5	4
Amortization of actuarial losses	-	7
Pension payments	-	-
Pension liability year end	107	102

(27) 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 2012. Certain leases contain rent increases, rent holidays and renewal options. The total rents due under these leases are recognized on a straight-line basis over the lease term. The future minimum lease payments under non-cancellable operating leases are approximately as follows:

T€	
2008	3,961
2009	2,882
2010	2,794
2011	2,793
2012	2,792
Thereafter	18,613
Total	33,835

The majority of operating leases is related to rent expenses for facilities. The rent expense for such leases amounted to T€ 2,991 and T€ 2,839 for the years ended December 31, 2007 and 2006, respectively.

(b) Other commitments and contingencies

The Company has entered into consultancy contracts. During 2007 and 2006, payments under consultancy contracts totaled T€ 344 and T€ 225, respectively. The future minimum payments associated with long-term consultant and other miscellaneous long-term commitments total approximately T€ 460 and T€ 373 at December 31, 2007 and 2006, respectively.

As discussed in Note 5, the Company has certain commitments resulting from the amendments to its agreements with its technology funding partners.

The Company has given a guarantee for all the terms and conditions of a specific customer contract which was waived during 2007. No current liabilities from this guarantee exist as of December 31, 2007 and December 31, 2006.

The Company has, in the sale and purchase agreement for all the shares in Evotec Technologies GmbH, provided certain guarantees customary for such agreements.

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 is not aware of any material litigation as of December 31, 2007.

(28) Related party transactions

The following Supervisory Board members and Management Team members of the Company are also Supervisory Board members or Management Board members in companies Evotec works with in the ordinary course of business, (the figures reflects the total group):

Prof. Dr. Heinz Riesenhuber has been a member of the Supervisory Board of Altana Pharma AG, with whom the Company entered into service agreements as well as agreements with regard to instrument sales in the ordinary course of business. Revenue from these agreements in 2007 and 2006 amounted to T€ 112 and T€ 233, respectively. Accounts receivable from Altana as of December 31, 2007 and 2006 amounted to T€ 42 and T€ 107 respectively.

Peer Schatz is Chief Executive Officer of Qiagen N.V. From affiliates controlled by Qiagen N.V. the Company bought products in the amount of T€ 64 and T€ 16 in 2007 and 2006, respectively. The amount of payables to Qiagen N.V. on December 31, 2007 and 2006 including VAT amounts to T€ 3 and T€ 4, respectively.

Dr. Peter Fellner is Executive Chairman of Vernalis plc, Womersley, UK, with whom the Company entered into a service agreement in the ordinary course of business. Related revenues in 2007 amounted to T€ 921 and the accounts receivables amounted to T€ 180 as of December 31, 2007. He is also Non-Executive Chairman of the Board of Directors of Astex Therapeutics Ltd., Cambridge, UK. Revenues relating to a service agreement amounted to T€ 585 and T€ 1,175 in 2007 and 2006, respectively. The amount of accounts receivables as of December 31, 2007 and 2006 amounted to T€ 4 and T€ 291, respectively. Dr. Peter Fellner is also Non-Executive Member of the Board of Directors of UCB SA, with whom the company entered into a service agreement in the ordinary course of business. Related revenues amounted to T€ 138 and T€ 533 in 2007 and 2006, respectively. The amount of accounts receivables as of December 31, 2007 and 2006 amounted to T€ 0.

Dr. Hubert Birner is chairman of the Supervisory Board of Direvo Biotech AG with whom the Company entered into a service agreement in the ordinary course of business. Related revenues amounted to T€ 0 in 2007 and T€ 3 in 2006. The amount of accounts receivables as of December 31, 2007 and 2006 amounted to T€ 0.

Dr. William J. Jenkins is Non-Executive Member of the Board of Directors of BTG plc., London, with whom the Company entered into a service agreement in the ordinary course of business. Related revenues amounted to T€ 414 in 2007 and T€ 199 in 2006 (starting with Dr. Jenkins' membership of the Board). The amount of accounts receivables as of December 31, 2007 amounted to T€ 0 and T€ 57 in 2006.

The spouse of Mary Tanner is Vice Chairman of Lehman Brothers, Inc (Lehman). Lehman is representing and advising the Company with respect to the planned acquisition of Renovis, Inc. (since 2007). The relating expenses amounted to T€ 472 in 2007. The amount of the related payables was T€ 435 in 2007.

Dr. Mario Polywka, who is member of the Management Board and before was a member of the Management Team of the Company is non-executive chairman of the board of Glycoform Limited who uses laboratory equipment at the site in Abingdon, UK. Revenues amounted to T€ 5 and T€ 9 in 2007 and 2006, respectively and the related accounts receivable as of December 31, 2007 and 2006 amounted to T€ 3 and T€ 0, respectively. He is also non-executive director of the board of Pharminox Limited with whom the Company entered into a service agreement in the ordinary course of business. Revenues amounted to T€ 0 and T€ 0 in 2007 and 2006, respectively. There were no related accounts receivable as of December 31, 2007 and 2006.

Dr. John Kemp, who currently is a member of the Management Team of the Company had a loan granted in 2003, with an interest rate of 4.95%, which has an outstanding balance as of December 31, 2007 of T€ 101 (T€ 96 in 2006). The loan was repaid without relating interests on January 8, 2008. Further he received a loan to cover personal tax obligations relating to stock options granted. As of December 31, 2006 this loan including accrued interest amounted to T€ 68 and was repaid in 2007.

A member of the management of a subsidiary has been granted a loan in 2006 to cover personal tax obligations relating to stock options granted which including interest amounted to T€ 28 as of December 31, 2006 and was repaid in 2007.

The Evotec AG has recorded revenues with related parties in the amount of T€ 12 and T€ 4 in 2007 and 2006, respectively. Subsidiaries of Evotec AG recorded revenues with related parties in the amount of T€ 2,227 and T€ 2,152 in 2007 and 2006, 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.

Accounts receivable due from related parties

T€	Years ended December 31,	
	2007	2006
Vernalis plc	180	-
Altana Pharma AG	42	107
Astex Therapeutics Ltd	4	290
BTG Ltd	-	57
Glycoform Limited	3	-
Total	229	454

Accounts payable to related parties

T€	Years ended December 31,	
	2007	2006
Qiagen N.V.	3	2
Vernalis N.V.	-	2
Lehmann Brothers Inc.	435	-
Total	438	4

(29) Other disclosures

The following additional disclosures are required by German law in accordance with the European Directives on Accounting and the Corporate Governance Codex. Those disclosures include the continuing and the discontinued operations.

(a) Number of employees

The average number of persons employed by the Company in 2007 was 543 (2006: 599).

(b) Personnel expenses and cost of material

The personnel expenses of the Company amounted to T€ 37,076 of which T€ 25,637 relate to personnel expenses in the UK (2006: T€ 39,544 and T€ 23,391, respectively). Thereof expenses for the statutory retirement insurance amounted to T€ 2,739 of which T€ 2,172 relate to expenses in the UK (2006: T€ 2,913 and T€ 2,073, respectively).

Cost of materials amounted to T€ 45,166, thereof T€ 7,575 are cost of materials in the UK (2006: T€ 36,897 and T€ 8,702, respectively).

(c) Remuneration of the auditor

In 2007, remunerations, shown as expenses, to KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft and other KPMG companies totaled T€ 835 (2006: T€ 419) broken down into auditing of financial statements (T€ 664; 2006: T€ 250), tax consultancy (T€ 127; 2006: T€ 88), other attestation and valuation services (T€ 29; 2006: T€ 16) as well as other services (T€ 15; 2006: T€ 65).

(d) 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.

(e) Consolidated subsidiaries and equity investees

Information below is as per the statutory financial statements as of December 31, 2007 prepared in accordance with the respective local generally accepted accounting principles.

	2007 Company's voting interest %	2007 Net income/ (loss) T€	2007 Equity T€
Subsidiaries (verbundene Unternehmen)			
- Evotec (UK) Ltd., Abingdon, UK	100.0	24,510	72,123
- ENS Holdings, Inc., Wilmington, Delaware, USA (unaudited)	100.0	74	24,538
- EVOTEC NeuroSciences GmbH, Hamburg (unaudited)	100.0	(43,303)	(55,909)
- Evotec Neurosciences AG, Zürich, CH (unaudited)	100.0	30	197
- Neuo3d SA, Mulhouse, F	100.0	4,663	22,270
- Evotec Inc., Wilmington, Delaware, USA (unaudited)	100.0	-	-
- Oxford Diversity Ltd., Abingdon, UK (unaudited)	100.0	-	3
- Oxford Asymmetry Employee Shares Trust Ltd., Abingdon, UK (unaudited)	100.0	-	4
- ProPharma Ltd, Glasgow, UK, (shell company)	100.0	-	-
Investment in associated Companies			
- Evotec RSIL Ltd., Maharashtra (Thane), Indien (unaudited)	49.00	(44)	1,247
Other Investments			
- European ScreeingPort GmbH i. G., Hamburg (unaudited)	19.90	-	-
- Polylis Ltd., Oxford, UK	1.93	(1,871)	(2,748)
- KeyNeurotek Pharmaceuticals AG (formerly KeyNeurotek AG), Magdeburg (2006 figures)	0.06	(2,876)	3,996

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.

(f) Management Board

Jörn Aldag, Business Executive, Hamburg (President and CEO),
Dr. Klaus Maleck, Biotechnologist, Hamburg (CFO) (from November 1, 2007),
Dr. Mario Polywka, Chemist, Oxfordshire, UK (COO) (from November 1, 2007) and
Dr. Dirk H. Ehlers, Physicist, Wohltorf, (CFO) (until August 31, 2007).

The remuneration paid to the members of the Management Board in the financial year totaled T€ 1,041 (2006: T€ 917) of which T€ 380 (2006: T€ 243) was variable remuneration. Fixed remuneration includes base salaries, contributions to personal pension plans, 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 designed by the Remuneration Committee of the Supervisory Board and is then approved by the Supervisory Board.

The scheme for the variable portion of the remuneration in 2008 relating to the business year 2007 is based on the following criteria:

	Achievement of defindes milestones %	Achievement of budget financial targets %	Stock price %	Personal objectives %
Jörn Aldag	40	30	30	-
Dr. Klaus Maleck	40	40	-	20
Dr. Mario Polywka	40	40	-	20

The scheme for the variable portion of the remuneration of Jörn Aldag and Dirk Ehlers in 2007 relating to the business year 2006 was based on the following criteria: 30% based on the achievement of defined corporate milestones, 30% on the achievement of share price targets, 30% on the achievement of budget financial targets and 10% on the achievement of personal objectives. Under the Company's stock option plans, the members of the Management Board received in 2007 280,000 (2006: 150,000) options. The options granted in 2007 and 2006 are subject to the stipulation of the Option Plan 2005 and may be exercised after three years if the conditions of this plan are met. The fair values of the options are described in Note (20) and are recognised over their respective vesting periods.

	2007 Fixed remuneration T€	2007 Variable remuneration T€	2007 Stock options in pcs.	2007 Fair values Stock options T€
Jörn Aldag	365	252	200,000	284
Dr Klaus Maleck	40	–	20,000	18
Dr Mario Polywka	49	–	60,000	55
Dr Dirk Ehlers	207	128	–	–
Total	661	380	280,000	357

	2006 Fixed remuneration T€	2006 Variable remuneration T€	2006 Stock options in pcs.	2006 Fair values Stock options T€
Jörn Aldag	364	145	90,000	110
Dr Dirk Ehlers	310	98	60,000	73
Total	674	243	150,000	183

The individual contracts 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. A change-of-control exists when more than 30% of the shares of the Company is held by a new investor. The resulting severance entitlement is one year base salary and bonus calculated on the basis of the remuneration made over the last 12 month. The Company has a Directors and Officers (D&O) insurance policy in place for the Management Board, the Supervisory Board, the executive management and the managers of subsidiary companies. The insurance expense amounted to T€ 60 in total in 2007 (2006: T€ 84), and was paid by the Company.

Dr Ehlers, Chief Financial Officer left the Company at the end of August 2007. He has not received any extraordinary compensation upon his departure. However, Dr Ehlers will retain 140,000 of unvested options granted to him in the past. They continue to be valid until one year after vesting.

Jörn Aldag is a member of the Monopolkommission der Bundesrepublik Deutschland and President of the Board of Directors of Molecular Partners AG, Zurich, CH (since October 2007).

Dr Mario Polywka is non-executive chairman of the board of directors of Glycoform Ltd, Oxfordshire, UK and of Pharmedix Ltd, Oxfordshire, UK.

(g) Supervisory Board

Prof Dr Heinz Riesenhuber, former Federal Minister of Research and Technology, Frankfurt am Main (Chairman);

Peer Schatz, Chief Executive Officer Qiagen N.V., Duesseldorf (Vice Chairman);

Dr Hubert Birner, General Partner Techno Venture Management GmbH, Landsham-Pliening;

Dr Peter Fellner, Executive Chairman Vernalis plc., Winnersh, UK;

Dr William J. Jenkins, Pharmaceuticals Consultant, Basel, CH and

Mary Tanner, Financial Advisor, New York, USA.

The remuneration accrued for the members of the Supervisory Board in the financial year 2007 amounted to:

T€	2007 Cash remuneration	2007 Value of share based remuneration	2007 Total
Prof Dr Riesenhuber	37,5	15,0	52,5
Peer Schatz	30,0	11,2	41,2
Dr Hubert Birner	22,5	7,5	30,0
Dr Peter Fellner	18,8	7,5	26,3
Dr William J Jenkins	15,0	7,5	22,5
Mary Tanner	18,8	7,5	26,3
Total	142,6	56,2	198,8

The remuneration for the chairman of the Supervisory Board is twice, for the vice chairman is one and a half the amount of the remuneration for the Supervisory Board members. The additional remuneration for a member of a Supervisory Board Committee amounts to T€ 3.8, for the chairman of those Committee's to T€ 7.5. The total remuneration paid to Supervisory Board members in 2007 totaled T€ 198.8. The Company has a Directors and Officers (D&O) insurance policy in place for the Management Board, the Supervisory Board, the executive management and the managers of subsidiary companies. The insurance expense amounted to T€ 60 in total in 2007 (2006: T€ 84), and was paid by the Company.

The Supervisory Board and their additional memberships in supervisory boards and memberships in comparable governing bodies of enterprises according to § 125 par. 1 third sentence of the AktG are listed at the end of this report.

(h) Scientific Advisory Committee

Dr Karsten Henco, Duesseldorf, DE;
 Prof Dr Christoph Hock, Zurich, CH;
 Dr William J. Jenkins, MD, Basel, CH;
 Prof Dr Hanns Möhler, Zurich, CH;
 Ian Ragan, Ph D, London, UK;
 Prof Dr Roger Nitsch, Zurich, CH (until March 2007).

The remuneration for the Scientific Advisory Board in 2007 amounts to T€ 27 (2006: T€ 35).

(30) Subsequent events

On September 19, 2007 the Company announced that it entered into an agreement with Renovis, Inc under which the Company will acquire Renovis, Inc in a stock for stock transaction. Under the terms of the agreement the Company would issue, and Renovis shareholders would receive, American Depositary Shares (ADSs) representing 1.0542 Evotec ordinary shares in exchanges for each outstanding share of Renovis common stock such that current Evotec stockholders would own approximately 68.8% of the combined company and Renovis stockholders would own up to 31.2%. The transaction is subject to certain conditions including approval by the shareholders of Renovis.

On January 7, 2008 the Company has applied for filing a registration statement on Form F-4 to register with the US Securities and Exchange Commission (SEC) the Evotec AG ordinary shares in connection with the planned acquisition of Renovis, Inc in a share-for-share transaction.

Auditors' Report

We have rendered the audit opinion in German, which was translated as follows:

“Auditors' Report”

We have audited the consolidated financial statements prepared by the Evotec AG, Hamburg, comprising the balance sheet, the statements of operations, statements of changes in stockholder's equity, cash flow statement and the notes to the consolidated financial statements, together with the Group management report for the business year from January 1 to December 31, 2007. 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 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, 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, February 27, 2008

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Schadeck
German Public Auditor
(Wirtschaftsprüfer)

Boßow
German Public Auditor
(Wirtschaftsprüfer)

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 profit or loss 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.

Hamburg, February 27, 2008



Jörn Aldag
President & Chief Executive Officer



Dr Mario Polywka
Chief Operating Officer



Dr Klaus Maleck
Chief Financial Officer

Supervisory Board and Management Board

Supervisory Board

<p>Prof Dr Heinz Riesenhuber Frankfurt am Main DE Former Federal Minister of Research and Technology</p>	<p>Chairman of the Supervisory Board</p>	<p>Chairman of the Supervisory Board: Kabel Deutschland GmbH, Unterföhring DE</p> <p>Member of the Supervisory Board: Altana AG, Bad Homburg DE (until May 2007) Frankfurter Allgemeine Zeitung GmbH, Frankfurt am Main DE Henkel KGaA, Düsseldorf DE VfW AG, Cologne DE Vodafone Deutschland GmbH, Düsseldorf DE (until June 2007)</p> <p>Member of the Verwaltungsrat: HBM BioVentures AG, Baar CH</p>
<p>Peer Schatz Düsseldorf DE Chief Executive Officer Qiagen N.V.</p>	<p>Vice Chairman of the Supervisory Board</p>	<p>Member of the Supervisory Board: Mulligan BioCapital AG, Hamburg DE (until October 2007)</p> <p>Non-Executive Chairman of the Board of Directors: Digene France SAS, Paris FRA (from October 2007) Egene, Inc., Fitch USA (from May 2007) GenoVision Inc, West Chester USA Qiagen AS, Oslo NOR Qiagen Canada Inc, Montreal CAN Qiagen Gaithersburg, Inc., Gaithersburg USA (from July 2007) Qiagen Hong Kong Ltd. Pte. Hong Kong (from May 2007) Qiagen Inc, Valencia USA Qiagen Ltd, Crawly West Sussex UK Qiagen North American Holdings, Inc, Valencia USA Qiagen Pty Ltd, Clifton Hill, Victoria AUS Qiagen S.A., Courtaboeuf Cedex FRA Qiagen S.p.A., Milan IT Qiagen Sciences, Inc, Germantown USA Qiagen Synthetic DNA, Inc, Alameda USA Xeragon, Inc, Germantown USA</p> <p>Non-Executive Member of the Board of Directors: Digene Italy, s.r.l., Milan IT (from October 2007) Digene UK (Holding) Ltd., London UK (from September 2007) Digene UK Ltd., London UK (from September 2007) 5 Prime Inc, Boulder USA Genaco Biomedical Products, Inc., Huntsville USA Gentra Systems, Inc., Minneapolis USA PG Biotech Ltd, Shenzhen CHN Qiagen Iberia S.L., Madrid ESP (from October 2007) Qiagen Inc, Mississauga CAN Qiagen K.K., Tokyo JPN Qiagen Malaysia Sdn Bhd, Kuala Lumpur MYS Research Biolabs Pte. Ltd SGP Research Biolabs Technologies Pte. Ltd SGP</p>
<p>Dr Hubert Birner Landsham Pliening DE General Partner Techno Venture Management GmbH</p>	<p>Member of the Supervisory Board</p>	<p>Chairman of the Supervisory Board: Direvo Biotech AG, Cologne DE</p> <p>Member of the Supervisory Board: Jerini AG, Berlin DE</p> <p>Non-Executive Chairman of the Board of Directors: Argos Therapeutics Inc., Durham North Carolina USA Spepharm Holding BV, Amsterdam NL</p> <p>Non-Executive Member of the Board of Directors: BioXell SA, Milan IT Proteon Therapeutics, Inc., Waltham USA (from July 2007)</p>

Dr Peter Fellner Oxfordshire UK Executive Chairman Vernalis plc	Member of the Supervisory Board	Non-Executive Chairman of the Board of Directors: Acambis plc, Cambridge UK Astex Therapeutics Ltd., Cambridge UK Premier Research Group plc, Bracknell UK (from September 2007) Non-Executive Member of the Board of Directors: Consort Medical plc (formerly: Bepak plc), Milton Keynes UK Isis Innovation Ltd., Oxford UK QinetiQ Group plc, London UK UCB SA, Brussels BE
Dr William J Jenkins Basel CH Pharmaceutical Consultant	Member of the Supervisory Board	Non-Executive Member of the Board of Directors: Acambis plc, Cambridge UK BTG plc, London UK Eurand Pharmaceutical Holdings, N.V., Amsterdam NL Monogram Biosciences, Inc., San Francisco USA
Mary Tanner New York, USA Financial Advisor	Member of the Supervisory Board	Non-Executive Member of the Board of Directors: Ariad Pharmaceuticals, Inc, Cambridge USA (until January 2007) Synvista Therapeutics, Inc., Montvale USA (formerly: Alteon, Inc., Parsippany USA)

Management Board

Jörn Aldag Hamburg DE Business Executive	President & Chief Executive Officer	Chairman of the Verwaltungsrat: Molecular Partners AG, Zurich-Schlieren CH (from October 2007) Member of the Monopolkommission der Bundesrepublik Deutschland
Dr Klaus Maleck Hamburg DE Biotechnologist	Chief Financial Officer (from 1 November 2007) Executive Vice President, Finance (from 1 April 2007 until 30 October 2007)	
Dr Mario Polywka Oxfordshire UK Chemist	Chief Operating Officer (Member of the Management Board from 1 November 2007)	Non-Executive Chairman of the Board of Directors: Glycoform Ltd, Oxfordshire UK Pharminox Ltd, Oxfordshire UK
Dr Dirk H Ehlers Wohltorf DE Physicist	Chief Financial Officer (until 31 August 2007)	

Supervisory Board Report



Prof Dr Heinz Riesenhuber
Chairman of the Supervisory Board

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

Through 2007, the Supervisory Board convened for four formal meetings and held thirteen telephone conferences to discuss the operational and strategic developments of Evotec AG. The Audit Committee met separately for six telephone conferences; the Remuneration Committee convened twice.

The Management Board also provided continuous updates to the Supervisory Board through regular verbal and written reports that included in depth analysis of the status of operations. The information provided included written monthly management reports with in depth 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 discussed current and ongoing topics via regular conference calls, typically carried out every two weeks and whenever appropriate.

Further to business updates, the status of the Company's proprietary programs and standard agenda items, the Supervisory Board discussed at its meetings the following subjects in detail:

- > In March, the Board discussed the pipeline progress and focused on the 2006 annual financial statements in presence of the auditors.
- > In May, the Board discussed in depth various corporate development strategies including a possible M&A transaction with Renovis, a formation of a Library Synthesis Joint Venture with RSIL in India, and the possible divestiture of the Chemical Development Business.
- > In September, the Board continued its discussion of the Renovis transaction and the divestiture of the Chemical Development Business.
- > In December, the Board focused on budget planning for the year 2008 and the Company's mid-range plan for 2008 to 2012.

Following in depth discussions concerning the divestiture of the Chemical Development Business, the Supervisory Board in a telephone conference in September agreed to a recommendation to sell this to Aptuit, Inc. Only shortly thereafter, following a thorough analysis of the key terms of the intended merger, the Supervisory Board agreed on September 18, 2008 to enter into the Merger Agreement with Renovis, Inc.

With one exception, the Supervisory Board was not aware of any conflict of interests among any of its members during the year 2007. In the case of the exception, the respective Supervisory Board member refrained from voting.

The financial statements and the management report for Evotec AG for the year 2007, as well as the consolidated financial statements together with the consolidated management report of the Evotec Group, were audited by KPMG Deutsche Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hamburg. The auditors issued an unqualified audit opinion.

The Auditors presented the organization of the audit, audit findings, and other 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 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 judgement, 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.

Dr Dirk Ehlers resigned from the Management Board of the Company on August 31, 2007, following the expiration of his contract. Effective November 1, 2007, the Supervisory Board appointed Dr Klaus Maleck, Chief Financial Officer, and Dr Mario Polywka, Chief Operating Officer, as new members of the Management Board.

The Supervisory Board thanks the Management Board and the Company's employees for their hard work during the year and wishes them continued success for 2008.

Hamburg, March 20, 2008

The Supervisory Board
Prof Dr Heinz Riesenhuber