evotec

#RESEARCHNEVERSTOPS

ANNUAL REPORT 2016

SHIFTING

Evotec AG, *Manfred Eigen Campus, Essener Bogen 7, 22419 Hamburg (Germany)*

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For further information on Evotec, please be invited to visit our website at www.evotec.com. You can also contact us by email: investor.relations@evotec.com.

Dr Werner Lanthaler
Chief Executive Officer

Shifting to *a new chapter*

The phrase 'paradigm shift' was introduced in the 1960s by Thomas Kuhn. The physicist and philosopher was the man who changed the way the world looked at science; so a paradigm shift is not just a small change in science – it rather represents a scientific revolution and a shift in the way of thinking.

Although we need to be very careful using this term, we truly believe it is appropriate to use it in the context of what we are currently pursuing with induced pluripotent stem cells ("iPSC"). There is a paradigm shift ongoing in the industry and we at Evotec believe that we can lead this trend. IPSC is one of the keys that is available now in the drug discovery space of the future. It is Evotec's vision to be the pioneers this field.

Identify the value and the shift in our business model

2016 has been a very strong year for Evotec and much progress has been made. Due to various new and extended collaborations, we shifted our financial results into a new dimension. We achieved our guidance with strong base revenue growth of 26% and increased our adjusted EBITDA significantly to € 36.2 m at the end of 2016. Moreover, as you will see in the Outlook chapter of this Annual Report, we are able to give a very strong outlook for 2017.

In the year under review, we saw a number of new and extended collaborations in our EVT Execute segment and recognised strong revenue growth and improved profitability as well as strong milestone achievements, especially within our Bayer alliance in endometriosis, which started in 2012. Furthermore, our aim of becoming the world leader in quality led us to the acquisition of Cyprotex, which perfectly fits into our offering in the field of ADME-Tox/DMPK.

Within our EVT Innovate segment, we pursue to build Cure *X* and Target *X* alliances and to partner these initiatives with leading Pharma and biotech companies. In 2016, we demonstrated

LETTER TO SHAREHOLDERS

our ability to partner such programmes when we entered into a strategic collaboration with Bayer in the field of chronic kidney diseases, which is based on our Cure*Nephron* portfolio. The model of bridging highly exciting and ground-breaking academic projects into transformative industrial projects continue to evolve and started to shift into a new dimension in 2016.

In 2010, we developed this strategy and entered into collaborations with individual laboratories which were brought forward into strategic Pharma partnerships. In 2016, we entered the next level in which we bring in investors and jointly position projects for Pharma partnerships and potential spin-outs. The new strategic partnership with Oxford University, called LAB**282**, reflects this shift by creating the first strategic academic bridge fund which is focused on projects coming out of one of the world's leading universities. LAB**282** is backed by immediate access to top-notch industrial-scale discovery platforms and drug discovery expertise combined with a translational discovery fund. This strategic BRIDGE is the next logical step to create value and new companies. Equity participation in company formations is a new enticing way for Evotec to deliver on its strategy.

In order to achieve a clear global leadership position in the highly competitive drug discovery industry, it is essential to have a clear business model in place and to challenge existing approaches from time to time in order to pave the way for new disruptive technologies. Alongside our mission to tackle the causes of the diseases instead of treating only the symptoms, EVT Innovate therefore committed extensive resources to discover new paths in drug discovery which have the potential to result in new much needed therapies. Since the initial discovery of iPSC, Evotec has rapidly created an industrialised iPSC-based drug screening in terms of reproducibility of data, throughput and robustness. Following the iPSC-based collaboration with Sanofi in the field of diabetes which we entered in 2015, Evotec was able to commercialise this new platform in 2016 with Celgene in the field of neurodegeneration. In addition, we see a wealth of further opportunities to lead the iPSC field. EVT Execute is going forward and supports the drug discovery industry in a capital-efficient way and EVT Innovate really starts a paradigm shift by applying disruptive ways of thinking.

Please be invited to read more about our new dimensions in this Annual Report 2016. Thank you for your support in 2016. We look very much forward to working with you in 2017 and in the long-term future of Evotec!

Yours sincerely

OUR PEOPLE CREATE OUR SUCCESS

41
nationalities

›1,200
employees worldwide

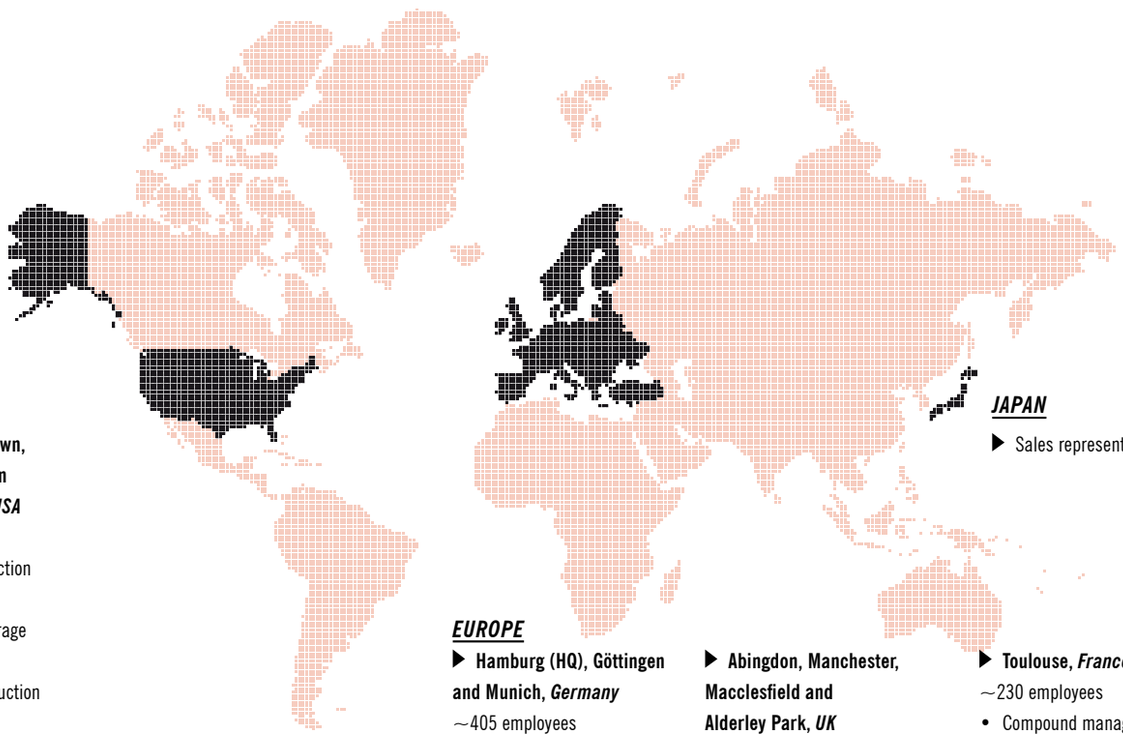
›1,000
scientists

80%
of all employees having an academic qualification

›50%
of employees are women

On average
8.5
years of experience in drug discovery per individual

OUR OFFERING CLOSE TO PHARMA, BIOTECH AND ACADEMIA (AS OF 31 DECEMBER 2016)



USA

▶ **Branford, Watertown, Kalamazoo, Princeton and San Francisco, *USA***
~105 employees
- Compound ID, selection and acquisition
- Compound QC, storage and distribution
- Cell & protein production
- ADME-Tox, DMPK

JAPAN

▶ Sales representative office

EUROPE

▶ **Hamburg (HQ), Göttingen and Munich, *Germany***
~405 employees
- Hit identification
- *In vitro* & *in vivo* biology
- Chemical proteomics & Biomarker discovery and validation
- Cell & protein production
- Antibody discovery

▶ **Abingdon, Manchester, Macclesfield and Alderley Park, *UK***
~400 employees
- Medicinal chemistry
- ADME-Tox, DMPK
- Structural biology
- *In vitro* & *in vivo* anti-infective platform/ screening

▶ **Toulouse, *France***
~230 employees
- Compound management
- Hit identification
- *In vitro* & *in vivo* oncology
- Medicinal chemistry
- ADME & PK
- Early drug formulation & Solid form screening
- Cell, protein & antibody production

EVOTEC AT A GLANCE

OUR SPIRIT OF INNOVATION

Evotec has delivered

›30

pre-clinical candidates and

›20

clinical candidates

€40m

capex investments over the last 5 years

158

new customers vs. previous year

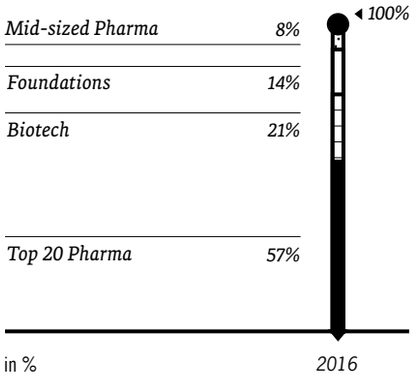
›30

projects with Academia

100%

are first-in-class/ best-in-class approaches

THIRD-PARTY REVENUES BY CUSTOMER TYPE 2016

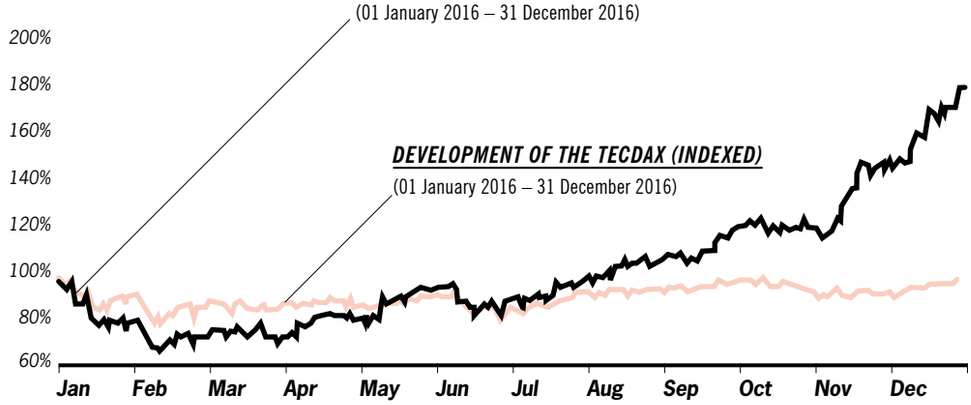


DEVELOPMENT OF THE EVOTEC AG SHARE (INDEXED)

(01 January 2016 – 31 December 2016)

DEVELOPMENT OF THE TECDAX (INDEXED)

(01 January 2016 – 31 December 2016)



OUR PARTNERSHIPS

Success rate of

95%

in e.g. assay development or protein production

›70

co-owned products

94%

repeat business in 2016

4

equity participations in breakthrough company formations

Involved in

›250

partnerships since its inception

Change and continuity

TOP RESEARCH ASKS FOR NEW INVESTMENT STRATEGIES

Dr Werner Lanthaler
Chief Executive Officer

In terms of strategic considerations, do you consider Evotec on track to become the global industry leader in the drug discovery space?

Our high-quality drug discovery alliances combined with our vision and passion for innovation across various key disease areas accompany us on the path to lead this industry, to deliver on our growth strategy and be confident about Evotec's future. We have clearly expanded capacities and expertise through the acquisitions of Cyprotex, the Toulouse site and the anti-infective company Euprotec in recent years. On the other hand, we continued to invest and establish new technologies such as the induced pluripotent stem cell ("iPSC") platform, CRISPR or RT-qPCR screening. We will continue our endeavours in securing Evotec's commercial success for the benefit of our shareholders. So, yes – we are on track to deliver on our long-term strategy.

*With LAB**282**, Evotec has been shifting into a new form of the Academic translation BRIDGE (**B**iomedical **R**esearch, **I**nnovation & **D**evelopment **G**eneration **E**fficiency). Can you explain why this model is unique in terms of structure and expected outcome?*

In 2016, we created the first strategic academic bridge fund which is focused on projects coming out of the world's leading university and called this LAB**282**. Oxford University will contribute all projects, Oxford Sciences Innovation will contribute the funds for scouting and validation of these projects and Evotec will execute the scouting and validation work on its platforms. All three parties together will select the best projects to be brought forward into spin-out companies or new Pharma partnerships. Alongside Oxford University and Oxford Sciences Innovation, Evotec will hold equity in all spin-outs and will have the right to participate in future funding rounds. LAB**282** has the potential to become a new blueprint for the commercialisation of early-stage innovation as it is designed to streamline and expedite the early steps of the innovation process from Academia to product.

What are the key success factors to continue Evotec's growth?

We, at Evotec, have a transparent, long-term and clear business model coupled with the critical mass to drive the discovery of globally leading first-in-class products. We have the scientific passion for growth and innovation as well as the willingness to take a new look at diseases and to develop novel classes of disease-modifying drug candidates in a systematic, comprehensive and unbiased way.

IPSC DEFINITELY CHANGED EVERYTHING

Dr Cord Dohrmann
Chief Scientific Officer

Evotec believes that its iPSC technology could lead to a paradigm shift in drug discovery. Could you please explain why?

Over the last years, the Pharma and biotech industry has seen many promising drug candidates fail during clinical development, which underlines the limited predictive and translational value of pre-clinical disease models. It also shows the need to develop technologies that better translate discovery opportunities into clinical realities. This is especially true for neurodegenerative diseases, such as Alzheimer's and Parkinson's disease. With our iPSC initiative, we industrialised patient-derived disease models to incorporate them into the drug discovery value chain right from the start. We are convinced that these kind of models will be here to stay and will become a key pillar for any Pharma or biotech company active in pre-clinical drug discovery.

TECHNOLOGY WILL LEAD TO NEW REMEDIES

Dr Mario Polywka
Chief Operating Officer

Evotec claims to have one of the most sophisticated iPSC platforms worldwide. What makes your iPSC platform so unique? Could you give more insight regarding Evotec's achievements up to this point in time?

There are various factors that make our iPSC platform unique. First of all, we use patient-derived human stem cells which we can efficiently differentiate into a range of disease-relevant cells like neurons. This means that Evotec is able to mimic a "disease in a dish". Second, our industrialised iPSC-based drug screening is so far unparalleled in terms of reproducibility of data, throughput and robustness. Furthermore, we combine our iPSC platform with our expertise in other areas to offer our clients more focused insights into early drug discovery. And last but not least, we can compare various mutations of a disease from several patients in a dish, allowing for a deeper understanding of the disease biology. These factors have so far convinced Sanofi in diabetes (2015) and Celgene in neurodegeneration (2016) to enter strategic collaborations with us. Given this momentum, we intend to enter further iPSC-based collaborations in the future.

The EVT Innovate segment focuses on building a long-term partnered product pipeline. Can you shed some light on your strategic schedule for the coming years?

Our strategy is to continuously increase the value of the Company by expanding our leadership position in high-quality drug discovery solutions as well as building an ever-growing project portfolio of innovative first- and best-in-class assets. We will continue to invest in a selected number of highly innovative approaches to address key medical areas. In 2017, we will particularly invest in projects with first-in-class potential in the fields of diabetes and diabetic complications, diseases of the central nervous system and oncology. We will also foster our existing relationships with top-class academic institutions and enter into new ones, thereby expanding our BRIDGE from Academia to Pharma.

The acquisition of Cyprotex adds the market's best industrialised ADME-Tox/DMPK platform. Does Evotec intend to dive into new markets in order to continue serving the previous Cyprotex customers?

With the acquisition of Cyprotex in 2016, we were able to significantly increase our existing activities in the ADME-Tox/DMPK field. Thus, the markets they serve are a very valuable addition to our existing customer base. Currently, we have no intention to limit the markets Cyprotex is active in and we will continue evaluating the ability to serve other markets. Our comprehensive drug discovery platform and its established processes can be utilised for different customer types and in various markets, however, it is clear that our major market focus is in the life sciences.

In 2016, Evotec announced new licences enhancing its existing drug discovery platform (e.g. CRISPR/Cas9 and Trianni). Can these licences be regarded as enhancement of capabilities or should they be considered a shift to a new dimension in Evotec's early-stage drug discovery?

As we have demonstrated over the last few years, it is our ambition to always stay abreast of trends in the early drug discovery offering – and sometimes even create new ones. While these two new technology licences certainly follow our approach of offering our partners state-of-the-art technologies in early drug discovery, I believe we should give them credit for what they are: Cutting-edge approaches, which could potentially lead to a new dimension in drug discovery. This is especially true for the CRISPR/Cas9 technology, which is paving the way for effective novel drug screening.

In the past decade, the pharmaceutical industry has been struggling to adapt to changing market conditions. Are there any foreseeable challenges or shifts within the pharmaceutical and life science industry that Evotec will have to deal with?

Evotec is acutely aware of the ongoing restructuring and consolidation process in the Pharma industry which is caused by challenges regarding productivity and cost of R&D, innovative developments, continued patent expiration, regulatory hurdles as well as pricing, to name just a few. We believe that this trend will continue in the coming years, benefiting the outsourcing of not only drug discovery services but also of innovation sourcing. In our opinion, the shift towards more creative ways of deal making in terms of externalising innovation and joining forces will be even more prominent in the years to come. Due to our extensive network of Pharma and biotech companies, foundations and venture capitalists, which we have established over the last few years, we are confident that Evotec is ideally positioned to lead this trend.

EQUITY AS EVOTEC'S NEW PILLAR

Enno Spillner
Chief Financial Officer

With the new employees in Toulouse and the recent acquisition of Cyprotex, Evotec's workforce increased by more than 200 and additional sites were added in a very short time. Does this development lead to a significant shift in terms of human resources strategy?

I'm convinced it will be more efficient gradually adapting our HR strategy to Evotec's needs than shifting it significantly. We aim to keep the hierarchy flat and decision-making processes short, as this is one of Evotec's key advantages in comparison to many other companies. Furthermore, the key element for proper teamwork is communication. To communicate and to interact as much as possible within our Company is an essential element of our human resources strategy. We believe it is important to ensure that colleagues know each other across different sites, operational units and field of expertise. You can imagine that this is a challenge with more than 1,000 scientists and more than 10 different sites in Europe and the USA. Our clear goal is building a work environment where people want to work and quickly feel integrated and energised.

In 2016, Evotec implemented a new strategy of taking equity in promising start-ups. Can you please elaborate on the rationale behind this approach and your strategy going forward?

With these investments, we can create significant additional upside potential for the future of Evotec. Taking equity is simply another way of driving our long established strategic idea of co-owning assets. Furthermore, Evotec will always have the possibility to even further invest in these companies to increase the potential future upside. With regard to our strong cash situation, we will be very open and actively looking for further investment opportunities, engaging into our long-term strategy of accelerating this kind of portfolio building. In this respect, we are delighted that after period-end Novo A/S became a new long-term major shareholder in Evotec via a private placement capital increase. Besides supporting our equity strategy, the proceeds from the capital increase will allow us to accelerate our strategy to expand our drug discovery platform and outsourcing services as well as to invest in our first-in-class Cure *X* and Target *X* together with top academic and biotech partners globally.

What is Evotec's mid- to long-term M&A strategy? Can you please explain the financial strategy to manage more significant acquisitions in the future (e.g. Cyprotex)?

Regarding our future M&A strategy, we are always open and actively scouting for new capacities and capabilities, which complement our drug discovery platform and can accelerate Evotec's expansion in addition to our organic growth. A prerequisite will always be a fit into our strategy providing state-of-the-art opportunities to our clients and partners. Evotec's strong cash position and cash flow will provide a firm foundation to consider potential M&A opportunities that might further strengthen our business and increase shareholder value.

The Evotec

SHARE '16

Professional dialogue with capital market participants

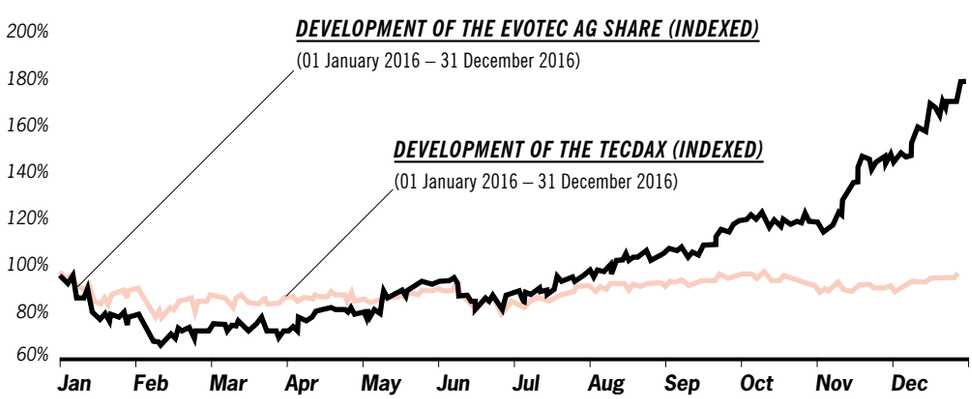
One of the pillars of Evotec's corporate strategy is to maintain a professional dialogue with capital markets. During the financial year 2016, the Company provided focused communications on the progress of its business segments EVT Execute and EVT Innovate. Evotec's management held presentations at fourteen national and international investor conferences as well as at eleven road shows in key financial centres, primarily in Germany, UK and the USA. Furthermore, the Management Board provided information on the Company's operational business during quarterly telephone conferences. At the end of 2016, a total of nine analysts were monitoring and assessing the development of the Evotec share on a regular basis.

Stock market development in 2016

At the beginning of 2016, the World Bank projected global growth at a slower pace compared to previous years. According to a publication by the World Bank in January 2017, global economic development remained subdued in 2016, decelerating its growth from 2.7% in 2015 to 2.3% in 2016. Stagnant global trade, damped investments and increasing policy uncertainty around the globe were the main drivers behind this development. The Eurozone only showed moderate growth in 2016 of 1.6% (2015: 2%) mainly due to both domestic demand and exports losing momentum, political uncertainty following the UK Brexit vote and the emergence of political risks emanating from strengthening Euro-sceptic political parties. The US economy in 2016 showed a healthy growth, which was fuelled by the hope that after the presidential elections in the USA, policies will be put forward that may stimulate the domestic economy. Interest rates remained on a level as in previous years and the European Central Bank continued its quantitative easing programme and even extended it at the end of the year under review.

As a result, stock markets around the world reacted volatile in 2016. Overall, the leading German stock market index DAX gained approx. 6.9% in 2016. Following a further decline in oil prices and poor economic data from China at the beginning of the year, the DAX fell as low as 8,752 points in February 2016. However, on the back of continued abundant liquidity provided by major central banks around the globe, the DAX recovered in the course of the year and closed at 11,481 at year-end 2016.

The main German benchmark index for the Evotec share, the TecDAX, lost about 1% in the year 2016. The non-German benchmark indices EURO STOXX 50 and NASDAQ Biotechnology were down 1% and 20%, respectively.



Performance of the Evotec share in 2016

In the course of 2016, Evotec's share showed a strong upward trend. It closed the year at € 7.44, gaining approximately 81% compared to its opening price 2016 of € 4.11. Overall, Evotec's strong operational performance in new and extended alliances, the acceleration of its internal Cure *X*/Target *X* initiatives together with partners, various milestone achievements and the pursuit of selected equity investments contributed to Evotec's share performance in 2016. On 19 July 2016, Evotec increased its profitability guidance due to higher margin contributions and a positive outlook for the remainder of the year. In 2016, Evotec continued its strategic path of focusing on its key assets and entering into selected multi-target alliances with Pharma partners, e.g. with Celgene in neurodegeneration based on Evotec's unique iPSC platform and with Bayer in chronic kidney diseases. All of these aspects demonstrate that the Company is in a strong operational and strategic position.

Evotec's average daily trading volume on all German stock exchanges amounted to 696,076 shares in 2016, compared to 801,111 shares in 2015.

Evotec's share capital

In 2016, no new acquisition was conducted in which Evotec used shares as currency. Consequently, as of 31 December 2016, Evotec's share capital remained broadly unchanged compared to the end of 2015. Due to the exercise of 467,657 stock options and Share Performance Awards, Evotec's registered share capital increased to € 133,051,739 at year-end 2016 (year-end 2015: € 132,584,082). In 2016, no stock options were serviced out of treasury shares. As of 31 December 2016, a total of 249,915 treasury shares from the trust agreement terminated in 2012 were remaining.
It has to be noted that Evotec's share capital changed after period-end with the entry of Novo A/S as strategic shareholder.

Shareholder structure

In case specified voting right thresholds are reached or crossed, the respective shareholders are required to inform the issuer of the shares and the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht). According to notifications the Company received up to 31 December 2016, the following persons and institutions were known to have exceeded the 3% threshold. Roland Oetker with ROI Verwaltungsgesellschaft mbH held just above 10%. Allianz Global Investors GmbH and Deutsche Asset Management Investment GmbH each held approximately 3% of the Evotec shares. Free float according to Deutsche Börse AG, which is used to determine the weighting of the Evotec stock in stock indices, was approximately 82% of the capital stock as of 31 December 2016.
After period-end, on 09 February 2017, Evotec announced a private placement capital increase in which Novo A/S subscribed to 13,146,019 Evotec shares, resulting in an ownership of approx. 8.9% after the capital increase.

2016 Annual General Meeting in Hamburg

On 14 June 2016, Evotec's Annual General Meeting 2016 took place in Hamburg.
It attracted a total of 327 shareholders and guests, representing 36.34% of Evotec's share capital (2015: 40.31%). At the Company's Annual General Meeting 2016, the Company's shareholders approved all proposals put to vote by the Company's Management with the required majorities.

Investor Relations @ Evotec

For further information on Evotec and its investor relations activities, please visit the investor relations section of Evotec's website. As a continuous dialogue with the capital market participants is an essential part of the Company's philosophy, please contact the investor relations team in case you have any questions or suggestions.

You can contact us as follows:

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www.evotec.com

SHARE DATA

Ticker symbol	EVT
Securities identification number	566480
ISIN	DE0005664809
Reuters symbol	EVTG.DE
Bloomberg symbol	EVT GY Equity
Stock exchange, market segment	Frankfurt Stock Exchange, Prime Standard
Index	TecDAX
Designated Sponsor	ODDO SEYDLER BANK AG

KEY FIGURES PER SHARE

	2016	2015
High (date)	€ 7.44 (30 December)	€ 4.25 (07 December)
Low (date)	€ 2.95 (08 February)	€ 3.20 (08 July)
Opening price	€ 4.11	€ 3.68
Closing price	€ 7.44	€ 4.17
Weighted average number of shares outstanding	132,506,697	131,678,865
Total number of shares outstanding as at 31 December	133,051,739	132,584,082
Average daily trading volume (all exchanges)	696,076 shares	801,111 shares
Market capitalisation as at 31 December	€ 990.2 m	€ 552.7 m
Earnings per share (diluted/basic)	€ 0.20/€ 0.20	€ 0.12/€ 0.13

After period-end, Evotec announced a private placement capital increase. Thus, please note that the total number of shares outstanding increased in the first quarter of 2017 versus the total number of shares outstanding as at 31 December 2016.

FINANCIAL CALENDAR 2017

28 March 2017	Annual Report 2016
10 May 2017	Quarterly Statement Q1 2017
14 June 2017	Annual General Meeting 2017
10 August 2017	Half-year 2017 Interim Report
08 November 2017	Quarterly Statement 9M 2017

Corporate Governance

RE'16 PORT

Corporate Governance
—
The definition of good corporate management and supervision

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

Declaration of compliance with the German Corporate Governance Code

The German Corporate Governance Code as amended on 05 May 2015 (the "Code") sets forth substantial legal requirements for the management and supervision of listed German companies. The rules are based to a large extent on internationally recognised standards for sound and responsible company management.

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

With the following exceptions, Evotec complies with all recommendations of the Code and the majority of the Code's suggestions. In December 2016, Evotec's Management Board and Supervisory Board declared in accordance with Section 161 of the German Stock Corporation Act (AktG):

"Evotec AG has complied in 2016 with the recommendations of the Governmental Commission on the German Corporate Governance Code (the "Code") as published in the official section of the Federal Gazette and intends to comply in the future with the recommendations of the Code, with the following exceptions:

- *To incentivise executives via variable long-term incentive compensation, the 2012 and 2015 Annual General Meetings approved the so-called Share Performance Plans. These comply with the recommendations set forth in Section 4.2.3 of the Code. In particular, they refer to specific key performance indicators and define a "Maximum Target". As the issuance of awards under the Share Performance Plans 2012 and 2015 occurs after the four year vesting period is effected in shares, there is a cap for the number of awards upon allocation, but no other cap for the value of the allocated shares after the expiration of the vesting period. That value will only be determined by the share price at that time. From 2012 onwards, the Share Performance Plans replaced Evotec's stock option programme. Stock options issued in existing stock option programmes remain valid. While the exercise of options under these programmes requires an increase of the share price, the exercise is not related to other relevant comparison parameters as recommended in Section 4.2.3 of the Code. This decision is based on the lack of relevant comparison benchmarks in the field of German Biotech at the time when the stock option programmes were created.*

- *The Company's D&O insurance and the deductible for members of the Management Board contained therein are in line with Section 3.8 of the Code and with the regulations of the Act on the Appropriateness of Management Board Compensation (VorstAG) that was enacted in 2009. However, for members of the Supervisory Board, the D&O insurance contains a "reasonable" deductible as foreseen by the version of the Code in force before its version published on 05 August 2009. The Company has decided to maintain this reasonable deductible. This decision was made in view of the Company's interest to attract international expertise for its Supervisory Board and the fact that a deductible for non-executive directors is not very common in international practice. Whilst a lot of the German companies quoted on the TecDAX do not have a respective deductible at all, the Company believes that a reasonable deductible is a good compromise."*

The current Declaration of Compliance with the German Corporate Governance Code and the declarations of the past five years can be found on Evotec's website (www.evotec.com) in the Investor Relations section.

General information on Evotec's management structure

TWO-TIER MANAGEMENT AND CONTROL SYSTEM: MANAGEMENT BOARD AND SUPERVISORY BOARD

According to the German Stock Corporation Act (AktG), a two-tier system with clear separation of management through the Management Board ("Vorstand"), and control through the Supervisory Board ("Aufsichtsrat"), is mandatory for German stock corporations. The Management Board is responsible for managing Evotec and representing the Company in its dealings with third parties, while the Supervisory Board appoints and dismisses the members of the Evotec Management Board and oversees the management of the Company. German law prohibits the Supervisory Board from making management decisions. The two boards, however, work closely together to achieve long-term and sustainable growth for the Company and to create shareholder value. They agree on the Company's strategy and on business transactions that are significant. The Annual General Meeting ("AGM"; "Hauptversammlung") is the company body representing the interests of the shareholders.

MANAGEMENT BOARD ("VORSTAND")

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

The Evotec Management Board consists, in addition to the CEO, of three further board members. In accordance with a suggestion of the Code, new members are appointed for up to three years; however, prolongations of existing contracts might be up to five years as currently agreed with the Chief Executive Officer. Management Board members may be reappointed and may be dismissed with good cause prior to the completion of their terms of office. Members of Evotec's Management Board have accepted no more than a total of three Supervisory Board mandates in non-Group listed companies or in supervisory bodies of companies with similar requirements. Information on the mandates and professional affiliations of the members of the Management Board can be found on page 119.

The Company's rules of internal procedure assign functional duties and responsibilities to the Management Board members. The CEO is functionally responsible for the areas of Corporate Development, Investor Relations and Corporate Communications, the CFO for Finance, Controlling, Information Technology, Legal, Purchasing, Facility Management and Human Resources, the COO for Evotec's EVT Execute segment and global operations and the CSO for Evotec's EVT Innovate segment and Intellectual Property.

The Company has a global presence and an international customer base. Therefore, organisational diversity is a key consideration when it comes to managerial appointments. Currently, two out of four members of the Management Board are non-German.

SUPERVISORY BOARD ("AUFSICHTSRAT")

Following the Articles of Association, the Evotec Supervisory Board consists of six members. The members of the Evotec Supervisory Board have been elected at the AGMs 2014 and 2015. Therefore, as of 31 December 2016, Evotec's Supervisory Board consisted of six members who, in accordance with the Code's recommendations, were appointed on the basis of their qualifications, work experience, independence and diversity. Five out of the six members are considered to be independent in accordance with Section 5.4.2 of the Code where Elaine Sullivan is CEO of Carrick Therapeutics Ltd, a company in which Evotec AG holds 4.57% of the shares.

The Supervisory Board appoints a Chairman and one Vice Chairman from among its members. The members of the Supervisory Board are elected for five years and may be re-elected. The term of the current members of Evotec's Supervisory Board will expire at the end of the AGM held in the year 2019.

To ensure compliance with these recommendations, the Supervisory Board has specified concrete objectives regarding its composition, which are ensured when making proposals to the AGM for election or re-election of new Supervisory Board members. These objectives stipulate that the activities of the Company shall be represented by having a majority of independent Supervisory Board members with national and international experience in the respective fields of (i) Research and Development, (ii) Finance, Capital markets, Legal, Corporate Governance, (iii) Marketing and Sales and Operations and (iv) Healthcare Economy/Public Health. Potential conflict-of-interest situation(s) shall be avoided by deploying the highest scrutiny when assessing potential candidates. In addition, the Supervisory Board shall ensure that the individual age of a candidate shall not exceed 72 years at the time of the proposal. Diversity with regard to female representation shall be ensured by having a target quota of 30% female members of the Supervisory Board. Finally, the Supervisory Board has agreed on two full terms as the regular limit of length of membership to

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

Currently, the composition of Evotec's Supervisory Board fulfils all those objectives: five out of six members are independent, four nationalities are represented and there are two female members.

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

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

- The strategic and operational direction of the Company;
- Annual budget targets and significant deviations from budgets;
- Significant changes in the drug development pipeline;
- Investments outside the Company's ordinary course of business (including in-licensing) in excess of € 2.5 m;
- Establishing and acquiring companies or changing the Group structure;
- Business contracts outside the Company's ordinary course of business that have significantly different risk profiles;
- Out-licensing contracts worth in excess of € 5 m;
- Granting loans or liens, providing guarantees, issuing bonds or any measures of capital acquisitions;
- Buying or selling real estate property; and
- Establishing new business operations or significantly revising existing business operations.

The Supervisory Board has its own internal rules of procedure (see www.evotec.com; Investor Relations section) and complies with the Code's suggestion to hold occasional separate discussions.

The Supervisory Board was informed about one potential conflict of interest among any of its members in the course of 2016. When at its June 2016 meeting the Supervisory Board discussed and approved the investment of Evotec into Carrick Therapeutics as part of a large Series A funding consortium to become 4.57% shareholder in Carrick Therapeutics, Elaine Sullivan, CEO of Carrick Therapeutics, considered herself as conflicted and left the meeting for the discussion and resolution.

Information on the professional affiliations of board members and on related party transactions can be found on pages 114 and 118.

WORK IN SUPERVISORY BOARD COMMITTEES IN ACCORDANCE WITH THE CORPORATE GOVERNANCE CODE

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

Evotec's Audit Committee, comprising three members, supports the Supervisory Board in independently monitoring the Company's financial reporting activities and in auditing reports. In particular, the Audit Committee scrutinises the Company's accounting processes, the effectiveness of the internal control system and the audit. In addition, it discusses the quarterly and half-year reports with the Management Board. Within the scope of the audit of the financial statements commissioned by the Supervisory Board, the Audit Committee also discusses certain steps and procedures of the audit with the appointed auditing firm, including the auditors' independence, the additional services rendered by the auditor, the issuing of the audit mandate to the auditing firm, the determination of auditing focal points, the fee agreement and compliance issues. The members of the Audit Committee possess the required skills and experience. As a Chief Financial Officer, the Audit Committee's Chairman Bernd Hirsch not only is independent, but also has the required specialist knowledge and experience in the application of accounting principles and internal control processes. Neither the Chairman of the Supervisory Board nor a former member of the Management Board may become Chairman of the Audit Committee. Evotec's Audit Committee Charter can be found on the Company's website (www.evotec.com) in the Investor Relations section.

The main duties and responsibilities of the Company's Remuneration and Nomination Committee are to prepare the appointment of Management Board members and to prepare recommendations concerning their remuneration system and Share Performance Plan. Final decisions are made by the full Supervisory Board. For information about the appropriateness of the compensation of individual board members please see page 70 of the "Remuneration Report".

More details on the activities of the Supervisory Board can be found in the "Supervisory Board Report" on page 20.

TENURES AND COMPOSITION OF SUPERVISORY BOARD COMMITTEES*

	END OF TENURE[1]	AUDIT COMMITTEE	REMUNERATION AND NOMINATION COMMITTEE
Prof. Dr Wolfgang Plischke (Chairman)	2019		× (Chair)
Bernd Hirsch (Vice Chairman)	2019	× (Chair)	×
Dr Claus Braestrup	2019	×	
Prof. Dr Paul Linus Herrling	2019		×
Prof. Dr Iris Löw-Friedrich	2019	×	
Dr Elaine Sullivan	2019		×

[1] *Following the AGM in June 2019*

* *Information on the professional affiliations of Supervisory Board members can be found on page 118.*

SUPERVISORY BOARD EFFICIENCY AUDIT

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

ANNUAL GENERAL MEETING

Shareholders may exercise their voting rights at the AGM. Each share entitles the shareholder to one vote. This year's Annual General Meeting, at which approx. 36% of the share capital was represented, took place in Hamburg on 14 June 2016.

Evotec offers shareholders who are unable to attend the AGM the opportunity to access key parts of the event live on the internet. The Company also encourages non-attendees to exercise their voting rights by arranging for independent proxies who are bound to the shareholders' instructions. Shareholders may also authorise a person of their choice to represent them at the meeting. The possibility of a postal vote was not available at the AGM 2016.

The remuneration system for the Management Board has not changed since the AGM 2012.

Remuneration report

Section 4.2.5 of the Code stipulates that the Remuneration Report should be part of the Notes or the Management Report. Accordingly, the remuneration of Management Board members, divided into fixed and variable compensation components as well as any fringe benefits, and remuneration of Supervisory Board members is reported in the "Remuneration Report" of the Management Report on page 70.

Directors' Dealings and shareholdings

OWNERSHIP OF SHARES AND OPTIONS BY BOARD MEMBERS

The share ownership of members of the Management Board and of the Supervisory Board on 31 December 2016 was as follows: see table below.

DIRECTORS' SHAREHOLDINGS AS OF 31 DECEMBER 2016

	SHARES	STOCK OPTIONS	SHARE PERFORMANCE AWARDS
Management Board			
Dr Werner Lanthaler	*546,494*	*840,000*	*1,062,951*
Enno Spillner	–	–	*53,212*
Dr Cord Dohrmann	*46,218*	*340,000*	*423,721*
Dr Mario Polywka	*60,000*	*78,186*	*431,980*
Supervisory Board			
Prof. Dr Wolfgang Plischke	–	–	–
Bernd Hirsch	–	–	–
Dr Claus Braestrup	–	–	–
Prof. Dr Paul Linus Herrling	–	–	–
Prof. Dr Iris Löw-Friedrich	–	–	–
Dr Elaine Sullivan	–	–	–

DIRECTORS' DEALINGS

Under the Securities Trading Act ("Wertpapierhandelsgesetz"), the members of the Supervisory Board and the Management Board of Evotec as well as persons who have a close relationship with these persons are obligated to report trading in Evotec stock so long as the transactions exceed in aggregate € 5,000 (the de minimus threshold) per calendar year. In addition, Evotec has established an Insider Trading Policy (see www.evotec.com; Investor Relations section) that sets standards for board members' and employees' trading in Evotec shares and thus ensures transparency.

During 2016, the following two Directors' Dealings were reported:

DATE	NAME	POSITION	TYPE	NO OF ITEMS	PRICE	TOTAL
16 August 2016	Werner Lanthaler	Member of Management	Purchase (Stock option programme)	29,220	€ 2.65	€ 77,433.00
29 March 2016	Werner Lanthaler	Member of Management	Purchase	20,000	€ 3.07	€ 61,446.84

Corporate Governance practices

COMPLIANCE AND CODE OF CONDUCT

Evotec's corporate culture is committed to the highest standards of openness, integrity and accountability. A key element of integrity is compliance, which means adherence to both, the applicable laws and Company's internal policies. Evotec's commitment to a compliance-oriented culture is reflected in Company's Code of Conduct, which stipulates fundamental ethical principles, such as integrity and professionalism, that apply to board members and other employees alike.

The Code of Conduct sets standards for
- Accounting and the permissible use of the Company's funds and assets;
- Compliance with insider trading laws and prevention of conflicts of interest;
- Compliance with antitrust legislation;
- Compliance with anti-corruption laws and associated internal guidelines;
- A work environment free of any form of discrimination and harassment;
- Non-disclosure and protection of intellectual property and business secrets; and
- The duty to report upon the suspicion of an infringement of the Code of Conduct (whistle-blowing), except for France where such whistle-blowing will be considered in combination with the roll-out of the electronic Compliance Training.

Evotec does not tolerate any violation of applicable laws or internal policies.

The Code of Conduct is published on the Evotec website (www.evotec.com) in the Investor Relations section.

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

The Compliance Programme of Evotec AG is overseen by the Company's Compliance Officer, functioning as an independent and objective body that reviews and evaluates compliance issues/concerns within the organisation and is regularly trained via a group-wide (except France) electronic Compliance Training tailored to the specific compliance issues and associated risks at the Company. The aim is to maintain permanent compliance awareness within all areas of Evotec's business to ensure that any decision is in line with Evotec's compliance best practices and to mitigate compliance risks. Said training is mandatory for all board members and other employees. The Company's Compliance Officer monitors the participation in the training at regular intervals.

Another important aspect of accountability and transparency is a mechanism to enable all Evotec employees to voice concerns in a responsible and effective manner. Suspected compliance violations can be reported to an employee's responsible line manager, the Company's Compliance Officer or may also be reported to a worldwide compliance (whistle-blowing) hotline which is available 24 hours a day, 7 days a week. The latter can also be done anonymously, except for France where such whistle-blowing will be considered in combination with the roll-out of the electronic Compliance Training. In 2016, no reports via the central compliance hotline were registered.

Further information can be found in the "Corporate Social Responsibility (CSR) and Code of Conduct" section on page 56 in the Management Report.

SUSTAINABILITY

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

Further information can be found in the "Sustainability Report" on page 55 in the Management Report.

RISK MANAGEMENT

An important element of sound Corporate Governance is dealing responsibly with risks. Evotec has established an effective risk and opportunities management system that enables the Management Board to detect and react to relevant risks and market developments in good time. The Management Board reports on these to the Supervisory Board. The Company's risk and opportunities management system and policies are covered by the annual audit of financial statements. Details can be found in the Management Report on page 58.

Further information

AUDIT OF FINANCIAL STATEMENTS

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

EQUITY INVESTEES AND STOCK OPTION AND SHARE PERFORMANCE PLANS

A list of substantial equity investees as well as details on the Company's stock option and share performance plans can be found in the Consolidated Financial Statements on pages 105 and 115.

INVESTOR RELATIONS/TRANSPARENCY

Evotec AG informs its shareholders, financial analysts, the media and the public on a regular basis about its progress. In doing so, the Company complies with all requirements of the Code regarding transparency, timeliness, openness and shareholder equality. Evotec is committed to fair disclosure of information and its communication is governed by a Company Disclosure Policy. It is a prime concern of the Company that all relevant target groups receive the same information at the same time, and this implies communicating in both English and German. The Company's publications are available on its website www.evotec.com in the Investor Relations section.

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

Evotec places great emphasis on a continuous dialogue with financial analysts and investors. It conducts at least one analyst meeting every year and telephone conferences when quarterly financial results are published, while ensuring that no stakeholder receives preferential information. In 2016, management presented the Company at fourteen national and international investor conferences.

Prof. Dr Wolfgang Plischke
Chairman of the Supervisory Board

Supervisory *Board Report*

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

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

Evotec's Supervisory Board consists of six members – as provided in the current Articles of Association – all of whom are elected by the shareholders by a simple majority of the votes cast at an Annual General Meeting ("AGM"). The Supervisory Board appoints a Chairman and one Vice Chairman from among its members. The members of the Supervisory Board are elected for a term of five years and may be re-elected. The term of all members of Evotec's Supervisory Board will expire at the end of the AGM 2019.

A significant proportion of the Supervisory Board's work is conducted in committees. Pursuant to the German Stock Corporation Act and the recommendations of the German Corporate Governance Code, Evotec's Supervisory Board has established an Audit Committee as well as a Remuneration and Nomination Committee from among its members. Members of both committees are appointed in accordance with the Code. For detailed information about the composition of the Supervisory Board and its committees, please go to the "Corporate Governance Report" on page 16 of Evotec's Annual Report 2016.

In the course of 2016, the Supervisory Board held four formal meetings and one extra-ordinary meeting to discuss the operational and strategic developments of Evotec AG. The Audit Committee convened separately for four telephone conferences and the Remuneration and Nomination Committee convened for three times in face-to-face meetings.

The individual participation of the Supervisory Board members as of 31 December 2016 in meetings of the Supervisory Board of Evotec AG and its committees in fiscal year 2016 was as follows:

SUPERVISORY BOARD MEMBER	NUMBER OF SUPERVISORY BOARD AND COMMITTEE MEETINGS	PARTICIPATION	PRESENCE*
Prof. Dr Wolfgang Plischke (Chairman)	8	8	100%
Bernd Hirsch (Vice Chairman)	12	12	100%
Dr Claus Braestrup	9	9	100%
Prof. Dr Paul Linus Herrling	8	7	88%
Prof. Dr Iris Löw-Friedrich	9	7	78%
Dr Elaine Sullivan	8	7	88%

** Commercially rounded*

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

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

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

▸ In March 2016, the Supervisory Board discussed and approved the 2015 annual financial statements in the presence of the auditors and approved the bonus payments for the Management Board members for their performance in 2015. The Supervisory Board also discussed and approved the new management contracts for the Chief Executive Officer and the Chief Financial Officer as well as the corporate objectives for 2016 and the preliminary agenda for the AGM 2016.

▸ In June 2016, the Supervisory Board focused on the upcoming AGM, the operational business of the Company and on strategic development opportunities, including corporate formation opportunities by participating in certain financing rounds of collaboration partners that already have an existing relationship with Evotec.

▸ In its September 2016 meeting, the Supervisory discussed the potential acquisition of 100% shares in Cyprotex PLC, a specialist pre-clinical contract research organisation in ADME-Tox and DMPK headquartered in the UK, subject to detailed due diligence. Furthermore, the Supervisory Board discussed and approved the grant of new Share Performance Awards to the Management Board.

▸ In an extraordinary meeting in November 2016, the Supervisory Board approved the acquisition of 100% shares in Cyprotex PLC.

▸ In December 2016, the Supervisory Board reviewed and approved the budget and guidance for the year 2017 as well as regular Corporate Governance matters. It discussed the performance of the Company in 2016 and the Company's five-year mid-range plan including potential development, acquisition and further corporate formation opportunities.

The financial statements and the Management Report for Evotec AG for the fiscal year 2016 as well as the Consolidated Financial Statements together with the consolidated Management Report of the Evotec Group were audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Hamburg. The managing auditor of Ernst & Young for the Evotec Group is Eckehard Schepers. He has been in charge since the AGM 2014. The auditors issued an unqualified audit opinion.

In preparation for the Supervisory Board meeting on 24 March 2017, the auditors presented the status of the 2016 audit, a summary of key audit findings and other relevant topics to the Audit Committee. The Audit Committee used this information as a guideline for its own evaluation of the statements and reports. The auditors participated in the meeting of the full Supervisory Board in March 2017 and presented a comprehensive report on the audit and their observations. The Supervisory Board examined both the financial statements and the Consolidated Financial Statements prepared by the Management Board based on its own judgment, taking into account the Audit Committee's input as well as information on key topics provided by the auditors. Following this, the Supervisory Board approved the financial statements of Evotec AG and the Consolidated Financial Statements for the year 2016.

The Supervisory Board was informed about one potential conflict of interest among one of its members in the course of 2016. At its meeting in June 2016, the Supervisory Board discussed and approved Evotec's investment into Carrick Therapeutics as part of a large Series A funding consortium to become a 4.57% shareholder in Carrick Therapeutics. Elaine Sullivan, CEO of Carrick Therapeutics, considered herself as conflicted and left the meeting for the discussion and resolution.

The Supervisory Board thanks the Management Board and the Company's employees for their hard work during the year and wishes them ongoing success for 2017.

Hamburg, 24 March 2017

The Supervisory Board
Prof. Dr Wolfgang Plischke

Group Management

REPORT RE'16

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The Evotec Group

ORGANISATIONAL STRUCTURE AND BUSINESS ACTIVITIES

— BUSINESS MODEL —

Evotec is a drug discovery partnership company providing drug discovery solutions to pharmaceutical and biotechnology companies, academic institutions as well as to foundations and not-for-profit organisations. With a large pool of highly experienced scientists, state-of-the-art technology platforms, first-class scientific operations and key therapeutic expertise in the areas of neuronal diseases, diabetes and complications of diabetes, pain and inflammation, oncology and infectious diseases, Evotec aims to identify and develop best-in-class and first-in-class differentiated therapeutics for collaborators or for its own internal pipeline development.

The Company operates and manages its business activities under its two business segments EVT Execute and EVT Innovate.

EVT Execute provides stand-alone drug discovery services on a typical fee-for-service basis or integrated drug discovery collaborations on partners' targets through a variety of commercial structures including research fees, milestones and/or royalties.

EVT Innovate develops drug discovery programmes and assets, both internally or through academic collaborations. Evotec seeks to partner these into collaborations in return for upfront payments, ongoing research payments and significant financial upside potential through milestones and royalties.

Further information on Evotec's segments can be found in the section "Corporate objectives and strategy" on page 27 of this Management Report.

— GROUP STRUCTURE —

Evotec AG, founded in 1993, is a publicly listed stock corporation operating under German law. Evotec AG is the parent company of the Evotec Group and is headquartered in Hamburg (Germany).

Evotec's Group structure reflects the strategic international direction of the Company. Developing and acquiring businesses with assets that support the Company's strategy is a vital part of Evotec's growth. With affiliates in Germany, the UK, France and the USA, the Group has proven that it is capable of integrating acquisitions and achieving both operational and technological synergies irrespective of geography. All consolidated subsidiaries and other equity investments are listed in Note (33d) to the Consolidated Financial Statements.

MAJOR OPERATING ENTITIES[1)]
as of 31 December 2016

EVOTEC AG, HAMBURG, D					
Evotec (UK) Ltd. Abingdon, UK 100%	Cyprotex Discovery Limited Macclesfield, UK 100%	Evotec International GmbH Hamburg, D 100%	Evotec (München) GmbH Munich, D 100%	Evotec (France) SAS Toulouse, F 100%	Evotec (US), Inc. South San Franciso, USA 100%
	Cyprotex US, LLC Watertown, USA 100%				

1) *Indirect and direct holdings*

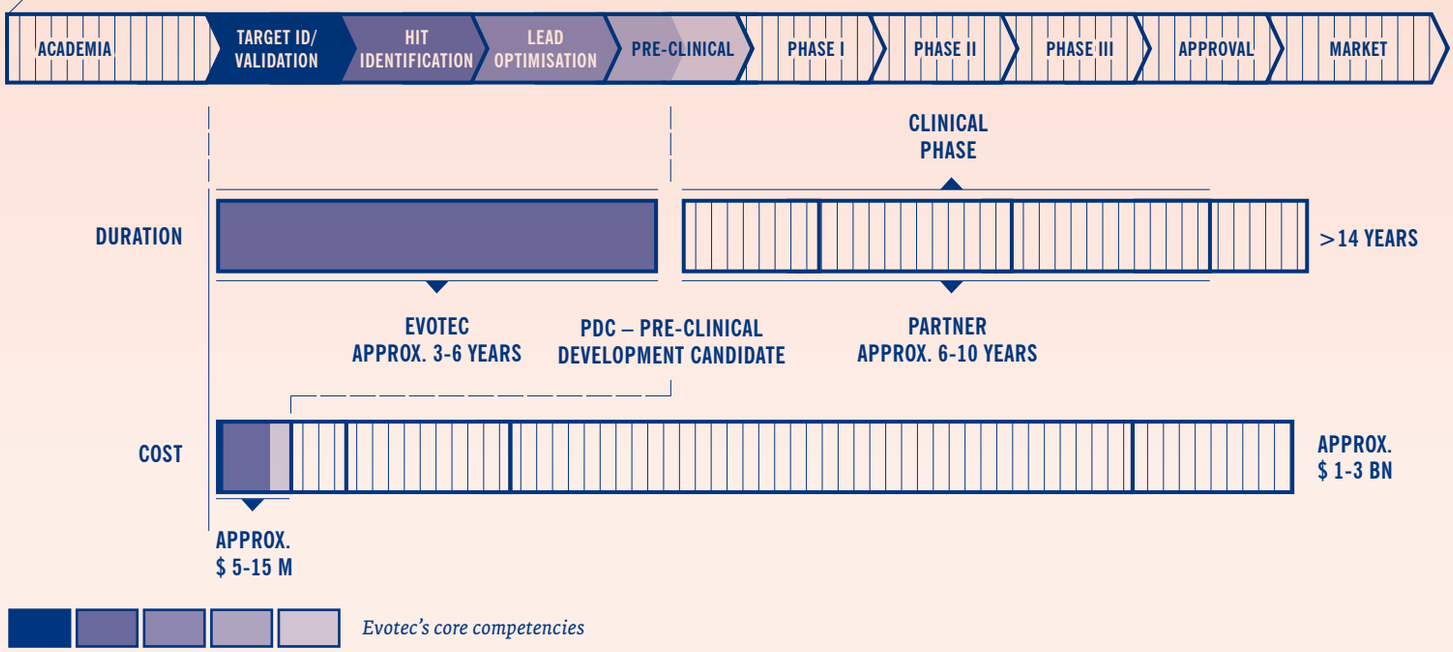
Effective 14 December 2016, Evotec acquired UK-based Cyprotex PLC ("Cyprotex") and its fully owned subsidiaries, whose operations will be integrated into the Evotec Group in 2017.

Including the newly acquired Cyprotex sites, major operating sites exist in Abingdon, Manchester, Macclesfield and Alderley Park (UK), Hamburg, Göttingen and Munich (Germany), Toulouse (France), and South San Francisco, Branford, Princeton, Watertown and Kalamazoo (USA). Employees in Germany, the USA, the UK, France and Japan handle Evotec's international business development activities, which are closely integrated with the Group's operations.

— EVOTEC'S PRODUCTS AND SERVICES —

Evotec's core expertise in the life sciences market lies in early-stage drug discovery. Evotec's drug discovery platform and business deliver an industrialised, cutting-edge, comprehensive and unbiased infrastructure to meet the industry's need for innovation in drug discovery and to accelerate the population of its partners' drug discovery portfolios.

EVOTEC'S POSITIONING IN THE DRUG DISCOVERY AND DEVELOPMENT PROCESS



(Source: Company information; Paul et al. Nature Reviews Drug Discovery, 9 (2010))

Drug discovery services

Evotec's capabilities span the key stages of drug discovery encompassing the complete value chain of pre-clinical drug discovery. An overview of all integrated disciplines is provided in the diagram below and more detailed information on Evotec's offering can be found in the Services section on Evotec's website (www.evotec.com).

OVERVIEW OF EVOTEC'S DRUG DISCOVERY OFFERING

TARGET ID & VALIDATION

- Molecular biology and cloning
- Bioinformatics
- *In vitro* target validation
- *In vivo* target validation
- Target deconvolution

SCREENING

- Assay development & screening
- (u)HTS[1)]
- High-content screening
- Microbiological phenotypic screening (class 2)
- Electrophysiology
- *In silico* screening technologies
- Fragment-based drug discovery
- Compound & Sample management
- Chemo-proteomic
- Phosphoproteomics

HIT-TO-LEAD

- Medicinal chemistry
- Hit expansion
- Library design
- High-throughput chemistry
- Target deconvolution
- Protein-ligand crystallography
- *In vitro* & *in vivo* biology
- ADME-Tox[2)] & DMPK[3)]
- *In vivo* proof of concept
- Microbiological testing and characterisation (MICs[4)], MBCs[5)], MoA[6)] determination)

LEAD OPTIMISATION

- Medicinal chemistry
- *In vitro* & *in vivo* biology Disease biology and target class expertise
- Cellular selectivity analysis and MoA[6)] analysis
- Translational assays
- Computational chemistry and structure-based drug design
- *In silico* & *in vitro* ADME-Tox[2)] & DMPK[3)]
- Biomarker discovery
- PKPD[7)] profiling and mathematical modelling
- Early drug formulation & solid form screening

[1)] *Ultra-high throughput screening*
[2)] *Absorption, distribution, metabolism, excretion, toxicity*
[3)] *Drug metabolism and pharmacokinetics*
[4)] *Minimum inhibitory concentration*
[5)] *Minimum bactericidal concentration*
[6)] *Mode of action*
[7)] *Pharmacokinetics and pharmacodynamics*

Asset portfolio

Strategically, Evotec is active in several therapeutic areas, such as neuronal diseases, diabetes and complications of diabetes, pain and inflammation, oncology and infectious diseases. The Company has a large portfolio of revenue-generating programmes as well as a number of product opportunities being positioned for partnering. The strategy for the asset portfolio is to partner the programmes early in the discovery chain or in some cases to develop them up to pre-clinical candidate ("PDC") nomination and then seek to partner where the subsequent pre-clinical and clinical development is managed by the partner. Evotec seeks to identify appropriate business models for each project, however in all cases aims to capture maximum value through research funding, milestones and royalties on potential products. Further information on this approach can be found in the "Corporate objectives and strategy" chapter on page 27. An overview of Evotec's portfolio is given on page 33 of this Management Report.

Alliances and partnerships

Since its inception in 1993, Evotec has been involved in more than 250 partnerships and has delivered more than 30 pre-clinical candidates as well as 20 clinical candidates. Evotec's partners include many of the Top 20 pharmaceutical companies, many biotechnology and mid-sized pharmaceutical companies, academic institutions, foundations and not-for-profit organisations. In 2016, Evotec continued to deliver in many established, long-term partnerships and also entered into many new significant collaborations. An overview of Evotec's Top 3 customers in 2016 is given in the table "Development of Top 10 collaborations" on page 30 of this Management Report. Further information on Evotec's alliances and partnerships is provided in the "Performance Measurement" chapter under "Quality of drug discovery solutions and performance in discovery alliances" on page 29 of this Management Report.

— MARKET AND COMPETITIVE POSITION —

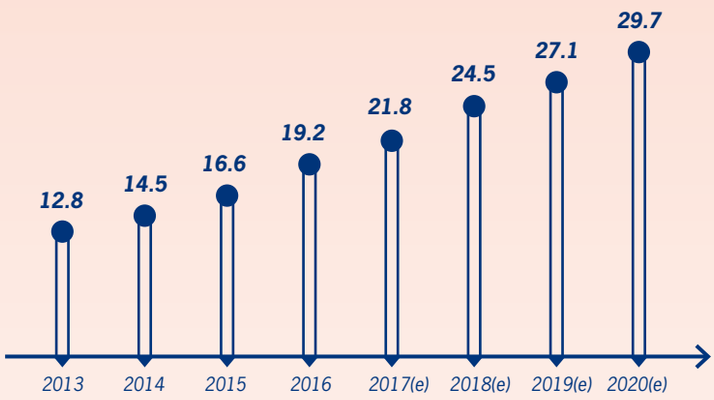
The drug discovery outsourcing market and Evotec's competitive position (EVT Execute business)

Over more than a decade, the global pharmaceutical industry has suffered from decreasing efficiency in new product launches. Research and development costs have escalated over the years, yet product pipelines are not producing the returns experienced in earlier decades. This trend has led to restructuring of research and development with significant downsizing of the relevant departments within many large Pharma companies and an increased need and willingness to outsource activities traditionally performed in-house. In 2016, this trend continued. Through the use of external innovation solution providers, fixed costs can be converted into variable costs. This outsourcing model also provides expertise in selected areas without the client needing to maintain or build internal capabilities and infrastructure, thereby reducing their development risk.

Based on research by Visiongain, the drug discovery outsourcing market generated $ 14.5 bn in global revenues in 2014. This number is expected to increase to $ 27.1 bn by 2019 and $ 41.2 bn by 2025, representing an annual growth rate of 13.3% between 2014 and 2019. This forecast indicates that the market for Evotec's drug discovery services will continue to grow, although this must also be addressed against a backdrop of slow decision making and continued market consolidation.

MACRO TREND DRUG DISCOVERY OUTSOURCING – MARKET OVERVIEW

Revenues, in $ bn



(Source: "Drug Discovery Outsourcing World Market 2015–2025" report, Visiongain)

Over the years, contract service providers have expanded their service offerings to better meet the needs of full-service outsourcing across the drug discovery value chain. Contracts vary in their agreement types, ranging from strategic, integrated partnerships to stand-alone service agreements for specific activities and tactical demand. Amongst its peers in the Western markets, Evotec is one of the largest and financially most stable drug discovery providers with a unique hybrid model, critical mass and a long-standing track record of success. The Company is positioned to exploit the expected increase in strategic outsourcing opportunities being one of the few drug discovery companies in the world that can provide both innovative research projects and assets as well as a comprehensive range of drug discovery services.

The markets of Evotec's strategic research focus areas and Evotec's competitive position (EVT Innovate business)

In addition to its third-party drug discovery activities, Evotec has ongoing alliances and partnerships with pharmaceutical and biotechnology companies, not-for-profit organisations, foundations and academic institutions, mainly in the disease areas of neuronal diseases (especially neurodegenerative diseases including Alzheimer's disease), diabetes, oncology, pain, inflammation and infectious diseases. These disease areas present markets with huge unmet medical needs and significant opportunities. Background information on the therapeutic markets of these disease areas are given below.

Neuronal diseases

According to the World Health Organization ("WHO"), over 450 million people suffer from central nervous system ("CNS") disorders globally. The WHO estimates that the burden of brain disorders constitutes 35% to 38% of the total burden of all diseases. A rapidly increasing geriatric population base results in elevated incidence levels of CNS diseases. CNS disease treatments, though exclusively palliative, already represent one of the three main therapeutic areas worldwide and are expected to reach sales of approximately $ 108 bn in 2017 according to the Jain PharmaBiotech Report (2008), putting them close to cardiovascular diseases and oncology.

Evotec has been actively involved in drug discovery and development in neuronal diseases and in particular neurodegenerative diseases for many years and has built a best-in-class platform to address the challenges in discovering drugs in this challenging area. An example of this is high-throughput screening in induced pluripotent stem cell ("iPSC")-derived neurons with the intent of identifying novel therapeutic compounds which has the potential to lead to a paradigm shift in drug discovery. Evotec has built an industrialised iPSC infrastructure that represents one of the largest and most sophisticated platforms in the industry. This effort was enabled in part by a research collaboration and licence agreement with Harvard University, involving world-leading scientists at the Harvard Stem Cell Institute and through Evotec's long-standing collaboration with the CHDI Foundation in the field of Huntington's disease. At the end of 2016, Evotec and Celgene Corporation ("Celgene") entered into a strategic drug discovery and development collaboration to identify disease-modifying therapeutics for a broad range of neurodegenerative diseases using this platform.

Diabetes and diabetic complications

Diabetes mellitus ("Diabetes") is a chronic incapacitating disease associated with severe lifelong conditions which require intensive monitoring and control, such as cardiovascular diseases, kidney diseases, nerve damage and eye diseases. At present, there is no cure for diabetes and only symptomatic treatment options are available. According to the International Diabetes Federation, approximately 415 million people worldwide have diabetes in 2015 (2014: 387 million). Of these, about 46.5% have not yet been diagnosed and are at risk of costly and debilitating diabetes complications. Concerning the diabetes market volume, approx. $ 673 bn was spent on the treatment of diabetes in 2015 (2014: $ 612 bn).

Evotec has more than ten years of experience in metabolic disease drug discovery. Evotec's primary focus is on the identification of novel mechanisms and targets that have the potential to become disease modifying, preventing or even reverting disease progression. Evotec has accumulated significant capabilities in beta cell biology in pursuit of disease-modifying mechanisms such as beta cell regeneration and protection and through this has built a unique portfolio of partnerships and approaches pursuing potentially first-in-class products. In 2016, Evotec signed a strategic partnership with Bayer to develop novel mechanisms in the field of kidney diseases. Furthermore, Evotec joined forces with Ellersbrook GmbH & Co. KG, ("Ellersbrook"), a life science focused investment firm, to jointly accelerate a programme in non-alcoholic steatohepatitis ("NASH").

Oncology

According to the International Agency for Research and Cancer, there were 15.2 million new cancer cases and 8.9 million cancer deaths in 2015. Cancer deaths are expected to increase to more than 13 million by 2030. According to IMS Health, oncology-related drug sales are expected to rise to approximately $ 150 bn in 2020.

The development of new, targeted cancer drugs for the treatment of specific cancers continues to be of great importance. Furthermore, innovative technologies such as a focus on epigenetic drug therapies or cancer immunotherapies may represent a paradigm shift in the way cancer is treated. Evotec has a long history of contributing to the oncology field through partners, both industrial and not-for-profit, and offers a wealth of drug discovery and biomarker discovery experience. In 2016, Evotec continued to focus its research on oncology and entered into a partnership with *ex scientia* Ltd (*"ex scientia"*) to discover bispecific small molecule immuno-oncology therapeutics. Additionally, the Company entered into a research collaboration with Inserm Transfert, the private subsidiary of the French National Institute of Health and Medical Research ("Inserm"), thereby initiating the translation of promising cutting-edge science from French academic institutions into pharmaceutical product candidates.

Pain, inflammation and infectious diseases

Evotec has substantial experience and expertise in key therapeutic areas including pain, inflammation and infectious diseases. Over the last decade, Evotec has collaborated with a variety of biotech and Pharma companies in these therapeutic areas, such as the multi-target collaboration in endometriosis with Bayer. In this alliance, a first programme was progressed into Phase I clinical development in 2016 and a number of pre-clinical milestones were also achieved. Evotec continued to grow its expertise and experience in antibacterial research and leveraged its capabilities in concert with expert academic groups to deliver new options for therapeutic intervention against resistant bacterial infections where there is an urgent and serious medical need. According to Grand View Research, the antibiotics market was valued at $ 39.8 bn in 2015 and is expected to grow at a CAGR of 4.0% until 2024. With the goal of discovering new ways of addressing the growing antibiotic resistance in patients, Evotec announced an integrated drug discovery collaboration with Antibiotic Research UK ("ANTRUK"). Furthermore, Evotec formed a strategic alliance with Forge Therapeutics, Inc. ("Forge Therapeutics") in 2016 addressing bacterial infections including those caused by drug-resistant superbugs.

More information regarding Evotec's alliances and partnerships as well as its internal early-stage assets can be found in the "Research and development" chapter on page 32 of this Management Report.

CORPORATE OBJECTIVES AND STRATEGY

Evotec's objective is to be the global industry leader in drug discovery, providing drug discovery services of highest quality as well as innovative projects and drug candidates to the pharmaceutical industry. Revenue-generating partnerships provide near-term growth and profitability while a broad and deep pipeline of first-in-class partnered product is expected to generate significant long-term value. Through this model, Evotec aims to continuously increase the value of the Company for its shareholders.

Evotec's strategy is transparent and long-term oriented. The Company translates first-in-class innovation into high-potential projects ready for partnering and aims to bring drugs to the patient ultimately via its partners in the pharmaceutical and biotech industry. In addition, Evotec very selectively invests into early-stage companies that utilise Evotec's drug discovery platform.

Today, Evotec has established a global leadership position in the high-quality drug discovery outsourcing space. The Company has an industrialised, cutting-edge, comprehensive and unbiased drug discovery platform which enables it to meet the industry's need for innovation and efficiency in drug discovery. Evotec has built a deep internal knowledge base in the therapeutic areas of neuronal diseases, diabetes and complications of diabetes, pain and inflammation, oncology and infectious diseases. Evotec partners with pharmaceutical companies, biotech companies, not-for-

profit organisations and foundations through its two business segments: EVT Execute and EVT Innovate. These segments effectively comprise various project types operating from a common drug discovery platform. Both of them play an important role in successfully delivering on the Company's strategy.

- **EVT Execute:** The EVT Execute segment provides stand-alone or integrated drug discovery solutions for collaborators' targets and programmes on a typical fee-for-service basis or through a variety of commercial structures, which may include research fees, milestones and royalties. Projects are selected to match Evotec's expertise and technology.

- **EVT Innovate:** The EVT Innovate segment focuses on building a long-term partnered pharmaceutical pipeline from its own, internally developed assets and platforms. Evotec's programmes typically focus on first-in-class and best-in-class projects based on innovative biology or chemistry. These so-called Cure *X* or Target *X* initiatives are typically developed internally or through academic partners ('the BRIDGE from Academia to Pharma'). EVT Innovate partnerships usually include upfront and research payments as well as milestones and product royalties. In 2016, Evotec expanded its EVT Innovate segment through equity participation in selected companies.

In 2016, Evotec consistently delivered on this strategy by accelerating its portfolio building and expanding the Company's industrial drug discovery platform. In this context, Evotec acquired Cyprotex, a leading ADME-Tox/DMPK contract research organisation effective 14 December 2016. Alongside its EVT Innovate strategy, Evotec invested in companies, e.g. Topas Therapeutics GmbH ("Topas Therapeutics"), Carrick Therapeutics Ltd. ("Carrick Therapeutics") and Eternygen GmbH ("Eternygen"). Evotec also created and is an integral part of a highly innovative academic BRIDGE partnership (LAB**282**), which is focused on identifying and translating promising projects out of Oxford University through access to Evotec's industrial scale discovery platforms and drug discovery expertise. Also in 2016, significant progress was made in the further development of an iPSC drug discovery platform. In addition to the iPSC alliance in diabetes with Sanofi signed in 2015, Evotec announced a strategic iPSC-based drug discovery collaboration with Celgene in neurodegenerative diseases in December 2016.

The Company's 2016 objectives for its two business segments and major achievements are summarised in the following table:

	SPECIFIC OBJECTIVES 2016	MAJOR ACHIEVEMENTS 2016
EVT EXECUTE	▸ New long-term deals with large and mid-sized Pharma, foundations and biotech ▸ New integrated technology/disease alliance ▸ Milestones from existing alliances	▸ New long-term deals with large and mid-sized Pharma, foundations and biotech (e.g. Pierre Fabre, C4X Discovery, ANTRUK, UCB, Merck, Forge Therapeutics) ▸ New licences enhancing Evotec's platform (Trianni, CRISPR) ▸ Important milestones from existing alliances (e.g. Padlock, Bayer, Boehringer Ingelheim) ▸ Important contract extensions with numerous partners (e.g. Genentech) ▸ Phase I clinical start in endometriosis in Bayer alliance ▸ Acquisition of Cyprotex, world-leading contract research organisation in ADME-Tox and DMPK
EVT INNOVATE	▸ Partnering of Cure *X*/Target *X* initiatives ▸ Strong progress of pipeline within partnerships ▸ Expansion of network of top-class academic alliances	▸ Broad strategic drug discovery collaboration with Celgene based on Evotec's unique iPSC platform ▸ Partnering and initiation of Cure *X*/Target *X* initiatives (Target*αSN* with The Michael J. Fox Foundation for Parkinson's Research; Target*NASH* programme with Ellersbrook; Target*BiSM* with *ex scientia*; a new multi-target alliance with Bayer in kidney diseases based on Cure*Nephron*) ▸ Strong progress of EVT Innovate partnered product pipeline ▸ Expansion of network of top-class academic alliances and BRIDGE from Academia to Pharma (e.g. Inserm, LAB**282** with Oxford University) ▸ Participation in selected company formations (e.g. Topas Therapeutics, Carrick Therapeutics, Eternygen)

Evotec is strategically well-positioned to continue to deliver innovation efficiency with its unique business model and strengthen its leadership position by:

- Understanding the needs of the pharmaceutical and biotech industry for innovative new medicines,
- Serving the macro trend of outsourcing as well as driving and accelerating innovation,
- Expanding critical mass and highly experienced drug discovery expertise,
- Fostering a culture of deep understanding of disease biology in core disease areas, and
- Positioning first-in-class projects for strategic partnerships, focused on areas where breakthrough innovation is urgently needed.

The Company's objectives defined for 2017 can be found in the "Business direction and strategy" section of the "Outlook" chapter on page 66 of this Management Report.

PERFORMANCE MEASUREMENT

— FINANCIAL PERFORMANCE INDICATORS —

Financial goals set by the Management Board are continued growth, increased operating profitability and improved cash generation. The Company's long-term key financial performance indicators are designed to support these goals.

Evotec's management performs monthly financial reviews with a strong emphasis on financial performance drivers such as revenues, order book status and margins. In addition, the management reviews comprehensive cost data and analysis focused on research and development as well as selling, general and administrative expenses. The Company's performance is measured against budgeted financial targets and the prior-year performance. Liquidity levels are monitored in comparison to the forecast and defined minimum cash levels. Operating cash flows are reviewed on a regular basis with an emphasis on receipt of contract research revenues and milestones as well as on the management of capital expenditure. Treasury management is undertaken on an ongoing basis with a focus on cash management, foreign exchange ("FX") exposure, funding optimisation and investment opportunities. Value analysis based on discounted cash flow models is the most important financial evaluation and control criterion for Evotec's investment decisions regarding merger and acquisition projects and in-licensing opportunities.

— DEVELOPMENT OF FINANCIAL KEY PERFORMANCE INDICATORS —

A multiple-year overview of the performance of Evotec's financial key performance indicators for the years 2012-2016 is provided in the table below.

in T€	*2012*	*2013*	*2014*	*2015*	***2016***
Revenues	87,265	85,938	89,496	127,677	**164,507**
Research and development expenses	8,340	9,664	12,404	18,343	**18,108**
Adjusted Group EBITDA*	10,217	10,394	7,711	8,690	**36,225**
Capital expenditures	8,175	5,160	5,282	11,164	**10,003**
Liquidity**	64,159	96,143	88,822	133,940	**126,270**

** Adjusted for changes in contingent considerations and income from bargain purchase*
*** Cash and cash equivalents and investments*

A reconciliation of Adjusted Group EBITDA with operating result can be found in the "Results of operations" chapter on page 45 of the Management Report. The Company's 2016 performance compared to planned figures can be found in the "Comparison of 2016 financial results with forecast" chapter on page 42 of this Management Report.

— NON-FINANCIAL PERFORMANCE INDICATORS —

Biotechnology is a research-driven and employee-based industry. Consequently, financial information alone does not provide a comprehensive picture of the Company's value creation potential. Therefore, Evotec's management also applies non-financial performance indicators to manage the Company.

Quality of drug discovery solutions and performance in discovery alliances
The vast majority of Evotec's revenues is generated in alliances with Pharma and biotech companies, not-for-profit organisations and foundations. Thus, the most important non-financial performance indicators for Evotec are the quality of its drug discovery solutions, performance within its alliances and overall customer satisfaction.

These indicators can be measured by the total number, growth and size of alliances, the percentage of repeat business, average contract duration, new customer acquisition and the status of the Company's sales and order book. Since its inception in 1993, Evotec has continually delivered excellent results in existing programmes and has expanded its customer base and its global network of partnerships. The Company now works with approximately 200 partners across the industry. This growth and progression is summarised in the tables below.

DEVELOPMENT OF EVOTEC'S ALLIANCES*

*To the Company's knowledge, no benchmark data is available

	2012	2013	2014	2015	**2016**
Number of alliances***	96	106	150	177	**270**
Number of alliances*** > € 1 m revenues	16	15	19	21	**22**
Repeat business	86%	93%	85%	63%	**94%**
New business during the year****	29	39	82*	67	**158****

** thereof 19 related to acquisitions (Euprotec)*
*** thereof 69 related to acquisitions (Cyprotex)*
**** number of alliances equal number of customers*
***** number of new customers vs. previous year*

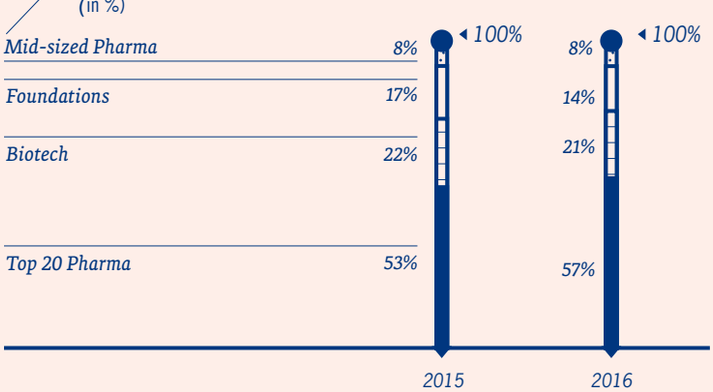
DEVELOPMENT OF TOP 10 COLLABORATIONS* (SORTED BY REPORTING YEAR)

*To the Company's knowledge, no benchmark data is available

in T€	2012	2013	2014	2015	**2016**
Top 1: Sanofi	-	-	188	38,598	**54,517**
Top 2: Bayer	512	3,998	10,867	9,038	**15,116**
Top 3: CHDI	9,905	10,423	11,177	14,011	**13,665**
Remaining Top 10	54,783	49,787	35,222	30,072	**38,423**
Total Top 10 revenues	**65,200**	**64,208**	**57,454**	**91,719**	**121,721**
Growth in %	*4%*	*(2)%*	*(11)%*	*60%*	*33%*

THIRD-PARTY REVENUES BY CUSTOMER TYPE 2015-2016

(in %)



Notably, a number of collaborations has significantly increased in size in recent years, clearly indicating customer satisfaction. In addition, the number of alliances with which Evotec generates more than € 1 m of revenues per year further increased. Evotec's number one customer by revenues in 2016 was Sanofi with € 54.5 m revenues. Except for Sanofi, no single customer contributed more than 10% to total Group revenues in 2016. Evotec's repeat business, as defined by the percentage of 2016 revenues coming from customers that the Company already had in 2015, amounted to 94%. Evotec's position as the leading high-quality drug discovery company is underlined by the continued upward trend of the total number of alliances shown in the first table.

Research and development performance in development partnerships

Evotec is a company which discovers and develops novel, innovative pharmaceuti-cal drug compounds. Therefore, the progression of drug programmes and candi-dates within Evotec's partnerships is another relevant non-financial performance indicator. The success of research, pre-clinical and clinical programmes progressed by its partners represents additional upside for the Company with no financial liability. Evotec participates in the progress and success of those programmes through milestone payments and royalties.

For a more detailed description of Evotec's advanced drug candidates and its research programmes please see the "Research and development" chapter on page 32 of this Management Report.

THE EVOTEC GROUP

STATUS OF ADVANCED DRUG CANDIDATES*, **

Drug candidate	Partner (Start of partnership)	PDC	Phase I	Phase II	Phase III	Development in 2016
EVT302	Roche (2011)					Missed primary endpoints in AD Phase IIb trial; All rights have been returned to Evotec
EVT100 series	Janssen (2012)					Janssen stopped development; Rights have been returned to Evotec, patents have been discontinued
EVT201	JingXin (2010)					All safety studies completed; Phase II ongoing
EVT401	CONBA (2012)					Ongoing
Oncology (Undisclosed)	Boehringer Ingelheim (2009)					Has been stopped in 2016
Pain (Undisclosed)	Novartis (2008)					Under review
Respiratory diseases (Undisclosed)	Boehringer Ingelheim (2009)					Pre-clinical studies ongoing
Endometriosis (Undisclosed)	Bayer (2012)					1st project in Phase 1
Inflammation/Pain (SGM-1019)	Second Genome (2015)					Completed a Phase I double blind, placebo controlled, single ascending oral dose trial in healthy subjects; Phase I ongoing
Endometriosis (Undisclosed)	Bayer (2012)					Entered pre-clinic
Endometriosis (Undisclosed)	Bayer (2012)					Entered pre-clinic
EVT770	MedImmune (2010)					Pre-clinical studies ongoing

** To the Company's knowledge, no benchmark data is available*
*** Starting with pre-clinical development stage*

— EARLY INDICATORS —

Several factors are used to evaluate, in a timely manner, whether the Company's goals will be fulfilled in the medium to long term. Early indicators used at Evotec include:

- *Current and expected developments in the market for drug discovery alliances and general trends in research and development:* Developments and trends are monitored on an ongoing basis in order to identify major changes and triggering events that can have a significant impact on the Company's product portfolio or financial position.

- *The development of Evotec's intellectual property ("IP") position:* In order to protect intellectual property, Evotec reviews its patent portfolio on a regular basis (see more details in the "Research and development" chapter on page 38 of this Management Report).

- *New business pipeline:* The monthly review of potential new business opportunities and status of negotiations is an early indicator for the sales forecast of both EVT Execute and EVT Innovate.

- *Sales and order book:* The sales and order book provides a high degree of visibility of revenues for the coming months and is updated on a monthly basis.

- *Monthly/quarterly results:* Financial monthly and quarterly results as well as regular forecasts are used for measuring the Company's current performance but also to extrapolate the development of the business in future periods.

- *Achievement of milestones in discovery alliances and development partnerships:* Milestone achievements are key revenue and cash flow drivers for Evotec. Accordingly, the development of milestone payments is an indicator of the success of Evotec's programmes and the performance of Evotec in its risk-shared alliances.

RESEARCH AND DEVELOPMENT

The core of Evotec's business is research and development ("R&D") activities to support Pharma and biotech companies, venture capital groups, academic institutions as well as foundations and not-for-profit organisations. The Company offers project-driven solutions and customised business arrangements via a highly comprehensive pre-clinical discovery and development platform. Evotec's partners may select either individual components of the platform or fully integrated solutions for their projects. Research collaborations pursued by Evotec range from strict fee-for-service arrangements to risk and reward-sharing models. Internal R&D projects are platform-, target- or therapeutic area-driven.

— DEVELOPMENT OF R&D EXPENSES —

in T€	*2012*	*2013*	*2014*	*2015*	***2016***
Clinical projects	516	106	116	83	**74**
Proprietary Innovate projects	2,972	5,246	9,027	14,433	**13,444**
Platform R&D	1,942	1,754	742	47	**69**
Overhead R&D	2,910	2,558	2,519	3,780	**4,521**
Total R&D	**8,340**	**9,664**	**12,404**	**18,343**	**18,108**
Public grants for R&D	554	425	703	456	526

In 2016, Evotec's R&D expenses amounted to € 18.1 m in line with expectations and strategic plans. Investments were made in key disease areas, especially neuronal diseases as well as the build-up of its iPSC platform.

Going forward, Evotec will continue to invest into EVT Innovate Cure *X*/ Target *X* projects to expand its pharmaceutical pipeline of proprietary product candidates that have the potential to deliver significant returns through strategic Pharma partnerships via upfront, research and milestone as well as royalty payments. The associated costs for contract research conducted under service agreements and R&D alliances with Pharma and biotech companies as well as foundations and not-for-profit organisations are not accounted for as R&D expenses in the Company's income statement but shown under "Costs of revenue".

EVT Execute contributes projects to Evotec's pipeline by entering into partnerships based on the clients' target or intellectual property and receiving research fees and upside including milestones and royalties. In contrast, EVT Innovate contributes projects, which are funded by Evotec itself, namely its Cure *X* and Target *X* initiatives. These projects form the basis of future partnerships with the potential for upfront payments, high-margin research payments and significant upside potential in the form of milestones and royalties.

Evotec's current pipeline of product opportunities (depicted below) has grown significantly over the years to about 70 in 2016.

— GROUP RESEARCH AND DEVELOPMENT ACTIVITIES —

Strategic expansion of Evotec's project pipeline

Over the last six years, Evotec has built a broad and deep pipeline of over 70 projects bearing significant financial upside in form of potential development milestone and royalty payments. All expenses for formal pre-clinical and clinical development as well as marketing of product candidates generated in these partnerships are usually covered by Evotec's Pharma and biotech partners. This pipeline of potential product opportunities spans various stages of clinical and pre-clinical development and discovery as well as various indications with high unmet medical need.

THE EVOTEC GROUP

LARGE PORTFOLIO OF PRODUCT OPPORTUNITIES WITH SIGNIFICANT UPSIDE

Molecule	Therapeutic Area/Indication	Partner	Discovery	Pre-clinical	Phase I	Phase II	Phase III
Clinical							
EVT302[1)]	CNS – Alzheimer's disease	Roche					×
EVT201	CNS – Insomnia	JingXin					
EVT100	CNS – Depression	Janssen					×
EVT401	Immunology & Inflammation	CONBA					
ND[2)]	Oncology	Boehringer Ingelheim					
ND[2)]	Oncology	Roche					
Various	Women's health – Endometriosis	Bayer					
Pre-clinical							
ND[2)]	CNS – Pain	Novartis					
ND[2)]	Immunology & Inflammation	Topas Therapeutics					
ND[2)]	Oncology	Boehringer Ingelheim					
EVT770	Metabolic – Diabetes (type 2/1)	MedImmune/AstraZeneca					
ND[2)]	Respiratory	Boehringer Ingelheim					
ND[2)]	Immunology & Inflammation	Second Genome					
Various	Women's health – Endometriosis	Bayer					
EVT801	Oncology	Sanofi					
EVT701	Oncology	Sanofi					
EVT601	Oncology	Sanofi					
Discovery							
ND[2)]	Nephrology	Bayer					
Various	Immunology & Inflammation	UCB					
Various	Metabolic – Diabetes (type 2/1)	MedImmune/AstraZeneca					
Various	Metabolic – Diabetes (type 2/1)	Harvard					
Various	Nephrology	AstraZeneca					
Various	Metabolic – Diabetes	Sanofi					
Various	CNS – Alzheimer's disease	Johnson & Johnson					
Various	Oncology – Immunotherapy	Sanofi/Apeiron Biologics					
Various	Immunology & Inflammation – Tissue fibrosis	Pfizer					
Various	Neurodegeneration	Celgene					
Various	Metabolic – Diabetes	>5 further programmes					
Various	CNS	>5 further programmes					
Various	Oncology	>10 further programmes					
Various	CNS – Pain & Inflammation	>5 further programmes					

× *[1)] EVT302 and EVT100: Partner stopped development; Evotec has regained the licence rights (EVT100 series: Patents have been discontinued)*
[2)] Not disclosed

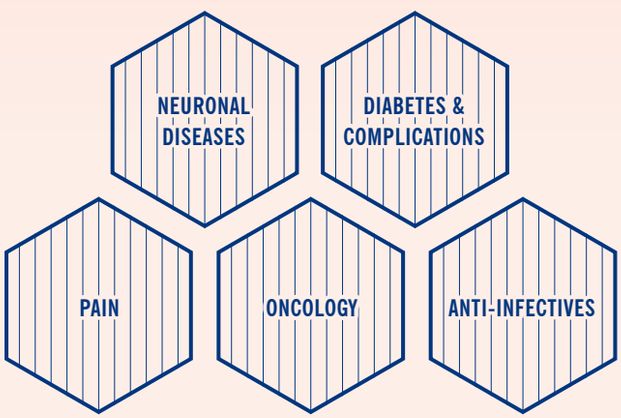
Internal research activities at Evotec

Evotec's EVT Innovate R&D projects are called Cure *X* and Target *X* initiatives. These Cure *X* and Target *X* initiatives are carefully selected discovery-stage projects that are either pursued as internal R&D projects or in collaboration with leading academic laboratories or biotech companies. Cure *X* and Target *X* initiatives that are carried out in collaboration with Academia or biotech predominantly work on the principle of risk and reward sharing, i.e. both partners contribute to the project and share potential financial rewards according to the respective contributions. The focus is on developing

product opportunities with first-in-class potential in indications of high unmet medical need and significant markets. Preferably, these initiatives pursue drug product opportunities with disease-modifying potential, i.e. mechanisms that may slow or even reverse progression of disease. The aim is to first advance and then to partner these projects to tangible value inflection points and thereby expand Evotec's proprietary pre-clinical and clinical pipeline. Evotec mainly focuses its research on five fields of core expertise as depicted below.

EVT Innovate strategy and first Cure *X* and Target *X* initiatives were started in 2010. The main objective of EVT Innovate is to create high-value partnerships delivering product opportunities in which Evotec maintains substantial upside in terms of potential milestones and royalty payments as well as research payments. Since 2010, Evotec has initiated more than 30 Cure *X*/Target *X* projects together with academic laboratories and biotech companies. So far, more than 13 EVT Innovate projects have been turned into Pharma partnerships with strategic upside value. In order to further expand this portfolio of strategic partnerships, Evotec pursues a portfolio approach in its internal research activities, continuously initiating further Cure *X*/Target *X* initiatives with the potential to create further high-value partnerships in the future. An overview of Evotec's portfolio of Cure *X*/Target *X* initiatives is shown below.

CORE DISEASE AREAS



R&D PROJECTS INITIATED WITHIN EVT INNOVATE

2011

- **Cure*Beta*** ✓ (Harvard Stem Cell Institute)

2012

- **Cure*Nephron*** ✓ (Harvard, BWH, USC, AstraZeneca)
- **Target*ASIC*** ✓ (BMBF/undisclosed Pharma partner)
- **Somatoprim** ✓ (Cortendo)
- **Target*PicV*** (Haplogen)
- **Target*Fibrosis*** ✓ (Pfizer)

2013

- **Target*ImmuniT*** ✓ (Apeiron/Sanofi)
- **Target*DBR*** (Yale)
- **Target*MB*** ✓ (Second Genome)
- **Target*PGB*** (Harvard)
- **Target*KDM*** (Dana-Farber, Belfer)
- **Target*IDX*** ✓ (Debiopharm)
- **Cure*MN*** ✓ (Harvard, Celgene)
- **Target*EEM*** (Harvard)
- **Target*AD*** ✓ (NBB/J&J)

2014

- **Target*BCD*** ✓ (Sanofi)
- **Target*DR*** (Internal)
- **Target*ATD*** (Internal)
- **Target*FX*** (Internal)
- **Target*KX*** (undisclosed)
- **Target*Cytokine*** (DRFZ/BMBF)
- **Various** (Fraunhofer Institute)

2015

- **Target*FRX*** (Internal)
- **Target*NTR*** (Internal)
- **Target*Kras*** (Internal)
- **Target*MNK*** (Internal)
- **Target*TCMR*** (Internal)

2016

- **Target*αSN*** ✓ (MJFF)
- **Target*BiSM*** *(ex scientia)*
- **Target*RhoB*** (Inserm)
- **Target*NASH*** ✓ (Ellersbrook/Internal)
- **Target*TEM*** (Internal)
- **Target*T1D*** (Topas Therapeutics)

✓ *Innovate Pharma partnerships signed since 2011*

Update on EVT Innovate activities in 2016

Pre-clinical and discovery-stage pipeline

Evotec has built a broad and deep pipeline of partnered product opportunities at pre-clinical and discovery stages over the last few years. The following paragraphs provide an outline of new partnerships and alliances based on EVT Innovate projects and overall progress in 2016.

Partnership with The Michael J. Fox Foundation in Parkinson's disease

In February 2016, Evotec announced that it has been awarded a research grant from The Michael J. Fox Foundation ("MJFF") to further develop Evotec's Target*αSN* (alpha-synuclein) programme for the treatment of Parkinson's disease. The grant from MJFF supports the development of a highly sensitive assay to quantify the amount of the alpha-synuclein protein in human nerve cells. Mutations in the alpha-synuclein gene are known to cause Parkinson's disease and aggregates of alpha-synuclein, also called Lewy bodies, are the hallmark pathology of the disease. Reducing the levels of mutated alpha-synuclein protein in the brain of Parkinson's disease patients is believed to be a promising treatment approach.

Partnership with ex scientia in immuno-oncology

In April 2016, Evotec initiated a collaboration with *ex scientia* with the objective to discover and develop first-in-class bispecific small molecule immuno-oncology therapies. Application of bispecific small molecules is an exciting strategy to significantly expand and enhance efficacy beyond conventional single target therapies. The initial focus will be cancer-related adenosine targets, which are increasingly recognised to play an important role in immuno-oncology. Combining adenosine-based mechanisms with related targets holds great promise in boosting efficacy and addressing larger patient populations through a single small molecule drug.

Partnership with Ellersbrook in fatty liver disease

In June 2016, Evotec and the investment company Ellersbrook (Germany) joined forces to invest into Evotec's internal Target*NASH* (non-alcoholic steatohepatitis) programme. Ellersbrook is a life science focused investment firm owned by Dr Herbert Stadler, a renowned biotech entrepreneur. Ellersbrook and Evotec jointly committed more than € 5 m in funding for an initial period of up to three years. In this joint investment, Evotec is contributing a well-defined Cure *X*/Target *X* programme (Target*NASH*) and designs and executes the business plan in cooperation with Ellersbrook. The goal is to accelerate Target*NASH* projects during an incubator period to tangible value points which will form the basis of either an independently financed spin-off company or a strategic Pharma partnership. Target*NASH* is a highly systematic approach to NASH identifying novel mechanisms and targets with the potential to lead to disease-modifying therapies.

Partnership with Bayer in chronic kidney disease

In September 2016, Evotec and Bayer announced the start of a five-year, multi-target research partnership. The goal of this collaboration is the development of multiple clinical candidates for the treatment of kidney diseases with a particular focus on chronic kidney diseases including diabetic nephropathy. Both companies contribute novel drug targets and a comprehensive set of high-quality technology platforms to jointly develop innovative treatment options for these severe conditions. The partners share responsibilities during pre-clinical development of potential clinical candidates. Under the terms of the agreement, Bayer receives exclusive access to selected candidates as well as to Evotec's Cure*Nephron* target pipeline. Bayer will be responsible for any subsequent clinical development and commercialisation. Evotec will receive a minimum of € 14 m over the contract period including research payments and an undisclosed licence fee. In addition, Evotec is eligible to receive pre-clinical, clinical and sales milestones of potentially over € 300 m as well as tiered royalties of up to low double-digit percentage of net sales.

Partnership with Celgene in neurodegeneration

In December 2016, Evotec announced the start of a strategic drug discovery and development collaboration with Celgene to identify disease-modifying therapeutics for a broad range of neurodegenerative diseases with an initial focus on Amyotrophic lateral sclerosis, Alzheimer's disease, Parkinson's disease and multiple other neurodegenerative disorders. The initial term of the collaboration is five years. Evotec has built an industrialised iPSC infrastructure that represents one of the largest and most sophisticated iPSC platforms in the industry. Evotec's iPSC platform has been developed over the last five years with the goal to industrialise iPSC-based drug screening in terms of throughput, reproducibility and robustness to reach the highest industrial standards. This effort was enabled by a research collaboration and licence agreement with Harvard University involving world-leading scientists at the Harvard Stem Cell Institute. In particular, a collaboration termed Cure*MN (Motor Neuron)* that was initiated in 2013 with the laboratories of Professors Kevin Eggan, PhD, and Lee Rubin, PhD, resulted in significant contributions to the platform. Additional aspects of the platform were built up through Evotec's 10-year collaboration with the CHDI Foundation in the field of Huntington's disease. Under the terms of the agreement, Evotec received an upfront payment of $ 45 m. Celgene holds exclusive options to in-license worldwide rights to Evotec programmes developed from the company's compound library. Evotec could receive more than $ 250 m in milestones as well as low double-digit royalties per in-licensed programme. As part of the collaboration, Celgene can elect to screen compounds from its proprietary CELMoD® library using Evotec's iPSC platform to evaluate activity in models of neurodegenerative diseases.

Spin-offs and equity investments

In March 2016, Evotec announced the formation of a spin-off company called Topas Therapeutics focused on the field of nanoparticle-based therapeutics to treat auto-immune diseases. Epidarex Capital, EMBL Ventures and Gimv participated together with Evotec in a € 14 m ($ 15.75 m) Series A financing round of Topas Therapeutics. Evotec remains the largest shareholder with 39.52% (as per 31 December 2016) after the financing round. The new company will build a unique pipeline of clinical-stage development projects to treat autoimmune diseases. The establishment of Topas Therapeutics was the first example of the acceleration of Evotec's business model to take advantage of carving out promising programmes with up-side potential on a shared risk and shared success basis.

In addition, Evotec announced an investment of up to $ 6 m in Carrick Therapeutics' $ 95 m funding round in October 2016, thereby deepening its already existing relationship with Carrick Therapeutics. In addition to its equity stake in Carrick Therapeutics, Evotec provides its full range of discovery and oncology services to Carrick Therapeutics' projects. Carrick Therapeutics will progress multiple programmes through hit-to-lead and lead optimisation with the goal of delivering multiple development candidates.

In December 2016, Evotec together with a consortium of investors including Epidarex, VC Fonds Technologie Berlin, managed by IBB Beteiligungs-

gesellschaft mbH, and two renowned family offices participated in Eternygen's latest funding round of € 8 m (approx. $ 8.3 m). The financing round was completed at the beginning of 2017. Eternygen, a privately owned metabolic diseases company based in Berlin (Germany) is focused on the sodium coupled citrate transporter ("NaCT"), a novel target which is also known as INDY ("I am Not Dead Yet"). INDY is a key regulator of energy metabolism involved in the pathogenesis of non-alcoholic fatty liver disease, non-alcoholic steatohepatitis, diabetes and obesity. Eternygen will use the proceeds of the Series A funding to accelerate its NaCT targeting small molecule therapy towards the selection of a pre-clinical lead candidate through access to Evotec's discovery platform.

Further information regarding these strategic ventures can be found in the "Corporate objectives and strategy" chapter on page 27 of this Management Report.

Expanding the BRIDGE from Academia to Pharma

Evotec has established and continues to expand its close links to academic institutions in order to have an inside track on emerging innovations and close relations to world-leading experts as potential partners. Since 2010, Evotec has initiated more than 30 Cure *X*/Target *X* projects together with leading academic and biotech partners in the USA, Germany, France and the UK. Evotec continued to broaden and deepen its network to source highly innovative projects also in 2016.

In September 2016, Evotec announced the start of a research collaboration with Inserm, the private subsidiary of the French National Institute of Health and Medical Research. This collaboration with Inserm marks the initiation of the first project under Evotec's and Sanofi's Academic Bridge, which was established as a result of the multi-component strategic alliance between the companies effective 01 April 2015. This Academic Bridge aims to accelerate the translation of promising cutting-edge science from French academic institutions into pharmaceutical product candidates. In this joint effort, Evotec scouts and incubates projects generated in France under its EVT Innovate strategy. The research collaboration's goal is to characterise and develop new selective modulators of RhoB functions as a promising approach to increase therapeutic options in many cancers with high unmet medical need. RhoB is an exciting oncological target implicated in the control of cellular stress response, migration, tumour neovascularisation and progression.

In November 2016, Evotec announced an innovative new academic partnership format with the University of Oxford, Oxford University Innovation Ltd ("OUI"; the university's research commercialisation company) and Oxford Sciences Innovation ("OSI"; the world's largest IP investment company dedicated to a single university) aimed at accelerating the translation of basic biomedical research from Oxford University into new therapeutics. This partnership is called LAB**282** in reference to the pantone colour code of Oxford University's logo. LAB**282** sources projects exclusively from Oxford University researchers via OUI across any therapeutic area and for any therapeutic modality. A drug discovery expert seconded to LAB**282** as expert in residence supports all Oxford University researchers in their efforts to submit project applications and facilitates the process of project selection. LAB**282** will be supported by a fund of approximately € 14 m led by OSI for an initial period of three years. The goal is to accelerate the achievement of pre-clinical proof of concept for new drugs and to generate new spin-out companies. Evotec exclusively contributes its drug discovery expertise and platforms to select projects and develop them further. Evotec is entitled to an equity share in new LAB**282** spin-out companies together with Oxford University and its academic researchers and together with OSI will have the right to co-invest in seed financing rounds.

Clinical-stage pipeline

Evotec's clinical-stage development partnerships are fully funded and progressed by Evotec's partners with no further financial obligations for Evotec but potential financial upside in the form of milestones and royalty payments.

An update on their progress in 2016 is listed below.

Bayer – Various

Background

Bayer and Evotec entered into a five-year multi-target strategic alliance in October 2012 with the goal of identifying three small molecule clinical candidates for the treatment of endometriosis. The project portfolio has been built based on projects originating either at Bayer, at Evotec or started jointly. Both partners share the joint responsibility for early research and pre-clinical characterisation of potential clinical candidates in the disease area of endometriosis. Bayer will be responsible for any subsequent clinical development and commercialisation. Evotec received € 12 m as an upfront payment. Further financial incentives are included with pre-clinical, clinical and sales milestones of potentially up to approximately € 580 m, plus potential royalties of up to low double-digit percent of net sales.

Status

To date, the alliance has delivered five pre-clinical candidates. In August 2016, a first compound entered into Phase I clinical trials. Several additional opportunities to reach clinical candidate status remain, demonstrating exceptional productivity and fulfilling the expectations of both partner organisations. Due to the success and output achieved so far and based on the solid portfolio developed to this point, the initial five-year contract term of the alliance is currently considered to be extended until December 2018.

EVT100 series – Janssen

Background

The EVT100 series comprises orally active NR2B subtype selective NMDA-antagonists and represents one of the few approaches in clinical development for depression. In 2012, Evotec partnered its EVT100 series with by Janssen Pharmaceuticals, Inc. ("Janssen"). Janssen received an exclusive worldwide licence regarding its NR2B subtype selective NMDA-antagonist portfolio for development against diseases in the field of depression.

Status

In the first quarter of 2016, Evotec was informed by Janssen that Janssen intended to phase out the licence agreement regarding NMDA antagonist with effect from August 2016. As a consequence, Evotec regained the licence rights and after review discontinued the patents related to the EVT100 series.

JingXin – EVT201

Background

EVT201 is a $GABA_A$ receptor partial positive allosteric modulator developed for the treatment of insomnia. Evotec successfully concluded two Phase II studies in patients with insomnia, providing excellent safety and efficacy results, but was nevertheless not successful in partnering the compound in the Western market. In October 2010, Evotec entered into a licence and collaboration agreement with JingXin Pharmaceutical Co., Ltd. ("JingXin") for EVT201. The agreement grants JingXin exclusive rights to develop and market the drug candidate in China.

Status

During 2015, JingXin successfully completed a single ascending and multiple ascending dose Phase I study. The results were in-line with those generated by Evotec and met the required standards to progress the compound into further clinical trials. A multi-centre Phase II study of EVT201 is progressing well in China.

CONBA – EVT401

Background

EVT401, Evotec's P2X7 receptor, is an ATP-gated ion channel and may provide a novel approach for the treatment of inflammatory conditions. The compound was discovered and developed in-house. Phase I results obtained in 2009 showed a very good safety profile and confirmed on-target activity. In May 2012, Evotec initiated an alliance with CONBA Pharmaceutical Co., Ltd. ("CONBA"), one of the largest pharmaceutical companies in China. The agreement grants CONBA exclusive rights to develop and commercialise the compound for the Chinese market for human indications with the exception of ophthalmological, chronic obstructive pulmonary disease and endometriosis.

Status

In 2016, CONBA revised the synthetic route for EVT401. Accordingly, additional pre-clinical pharmacokinetics and safety studies are being conducted in order to meet the requirements of the China Food and Drug Administration prior to seeking approval for Phase I studies.

Update on EVT Execute activities in 2016

New alliances

In April 2016, Evotec announced a five-year compound management agreement with Pierre Fabre Laboratories ("Pierre Fabre"), the 2nd largest private pharmaceutical group in France. Under the terms of the agreement, Evotec manages Pierre Fabre's compound collection (individual compounds and collection plates) out of its state-of-the-art compound management facility in Toulouse (France).

In July 2016, Evotec entered into a collaboration with ANTRUK to identify alternative means of treating infections that are resistant to currently available antibiotics. The research focuses on the discovery of Antibiotic Resistance Breakers, or 'ARBs', to be used in conjunction with known antibiotics with the aim of reversing resistance and restoring clinical utility of such antibiotics.

In October 2016, Evotec and UCB entered into a collaboration in the field of CNS pharmacology. Under the agreement, Evotec provides a broad range of *in vitro* pharmacology services. Key activities include assay development, compound profiling and mechanistic studies.

In November 2016, Evotec announced the signing of a set of collaboration agreements with the life science business of Merck, which combine Merck's portfolio of genome editing technologies with Evotec's versatile screening platforms and disease expertise. Evotec leverages Merck's comprehensive collection of genetic reagents such as viral clustered regularly interspaced short palindromic repeats ("CRISPR") and short hairpin RNA ("shRNA") libraries to enable new target discovery programmes using its capabilities for phenotypic screening in primary and iPS cells, as well as its *in vivo* disease models. Bringing together the complementary offerings, the two companies aim to provide fast and validated workflows to clients seeking to explore a new target space within complex disease models. Together with Evotec's recent licensing of the CRISPR-Cas9 gene editing technology which is mentioned below, these agreements with Merck further strengthen Evotec's offering in the area of target identification and validation for its partners.

In December 2016, Evotec announced a strategic alliance with Forge Therapeutics to advance its novel Gram-negative antibiotic programme targeting 'LpxC' for the treatment of bacterial infections including those caused by drug resistant 'superbugs'. LpxC is recognised as an attractive antibacterial target however, a lack of suitable chemical starting points has hampered its progress. Forge Therapeutics has identified potent drugable inhibitors of LpxC. The alliance is focused on lead optimisation of these inhibitors with the goal of identifying a development candidate in the next couple of years. Through a team of more than 10 scientists, Evotec contributes cutting-edge biochemistry, microbiology, medicinal chemistry, structural biology, computational chemistry, ADME/PK/analytical, and programme management.

Contract extensions and milestone achievements

Various collaborations were extended in 2016, such as the drug discovery alliance with Genentech for a further three years. Additionally, Janssen Pharmaceutica NV extended its proteomics collaboration with Evotec, now entering its tenth year.

In September 2016, Evotec announced a multi-target collaboration with C4X Discovery Holdings plc ("C4XD"). The new long-term strategic alliance will be a rolling multi-target programme with a minimum of three parallel drug discovery projects active at any point in time. As part of the agreement, Evotec applies its extensive assay and screening technologies, laboratory scientists and medicinal chemistry know-how to selected C4XD programmes in return for research funding, milestones dependent on developmental success and a share of potential future royalties.

In 2016, EVT Execute's strong operational performance was underlined by important milestones achievements in its collaborations with Bayer, Boehringer Ingelheim and Padlock. Within its strategic alliance with Bayer in the field of endometriosis, Evotec was able to announce the progression of a first Bayer programme into Phase I clinical development, triggering a milestone payment to Evotec.

Others

Consistent with the Company's strategy to offer its clients the most advanced technological platforms, Evotec continued to expand its drug discovery platform in 2016, e.g. with a non-exclusive licence to the leading technology on the market for gene editing (CRISPR-Cas9 licence) and Trianni's next-generation transgenic technology.

Evotec acquired Cyprotex in December 2016, which adds world-leading high-quality ADME-Tox and DMPK services and strengthens Evotec's leadership in drug discovery. At the date of the acquisition, the company's employees were working from sites at Macclesfield and Alderley Park in the UK, and at Watertown, MA, and Kalamazoo, MI, in the USA. Cyprotex will continue to operate and serve its loyal client base in all currently existing segments under its brand name 'Cyprotex' whilst employees, capabilities and capacities will be integrated into Evotec's global drug discovery group.

— INTELLECTUAL PROPERTY —

Evotec actively manages a significant patent portfolio. The Company seeks, where appropriate, patent protection for its technologies, product candidates and other proprietary information.

Evotec reviews its patent portfolio regularly and decides whether to maintain or withdraw its patent applications and patents based on the importance of such intellectual property to maintain its competitive position and deliver on its strategy. As of 31 December 2016, besides two patent families jointly filed with third parties, Evotec has nearly 65 patent families under its full control. All of these are on file or pending through national and/or foreign applications, such as patent applications filed under the Patent Cooperation Treaty or applications filed with the United States Patent Office, the European Patent Office or the Japanese Patent Office.

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

Evotec also pursues certain discovery projects internally. The Company monitors the research activities and results of this in-house research in order to identify patentable drug candidate series which have the potential for partnering. Numerous patent applications have been generated and filed as a result of such activities. In addition, pursuant to an agreement with Roche, intellectual property concerning the drug candidate EVT201 has been exclusively licensed to Evotec.

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 a patent portfolio that covers the use of such targets for diagnostic and drug discovery purposes.

Report on economic position

GENERAL MARKET AND HEALTHCARE ENVIRONMENT

— GLOBAL ECONOMIC DEVELOPMENT —

Global economic development remained subdued in 2016. According to a publication by the World Bank in January 2017, the global economy is expected to decelerate its growth from 2.7% in 2015 to 2.3% in 2016. The World Bank states that 2016 was characterised by stagnant global trade, damped investments and increasing policy uncertainty. Overall growth in emerging market economies is estimated to reach 3.4% in 2016 and remains subdued. The Eurozone is expected to again only show moderate growth in 2016 of 1.6% (2015: 2%) mainly due to both domestic demand and exports losing momentum and political uncertainty following the UK Brexit vote. In the Eurozone, serious problems in the banking sector as well as growth problems in many of its member countries persisted throughout the year. In countries like Italy, France, the Netherlands and Germany, political risks emerged which could spill out during 2017 if political parties gain power who are more Euro sceptic and demand referendums on EU membership. In 2016, the US economy was relatively healthy and growing, also fuelled by hopes that after the election of Donald Trump as US president in November 2016 policies would further stimulate the economy in the years to follow. However, the USA is estimated to see a slow-down of growth from 2.6% in 2015 to 1.6% in 2016 caused by weak export and investments. According to the Federal Statistical Office, the German economy continued its upward trend in 2016 with a growth rate of 1.9% of its price-adjusted gross domestic product (2015: 1.7%).

— RECENT TRENDS IN THE PHARMACEUTICAL AND BIOTECHNOLOGY SECTOR —

Evotec's business model depends on mid- and long-term trends rather than on short-term economic developments. Therefore, the following paragraphs do not focus only on the year under review, but take into consideration the overall trends within the pharmaceutical and biotechnology sector.

Like many other sectors, the pharmaceutical and biotechnology industry is facing industry-specific changes combined with developments in the general economic environment. The demand for new therapies continues to see steady growth, a favourable trend for the long-term industry dynamics. However, there are significant challenges for the industry such as the productivity and cost of research and development, innovative developments, changing relationships with patients and providers, continued patent expiration, regulatory hurdles and access as well as pricing and reimbursement. Pharmaceutical companies of all sizes have been re-evaluating their business strategies to remain competitive in their business environment.

Diverse strategic approaches include:

- The pursuit of specialty medicine and biologics,
- Asset-swapping to focus on leadership businesses and to exit non-aligned portfolios,
- Geographic expansion and regional consolidation,
- R&D restructuring, and
- Bolt-on acquisitions and partnerships.

Ageing populations in developed countries continue to demand better drugs, improved patient outcomes and diagnostics, innovative approaches and advanced technologies that are clearly differentiated from existing treatments. The result of these ongoing developments is that the pharmaceutical industry requires innovation in drug discovery in a capital-efficient manner.

Key emerging aspects of innovation include biomarkers, human genetic testing to match patients with treatments, new and exciting breakthroughs in immuno-oncology, stem cell therapies, patient-derived disease models (e.g. iPSC), technology platforms such as CRISPR and ribonucleic acid ("RNA") therapeutics. All these approaches could pave the way for effective novel drug development. The evolution of development incentives – including fast-track approval for innovative breakthroughs, continued pre-competitive collaborations, patient pooling of data and large real-world evidence collaborations – are also expected to stimulate research and development activities in the next decade.

Overall, the pharmaceutical and biotech industry is in a strong position and continued growth for the coming years is expected. According to IMS Health, the worldwide spending on medicines is forecasted to reach nearly $ 1.4 trillion by 2020, up 29-32% from 2015, driven by population growth, an ageing population and improved access in emerging markets. Pharmaceutical and biotechnology companies are continuously looking for ways to benefit from this positive trend and increase the size of their product pipelines, stimulate innovation and accelerate the route of products to the market.

— DEVELOPMENT OF LEGAL FACTORS —

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

New drugs for human use are subject to approval by the European Medicines Agency ("EMA") in the European Union, the U.S. Food & Drug Administration ("FDA") in the USA and other national regulatory and supervisory authorities. Evotec focuses on the early stages of drug discovery with development and commercialisation conducted and funded by the Company's Pharma partners. Consequently, any changes in the regulatory environment could indirectly impact Evotec's business, e.g. by reducing or increasing the upside Evotec may generate from the successful development and commercialisation of its licensed products.

Factors that might directly impact Evotec's business include any tightening of the Animal Welfare Act relating to pre-clinical animal studies or any changes in the regulation of pre-clinical research in general. In particular, any easing of policy relating to stem cell research in Europe, for example, could have a positive impact on Evotec's business as stem cell-based research is one of the promising technologies in drug discovery.
In 2016, legal factors affecting Evotec were largely unchanged and the Group's operating business was not materially affected.

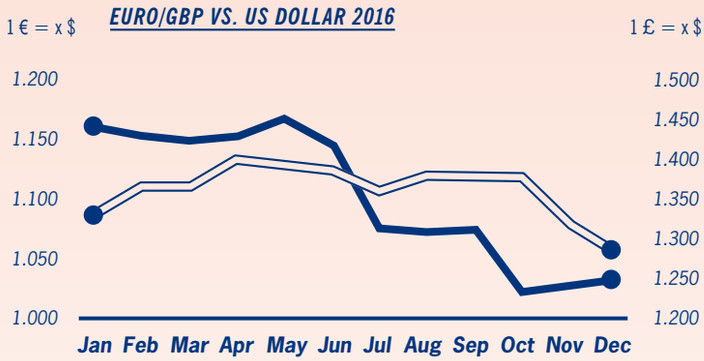
— EXCHANGE RATE DEVELOPMENT, INTEREST RATES AND FINANCING —

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

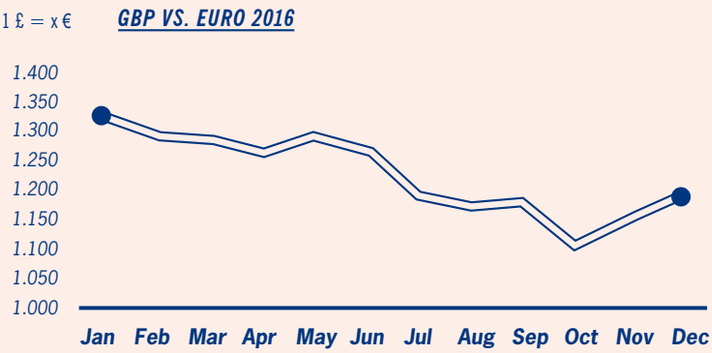
The biggest impact from currency movements on Evotec's financial position in 2016 resulted from the Pound Sterling (£) to Euro (€) exchange rate. In 2016, the Pound Sterling (£) to Euro (€) exchange rate strongly fluctuated between € 1.11 and € 1.36. The average exchange rate in 2016 was € 1.22 per Pound Sterling compared to € 1.38 in 2015. From June 2016 onwards, the Pound Sterling depreciated from € 1.30 to € 1.18 following the unexpected UK Brexit vote. Year-on-year, the Pound Sterling weakened to € 1.17 per Pound Sterling at the end of 2016 compared to € 1.36 at the end of 2015.

The Euro (€) to US dollar ($) exchange rate fluctuated between $ 1.04 and $ 1.15 to the Euro. On average, the US dollar remained constant against the Euro with $ 1.11 per Euro. Year-on-year, the Euro weakened from $ 1.09 at the end of 2015 to $ 1.05 at the end of 2016.

— AVERAGE MONTHLY EXCHANGE RATES FOR THE COMPANY'S THREE MAJOR CURRENCIES —



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



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

In Europe, the European Central Bank's ("ECB") inter-bank interest rate (3-month Euribor) remained negative in 2016 and decreased to a new historic low of (0.32)% at the end of the year. In March 2016, the ECB cut deposit rates by a further 10 basis points, included corporate debt in its bond-buying programme and cut its marginal and refinancing rates. In December 2016, the ECB announced to extend its asset purchase programme, which was due to end in March 2017, for nine more months. However, at the same time the ECB reduced its monthly purchase volume.

The main impact of low interest rates on the financial performance of Evotec is a reduction in interest income received on the cash deposits and the short-term investments of the Company.

SIGNIFICANT CORPORATE DEVELOPMENT EVENTS 2016

In 2016, the following important corporate developments occurred. Information on significant events regarding progress in research and development within the business segments EVT Execute and EVT Innovate is found in the "Research and development" chapter on page 32 of this Management Report.

ACCELERATING INNOVATION VIA SPIN-OFFS AND EQUITY INVESTMENTS

In March 2016, Evotec announced the spin-off of Topas Therapeutics. Among other institutional investors, Evotec participated in the Series A funding round of Topas Therapeutics which totalled € 14 m and remains the largest shareholder after the financing round with an equity stake of 39.52% as of 31 December 2016. Topas Therapeutics aims to build a unique pipeline of clinical-stage development projects to treat autoimmune diseases. The proceeds of the Series A funding enable Topas Therapeutics to expand and accelerate its proprietary liver-based tolerance induction platform and to progress its own product development efforts in multiple autoimmune and inflammatory indications, including multiple sclerosis, to clinical proof-of-concept stage.

Later in the year, Evotec announced an expansion of its relationship with Carrick Therapeutics by participating together with other renowned investors in Carrick Therapeutics' latest funding round which totalled $ 95 m. As of 31 December 2016, Evotec's equity stake in Carrick Therapeutics amounts to 4.57%. Carrick Therapeutics is building an innovative portfolio of first-in-class treatments that target multiple mechanisms of the most aggressive forms of cancer.

At the end of 2016, Evotec expanded its existing relationship with Eternygen by participating in Eternygen's latest funding round totalling € 8 m. As of 31 December 2016, Evotec's stake in Eternygen amounts to 22.02%. Eternygen, a privately owned metabolic diseases company based in Berlin (Germany) is focused on a novel target with significant potential for metabolic diseases such as NASH, diabetes and obesity.

These investments enable Evotec to accelerate its business model as they provide an optimal risk-reward profile up to clinical proof-of-concept stage in selected fields of high strategic medical relevance. Further information on Evotec's strategy can be found in the "Corporate objectives and strategy" chapter on page 27 of this Management Report.

ACQUISITION OF CYPROTEX EXPANDING EXISTING DRUG DISCOVERY PLATFORM

Effective 14 December 2016, Evotec acquired Cyprotex. The company is the world's largest contract research organisation specialising in pre-clinical ADME-Tox and DMPK serving the pharmaceutical, chemical, agrochemical and cosmetics markets. Cyprotex, headquartered in the UK, had been publicly traded on AIM (CRX) prior to the acquisition. In 2017, Evotec will integrate Cyprotex' four sites in Macclesfield and Alderley Park in the UK as well as Watertown, MA, and Kalamazoo, MI, in the USA into its current operations. This acquisition underlines Evotec's commitment to offering a comprehensive, unbiased and systematic drug discovery platform to its customers encompassing all stages from early drug discovery up to pre-clinical development candidate. It will further support Evotec's growth trend of prior years.

IMPACT OF GENERAL MARKET AND HEALTHCARE ENVIRONMENT ON EVOTEC'S BUSINESS

Evotec's business environment is still in a period of significant transition and adjustment. In the face of constant financial pressure, resulting primarily from the patent cliff leading to the loss of blockbuster products and their strong cash flows, pharmaceutical companies of all sizes continue to re-evaluate and adjust their business strategies. This results in significant restructuring and consolidation in the industry including diversification, large-scale mergers, downsizing of research and development efforts, cost reduction programmes as well as the pursuit of biotech acquisitions, partnering deals and alliances. At the same time, ageing populations in developed countries continue to demand better drugs, improved patient outcomes and diagnostics, innovative approaches and advanced technologies that are clearly differentiated from existing treatments. As a consequence, the pharmaceutical industry requires innovation in drug discovery in a capital-efficient manner.

Evotec believes that these market dynamics will continue to lead towards greater outsourcing opportunities. In 2016, Evotec saw an increasing number of projects and demand from newly founded US and European companies. This trend will increase the likelihood of strategic integrated long-term collaborations in order to foster innovation and accelerate the development of novel drug candidates with first- or best-in-class potential. To meet the market requirements and trends, Evotec continues to invest heavily in upgrading its platforms. For this reason, effective 14 December 2016, Evotec acquired the world-leading ADME-Tox contract research organisation Cyprotex. This transaction adds significant stand-alone ADME-Tox capabilities and capacities to Evotec's drug discovery platform and further strengthens Evotec's position as a world leader in strategic solutions for the pharmaceutical and biotech industries. Furthermore, Evotec selectively invests in asset-centric start-up companies at a pre-seed stage.

The fact that many promising drug candidates fail during clinical development underlines the limited predictive and translational value of pre-clinical disease models currently being used in the drug discovery process and the need to develop technologies that more predictably translate discovery opportunities into clinical realities. This is especially true for neurodegenerative diseases, such as Alzheimer's disease and Parkinson's disease. To address this, in 2016, Evotec continued to focus on the iPSC field. Here Evotec initiated a ground-breaking, strategic collaboration with Celgene in neurodegeneration based on the Company's unique iPSC platform. Evotec therefore commits extensive resources, both financial and scientific, to discover new paths in drug discovery which have the potential to result in new much needed therapies.

COMPARISON OF 2016 FINANCIAL RESULTS WITH FORECAST

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STRONG FINANCIALS REFLECT GROWTH TREND IN 2016 – ALL ELEMENTS OF GUIDANCE 2016 ACHIEVED

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PERFORMANCE AGAINST FORECASTS

	Guidance Annual Report 2015	Guidance July 2016	Actual 2015	Final results
Group revenues*	More than 15% growth	More than 15% growth	€ 115.4 m	**+26%**
R&D expenses	Approx. € 20 m	Approx. € 20 m	€ 18.3 m	**€ 18.1 m**
Adjusted Group EBITDA**	Positive and significantly improved compared to prior year	More than double compared to 2015	€ 8.7 m	**€ 36.2 m**
Capex investments	Up to € 10 m	Up to € 10 m	€ 11.2 m	**€ 10.0 m**
Liquidity	Similar level compared to 2015	Similar level compared to 2015	€ 133.9 m	**€ 126.3 m**

** Excluding milestones, upfronts and licences* *** Before contingent considerations, income from bargain purchase and excluding impairments on goodwill, other intangible and tangible assets as well as the total non-operating result (See section "Result of operations" for a reconciliation with operating result)*

Evotec's financial guidance for 2016 was updated in July 2016 as shown in the table above. The update of the profitability guidance was mainly a result of an increased margin contribution throughout the Group and a positive outlook for the remainder of the year.

In 2016, Evotec achieved all its financial goals. The increase of revenues excluding milestones, upfronts and licences from € 115.4 m in 2015 to € 145.6 m in the reporting period was due to a strong performance of the base business and a full-year contribution of the Sanofi collaboration. R&D expenses for the year amounted to € 18.1 m. The Company recorded a significant upswing of adjusted Group EBITDA from € 8.7 m in 2015 to € 36.2 m in 2016 mainly due to the strong growth in revenues and milestone payments. EBITDA is defined as earnings before interest, taxes, depreciation, and amortisation of intangibles as reported in the consolidated financial statements of the Group. EBITDA also excludes impairments on goodwill, other intangible and tangible assets as well as the total non-operating result. EBITDA was adjusted for changes in contingent consideration from past acquisitions (earn-out payments to former owners) as well as for one-time effects such as the bargain purchase resulting from the acquisition of Evotec (France) SAS in 2015. Continuing its focus on upgrading and expanding its capacities, Evotec's capital expenditure in 2016 amounted to € 10.0 m. End-of-year liquidity amounted to € 126.3 m.

RESULTS OF OPERATIONS

The 2015 and 2016 results are not fully comparable. The difference stems mainly from the acquisition of Evotec (France) SAS, effective 01 April 2015, as well as from the acquisition of Cyprotex PLC ("Cyprotex"), effective 14 December 2016. While the results of Evotec (France) SAS are fully included in the accompanying consolidated income statement for 2016, they were not fully included in the comparable period of the previous year (Q2 to Q4 only). The results of Cyprotex are only included from 14 December 2016 onwards. In addition, effective 09 December 2015, Evotec acquired 51% of the shares in Panion Ltd., London (UK). This acquisition has been fully consolidated since that date.

For further details on the acquisition of Cyprotex and selected financial information, see Note 4 to the Consolidated Financial Statements.

Change in presentation: The presented financial statements include a change in presentation in the financial years 2015 and 2016. From 01 January 2016 onwards, amortisation of intangible assets in the amount of € 1.9 m (2015: € 2.9 m) are no longer presented in a separate line in the consolidated income statement but are allocated to the relating cost lines by function in the income statement. The prior-year period was changed accordingly resulting in higher costs of revenue. Such change in presentation is deemed to provide more relevant information.

CONDENSED INCOME STATEMENT

		2015	2016
Revenues	T€	127,677	**164,507**
Gross margin	*%*	*27.5%*	***35.6%***
— R&D expenses	T€	(18,343)	**(18,108)**
— SG&A expenses	T€	(25,166)	**(27,013)**
— Impairment result (net)	T€	(7,242)	**(5,406)**
— Income from bargain purchase	T€	21,414	**-**
— Other operating expenses (income)	T€	5,850	**23,315**
Operating income (loss)	T€	11,640	**31,342**
Net income (loss) total	**T€**	**16,516**	**26,839**
*Adjusted Group EBITDA**	*T€*	*8,690*	*36,225*

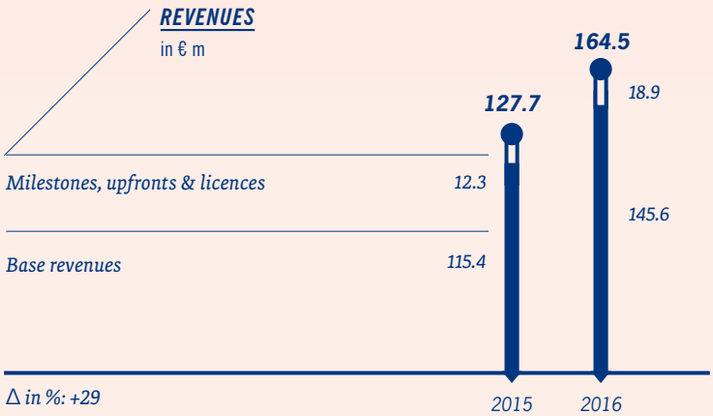
** Adjusted for changes in contingent considerations and income from bargain purchase*

— REVENUES —

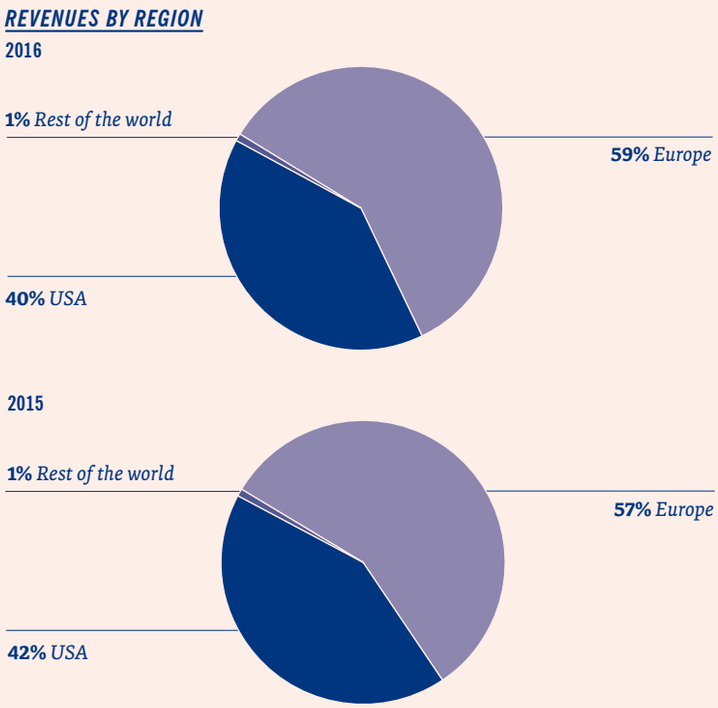
Strong performance of base business and significant milestone achievements
Total Evotec Group revenues amounted to € 164.5 m in 2016, an increase of 29% compared to the previous year (2015: € 127.7 m). This increase resulted

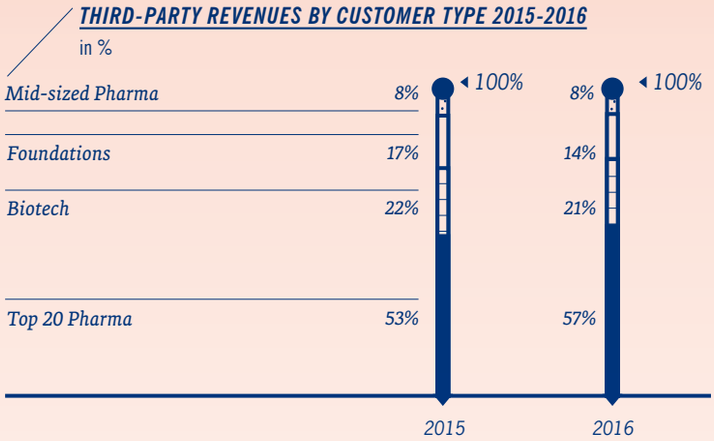
primarily from growth in the core EVT Execute business, a full-year contribution of the Sanofi collaboration as well as significant milestone payments. At constant 2015 foreign exchange rates, 2016 revenues would have amounted to € 165.2 m.

Excluding milestones, upfronts and licences, Evotec's base revenues for 2016 were € 145.6 m, an increase of 26% over the same period of the previous year (2015: € 115.4 m). This increase results from a strong performance of the base business in new and extended collaborations. Revenues from milestones, upfronts and licences amounted to € 18.9 m, an increase of 54% in comparison with the previous year (€ 12.3 m) which resulted mainly from higher milestone achievements, in particular within the Company's alliances with Bayer.



Geographically, 59% of Evotec's revenues were generated with customers in Europe, 40% in the USA and 1% in Japan and the rest of the world compared to 57%, 42% and 1%, respectively, in the previous year.



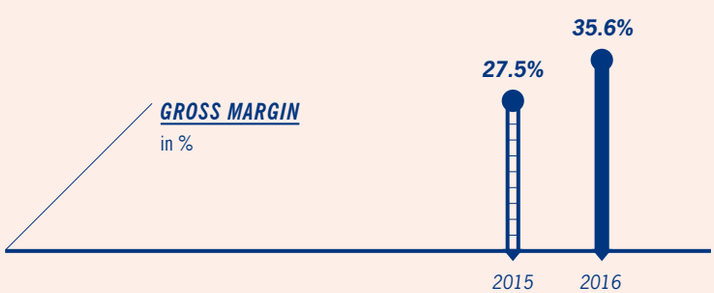


— COSTS OF REVENUE/GROSS MARGIN —

Margin increase following milestone achievements and improved capacity utilisation

Costs associated with Group revenues include the cost of personnel directly associated with revenue-generating projects, facilities and overhead used to support those projects as well as materials consumed in the provision of the product or service.

Costs of revenue increased by 14% to € 106.0 m (2015: € 92.6 m). This increase compared to the prior-year period resulted mainly from the Sanofi collaboration and related growth of the Toulouse site, from a higher volume in the EVT Execute service business as well as from the further expansion into the sites in Göttingen (Germany) and Princeton (USA). The gross margin increased to 35.6% (2015: 27.5%). Increased gross margin reflects growth in base revenues, high milestone achievements, improved capacity utilisation as well as favourable foreign exchange rate effects. At constant 2015 exchange rates, the gross margin would have been 34.0% in 2016. As previously stated, gross margins in the future may be volatile due to the dependency on the receipt of potential milestone or out-licensing payments, both having a strong impact on the gross margin.



— RESEARCH AND DEVELOPMENT EXPENSES —

Increased focus on R&D investments in CNS space

Evotec invests in building, maintaining and upgrading its in-house discovery platforms and developing assets in key therapeutic areas through EVT Innovate and its Cure *X* and Target *X* initiatives. These activities are

the basis for Evotec's reported R&D expenses (a multi-year overview of Evotec's key R&D figures is reported in the "Research and development" chapter on page 32 of this Management Report).

In 2016, overall R&D expenses amounted to € 18.1 m (2015: € 18.3 m) which fall into the following three major categories: (i) Proprietary Innovate projects accounted for approximately 74% (2015: 79%) of total R&D expenses. In 2016, Evotec increased its R&D spend in the CNS space, in particular for the build-up of Evotec's proprietary iPSC platform as well as oncology. On the other hand, Evotec recorded reduced R&D expenses in the field of metabolic diseases due to the successful partnering of EVT Innovate projects in 2015; (ii) Platform R&D and support of clinical stage projects accounted for approximately 1% (2015: 1%); (iii) Overhead expenses accounted for 25% (2015: 21%) of total R&D expenses. Overhead expenses consisted in particular of management expenses and patent costs (see table below).

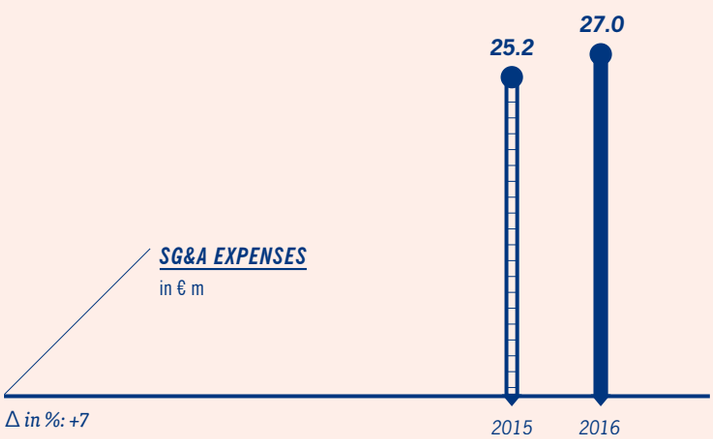
R&D EXPENSES BY CATEGORIES

		2015	***2016***
Proprietary Innovate projects	T€	14,433	**13,444**
Platform R&D	T€	47	**69**
Clinical projects	T€	83	**74**
Overhead expenses	T€	3,780	**4,521**
Total	**T€**	**18,343**	**18,108**

— SELLING, GENERAL AND ADMINISTRATIVE EXPENSES —

Impacted by strategic Sanofi collaboration and Cyprotex transaction

In 2016, the Group's selling, general and administrative ("SG&A") expenses increased by 7% to € 27.0 m (2015: € 25.2 m). This increase results primarily from the full-year consideration of the Sanofi collaboration, an increased headcount in response to company growth as well as one-time M&A costs mainly related to the acquisition of Cyprotex.



— IMPAIRMENTS —

Intangible assets impaired in 2016

In 2016, Evotec recorded an impairment of intangible assets, totalling € 1.4 m (2015: € 7.2 m). The termination of the EVT100 contract with Janssen resulted in a full impairment of the EVT100 series in 2016 (€ 1.4 m). The National Institutes of Health ("NIH") contract termination in the US Compound Management Business led to an impairment of € 4.0 m related to the goodwill of Evotec (US) Execute.

In 2015, impairments of € 7.2 m were recorded, mainly related to the EVT100 series (€ 4.8 m) and to EVT070 (€ 1.0 m). Further information can be found in the "Goodwill and intangible assets" section in the "Assets, liabilities and stockholders' equity" chapter on page 52 of this report.

— INCOME FROM BARGAIN PURCHASE —

In 2016, no income from any bargain purchase was recorded in contrast to the income from bargain purchase of € 21.4 m in 2015 recorded for the acquisition of Evotec (France) SAS.

— OTHER OPERATING INCOME AND EXPENSES —

Other operating income and expenses amounted to an income of € 23.3 m in 2016 (2015: income of € 5.9 m). Operating income in 2016 was affected by increased research and development tax credits in the UK and France in the amount of € 10.9 m (2015: € 4.9 m), as well as a decrease in the DeveloGen contingent consideration (earn-out) provision due to a change in expected future cash outflows (€ 12.2 m) based on a change in commercialisation success rates for a programme.

— OPERATING INCOME (LOSS) —

Evotec's operating result amounted to € 31.3 m in 2016 (2015: operating result of € 11.6 m) and is in particular positively impacted by the increase in gross profit by € 23.4 m and in other operating income and expense (net) by € 17.5 m.

— ADJUSTED EBITDA —

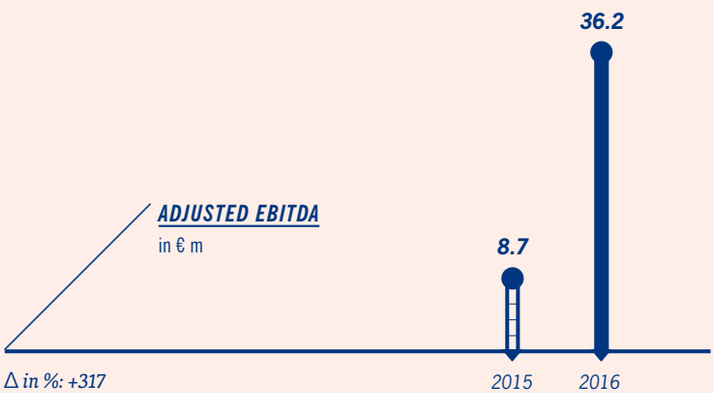
Significant improvement in adjusted Group EBITDA

Adjusted Group EBITDA for 2016 increased significantly to € 36.2 m (2015: € 8.7 m), yielding an adjusted EBITDA margin of 22.0% (2015: 6.8%). A definition of the EBITDA can be found on page 42 of this Management Report.

CALCULATION OF ADJUSTED EBITDA

		2015	**2016**
Operating income (loss)	T€	11,640	**31,342**
+ Depreciation	T€	9,081	**9,985**
+ Amortisation	T€	2,860	**1,908**
+ Impairment result (net)	T€	7,242	**5,406**
- Income from bargain purchase	T€	(21,414)	**-**
+ Change in contingent considerations*	T€	(719)	**(12,416)**
Adjusted Group EBITDA	**T€**	**8,690**	**36,225**

** Included in P&L line Other operating expenses (income)*



— NET RESULT —

Positive impact from foreign exchange gains

The Company's net result in 2016 amounted to € 26.8 m (2015: net result of € 16.5 m).

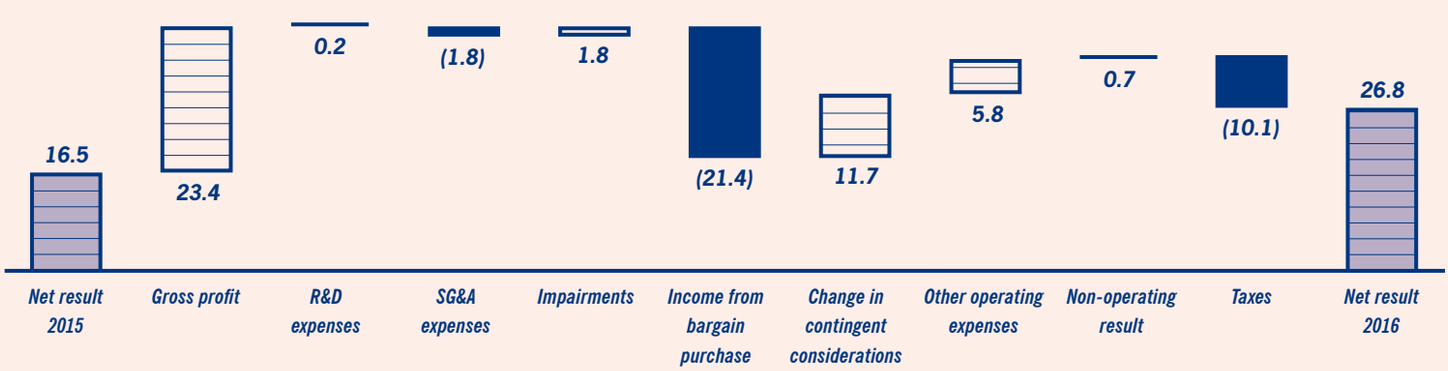
In 2016, the total non-operating result amounted to € 1.6 m (2015: € 0.9 m). The total non-operating result in 2016 was overall positively impacted by a foreign currency exchange gain in the amount of € 2.5 m (2015: € 1.9 m) mainly due to the weakening of the Pound Sterling against the Euro and was partially off-set by interest expenses of € 1.2 m due to the unwind of the discount relating to contingent considerations (earn-outs).

Total tax expenses amounted to € 6.1 m in 2016 (2015: tax income of € 4.0 m). Current tax expenses of € 7.9 m were partly offset by a deferred tax income of € 1.8 m. Current tax income resulted mainly from the increased profitability and occurred primarily in France and the UK. In 2016, the deferred tax assets increased mainly with respect to temporary differences in UK. In 2015, the deferred tax income amounted to € 6.7 m.

The total net result per share (basic) for Evotec of € 0.20 (2015: € 0.13) is based on a weighted average number of shares of 132,506,697 (2015: 131,678,865).

NET RESULT – CHANGES 2016 VS 2015

in € m



MULTIPLE-YEAR OVERVIEW OF RESULTS OF OPERATIONS

in T€

	2012	2013	2014	2015	2016
Revenues	**87,265**	**85,938**	**89,496**	**127,677**	**164,507**
Costs of revenue	(58,123)	(56,746)	(62,246)	(92,550)	**(105,953)**
Gross profit	**29,142**	**29,192**	**27,250**	**35,127**	**58,554**
Research and development expenses	(9,227)	(10,855)	(12,738)	(18,343)	**(18,108)**
Selling, general and administrative expenses	(16,301)	(16,597)	(17,990)	(25,166)	**(27,013)**
Amortisation of intangible assets*	-	-	-	-	**-**
Impairment of goodwill (net)	-	(1,948)	-	-	**(3,989)**
Impairment of intangible assets (net)	(3,505)	(22,023)	(8,523)	(7,242)	**(1,417)**
Impairment of tangible assets (net)	-	(1,076)	-	-	**-**
Restructuring expenses	-	(474)	-	-	**-**
Income from bargain purchase	-	-	137	21,414	**-**
Other operating income and (expenses), net	(3,311)	2,430	5,483	5,850	**23,315**
Operating result	**(3,202)**	**(21,351)**	**(6,381)**	**11,640**	**31,342**
Non-operating income and (expense), net	(1,812)	(2,297)	1,222	851	**1,608**
Profit (loss) before taxes	**(5,014)**	**(23,648)**	**(5,159)**	**12,491**	**32,950**
Tax income (expense)	7,492	(1,785)	(1,819)	4,025	**(6,111)**
Net result	**2,478**	**(25,433)**	**(6,978)**	**16,516**	**26,839**
Gross margin	33.4%	34.0%	30.4%	27.5%	**35.6%**
Operating margin	(3.7)%	(24.8)%	(7.1)%	9.1%	**19.1%**
EBITDA adjusted margin	11.7%	12.1%	8.6%	6.8%	**22.0%**
R&D cost ratio	9.6%	11.2%	13.9%	14.4%	**11.0%**
SG&A cost ratio	18.7%	19.3%	20.1%	19.7%	**16.4%**
Personnel costs to total costs**	42.2%	43.9%	44.5%	50.4%	**55.2%**

** Change in presentation for all 5 years: Amortisation reclassed to Costs of revenue and Research and development expenses*

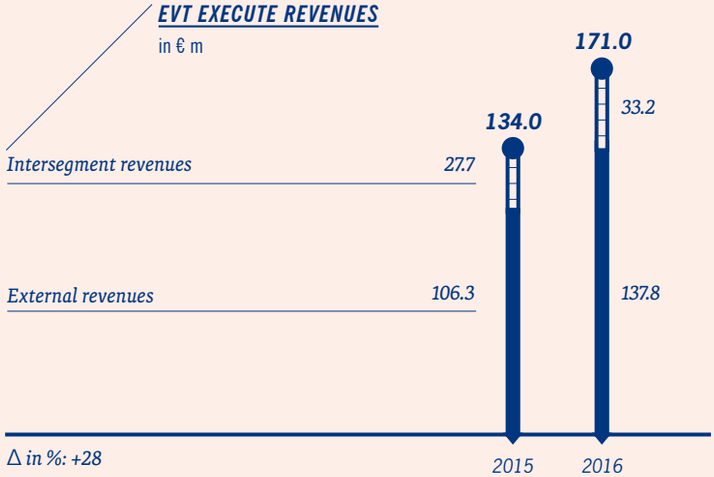
*** Total costs = Costs of revenue, Research and development expenses, Selling, general and administrative expenses, Other operating income and expenses excluding changes in coningent considerations and R&D tax credits*

— SEGMENT REPORTING —

Revenues from the EVT Execute segment amounted to € 171.0 m in 2016 (2015: € 134.0 m) and included € 33.2 m of intersegment revenues (2015: € 27.7 m). This increase mainly resulted from growth in the base business, milestone achievements and the full-year Sanofi collaboration contribution. The EVT Innovate segment generated revenues of € 26.7 m (2015: € 21.5 m) consisting entirely of third-party revenues. The increase in revenues resulted from EVT Innovate projects partnered in the second half of 2015 and continued into 2016.

EVT EXECUTE REVENUES

in € m



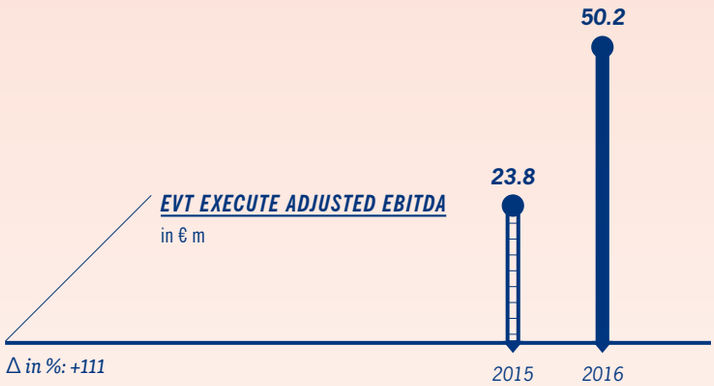
In fiscal year 2016, the adjusted EBITDA of the EVT Execute segment was strongly positive at € 50.2 m and more than doubled compared to the prior-year period (2015: € 23.8 m). As expected, the EVT Innovate segment reported an improved negative adjusted EBITDA of € (14.0) m (2015: € (15.1) m) due to increased revenues while R&D investments remained at the same level.

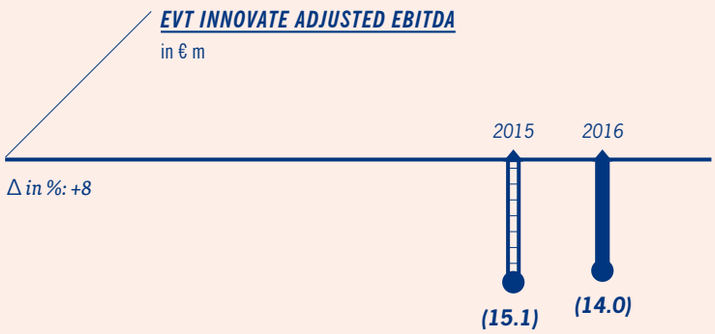
For the EVT Execute segment, costs of revenue amounted to € 119.8 m in 2016 (2015: € 105.4 m), yielding a gross margin of 29.9% (2015: 21.3%). The margin increase over 2015 is attributable to the same drivers as the trend in revenue growth and increased efficiencies. The EVT Innovate segment reported costs of revenue of € 14.6 m (2015: € 10.2 m), yielding a gross margin of 45.3% (2015: 52.2%). The gross margin of EVT Innovate in 2016 included a lower share in milestone and upfront revenues.

The EVT Innovate segment reported R&D expenses in the amount of € 22.7 m (2015: € 22.4 m), containing € 4.7 m of intersegment margin as services were provided by the EVT Execute segment.

SG&A expenses in 2016 amounted to € 20.9 m for the EVT Execute segment (2015: € 19.3 m) and € 6.1 m for the EVT Innovate segment (2015: € 5.9 m). The increase in SG&A expenses within both business segments are mainly attributable to the full-year consideration of the Sanofi collaboration, an increased headcount in response to company growth as well as one-time M&A and costs related to the acquisition of Cyprotex.

The goodwill impairment charges in 2016 of € 4.0 m (2015: € 0.0 m) were attributed to EVT Execute and in intangible assets (€ 1.4 m) were attributed to EVT Innovate. In 2015, the split of intangible impairments amounted to € 1.2 m for EVT Execute and € 6.0 m for EVT Innovate.





SEGMENT INFORMATION 2016

		EVT Execute	EVT Innovate	Intersegment eliminations	Not allocated	Evotec Group
External revenues	T€	137,850	26,657	-	-	164,507
Intersegment revenues	T€	33,165	-	(33,165)	-	-
— Costs of revenue	T€	(119,838)	(14,580)	28,465	-	(105,953)
Gross margin	%	29.9%	45.3%	0.0%	0.0%	35.6%
— R&D expenses	T€	(87)	(22,721)	4,700	-	(18,108)
— SG&A expenses	T€	(20,930)	(6,083)	-	-	(27,013)
— Impairment result (net)	T€	(3,989)	(1,417)	-	-	(5,406)
— Income from bargain purchase	T€	-	-	-	-	-
— Other operating expenses (income)	T€	9,254	14,061	-	-	23,315
Operating income (loss)	**T€**	**35,425**	**(4,083)**	**-**	**-**	**31,342**
*Adjusted EBITDA**	*T€*	*50,183*	*(13,958)*	-	-	*36,225*

** Adjusted for changes in contingent considerations and income from bargain purchase*

FINANCING AND FINANCIAL POSITION

— FINANCIAL MANAGEMENT PRINCIPLES —

Evotec manages its financial resources to support its strategy of providing innovative drug discovery solutions and alliances to the pharmaceutical and biotechnology industry. Evotec is a cash flow positive biotechnology company. The Company may selectively utilise debt financing and raise capital through the issuance of new shares when required. As of 31 December 2016, the liquidity of the Evotec Group amounted to € 126.3 m (2015: € 133.9 m). This strong liquidity position supports the Company in further investing in Cure *X* and Target *X* initiatives, in maintaining and augmenting its drug discovery platform and in considering M&A opportunities. Apart from bank debt, the Company has no major long-term financial obligations or liabilities.

Capital expenditure proposals are carefully evaluated by the management to ensure that they are consistent with the business strategy of either maintaining or enhancing the Company's technology platforms and its proprietary research. Additionally, capital investments are carefully assessed in terms of the expected financial return.

Evotec is sufficiently financed to support its ongoing business and operations. In order to accelerate its strategy, Evotec is selectively considering equity participations in financing rounds of early-stage biotech companies. This leveraging of Evotec's strategy may lead to additional cash requirements in the future.

— CASH FLOW —

Celgene and Cyprotex transactions affecting cash flow

Group *cash flow provided by operating activities* amounted to € 67.4 m in 2016 (2015: € 15.7 m) and reflected the operating income adjusted for non-cash items like depreciation, amortisation and impairments as well as the upfront payment of $ 45 m (€ 43.0 m) received in context of the initiation of the drug discovery collaboration with Celgene in neurodegenerative diseases.

Group *cash flow used in investing activities* was € 6.0 m (2015: € 23.4 m). Proceeds from the sale of current investments (€ 65.3 m) significantly exceeded purchases of current investments (€ 17.7 m). The proceeds were required to pay for the Cyprotex transaction in cash. Capital expenditure in property plant and equipment decreased to € 10.0 m (2015: € 11.2 m). Purchase of investments in affiliated companies amounted to € 40.6 m and related to the acquisition of Cyprotex net of cash acquired. Purchase of investments in associated companies and other long-term investments amounted to € 2.8 m and related to the funding of Topas Therapeutics (€ 2.0 m) as well as the equity investment in Carrick Therapeutics (€ 0.8 m).

Group *cash flow used in financing activities* amounted to € 19.7 m (2015: Cash flow provided by financing activities of € 2.5 m) and mainly related to a repayment of loan notes held by Cyprotex (€ 25.7 m). Cash flow provided by bank loans increased by net € 6.0 m to support the financing of the Cyprotex acquisition.

The impact of exchange rate movements on the net increase in cash and cash equivalents in 2016 was € (2.3) m (2015: € 1.1 m). This was primarily due to the Pound Sterling weakening against the Euro.

CONDENSED STATEMENT OF CASH FLOWS

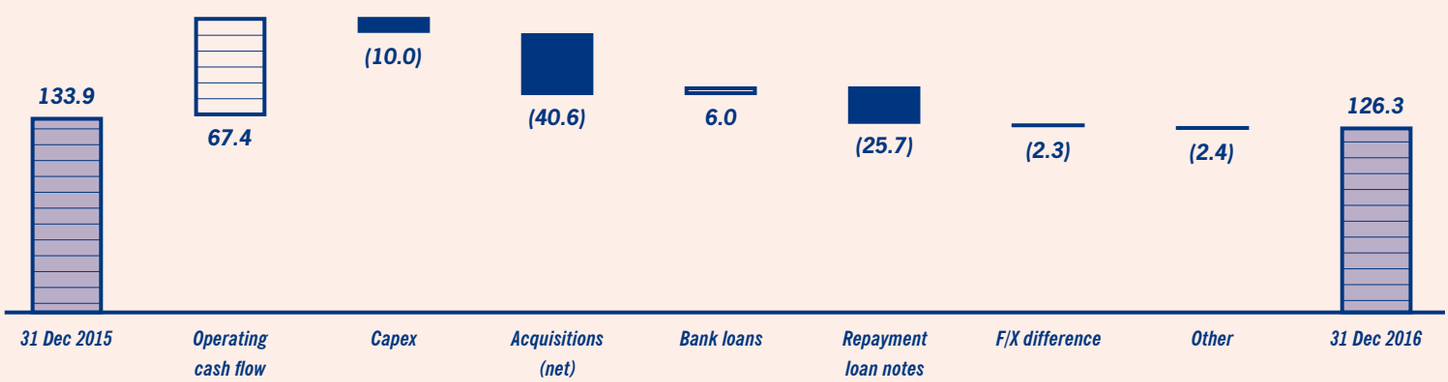
in T€

	2015	**2016**
Net cash provided by (used in)		
— Operating activities	15,651	**67,360**
— Investing activities	(23,422)	**(5,973)**
— Financing activities	2,486	**(19,671)**
Net increase/decrease in cash and cash equivalents	**(5,285)**	**41,716**
Exchange rate difference	1,072	**(2,273)**
Cash and cash equivalents		
— At beginning of year	48,710	**44,497**
— **At end of year**	**44,497**	**83,940**
— Investments	89,443	**42,330**
Liquidity at end of year	**133,940**	**126,270**

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

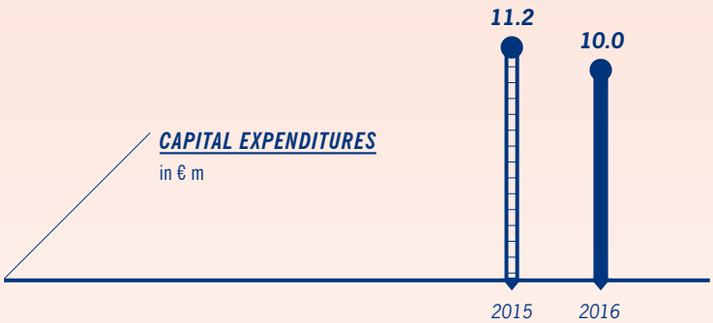
LIQUIDITY DEVELOPMENT

in € m



— CAPITAL EXPENDITURE —

Continued investments in upgrading and expanding Evotec's platforms
Capital expenditure amounted to € 10.0 m in 2016 (2015: € 11.2 m). The majority of capital expenditure was on upgrades and investments in software licences and on instrumentation and equipment at Evotec's sites to support the Company's state-of-the-art platform offering. Facility investments focused on the expansion of laboratory areas mainly in Princeton and Branford (both USA) as well as Göttingen (Germany).



— COST OF CAPITAL —

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

To take into account the different risk and return profiles, Evotec calculates individual post-tax capital cost factors for its different product categories. In 2016, these ranged between 9.0% and 10.8% for the Company's drug discovery and development programmes (2015: 9.6% to 11.0%) and between 5.6% and 8.3% (2015: 5.8% to 8.3%) for the Company's service entities.

— LIQUIDITY AND HEDGING —

Liquidity remains on a similar level to 2015 despite Cyprotex acquisition
Evotec ended 2016 with a liquidity of € 126.3 m (2015: € 133.9 m), which was composed of cash and cash equivalents (€ 84.0 m) and investments (€ 42.3 m). Cash and cash equivalents as well as current investments can be accessed within a period of less than three months. Liquidity in 2016 decreased in comparison to 2015 mainly due to the Cyprotex acquisition, including cash and subsequent redemption of loan notes holders, of £ 55.7 m (€ 66.3 m; at an assumed £/€ ex-change rate of 1.19).

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

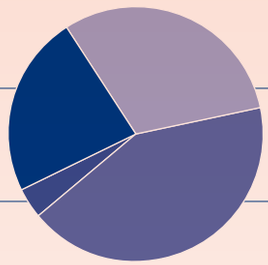
LIQUIDITY AS OF 31 DECEMBER
in T€

	2012	2013	2014	2015	2016
Cash and cash equivalents	39,065	45,644	48,710	44,497	**83,940**
Current investments	25,094	50,499	40,112	89,443	**42,330**
Total liquidity	**64,159**	**96,143**	**88,822**	**133,940**	**126,270**

Deposits are primarily held in the three major currencies in which the Group trades – Euro, Pound Sterling and US dollar (see pie chart below). In 2016, approximately 40% of the Company's revenues were in US dollars and approximately 20% of its costs of revenue were in Pound Sterling. Therefore, one of Evotec's primary risk exposures relates to these two currencies. Evotec uses forward contracts and spot transactions to convert US dollars to Pound Sterling to address this exposure. Following the Celgene upfront payment, the currency holdings in US dollars increased from € 34.5 m at the end of 2015 to € 63.0 m at the end of 2016. The currency holding in Pound Sterling at 31 December 2016 was € 9.6 m (31 December 2015: € 11.9 m) and was kept at a relatively low level with the objective of having sufficient cash available to meet short-term local operating needs. The Company still held T€ 628 cash in Indian Rupees. Operations in Thane (India) were closed in 2013 and Evotec (India) Private Ltd. is in process of being fully wound up.

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

LIQUIDITY BY INVESTMENT TYPE



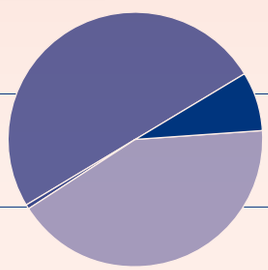
€ 29.4 m
Commercial papers

€ 38.7 m
Cash at bank

€ 4.8 m
Money market funds

€ 53.4 m
Short-term deposits

FUNCTIONAL CURRENCY HOLDINGS



€ 63.0 m
US Dollar

€ 9.6 m
Pound Sterling

€ 0.6 m
Indian Rupees

€ 53.1 m
Euro

—

A CONTINUED CHALLENGING CASH MANAGEMENT ENVIRONMENT

—

The Evotec Group is exposed to both translational and transactional foreign currency risks. The Company uses forward contracts to hedge its transaction exposures.

During 2016, the US dollar exchange rate was on average at a similar level to the Euro in comparison with the 2015 exchange rates. Overall, the US dollar exchange rate had only a negligible impact on 2016 revenues and gross profit compared to prior year. However, the substantial weakening of Pound Sterling against the Euro due to the Brexit decision had a significant positive impact on the costs of Evotec's UK sites after conversion into Euro. The gross profit was favourably impacted by € 2.3 m and gross margin by 1.6 percentage points compared to prior year. The liquidity position increased by € 0.6 m at the end of 2016 compared to prior year-end's closing rates mainly due to the impact of the stronger US dollar overcompensating for the weaker Pound Sterling versus the Euro. In order to protect itself against adverse currency movements, the Company entered into forward contracts, selling US dollars against Pound Sterling or Euro. This resulted in a realised loss of € 2.8 m in 2016.

The currency-related derivative financial instruments held at 31 December 2016 were reduced to notional $ 0.0 m (2015: $ 30.0 m). The instruments which expired during 2016 were exclusively forward contracts selling US dollars for Pound Sterling, all with a maturity of up to 12 months.

The Company makes use of bank loans as a tool to manage short-term and medium-term liquidity. Compared to 31 December 2015, the level of debt financing increased by € 5.9 m to € 28.8 m at 31 December 2016 (2015: € 22.9 m); thereof € 28.6 m related to bank loans and € 0.2 m to finance leases. € 20.0 m of the bank loans were denominated in Euro, € 7.1 m in US dollar and € 1.5 m in Pound Sterling.

MULTIPLE-YEAR OVERVIEW FINANCIAL POSITION

in T€

	31 Dec 2012	31 Dec 2013	31 Dec 2014	31 Dec 2015	**31 Dec 2016**
Liquidity*	64,159	96,143	88,822	133,940	**126,270**
Debt	17,402	17,241	21,549	22,943	**28,827**
Net liquidity	**46,757**	**78,902**	**67,273**	**110,997**	**97,443**
Current liabilities	33,882	38,953	33,068	56,400	**73,390**
Non-current liabilities	38,998	29,460	33,149	45,044	**64,040**
Total stockholders' equity	152,547	158,967	158,383	187,094	**213,936**
Total liabilities and stockholders' equity	**225,427**	**227,380**	**224,600**	**288,538**	**351,366**
Cash flow from operating activities	11,957	6,657	(3,797)	15,651	**67,360**
Cash flow from investing activities**	8,775	(31,513)	2,975	(23,422)	**(5,973)**
Cash flow from financing activities**	(397)	31,936	3,096	2,486	**(19,671)**
Movements in investments and fx differences	(18,604)	24,904	(9,595)	50,403	**(49,386)**
Net increase/decrease in liquidity	**1,731**	**31,984**	**(7,321)**	**45,118**	**(7,670)**
Capital expenditures	8,175	5,160	5,282	11,164	**10,003**
Investment rate	32.8%	21.3%	22.0%	29.1%	**23.0%**
Capex to write-downs	135.2%	86.8%	87.0%	122.9%	**100.2%**

** Cash and cash equivalents and investments*

*** Presentation 2012 adjusted for payments of subsequent contingent considerations*

ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY

— ACQUISITIONS —

Effective 14 December 2016, Evotec acquired 100% of the shares in Cyprotex. The purchase price for all shares, including those converted from share options, amounted to € 49.7 m and was paid in cash (£ 1.60 per share). Total cash flow, including the redemption of loan notes, after being replaced by intercompany financing, and cash acquired amounted to £ 55.7 m (€ 66.3 m; at an assumed £/€ exchange rate of 1.19). Cyprotex is a specialist pre-clinical contract research organisation in ADME-Tox and DMPK headquartered in the UK.

— CAPITAL STRUCTURE —

Equity ratio remains strong at 61%

In 2016, Evotec's share capital increased by 0.4% to € 133.1 m (31 December 2015: € 132.6 m) and additional paid-in capital by 0.6% to € 698.1 m (31 December 2015: € 693.7 m) due to the exercise of stock options and Share Performance Awards ("SPA"). The non-controlling interest related to the acquisition of Panion in 2015 amounted to € 0.9 m. Total stockholders' equity increased by € 26.8 m to € 213.9 m as of the end of 2016 (31 December 2015: € 187.1 m) mainly due to the net income of the year under review.

In 2016, a total of 258,584 stock options (2015: 895,606 options) were exercised. As of 31 December 2016, the total number of options available for future exercise amounted to 1,728,252 (approximately 1.3% of issued shares). Options have been accounted for under IFRS 2 as equity-settled plan using the fair value at the grant date.

At the Annual General Meetings in 2012 and 2015, contingent capital amounting to € 4 m and € 6 m, respectively was approved for use in Share Performance Plans. In 2016, a total of 209,073 SPAs were exercised. During the fourth quarter of 2016, a total of 793,903 SPAs (2015: 796,617 awards) were granted to the Management Board and key employees. These awards could result in a maximum of 1,587,806 bearer shares (2015: 1,593,234) being issued at maturity. As of 31 December 2016, the total number of awards granted for future exercise amounted to 4,368,425 (2015: 3,858,742) (approximately 3.3% and 2.9% of issued shares in 2016 and 2015, respectively).

Evotec's equity ratio remained very strong, amounting to 60.9% at the end of 2016 (2015: 64.8%).

— ASSETS AND LIABILITIES —

Acquisition of Cyprotex impacted Evotec's balance sheet in 2016

The Company's total assets increased by € 62.9 m to € 351.4 m as of 31 December 2016 (31 December 2015: € 288.5 m) mainly due to the acquisition of Cyprotex.

Current assets as of 31 December 2016 grew by € 2.3 m to € 169.2 m (31 December 2015: € 166.9 m).

Liquidity, which consists of cash and cash equivalents and investments, decreased by € 7.6 m to € 126.3 m (31 December 2015: € 133.9 m). Trade accounts receivables and accounts receivables from related parties increased from € 21.1 m as of 31 December 2015 to € 28.3 m at the end of December 2016 due to the acquisition of Cyprotex' receivables and general business growth. Inventories increased to € 4.3 m at the balance sheet date (31 December 2015: € 3.1 m) for the same reason. Prepaid and other current assets increased by € 0.6 m to € 7.2 m.

Long-term investments increased from € 0.0 m to € 3.9 m at 31 December 2016. This includes Evotec's investments in Topas Therapeutics (€ 1.6 m), Carrick Therapeutics (€ 0.8 m) and Eternygen (€ 1.5 m).

Property, plant and equipment increased by € 5.1 m to € 43.4 m in 2016 (31 December 2015: € 38.3 m) mainly due to fixed assets acquired from Cyprotex.

Goodwill and intangible assets increased by € 44.9 m to € 115.7 m (31 December 2015: € 70.8 m). Whereas intangible assets decreased by € 2.7 m mainly due to the impairment of the EVT100 series, goodwill increased by € 47.6 m mainly due to the acquisition of Cyprotex. The purchase price allocation of Cyprotex is still preliminary; therefore, the goodwill amount may be subject to change.

Deferred tax asset increased to € 10.6 m (31 December 2015: € 8.8 m) mainly with respect to temporary differences in the UK.

In 2016, total current liabilities increased by € 17.0 m to € 73.4 m (31 December 2015: € 56.4 m) mainly because of an increase in loan liabilities and deferred revenues.

Current provisions decreased from € 16.7 m at year-end 2015 to € 15.5 m at year-end 2016, largely due to lower employee-related provisions associated with Evotec (France) SAS. Current deferred revenues increased by € 6.6 m to € 15.4 m (31 December 2015: € 8.8 m) due to the upfront payment received in respect of the Celgene collaboration signed in December 2016. The current portion of loans increased in the short-term to € 21.4 m as of 31 December 2016 (2015: € 14.2 m) to finance the Cyprotex acquisition.

Total non-current liabilities increased by € 19.0 m to € 64.0 m as of 31 December 2016 (31 December 2015: € 45.0 m). The long-term portion of the Celgene upfront payment of $ 45 m (€ 43.0 m) is shown as deferred revenues and increased by € 34.6 m to € 41.1 m (31 December 2015: € 6.5 m). Non-current provisions decreased from € 27.3 m as of 31 December 2015 to € 14.8 m as of 31 December 2016 due to a reduction in contingent consideration (earn-out) provisions. The long-term portion of loans decreased by € 1.5 m to € 7.2 m as of 31 December 2016 (31 December 2015: € 8.7 m).

CONDENSED BALANCE SHEET

in T€

	2015	2016
Cash, cash equivalents and investments	133,940	**126,270**
Trade accounts receivables	21,069	**28,300**
Inventories	3,133	**4,305**
Other current assets	8,798	**10,360**
Deferred tax assets	8,812	**10,592**
Property, plant and equipment	38,334	**43,421**
Intangible assets, excluding goodwill	25,154	**22,454**
Goodwill	45,648	**93,227**
Other non-current assets	3,650	**12,437**
Total assets	**288,538**	**351,366**
Current maturities of loans and finance leases	14,213	**21,603**
Trade accounts payable	12,171	**11,997**
Current provisions	16,694	**15,539**
Other current liabilities	13,322	**24,251**
Long-term loans and finance leases	8,730	**7,224**
Non-current provisions	27,342	**14,801**
Deferred revenues	6,509	**41,129**
Other long-term liabilities	2,463	**886**
Total stockholders' equity	187,094	**213,936**
Total liabilities and stockholders' equity	**288,538**	**351,366**

WORKING CAPITAL CALCULATION

in T€

= Current assets excl. cash, cash equivalents and investments - current liabilities excl. bank loans	2015	2016
Trade accounts receivables	21,069	**28,300**
Inventories	3,133	**4,305**
Other current assets	8,798	**10,360**
Assets	**33,000**	**42,965**
Trade accounts payable	12,171	**11,997**
Current provisions	16,694	**15,539**
Other current liabilities	13,322	**24,251**
Liabilities	**42,187**	**51,787**
Working Capital	**(9,187)**	**(8,822)**
Δ Working Capital		**365**

— GOODWILL AND INTANGIBLE ASSETS —

Goodwill impairment

In the fourth quarter of 2016, Evotec performed its annual goodwill review. A goodwill impairment was recorded as a consequence of the NIH contract termination in the US Compound Management Business. The goodwill impairment for this cash-generating unit Evotec (US) Execute amounted to € 4.0 m.

No impairment was necessary for any of the other cash-generating units.

Intangibles impairment

In the first quarter of 2016, Janssen terminated the EVT100 collaboration agreement with Evotec which led to an impairment of the relating developed technology in the amount of € 1.4 m.

The Company also performed its annual regular review of intangible assets for potential impairment in accordance with IFRS during the final quarter of 2016. No impairment was necessary for any of the other intangible assets.

Assets/liabilities not accounted for

The assets of a company do not only consist of quantifiable components, but also of elements that can only be described in qualitative terms. The employees of the Company are the most important asset in ensuring the continued operation and success of Evotec (this topic is covered in more detail in the "Employees" chapter on page 54 of this Management Report).

Excellent customer relationships are also critical to Evotec's success and therefore a fundamental asset of the Company. Respectability, reliability and continuity are key determinants of the quality of customer relationships, maintaining long-term customer relationships as well as continuously increasing Evotec's customer base by acquiring new clients.

In addition, the quality and continuity of Evotec's supplier relationships are key assets that are highly significant to the Company's success. Evotec collaborates with approximately 1,500 vendors throughout the world.

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

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

The Company is not involved in any off-balance-sheet financing transactions in the sense of the sale of receivables, asset-backed securities, sale-and-lease-back agreements or contingent liabilities in relation to special-purpose entities not consolidated.

As of 31 December 2016, the Company had operating lease obligations in the amount of € 83.3 m (31 December 2015: € 89.2 m). The majority of the operating lease obligations relate to rent expenses for facilities and only to a smaller extent to laboratory and office equipment.

Other commitments and contingencies consist of consultancy agreements, purchase commitments and guarantees. The future payment obligations resulting from those long-term commitments and contingencies total € 9.1 m (31 December 2015: € 8.6 m) (see note 30 a and b of the Notes to the Consolidated Financial Statements).

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

MULTIPLE-YEAR OVERVIEW BALANCE SHEET STRUCTURE

in T€

	31 Dec 2012	*31 Dec 2013*	*31 Dec 2014*	*31 Dec 2015*	***31 Dec 2016***
Cash, cash equivalents and investments	64,159	96,143	88,822	133,940	**126,270**
Trade accounts receivables	15,053	17,777	25,259	21,069	**28,300**
Inventories	2,445	2,358	3,111	3,133	**4,305**
Other current assets	6,447	6,248	8,108	8,798	**10,360**
Deferred tax assets	2,815	-	-	8,812	**10,592**
Property, plant and equipment	27,181	24,239	24,045	38,334	**43,421**
Intangible assets, excluding goodwill	63,266	39,826	30,210	25,154	**22,454**
Goodwill	42,342	40,136	44,815	45,648	**93,227**
Other non-current assets	1,719	653	230	3,650	**12,437**
Total assets	**225,427**	**227,380**	**224,600**	**288,538**	**351,366**
Loans and finance leases	17,402	17,241	21,549	22,943	**28,827**
Trade accounts payable	6,363	6,653	9,450	12,171	**11,997**
Provisions	25,731	24,374	21,651	44,036	**30,340**
Deferred revenues	18,064	14,433	7,150	15,272	**56,484**
Other financial liabilities	5,320	5,712	6,417	7,022	**9,782**
Total stockholders' equity	152,547	158,967	158,383	187,094	**213,936**
Total liabilities and stockholders' equity	**225,427**	**227,380**	**224,600**	**288,538**	**351,366**
Working capital	3,287	4,657	16,773	(9,187)	**(8,822)**
Current ratio	2.60	3.15	3.79	2.96	**2.31**
Receivables turnover	5.80	4.83	3.54	6.06	**5.81**
Intangibles and goodwill to total assets	46.8%	35.2%	33.4%	24.5%	**32.8%**
Provisions to total liabilities and stockholders' equity	11.4%	10.7%	9.6%	15.3%	**8.6%**
Equity ratio	67.7%	69.9%	70.5%	64.8%	**60.9%**

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

Evotec achieved strong top-line performance with 29% Group revenue growth in 2016 primarily driven by an increasing underlying business from drug discovery alliances, a full-year contribution of the Sanofi collaboration as well as significant milestone payments. In 2016, revenues excluding milestones, upfronts and licences increased by 26% compared to the prior year. Revenues from upfronts, milestones and licences increased by 54% in 2016 compared to the previous year, mainly due to milestone revenues earned in Evotec's partnership with Bayer and upfronts received in its ongoing collaborations.

The year 2016 was a strong year for both segments. The EVT Execute segment achieved continued profitable growth with revenues increasing by 28% compared to prior year due to growth in the core EVT Execute business, a full-year contribution of the Sanofi collaboration as well as significant milestone payments. Revenues in the EVT Innovate segment increased by 24%. This increase was primarily driven by the increase in revenues resulting from EVT Innovate projects which were partnered in 2015 as well as new partnerships within the EVT Innovate segment.

Adjusted Group EBITDA for 2016 was positive and improved significantly compared to the prior year. In fiscal year 2016, the adjusted EBITDA of the EVT Execute segment was positive, resulting in an adjusted EBITDA margin of 29%. The adjusted EBITDA of the EVT Innovate segment improved by 8% compared to the prior year.

Evotec's year-end liquidity and equity ratio continued to be strong at € 126.3 m and 60.9%, respectively. The strong cash position allows the possibility for the Company's strategy to be accelerated not only through organic growth but also through the potential acquisition of technologies or assets. It also enables the continued investment in proprietary R&D via Cure *X* and Target *X* initiatives to generate significant additional future upside potential.

In 2017 and beyond, Evotec's management expects continued growth of the EVT Execute business and new EVT Innovate alliances to be initiated. Evotec's adjusted Group EBITDA is expected to be positive and improved compared to 2016.

EMPLOYEES

Attracting and retaining highly skilled, motivated and dedicated employees and supporting them to perform at consistently high levels is vital to Evotec's success. This applies even more in times of significant growth as experienced in 2016.

— HEADCOUNT —

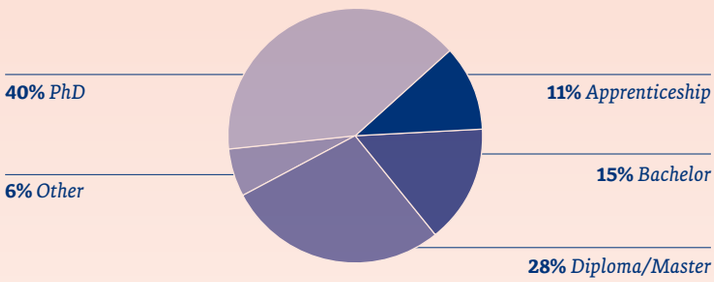
As of 31 December 2016, the Evotec Group employed a total of 1,238 people worldwide. This is an absolute increase of 238 or nearly 25% compared to the prior year, which besides organic growth mainly reflects the significant expansion of the Company's drug discovery resources and capabilities through the acquisition of Cyprotex in the UK and in the USA. In total, 145 people were employed at Cyprotex as of 31 December 2016. In addition, resources at the Toulouse site were increased by 52 new employees.

HEADCOUNT AS OF 31 DECEMBER

	2015	2016
Research in Germany	342	**367**
Research in UK	242	**350**
Research in France	225	**254**
Research in USA	10	**46**
Compound Management	46	**46**
Sales and Administration	135	**175**
Total Evotec Group	**1,000**	**1,238**
Total Germany	408	**431**
Total UK	278	**395**
Total France	249	**301**
Total USA	65	**111**
Total Evotec Group	**1,000**	**1,238**

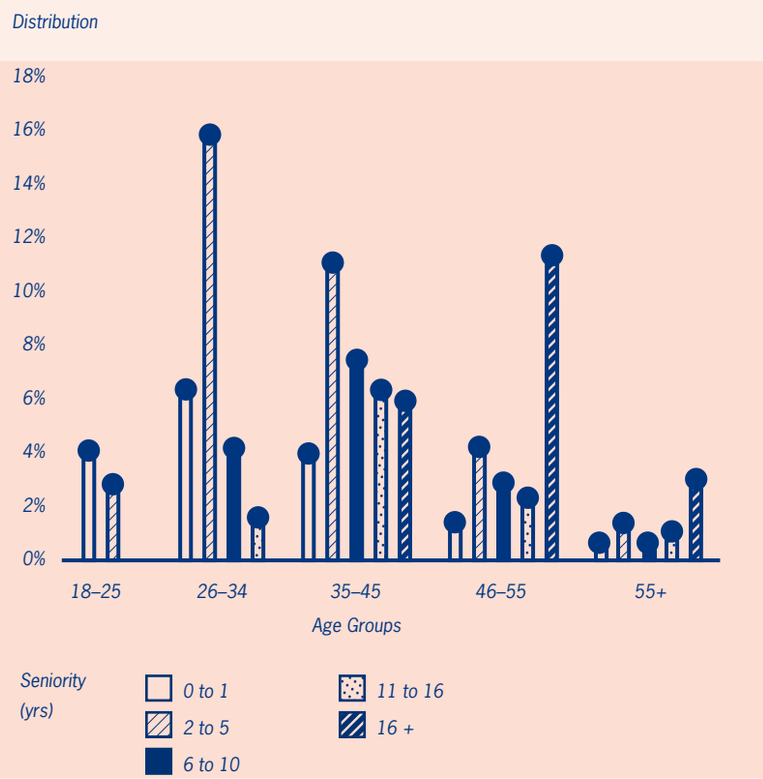
The workforce at Evotec is highly skilled with almost 80% of all employees having an academic qualification. 40% of the Company's total workforce (492 employees) hold a PhD degree.

EMPLOYEES BY LEVEL OF EDUCATION AS OF 31 DECEMBER 2016



Approximately 50% of Evotec's employees have worked for the Company for more than five years. The average age of Evotec's employees at the end of 2016 was approximately 40 years.

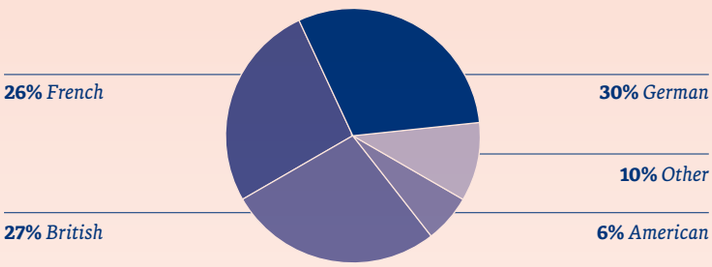
EMPLOYEES BY AGE GROUPS AND SENIORITY



— DIVERSITY —

Evotec operates in a global industry with an international customer base. Therefore, the Company seeks the most suitably qualified talent regardless of gender, nationality or age. At the end of 2016, Evotec employed individuals from 41 nationalities. This diversity brings a range of perspectives and ideas to the workplace.

EMPLOYEES BY NATIONALITY AS OF 31 DECEMBER 2016



Women account for more than 50% of employees globally.

— WORK-LIFE BALANCE —

As an employer, Evotec is fully aware that offering a good balance between work and private life is not only important for achieving corporate success and job satisfaction but is also a significant aspect when recruiting new talent to the Company. Therefore, where appropriate, Evotec offers the possibility of part-time employment arrangements as well as flexible and work-at-home options.

— EDUCATION AND TRAINING —

In 2016, the Company continued to offer training programmes in different areas. One focus was on continuing Lean Green Belt training but in addition, Evotec also trained employees as Yellow Belts. Lean is a structured intuitive problem-solving methodology that relies on a collaborative team effort to continuously improve quality and performance for the benefit of the customer. Green Belt and Yellow Belt training courses provide employees with the tools and the skills to lead Lean improvement projects with the goal of making business processes at the Company as effective and efficient as possible. In total, 49 employees from different sites, of varying seniority and representing a range of departments and functions attended the sessions in 2016 and they now form part of the Evotec Improvement Network that is comprised of approximately 120 employees that have all had Lean training. The Evotec Improvement Network is led by an accredited Black Belt and most of the Green and Yellow Belts have projects assigned to them, which are in various stages of completion. These projects do contribute significant savings and improvements to the organisation.

An additional crucial part of the Company's trainings in 2016 was the further development of a professional feedback culture, improving the interaction between employees as well as between employees and their respective leaders. The Company trained its employees on giving and receiving meaningful feedback during the course of 2016 at all sites.

— PERFORMANCE MANAGEMENT —

Evotec has been applying a standardised performance management process and incentive schemes for many years. A global improvement project was initiated in 2016 in order to make the current performance management including incentive schemes more relevant, effective and rewarding to the Evotec workplace in 2017. The focus will be on frequent and engaging performance dialogues with the managers rather than on annual or semi-annual ones in order to create a forum for regular attention, encouragement and guidance of the employees. The implementation of the new scheme and processes is planned for full roll-out in 2017.

PROCUREMENT AND FACILITY MANAGEMENT IN 2016

In 2016, the procurement and logistics function at Evotec continued to implement the mid-term ONE Procurement strategy roadmap established in 2013. The main pillars of this strategy are the further development of an efficient supply chain, development of strategic partners and disciplined cost control while maintaining the highest level of product quality. Lean projects focused on efficiency were set up and developed. A further optimised use of the resources added value for the Company, enhancing service levels and ultimately customer satisfaction.

2016 saw the further development and fit-out of the Manfred Eigen Campus, the Company's headquarters in Hamburg (Germany) to support the continued growth of the business.

At the end of 2015, Evotec took over a new building in Göttingen with 1,620 m² of laboratories and offices, which is annexed to one of its already leased buildings, and in so doing returned one leased building early. All of Evotec's activities in Göttingen are now concentrated on one site.

With the acquisition of Cyprotex, Evotec took over a site in Macclesfield in the Manchester area (UK). It is planned to move Cyprotex' Macclesfield site into new laboratories and offices at Alderley Park in Manchester at the beginning of 2017. Evotec's existing Manchester site is also expected to move its premises into Alderley Park in the course of 2017, concentrating all of Evotec's activities in the northwest of the UK and recognising potential synergies.

In the USA, Evotec acquired two small sites in Kalamazoo, MI, and Watertown, MA, as part of the Cyprotex transaction. These two sites will complement Evotec's existing sites in Princeton, NJ, and Branford, CT. After the termination in 2016 of the compound management services contract by the NIH becoming effective in 2017, it was decided in December 2016 that Evotec's San Francisco site will be closed in 2017 with a subsequent consolidation of US compound management services into its Branford, CT, facility.

SUSTAINABILITY REPORT

— SUSTAINABLE CORPORATE MANAGEMENT AT EVOTEC —

Sustainability is of key importance for the Evotec Group and is firmly established in all business processes within the Company. For Evotec, sustainability means combining economic success with environmentally

and socially responsible activities. Taking responsibility for its employees and business partners as well as maintaining its commitment to society and a healthy environment are two of Evotec's guiding principles. By doing this, Evotec accepts its responsibility for current and future generations while ensuring the basis for long-term business success. This sustainability report contains information on Evotec's social and ecological activities as well as policies and responsibilities within the Company.

LIFE SCIENCES – CONTRIBUTING TO THE HEALTH OF SOCIETY

Currently, there are still no cures available for a large number of serious diseases. Consequently, indirect healthcare costs for treating patients are enormous, especially considering the impact of ageing populations in many countries of the developed world. Hence, the life science industry contributes immensely to the health and well-being of our society.

In its research activities, Evotec focuses on addressing both the causes and the symptoms of diseases by using its systematic, unbiased and comprehensive technology platform. The Company aims to develop first-in-class and best-in-class treatments in its key disease areas, using new and innovative commercial models for its partnerships with pharmaceutical, biotech and further healthcare players such as foundations as well as academic institutions in order to find ways to accelerate the development of drug candidates into clinical development and ultimately the market.

EVOTEC'S BUSINESS MODEL FOR SUSTAINABLE GROWTH

Innovation efficiency is a key driver for the success of Evotec's business model, which aims at achieving sustainable growth while protecting the interests of its shareholders and simultaneously creating value for all stakeholders. These objectives are reflected in the Company's corporate strategy (see the "Corporate objectives and strategy" chapter on page 27 of this Management Report). The Company's success is measured using both financial and non-financial performance indicators. The latter include "Quality of drug discovery solutions and performance in discovery alliances", which measures the commercialisation rate in alliances, and "Research and development performance in development partnerships", which measures the progression of drug candidates within Evotec's partnerships. Detailed information about Evotec's performance alongside these indication measures are presented in the "Performance measurement" chapter on page 29 of this Management Report.

The Management Board does not consider Evotec's business model to contain any aspects that contradict the interests of shareholders focusing on sustainable investments.

CORPORATE SOCIAL RESPONSIBILITY (CSR) AND CODE OF CONDUCT

Evotec's entire Management Board under the leadership of the Chief Executive Officer is responsible for ensuring Group-wide adherence to the Company's sustainability strategy. This strategy is integrated into the Company's planning and affects the business operations at each site. The Company's Ethical Business Conduct Policy, known as the Code of Conduct, includes a description of how this strategy translates into the daily business of every employee at Evotec. The Code of Conduct is published in the Investor Relations section on Evotec's website (www.evotec.com). It covers topics such as the use of corporate funds and proper record keeping, behaviour with regards to personal conflicts of interest and insider trading, compliance with anti-corruption and antitrust laws, employees' working environment, health and safety protection, minimising the impact on the environment, and confidentiality with respect to intellectual property and trade secrets. Evotec's Code of Conduct also provides the framework for responsible and correct behaviour towards business partners. Like all processes in research and development, Evotec's Code of Conduct is based on both industry standards and in-house best practices.

In order to ensure that corporate behaviour complies with these regulations, Evotec's employees are required to immediately report any actions or facts which indicate even the slightest possibility of a breach of Evotec's Code of Conduct to their respective line manager, the Company's Compliance Officer or to the Company's whistle-blowing hotline, which is hosted by an external provider. In addition, no new commitments should be undertaken which are likely to breach this policy. However, the Company regards serious violations by individual employees, which could have a significant impact on the net assets, financial position and results of operations, as unlikely.

RESEARCH AND DEVELOPMENT ETHICS

Evotec's core business focus is on applying its scientific expertise and know-how together with its partners to develop potential medicines for many different disease indications that could ultimately improve treatment options for patients. Several examples of Evotec's efforts in different areas are given in the "Research and development" chapter on page 32 of this Management Report.

Evotec is committed to deliver the highest standards of animal welfare in line with local, national and EU legislation and as described in the Evotec Global Animal Welfare Policy. The Company strives to use alternatives to animal studies wherever reasonable in accordance with German legislation (section 7a (2) of the German Animal Welfare Act, TierSchG) or the UK Animal (Scientific Procedures) Act 1986. When animal experimentation is necessary Evotec ensures a high standard housing and care of laboratory animals as set out in Annex III of the Directive 2010/63/EU applied to local and national specific regulations such as the German Law in the TierSchG and the corresponding TierSchVersV, the French Decree 2013 and the five inter-ministerial orders, Order 2013a-e as well as the UK Animals (Scientific Procedures) Act 1986. Evotec is also committed to the Replacement, Reduction and Refinement of the use of animals in research (3R-Principle developed by Russell and Burch, 1959). The 3R-Principle

contributes towards good laboratory animal welfare and is an integral part of the R&D processes at Evotec. Each proposed use of animals is reviewed and approved by Evotec's veterinarians and scientists prior to the recommendation to an external ethical committee and the approval of the relevant authorities. In January 2016, a purpose-built *in vitro* and *in vivo* biology R&D building was opened in Göttingen, which includes state-of-the-art facilities for animal studies. In the year under review, in addition to the existing EU authorities, Evotec's animal facilities in Toulouse (March 2016) and Göttingen (November 2016) were audited and successfully obtained AAALAC (Association for Assessment and Accreditation of Laboratory Animal Care) accreditation. The Hamburg animal facility was already AAALAC accredited, so in total three of Evotec's facilities now have AAALAC accreditation. Animal studies that cannot be accomplished in-house are subcontracted to dedicated, carefully selected and audited contract research organisations, which apply the same principles.

Evotec utilises human tissues and cells, obtained from fully approved sources, as part of its drug discovery research services. The Company ensures that any human material obtained for research purposes has the required documentation detailing patient consent and ensuring anonymity. Internal working practices place the highest importance on respecting data confidentiality.

— OCCUPATIONAL SAFETY AND ENVIRONMENTAL MANAGEMENT —

Occupational health and safety is of utmost priority at Evotec. The Company is working continuously to advance its occupational health and safety levels through investments in state-of-the-art technical equipment and by continuously monitoring compliance with its health and safety standards.

Work processes are continuously challenged to identify hazards and risks in order to eliminate them. In 2016, an improved emergency management system was implemented at Evotec's German sites including training of emergency response staff, which allows a fast and efficient response time in case of an emergency.

It is the responsibility of each individual to make the workplace as safe as possible. Therefore, the Evotec staff was trained in several areas to further improve safety-conscious behaviour. Regular meetings with the health and safety professionals were held to develop a set of global standards based on best practices. In order to track the performance of these safety standards, several indicators were defined by which the various aspects of Evotec's safety programmes can be managed.

In 2016, again no material compliance deviations were discovered during the course of authority inspections or regulatory audits at the Company's sites. As in previous years, the rate of work-related injuries was remarkably low at all sites, demonstrating the high level of strict compliance with occupational health and safety regulations.

In addition to ongoing optimisation activities within the Company, Evotec is currently building up a company-wide quality management system to, amongst other reasons, demonstrate that quality is a strategic priority and principle in all it does. In the year under review, selected employees at the major sites were appointed to the Quality Management Council. The Quality Management Council is working on developing a tailor-made quality management system, which will be rolled out globally.

In 2016, a comprehensive energy audit took place at the Company's headquarters in Hamburg. In this audit, a very good energy usage was documented showing that the energy usage in 2016 remained on a similar level as in the prior year despite a significant increase in the number of new employees and projects in the year under review. This resulted from various measures taken to save energy, e.g. switching to energy-efficient lighting or optimisation of the heat exchangers. Evotec intends to continue this optimisation process in the coming year and will try to identify further potential for improvement.

— SOCIAL RESPONSIBILITY —

As a company, Evotec continues to support young students interested in a career in the life science industry through its work experience, placement and summer school programmes. In the year under review, the Company hosted several school and university visits at the sites. Furthermore, Evotec continued its support of MSc and PhD programmes at academic institutions and started an in-house PhD programme in conjunction with the University of Bath for talented medicinal chemists.

Post-balance sheet events

On 09 February 2017, Evotec announced that it resolved on a capital increase from its authorised capital against cash. Evotec issued 13,149,019 new shares to Novo A/S (Denmark). In this private placement capital increase, Novo A/S invested € 90.3 m to subscribe shares of Evotec at a price of € 6.87 per share.

Risk and opportunities management

RISK AND OPPORTUNITIES MANAGEMENT PRINCIPLES

Evotec is regularly confronted with risks and opportunities that have the potential to negatively or positively impact the financial position and profit and loss of the Group. Within the Group, risks are defined as potential developments or occurrences that may lead to a negative deviation from the guidance or goals. Evotec defines opportunities as potential developments or occurrences that may lead to an upside to the guidance or goals.

Evotec's risk management system comprises all the controls that ensure a structured management of opportunities and risks throughout the Evotec Group. Evotec considers risk and opportunities management as the ongoing task of determining, analysing and evaluating actual and potential developments in the Company and the Company's environment. The close coordination between the Company's strategic, commercial and operating functions allows Evotec to recognise risks and opportunities worldwide at an early stage. Where possible, Evotec's Management Board responds to these risks and opportunities by implementing corrective or supportive measures.

RISK AND OPPORTUNITIES MANAGEMENT SYSTEM

Evotec's risk and opportunities management process is a centrally managed, Group-wide activity, which utilises critical regular insight from both global and local business units and functions.

The Management Board is supported by the Group Risk Manager who is in charge of the risk and opportunities management process on behalf of the Management Board. The Supervisory Board is responsible for monitoring the effectiveness of the Group's risk management system. These duties are undertaken by the Supervisory Board's Audit Committee.

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

To cover other risks associated with the Company's business, including those that would not have a short-term financial impact, Evotec performs regular commercial project portfolio reviews. Strict application of project and investment approval processes, legal contract reviews and signing authorities are also standardised procedures. In addition, the Company emphasises its

information technology ("IT") security throughout the Group and regularly reviews its insurance cover. Compliance with the regulatory environment, for example environment, health and safety, has a high priority at all Group sites and appropriate training programmes are in place. The Company also takes its Corporate Governance responsibilities very seriously. A declaration according to section 161 of the German Stock Corporation Act (AktG) has been made by the Management Board and the Supervisory Board of the Company. This declaration regarding the Company's compliance with the German Corporate Governance Code is accessible to the shareholders in the Investor Relations section on Evotec's website.

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

The risk management system comprises the following elements:

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

In addition, any triggering information for an ad hoc notification required pursuant to the European Market Abuse Regulation ("MAR") would be reported directly to the Management Board immediately after the detection of such an event. An ad hoc committee convenes once a week to ensure that all relevant circumstances are evaluated properly with regard to ad hoc-related stipulations.

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Section 91 paragraph 2 of the German Stock Corporation Act (Aktiengesetz, "AktG") in conjunction with section 289 paragraph 5 of the German Commercial Code (HGB) requires the Management Board to take responsibility for adhering to and reporting on an internal control system for reliable financial reporting. The internal control system is part of the risk management system and primarily ensures the preparation of financial statements according to regulatory and legal requirements. It is continually developed and is an integral part of the accounting and financial reporting process in all relevant legal entities and central functions. The internal control system comprises all the principles, processes and measures (such as preventive and detective controls) that are applied to secure effective, economical and proper accounting and compliance with the pertinent legal provisions. Evotec complies fully with the requirements of the German Commercial Code.

According to the German Commercial Code, Evotec's Management Board is required to assess the effectiveness of internal controls over financial

reporting annually. In order to ensure the utmost effectiveness of the control environment, Evotec has decided to maintain most of the key controls from the processes defined to comply with the Sarbanes-Oxley Act, despite the formal deregistration of the Company from the US Securities and Exchange Commission ("SEC") in March 2011. These controls are checked on an ongoing basis and are subject to testing by an independent third party expert annually. These assessments identified no material weaknesses in 2016 and all detected deficiencies were addressed and either remediated immediately or remediation processes were initiated. The effectiveness of Evotec's internal controls over the processes relating to the preparation of the Consolidated Financial Statements is also audited during the year-end audit by its inde-pendent registered public accounting firm. The Supervisory Board's Audit Committee is informed regularly and reviews and discusses the auditing activities.

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

- Various automated and manual preventive and detective controls,
- A clear segregation of financial-related duties, and
- Strict adherence to Evotec's policies.

Among other things, Evotec regularly checks whether:

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

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

Evotec routinely engages external specialists in order to minimise the risk related to specific issues, for example for the calculation of retirement obligations, to value share-based compensation or to derive deferred taxes.

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

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

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

RISKS

Evotec is exposed to a range of risks entirely consistent with its business undertaking. The business, financial condition and results of Evotec may be materially adversely affected by each of these risks.

Evotec has summarised the most important of these risks in the following categories: business environment and industry risks, performance-related risks, commercial risks, strategic risks, financial risks, IP risks, legal risks, human resources ("HR") risks, IT risks and other risks.

Unless stated otherwise, the risks mentioned below are unchanged in comparison to 2015.

MANAGEMENT BOARD'S ASSESSMENT OF THE RISK SITUATION

The Management Board provides an overview of the probability of occurrence and the potential financial impact of the key individual risks in the tables below. The risks are evaluated according to their probability of occurrence and potential impact on Evotec's cash position and net results. This assessment of overall risk is based on the risk management system used by Evotec as outlined above. The Management Board will continue to monitor the effectiveness of Evotec's risk management in order to be able to identify, investigate and assess potential risks even more quickly and implement appropriate countermeasures.

PROBABILITY OF OCCURRENCE

Category	Risk exposure
Low	< 5%
Medium	5 – 20%
High	> 20%

POTENTIAL FINANCIAL IMPACT

Risk class	Risk exposure
Low	< € 2 m
Medium	€ 2 – 5 m
High	> € 5 m

CORPORATE RISKS OVERVIEW

	Probability of occurrence	Potential financial impact	Comparison to prior year
Business environment and industry risks			
a. Risk inherent to drug discovery alliances			
Pricing pressure	**medium**	**medium**	**unchanged**
b. Risk inherent to proprietary drug discovery and development			
Risk of failure	**high**	**medium/high**	**unchanged**
Risk of extensive regulation	**medium**	**low**	**unchanged**
Product liability claims	**low**	**high**	**unchanged**
Performance-related risks			
Fluctuating capacity and resource allocation	**medium**	**medium**	**unchanged**
Dependence on individual larger customer	**medium**	**high**	**unchanged**
Scientific or technical delivery risks	**medium**	**medium**	**unchanged**
Maintenance of customer recognition and branding	**low**	**medium**	**unchanged**
Commercial risks			
Changing market environment	**low**	**medium**	**unchanged**
Dependence on individual outlicensing events	**medium**	**medium**	**unchanged**
Outperformance by competitors	**low**	**medium**	**unchanged**
Strategic risks			
Implementation and achievement of strategic goals	**medium**	**high**	**unchanged**
Risk from M&A	**low/medium**	**medium/high**	**unchanged**
Risk from investment strategy	**low/medium**	**medium**	**new risk**
Financial risks			
Liquidity risks	**low/medium**	**medium/high**	**unchanged**
Default risks	**low**	**medium/high**	**unchanged**
Currency risks	**medium**	**medium**	**unchanged**
IP risks			
Dependence on technology patents and proprietary technology	**low/medium**	**medium/high**	**unchanged**
Dependence on licences granted for partnered assets	**low**	**medium/high**	**unchanged**
Legal risks	**low**	**low**	**unchanged**
HR risks			
Dependence on key personnel	**low**	**medium**	**unchanged**
IT risks			
Loss of data	**low**	**medium/high**	**unchanged**
Data integrity and protection	**low**	**medium**	**unchanged**
Other risks			
Industrial action/labour dispute	**low**	**low**	**unchanged**
Environmental risks	**low**	**low**	**unchanged**
Compliance risks	**low**	**low**	**unchanged**
Risks involving production	**low**	**low**	**unchanged**
Risks involving procurement	**low**	**low**	**unchanged**

Based on the general principles for estimating risk factors described above, the Management Board believes that, although the risks in any drug discovery and development business are significant, the Company has great opportunities to create long-term value that outweigh the foreseeable risks. At present, no risks have been identified that either individually or in combination could endanger the continued existence of Evotec AG and the Evotec Group. Furthermore, no changes to risks were identified compared to 2015.

Business environment and industry risks

Risks inherent to drug discovery alliances

Evotec's discovery alliance platform is well established within the industry and has generated a growing revenue stream over the past years. A satisfied customer base, increased efficiency and superior service quality allow Evotec to generate value through its leveraged research platform and positive gross margin contributions. However, there are significant challenges for the industry such as the productivity and cost of research and development, innovative developments, changing relationships with patients and providers, continued patent expiration, regulatory hurdles and access as well as *pricing* and reimbursement. Pharmaceutical companies of all sizes have been re-evaluating their business strategies to remain competitive in their business environment. Therefore, judicious cost management, continuous enhancement of capabilities and technologies, careful market positioning and sales from high-value results-based contracts are critical for Evotec's success.

Risks inherent to proprietary drug discovery and development

Evotec has a clear strategic focus on drug discovery alliances and engages in limited proprietary discovery activities only in order to kick-start such alliances. Later-stage clinical development projects are currently only undertaken if a partner is funding the development costs.

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

The associated risks are those inherent to the biotechnology and drug development industry in general:

- Evotec acts carefully and responsibly to prove that clinical product candidates are safe and effective for human use and approvable by regulatory agencies. Drug discovery and development, however, is expensive, time-consuming and subject to *a high degree of failure*. At each stage, there is an inherent risk that developments are delayed or even need to be aborted due to unpredictable results. The rate of failure is higher the earlier the stage of a programme. However, the cost of failure tends to be higher the later the stage of development. Furthermore, pre-clinical studies and early clinical trials involving limited numbers of patients may not accurately predict the results obtained in later-stage clinical testing. Even if Evotec identifies promising compounds to valuable targets or in-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.

- Research and development activities as well as the approval and marketing of a pharmaceutical product are subject to *extensive regulation* by the USA FDA, the EMA and similar regulatory agencies. The approval of the relevant authorities is required before a product can be tested in humans and later sold in a given market. The regulatory approval process is intensive and time-consuming and the timing of receipt of regulatory approval is difficult to predict. Therefore, even if the further development of Evotec's drug candidates is successful, regulatory approval might not be received, might be restricted to certain geographical regions or indications or might later be withdrawn or significantly delayed. This could significantly impact the receipt of product revenues, if any. Evotec seeks early discussions with the regulatory bodies at all stages of development to ensure that research and development activities are in conformity with legal and ethical requirements.

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

Performance-related risks

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

- Even with a stable revenue stream, *fluctuating capacity utilisation and requirements as well as resource allocation* between different parts of the business can significantly impact profitability and therefore need to be managed carefully. In addition, *dependence on individual large customer contracts* needs to be closely monitored. In 2016, Evotec's largest customer accounted for 33% of total revenues (see the "Top 10 collaborations" table on page 30 of this Management Report).

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

- Evotec's past success was built in part on *customer recognition and branding*. It is therefore of utmost importance to maintain this good reputation and avoid any negative impact on its branding which could lead to a loss of customers due to bad reputation. Evotec has protected its trade name in all countries with business operations and has increased its market awareness to strengthen and protect its global market position.

Commercial risks

Commercial risks include the following:

- The Company continues to be engaged in a selected number of active drug discovery and early development programmes that it intends to license to pharmaceutical companies for clinical development and commercialisation.

The *market environment* and competitive landscape for licensing and licensed projects or individual drug candidates, in general or for individual treatments, however, might change while engaging in individual projects.

The actual timing and commercial values of, or the financial proceeds from, partnering individual projects could therefore deviate significantly from earlier projections.

▸ Evotec's ongoing efforts to serve as an innovative source of drug candidates to the pharmaceutical industry make it *dependent on individual larger out-licensing or partnering events* and hence on individual, typically larger, customers. The total amount of payments and the split of these payments obtained in a future out-licensing agreement are unknown and depend on many factors, such as the degree of innovation and the IP position as well as on external factors outside the Company's control. In addition, the reliance on corporate partners is subject to additional risks. For example, Evotec's collaboration partner may not devote sufficient time and resources to the development, introduction and marketing of Evotec's products or may not pursue further development and commercialisation of the products resulting from the collaboration. To control this risk to the extent possible, detailed project reporting is established within Evotec and stipulated in any collaboration agreement.

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

Evotec's business, however, is sustainable even in the absence of any product commercialisation.

Strategic risks

Implementation and achievement of strategic goals

The implementation of a company strategy bears the risk of misjudgements concerning future developments. Evotec continued to focus its internal R&D activities on its most valuable and promising assets. At present, the Company continues to build an extensive pipeline, by concentrating its efforts on bringing proprietary products from its existing portfolio and from collaborations with scientific institutions to important value inflection points ready for partnering. Investments might be made in the wrong products, wrong partnerships, inappropriate technologies or sub-optimal acquisitions. In addition, commercialisation strategies might be unsuccessful or a lack of market acceptance for newly discovered products could impact Evotec's market position, which could lead to significant negative impact on business objectives and financial goals.

Risks from M&A

Evotec's market position is well established and the Company is acknowledged by its customers for its first-class services. However, the Company is pursuing ambitious growth targets both organically and also via acquisitions of complementary service capacities and capabilities, as exemplified in the acquisition of all shares in UK-based Cyprotex in December 2016. However, such merger and acquisition activities contain specific risks that need to be managed.

Transactions inevitably present challenges to Evotec's management, including the integration of operations and personnel. In addition, mergers and acquisitions may present specific risks, including unanticipated liabilities, unexpected costs, management attention being diverted, the loss of personnel and invalidation of technologies and science.

Intangible assets and goodwill, resulting from past acquisitions, account for a significant portion of Evotec's assets. If management's expectations regarding the future potential of these acquisitions cannot be realised, there is a partial or full impairment risk for these intangible assets and goodwill.

Risks from investment strategy

In 2016, Evotec expanded its EVT Innovate segment through equity participation in selected companies. These investments enable Evotec to accelerate its business model as they provide an optimal risk-reward profile up to clinical proof-of-concept stage in selected fields of high strategic medical relevance. Typically, Evotec's equity stake after the financing round amounts to 5%–40%. Based on its minority shareholdings, Evotec has only limited control regarding the development of such investments.

Financial risks and risk management in relation to financial instruments (IFRS 7)

Evotec's financial risk management addresses liquidity, default and currency risks.

Liquidity risks

▸ Revenue fluctuations and expenditures on internal discovery and early development programmes might negatively impact Evotec's short- to mid-term profitability and cash reserves. To actively address any related risk, Evotec's management has defined minimum *liquidity levels* and regularly undertakes scenario planning in order to safeguard its cash position. Evotec believes that existing liquidity reserves are sufficient to cope with the cumulative impact of all identified risks. Evotec is currently well-financed, however, the possibility of further *increasing capital* is reviewed on an ongoing basis. Such additional financing might be required if new opportunities arise in terms of M&A or in-licensing. The Company does not intend to engage in projects unless adequate funding is allocated or secured.

▸ Evotec has not had any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as *structured finance or special-purpose entities*, established for the purpose of facilitating off-balance-sheet arrangements or other contractually narrow or limited purposes. Therefore, Evotec is not materially exposed to any financing, liquidity, market or credit risk that could arise if it had been engaged in these relationships.

Default risks

▸ As a service provider, Evotec always faces the risk of bad debt losses. However, Evotec's customers are generally financially stable pharmaceutical companies, foundations and larger biotech companies. There have been no significant *doubtful receivables* in 2016.

▸ The general risk of losing a significant amount of cash in cash investments is continuously mitigated by spreading the investments across several different banks in high-quality credit instruments in full compliance with the Company's approved *investment policy*. Evotec monitors its banks and investments on an ongoing basis. The selected instruments are used exclusively to secure the underlying transactions, but not for trading or speculation.

Currency risks

▸ Evotec's business and reported profitability are affected by *fluctuations in foreign exchange rates* between the US dollar, Pound Sterling and the Euro. The Company manages this exposure via close market monitoring, natural hedges and selective hedging instruments. The hedging instruments used do not expose the Company to any material additional risk. Hedging transactions are entered directly in relation to existing underlying transactions and/or future reliably anticipated transactions. The purpose of this strategy is to manage the Company's current and upcoming currency requirements and is intended to reduce the exchange rate risks of future financial periods.

▸ Currency exchange movements also impact Evotec's reported liquidity primarily through the translation of liquid assets held in US dollars or Pound Sterling into Euros.

IP risks

The risks associated with intellectual property include the following:

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

▸ Evotec holds *licences* relating to certain of its proprietary pre-clinical and clinical research projects. Any termination of these licences could result in the loss of significant rights and endanger existing partnering collaborations. However, Evotec maintains long-term and trusting relationships with its partners and is therefore confident that such licence agreements will remain unaffected.

Legal risks

In 2016, Evotec has not encountered any legal risks that are considered to be significant.

HR risks

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

In the recent past, Evotec has not encountered serious difficulties in attracting and retaining qualified employees despite strong growth in recent years and no change in this area is currently foreseen.

IT risks

▸ IT services are essential to the Company's success and the Company recognises that a *loss of data* or service may result in a financial loss as well as a loss in reputation.

Evotec invests in resilient systems, makes upgrades to security systems, backs up data to different geographical locations, enhances IT policies and consolidates user awareness and thereby mitigates hazards such as cyber-attacks, natural disasters, power failures, system upgrade failures, theft and data corruption. Guidelines relating to *data protection*, which also regulate the assignment of access rights, are required to be observed.

▸ The Company performs regular risk assessments to identify and rectify weaknesses. In addition to these, an IT Security Committee was created which meets each week to analyse threats, investigate reported incidences and make recommendations to the management. Where weaknesses are identified, remediation measures are initiated immediately. In 2016, a training was provided to the members of the finance team to enable them to recognise fraudulent emails as this has been identified as a significant risk.

Other risks

The risk concerning industrial action/labour dispute includes industrial actions which are more common for the biotech industry in France than in Germany. Nevertheless, it is considered to be low based on the constructive discussions with the employee's representatives.

Other risks, such as environmental risks, compliance risks and risks involving production and procurement, are not considered to be significant and remained stable in relation to the previous year.

Evotec does not foresee any material warranty or future liability claims.

OPPORTUNITIES

In addition to possible risks, the Company also regularly identifies, evaluates and responds to the opportunities arising from its business activities. Some of the Company's significant opportunities are described below.

BUSINESS ENVIRONMENT AND INDUSTRY OPPORTUNITIES

The pharmaceutical industry is in a state of restructuring and transition due to the well-documented patent cliff that many Pharma companies are currently experiencing. This has led to new strategies being developed and to an increase in the appetite to source innovation in a capital-efficient manner. In addition, ageing populations in developed countries continue to demand better drugs that are clearly differentiated from existing treatments. As a result of these developments, Pharma companies are increasingly turning to outsourcing of their research and development activities. Such outsourcing enables Pharma companies to convert fixed costs into variable costs and allows them access expertise in selected areas and avoids the need to build internal capabilities and infrastructure. Evotec

is acutely aware of this trend and consequently developed a business model to secure business and create commercial opportunities from this situation.

Evotec's drug discovery platform is well-established within the industry and has generated a growing revenue stream over the past years. This has resulted in an established and satisfied customer base that Evotec can use as an opportunity to generate additional business.

— STRATEGIC OPPORTUNITIES —

One major pillar of Evotec's strategic plan is the creation of an extensive, long-term pharmaceutical pipeline without taking the financial risk of clinical exposure. Evotec has out-licensed a number of clinical assets for development in partnerships with pharmaceutical companies. These development programmes do not carry any financial risks for Evotec, but only significant upside potential in case of clinical and commercial success. In addition to these late-stage assets, Evotec continues to build this pipeline through partnering its proprietary products from its existing portfolio and from collaborations with scientific institutions. These efforts are called Cure *X* and Target *X* initiatives. A number of Pharma alliances were generated based on these programmes, such as the iPSC-based collaboration with Celgene or the collaboration with Bayer in the field of kidney diseases, both concluded in 2016.

The Company's liquidity position enables Evotec to further expand its business, organically as well as inorganically by means of acquisition of companies that have unique technologies or capabilities which complement the Company's drug discovery offering. This could have a positive impact on the Company's business, results of operations and financial position.

— PERFORMANCE-RELATED OPPORTUNITIES —

Evotec is a high-quality provider of drug discovery services and has an excellent reputation in the market. This is invaluable in securing new business opportunities. Furthermore, Evotec is committed to continually upgrading and expanding its technological capabilities in order to be able to offer superior service and quality and thereby generate new business possibilities in the future.

— COMMERCIAL OPPORTUNITIES —

The total number, growth and size of alliances, the percentage of repeat business, average contract duration, new customer acquisition and the status of the Company's sales and order book are key indicators of Evotec's business. These key indicators have improved significantly during the last five years. During its more than 20-year history, Evotec has continued to deliver excellent results in its collaborations and has expanded its customer base and its global network of partnerships. The Company is now working with approximately 200 Pharma and biotech companies on a global basis. The excellent track record and the Company's extensive network is an excellent basis for creating additional business opportunities that would have an impact on the performance and results of the Company.

Furthermore, the Company operates from a sound liquidity position. This financial stability enables Evotec to strengthen its technology platforms and to expand its drug discovery capacities. In addition, Evotec can invest in early-stage assets via its EVT Innovate initiatives to generate potential starting points for higher value partnerships.

As Evotec's financial planning does not assume any product commercialisation and subsequent commercial milestone and royalties payments, any successful product commercialisation would provide a significant upside to Evotec's business planning.

— HR OPPORTUNITIES —

Since the biotechnology and pharmaceutical industry is very people dependent, employees are a critical asset for companies in this industry. As stated in the "Employees" chapter on page 54 of this Management Report, approximately 50% of Evotec's employees have worked for the Company for more than five years. The Company believes that its success in alliances and partnerships is attributable to its key personnel to a large extent. Thus, retaining employees who have outstanding expertise and skills in the long term could have a positive impact on the Company's business, results of operations and financial position.

Furthermore, employees with new ideas, expertise in further key indication areas and knowledge of innovative technologies are essential in developing new branches or initiatives such as the further development of the iPSC drug discovery platform as well as the Cure *X* and Target *X* initiatives the Company is pursuing, since they result in new business opportunities for the Company. Thus, Evotec sees itself well positioned to attract key personnel which provide the opportunity of outperformance due to enhanced knowledge accumulation and innovation.

Outlook

Information set forth in this section contains forward-looking staatements. These statements are neither promises nor guarantees, but are subject to a variety of risks and uncertainties, many of which are beyond Evotec's control and could cause actual results to differ materially from those contemplated in these forward-looking statements.

EXPECTED GENERAL MARKET AND HEALTHCARE DEVELOPMENT

— ECONOMIC DEVELOPMENT —

According to the World Bank, global growth is projected to rise to 2.7% in 2017 and 2.9% in 2018-19, showing a moderate recovery to the estimated 2016 growth rate of 2.3%. Economic growth in the USA is expected to amount to 2.2% in 2017, up from an estimated 1.6% in 2016. Eurozone growth in 2017 is projected to amount to 1.5% (2016: 1.6%). However, due to the heightened level of political uncertainty in major economies, protectionist tendencies, slower potential growth and elevated vulnerabilities in emerging markets, these projections can be subject to change during 2017. Evotec is confident that these factors will not have a major impact on the Company's expected corporate development or performance.

— THE MARKET FOR DRUG DISCOVERY ALLIANCES —

The global drug discovery market is expected to experience continued growth. According to Visiongain (2015), the global drug discovery market including later-stage *in vivo* work is expected to reach $ 27.1 bn in 2019 and to continue to grow. The growth in outsourcing will be stimulated by Pharma, foundations and biotech companies focusing on more efficient drug discovery solutions and switching to a variable cost model. More importantly, expertise in specialist areas will be accessed externally, avoiding the need to build additional infrastructure and capabilities internally. This demand for innovation efficiency will be met increasingly by companies such as Evotec.

The pharmaceutical industry will increasingly favour larger strategic research contracts due to their lower perceived commercial risk and ease of management. This presents a challenge for the highly fragmented drug discovery outsourcing industry. However, Evotec is ideally positioned to take full advantage of these market developments. The Company is one of the largest and financially stable drug discovery service providers, able to undertake large strategic and integrated drug discovery projects.

— TRENDS IN RESEARCH AND DEVELOPMENT —

The trend of increasing numbers of novel drug approvals in recent years has been interrupted in 2016. With 22 new molecule entities ("NME") approved, the novel agent approval in 2016 was significantly lower than in previous years (2015: 45 NME). This could be an indication that Pharma companies will need access to significant numbers of new innovative medicines in order to ensure their sustainable growth. Against this backdrop, Pharmaceutical companies are still willing to invest large sums in the development of innovative and promising product candidates.

BUSINESS DIRECTION AND STRATEGY

Evotec's strategy is to continuously increase the value of the Company by expanding its leadership position in high-quality drug discovery solutions as well as building an ever-growing project portfolio of innovative first- and best-in-class assets.

Evotec continues to manage its drug discovery activities under the business segments EVT Execute and EVT Innovate. EVT Execute represents all partnerships in which the partner brings the underlying intellectual property to the collaboration. EVT Innovate comprises all partnerships derived from Evotec's internally developed assets and platforms and Evotec's participations in certain companies. Further information on Evotec's two business segments can be found in the "Corporate objectives and strategy" chapter on page 27 of this Management Report.

Specific objectives for the segments EVT Execute and EVT Innovate for 2017 were defined at the end of 2016.

EVT EXECUTE

- New long-term deals with large and mid-sized Pharma
- New performance-based integrated technology/disease alliance
- Expansion of foundations and biotech network in USA/Europe
- Milestones from existing alliances

EVT INNOVATE

- New clinical initiations and good progress of clinical pipeline within partnerships
- Expansion of academic BRIDGE network
- Strong R&D progress within Cure *X*/Target *X* initiatives
- Strong focus on iPSC (induced pluripotent stem cells) platform

EXPECTED RESEARCH AND DEVELOPMENT, NEW PRODUCTS, SERVICES AND TECHNOLOGIES

All of Evotec's new products, services or technologies are based on internal R&D activities, technology agreements with other companies or the acquisition of assets, e.g. companies. Evotec is continually upgrading its capabilities to maintain the best infrastructure and skills to meet its partners' needs in drug discovery like for example the implementation of the iPSC platform. This trend is expected to continue in 2017 and beyond.

The Company will continue to invest in a selected number of highly innovative approaches to address key medical areas. The cornerstones of this approach are the Company's Cure *X* and Target *X* initiatives, whereby Evotec accesses and accelerates early academic or research initiatives in innovative areas of disease biology and develops and positions such assets for commercial partnering. For 2017, Evotec sees a significant opportunity to accelerate selected projects, e.g. in its diabetes, endometriosis and kidney disease activities as well as in its iPSC initiative.

FINANCIAL OUTLOOK FOR 2017

Revenues, research and development expenses and adjusted EBITDA are financial key performance indicators of the management of the Evotec Group.

As the Company has further progressed also from a financial perspective, liquidity and capital expenditures are no longer regarded as primary indicators, and as such will no longer be provided by Evotec's management in the financial outlook.

— EXPECTED OPERATING RESULTS —

Revenue guidance from 2017 onwards will be based on total Group revenues and not on base revenues (excluding milestones, upfronts and licences). The achievement of individual milestones are single events, which bear a certain level of uncertainty and risk which is not under Evotec's full control. However, due to an increasing number of milestone-bearing projects and factoring in a probability of success, total milestone-based revenues become more predictable and contribute more and more to the Company's total revenue and profitability.

In 2017, total **Group revenues** are expected to increase by more than 15%. This revenue growth is based on visibility of the current order book, expected new contracts, contract extensions and milestone opportunities. Projections are based on constant 2016 exchange rates.

Evotec expects **Group research and development (R&D) expenses** in 2017 to be approximately € 20 m in total and thus similar to 2016. The funding will be used to optimally develop Cure *X*/Target *X* projects to key value inflection points. The Company maintains its focus on key programmes and targets to invest in, in particular selecting projects with first-in-class potential in the fields of such as diabetes and diabetic complications, diseases of the central nervous system and oncology.

Evotec's **adjusted Group EBITDA** is expected to improve significantly compared to 2016. EBITDA is defined as earnings before interest, taxes, depreciation, and amortisation of intangibles. EBITDA excludes amortisation and impairments on goodwill, other intangible and tangible assets as well as the total non-operating result. EBITDA is adjusted for changes in contingent consideration as well as for the income from bargain purchase.

— EXPECTED FINANCING AND FINANCIAL POSITION —

The Company's mid-term financial plan does not require any additional external financing for Evotec's operating business. However, all strategical moves to further strengthen Evotec's growth, its competitive positioning or increase of critical mass such as potential company or product acquisitions, equity investments or extended R&D efforts will need to be considered separately, e.g. in the form of capital increases.

DIVIDENDS

Payment of dividends is dependent upon Evotec's financial situation and liquidity requirements, the general market conditions and statutory, tax and regulatory requirements. Evotec currently intends to retain any potential future profits and reinvest them in the Company's further growth strategy.

OPPORTUNITIES

The most important opportunities for the Company are summarised in the "Opportunities" section of the "Risk and opportunities management" chapter on page 64 of this Management Report.

GENERAL STATEMENT OF EXPECTED DEVELOPMENT BY THE MANAGEMENT BOARD

Evotec continues to strengthen and expand its business as the leading global provider in the provision of drug discovery solutions. Evotec is well-positioned to deliver value to the pharmaceutical, biotechnology industry as well as foundations, addressing the industry's growing demand for innovation.

The Management Board is convinced that Evotec will benefit from the continued outsourcing trend in the pharmaceutical industry and partner with an increasing number of customers. On this basis, the Management Board expects Evotec to show strong Group revenue growth and a significantly improved adjusted Group EBITDA in 2017. The Company's strong cash position will provide a firm foundation to further strengthen the business and increase shareholder value.

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Information pursuant to section 289 paragraph 4 and section 315 paragraph 4 of the German Commercial Code and explanatory report

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

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

As of 31 December 2016, the share capital of Evotec AG amounted to € 133,051,739.00 and was divided into 133,051,739 non-par value shares. All shares are bearer shares and have equal voting rights. The Company's management is not aware of any restriction on the voting rights or the right to transfer. No binding lock-up agreements have been made by the Company with any shareholder, and neither stock loans nor pre-emptive stock purchase rights are known to the Company. The Company does not the control voting rights of any shares owned by employees. In a simultaneous transaction to a capital increase in 2013, the subscriber of the new shares the Biotechnology Value Fund, L.P. ("BVF") also purchased an option from TVM Capital to acquire up to 11,818,612 additional Evotec shares from the Company's two major shareholders, TVM Capital and ROI Verwaltungsgesellschaft mbH. The option expired in February 2016 without being exercised.

No shareholder holds the right to have representatives on the Company's Supervisory Board, or is restricted or bound to specific votes at the Annual General Meeting ("AGM"). Existing stock option schemes do not allow for immediate vesting or additional issuance in the case of a takeover offer.

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

Authorised capital: Pursuant to section 5 paragraph 4 of the Articles of Association of the Company, the Management Board, with the approval of the Supervisory Board, is authorised to increase the Company's share capital by up to € 26,292,038.00 in one or more tranches until 16 June 2019 by issuing new shares against cash or non-cash consideration. Any shares to be issued on this basis will be subject to the statutory subscription rights of Evotec's shareholders. With the approval of the Supervisory Board, the Management Board may, however, exclude the pre-emptive rights of its shareholders on one or several occasions under certain well-defined conditions.

Conditional capital: As of 31 December 2016, the remaining conditional capital of the Company amounted to € 38,637,556.00. Conditional capital in the amount of € 12,120,740.00 shall be used only to the extent that holders of stock options and Share Performance Awards ("SPA"), granted by Evotec on the basis of the shareholders' resolutions from 07 June 1999, 26 June 2000, 18 June 2001, 07 June 2005, 30 May 2007, 16 June 2011, 14 June 2012 and 09 June 2015, exercise their rights to subscribe for new shares in the Company. As of 31 December 2016, conditional capital in the total amount of € 467,657 was used for holders of stock options and SPAs to exercise their rights to subscribe for new shares in the Company. Additional conditional capital in the amount of € 26,516,816.00 exists to issue no-par-value bearer shares to owners or creditors of convertible bonds and/or warrant-linked bonds, participation rights and/or income bonds (or a combination of such instruments) that may be issued by Evotec on the basis of the authorisation passed by the AGM on 14 June 2016. Any such contingent capital increase shall only be used to the extent that option or conversion rights are utilised,

or the owners or creditors are obligated to carry out their duty of conversion, and to the extent that no treasury shares or new shares from an exploitation of authorised capital are utilised for servicing.

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

SHAREHOLDINGS EXCEEDING 10% OF VOTING RIGHTS

On 23 August 2016, Evotec was last notified that the direct shareholdings of Roland Oetker plus his shareholdings via ROI Verwaltungsgesellschaft mbH, Königsallee 20, 40212 Düsseldorf (Germany) amounted to 10.09%.

The Company is not aware of any other direct or indirect shareholdings exceeding 10% of its share capital.

— BOARD STRUCTURE —

The board structure of Evotec is explained in detail in the "Corporate Governance report" section.

AUTHORISATION OF MANAGEMENT TO REPURCHASE STOCK

The Company is authorised by resolution of the AGM 2015 to acquire own shares with a computed proportion of the share capital totalling up to € 13,171,087.00. Together with other own shares, which are in the possession of the Company or are attributable to the Company pursuant to section 71a and as per the German Stock Corporation Act (AktG), the own shares acquired on the basis of these authorisations may at no time exceed 10% of the Company's current share capital. Trading in own shares are not allowed under the AGM authorisation. The respective authorisation is effective until 08 June 2020. As of 31 December 2016, Evotec has not used its authorisation to acquire own shares.

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

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

CHANGE-OF-CONTROL PROVISIONS

The Management Board of Evotec AG has only customary rights in the case of a change of control. The contracts of the members of the Management Board contain a change-of-control clause which would allow the management to terminate their current contracts in the event of a change of control. Further information regarding the respective severance payments is reported in Note 33e to the Consolidated Financial Statements and in the "Remuneration report" section on page 73 of this Management Report.

Declaration of corporate management

More information on Company management practices can be found in the Company's "Declaration of Corporate Management" according to section 289a of the German Commercial Code (HGB) in the Investor Relations section on Evotec's website at www.evotec.com.

Remuneration report

The remuneration report describes the Company's remuneration structure and provides information about payments to the board members in accordance with the requirements of the German Corporate Governance Code (the "Code"). It is part of both the Consolidated Financial Statements and the Corporate Governance report.

REMUNERATION OF THE MANAGEMENT BOARD

The total annual compensation of the individual members of the Management Board, which is fixed by the Supervisory Board and agreed with every individual Management Board member, is composed of fixed and variable components. It is guided by section 87 of the German Stock Corporation Act (AktG) and the Code. In line with those requirements, compensation is awarded based on an assessment of performance that is oriented towards the sustainable growth of Evotec. The criteria for determining the amount of compensation awarded include the tasks of the individual members of the Management Board, their personal performance, the economic situation, the performance and outlook of Evotec as well as the comparative level of compensation at peer companies and the compensation structure in place in other areas of the Company. Moreover, the Supervisory Board considers the relationship between the compensation of the Management Board and that of senior management as well as the staff overall, particularly in terms of its development over time. The Supervisory Board determines how senior managers and the relevant staff are differentiated.

Following section 4.2.3 of the Code, the amount of compensation is capped, both overall and for individual compensation components. It should be noted, however, that the variable long-term incentive compensation is based on issuance of share-based awards under the Share Performance Plans 2012 and 2015 as approved by the AGMs in 2012 and 2015. There is a cap for the number of awards upon allocation, but no cap for the value of the allocated shares after the expiration of the vesting period.

The German Law on the Appropriateness of Management Board Compensation (VorstAG) of 31 July 2009 allows the AGM to approve the system of remunerating members of the Management Board (section 120 paragraph 4 AktG). The Management Board and the Supervisory Board of Evotec AG proposed such an approval at the AGM in 2012. The shareholders and shareholder representatives voted in favour of this item of the agenda with a majority of 92.22% of the votes. Following section 4.2.3 of the Code, this item was put to none of the subsequent AGMs as the remuneration system for the Management Board has not changed.

Under the aforementioned system, new Management Board contracts were concluded with all four Management Boards members in the year under review.

In 2016, the fixed and one-year variable remuneration of the active members of the Management Board totalled T€ 2,346, of which the variable part amounted to T€ 796.

Fixed remuneration includes base salaries paid in 12 monthly instalments at the end of each month and fringe benefits such as contributions to retirement insurance policies, premiums for accident and accidental death insurance policies as well as the benefit derived from the private use of an upper mid-range company car. In addition, to the aforementioned remuneration, business-related payments, expenditure and expenses are reimbursed.

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

The variable portion of the remuneration paid out in March 2016 was based on the achievement of certain strategic targets for the financial year 2015. The variable portion of the remuneration for the achievement of strategic targets for the financial year 2016 will be paid out in March 2017. In 2016, the bonus paid to Dr Werner Lanthaler, Colin Bond, Dr Cord Dohrmann and Dr Mario Polywka was based on the achievement of corporate milestones and objectives. As per 31 December 2016, the Company had accrued a total of T€ 992 for the variable portion of the remuneration paid to the members of the Management Board, thereof T€ 407 for Dr Werner Lanthaler, T€ 211 for Dr Cord Dohrmann, T€ 214 for Dr Mario Polywka, T€ 78 for Enno Spillner after joining Evotec on 18 July 2016, and T€ 82 for Colin Bond for a period of 6 months (January to June 2016).

The 2015 and 2016 corporate objectives related to general targets considered important for the positive development of the Company, such as the achievement of revenue and profitability targets, the execution of significant integrated collaboration agreements for both business segments and the preparation of the Company for sustainable future growth. Beyond that, specific targets included the closing and integration of the acquisition of Evotec (France) SAS in Toulouse in 2015 and the ramp-up of an iPSC initiative in 2016.

In addition to their fixed and variable remuneration, the members of the Management Board received 396,291 SPAs in 2016 (2015: 338,382)

under the Company's share performance plan. These SPAs vest after four years according to the achievement of defined key performance indicators over a three-year performance measurement period. SPAs can only be exercised, if and when key performance indicators are achieved. Key performance indicators for each individual tranche of the SPAs are determined by the Supervisory Board. The key performance indicators for the grant in both 2016 and 2015 are "Group Revenues", "Operating Income before Impairment" and "Share Price". The fair values of all Share Performance Awards granted as of the grant date amounted to a total of T€ 1,534 in 2016 (2015: T€ 910).

The following tables present for each Management Board member:

- The benefits granted for the year under review including fringe benefits (such as car allowance, contributions made towards health insurance, a pension, accident/life insurance and accommodation costs) and including the maximum and minimum achievable compensation for variable compensation components
- The allocation of fixed compensation, short-term variable compensation and long-term variable compensation for the year under review, broken down into the relevant reference years

		I	II	III	IV																
a	Benefits granted (in T€)	Dr Werner Lanthaler				Enno Spillner				Dr Cord Dohrmann				Dr Mario Polywka				Colin Bond			
b		CEO				CFO				CSO				COO				CFO			
c						joined the Management Board on 18 July 2016												left the Management Board as of 30 June 2016			
d		**2015**	**2016**	**2016 (min)**	**2016 (max)**	**2015**	**2016**	**2016 (min)**	**2016 (max)**	**2015**	**2016**	**2016 (min)**	**2016 (max)**	**2015**	**2016**	**2016 (min)**	**2016 (max)**	**2015**	**2016**	**2016 (min)**	**2016 (max)**
1	Fixed compensation	340	406	406	406	-	141	141	141	300	333	333	333	337	342	342	342	275	130	130	130
2	Fringe benefits	73	97	97	97	-	17	17	17	15	15	15	15	60	58	58	58	35	11	11	11
3	**Total**	**413**	**503**	**503**	**503**	**-**	**158**	**158**	**158**	**315**	**348**	**348**	**348**	**397**	**400**	**400**	**400**	**310**	**141**	**141**	**141**
4	One-year variable compensation*	256	289	-	510	-	-	-	-	224	153	-	180	229	214	-	241	221	140	-	165
5	Multi-year variable compensation	381	840	-	1,680	-	206	-	412	173	248	-	495	198	240	-	480	158	-	-	-
5a	Long-term incentive ("SPA", as described in the text above) (Plan term until 5 years after grant) (Number of SPA x fair market value)	381	840	-	1,680	-	206	-	412	173	248	-	495	198	240	-	480	158	-	-	-
6	**Total**	**1,050**	**1,632**	**503**	**2,693**	**-**	**364**	**158**	**570**	**712**	**749**	**348**	**1,023**	**824**	**854**	**400**	**1,121**	**689**	**281**	**141**	**306**
7	Service cost	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	**Total**	**1,050**	**1,632**	**503**	**2,693**	**-**	**364**	**158**	**570**	**712**	**749**	**348**	**1,023**	**824**	**854**	**400**	**1,121**	**689**	**281**	**141**	**306**

Notes:

- *a Name of the Management Board member*
- *b Function of the Management Board member, e.g. CEO, CFO*
- *c Date on which the member joined/left the Management Board, if in the financial year under consideration n (year under review) or n-1*
- *d Financial year under consideration n (year under review) or n-1*
- *I Benefits granted in financial year n-1*
- *II Benefits granted in financial year n (year under review)*
- *III Minimum value of granted compensation components that can be achieved in financial year n (year under review), e.g. Zero*
- *IV Maximum value of granted compensation components that can be achieved in financial year n (year under review)*
- *1 Non-performance-related components, e.g. fixed salary, fixed annual pay-off payments (amounts correspond to amounts in "Allocation" table); values in columns II, III and IV are identical*
- *2 Non-performance-related components, e.g. benefits in kind and fringe benefits (amounts correspond to amounts in "Allocation" table); values in columns II, III and IV are identical*
- *3 Total of non-performance-related components (1+2) (amounts correspond to amounts in "Allocation" table); values in columns II, III and IV are identical*
- *4 One-year variable compensation, e.g. bonus, short-term incentive (STI), share in profits, without deferred components*
- *5 Multi-year variable compensation (total of rows 5a - ...), e.g. multi-year bonus, deferred components from one-year variable compensation, long-term incentive (LTI), subscription rights, other share-based compensation*
- *5a Multi-year variable compensation, broken down into plans and stating the period of time*
- *6 Total of non-performance-related components and variable components (1+2+4+5)*
- *7 Service cost in accordance with IAS 19 from pension schemes and other benefits (amounts correspond to amounts in "Allocation" table); values in columns II, III and IV are identical*
- *8 Total of non-performance-related components and variable components and service cost (1+2+4+5+7)*
- ** In 2015, an additional transaction bonus was granted to each Management Board member for the successul acquisition of Evotec (France).*

	Allocation (in T€)	Dr Werner Lanthaler		Enno Spillner		Dr Cord Dohrmann		Dr Mario Polywka		Colin Bond	
b		CEO		CFO		CSO		COO		CFO	
c				joined the Management Board on 18 July 2016						left the Management Board as of 30 June 2016	
d		**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
1	Fixed compensation	406	340	141	-	333	300	342	337	130	275
2	Fringe benefits	97	73	17	-	15	15	58	60	11	35
3	**Total**	**503**	**413**	**158**	**-**	**348**	**315**	**400**	**397**	**141**	**310**
4	One-year variable compensation*	289	256	-	-	153	224	214	229	140	221
5	Multi-year variable compensation	219	392	-	-	-	166	-	582	239	245
5a	Share Performance Programme 2012 (term until 2019)	-	-	-	-	-	-	-	-	176	-
5b	Stock Option Programme 1999 (term until 2021)	50	-	-	-	-	-	-	13	32	-
5c	Stock Option Programme 2000 (term until 2016)	-	-	-	-	-	-	-	-	-	-
5d	Stock Option Programme 2001 (term until 2021)	-	-	-	-	-	-	-	13	31	-
5e	Stock Option Programme 2005 (term until 2017)	-	-	-	-	-	-	-	-	-	-
5f	Stock Option Programme 2007 (term until 2016)	-	-	-	-	-	-	-	-	-	-
5g	Stock Option Programme 2008 (term until 2016)	169	392	-	-	-	71	-	-	-	-
5h	Stock Option Programme 2011 (term until 2019)	-	-	-	-	-	95	-	556	-	245
6	Other	-	-	-	-	-	-	-	-	-	-
7	**Total**	**1,011**	**1,061**	**158**	**-**	**501**	**705**	**614**	**1,208**	**520**	**776**
8	Service cost	-	-	-	-	-	-	-	-	-	-
9	**Total**	**1,011**	**1,061**	**158**	**-**	**501**	**705**	**614**	**1,208**	**520**	**776**

Notes:

- *a Name of the Management Board member*
- *b Function of the Management Board member, e.g. CEO, CFO*
- *c Date on which the member joined/left the Management Board, if in the financial year under consideration n (year under review) or n-1*
- *d Financial year under consideration n (year under review) or n-1*
- *1 Non-performance-related components, e.g. fixed salary, fixed annual pay-off payments (amounts correspond to amounts in "Benefits granted" table)*
- *2 Non-performance-related components, e.g. benefits in kind and fringe benefits (amounts correspond to amounts in "Benefits granted" table)*
- *3 Total of non-performance-related components (1+2) (amounts correspond to amounts in "Benefits granted" table)*
- *4 One-year variable compensation, e.g. bonus, short-term incentive (STI), share in profits, without deferred components*
- *5 Multi-year variable compensation (total of rows 5a - ...), e.g. multi-year bonus, deferral, long-term incentive (LTI)*
- *5a-h Multi-year variable compensation, broken down into plans and stating the period of time*
- *6 Other, e.g. clawbacks, which are entered as a negative amount with reference to previous disbursements*
- *7 Total of non-performance-related components and variable components (1+2+4+5+6)*
- *8 Service cost in accordance with IAS 19 from pension schemes and other benefits (amounts correspond to amounts from row 4 of the "Benefits granted" table and row 7 of the "Allocation table"); this is not an allocation in the financial year*
- *9 Total of non-performance-related components and variable components and service cost (1+2+4+5+6+8)*
- ** In 2015, an additional transaction bonus was granted to each Management Board member for the successul acquisition of Evotec (France).*

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

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

The Company has made a provision for a pension for one former Management Board member amounting to T€ 204 (2015: T€ 182). No such further provisions are due for other former Management Board members or their surviving dependants.

REMUNERATION OF THE SUPERVISORY BOARD

The remuneration of the members of the Supervisory Board is stipulated in the Company's Articles of Association.

According to section 113 AktG, Supervisory Board remuneration is to be appropriate to the task of the Supervisory Board members and the situation of the Company. The members of Evotec's Supervisory Board are entitled to fixed payments as well as out-of-pocket expenses. In accordance with the recommendations of the Code, the Chairman and the Vice Chairman positions on the Supervisory Board as well as the Chair positions and membership on committees are considered when determining the remuneration of individual members. Consequently, as last amended following the approval of the AGM 2014, the fixed compensation is T€ 30 per Supervisory Board member. The Chairman of the Supervisory Board shall be paid T€ 75 and the Vice Chairman shall be paid T€ 45. Supervisory Board members serving on its committees shall be paid T€ 5 per committee membership; the chairman of a committee shall be paid T€ 20.

For their contributions in 2016, the individual members of the Evotec Supervisory Board receive the following compensation:

REMUNERATION OF THE SUPERVISORY BOARD 2016

	Total remuneration in T€[1)]
Prof. Dr Wolfgang Plischke	95
Bernd Hirsch	70
Dr Claus Braestrup	35
Prof. Dr Paul Linus Herrling	35
Prof. Dr Iris Löw-Friedrich	35
Dr Elaine Sullivan	35
Total	**305**

[1)] *Cash remuneration*

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

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

Evotec procured directors' and officers' liability insurance cover for its Management and Supervisory Board members, its senior management and the directors of its subsidiaries at a cost to the Company of T€ 75 in 2016 (2015: T€ 91). For the members of Supervisory Board, an appropriately sized deductible, and for the members of the Management Board, a deductible in line with the stipulations of the legal provisions of the VorstAG, were agreed upon.

Hamburg, 14 March 2017

Dr Werner Lanthaler *Dr Cord Dohrmann*

Dr Mario Polywka *Enno Spillner*

Consolidated Financial

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EVOTEC AG AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2016

in T€ except share data	footnote reference	as of 31 December 2016	as of 31 December 2015
ASSETS			
Current assets:			
Cash and cash equivalents	5	83,940	44,497
Investments	5	42,330	89,443
Trade accounts receivables	6	27,448	20,933
Accounts receivables from related parties		852	136
Inventories	7	4,305	3,133
Current tax receivables		1,528	1,121
Other current financial assets		1,592	1,018
Prepaid expenses and other current assets	8	7,240	6,659
Total current assets		**169,235**	**166,940**
Non-current assets:			
Investments accounted for using the equity method and other long-term investments	9	3,885	-
Property, plant and equipment	10	43,421	38,334
Intangible assets, excluding goodwill	11	22,454	25,154
Goodwill	12	93,227	45,648
Deferred tax asset	18	10,592	8,812
Non-current tax receivables	13	5,967	2,068
Other non-current financial assets		83	80
Other non-current assets	14	2,502	1,502
Total non-current assets		**182,131**	**121,598**
Total assets		**351,366**	**288,538**

See accompanying notes to consolidated financial statements.

in T€ except share data	*footnote reference*	*as of 31 December 2016*	*as of 31 December 2015*
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Current loan liabilities	15	21,413	14,213
Current portion of finance lease obligations		190	-
Trade accounts payable		11,997	12,171
Advanced payments received		552	97
Provisions	16	15,539	16,694
Deferred revenues	17	15,355	8,763
Current income tax payables	18	802	232
Other current financial liabilities		1,503	633
Other current liabilities		6,039	3,597
Total current liabilities		**73,390**	**56,400**
Non-current liabilities:			
Non-current loan liabilities	15	7,194	8,730
Long-term finance lease obligations		30	-
Deferred tax liabilities	18	115	1,538
Provisions	16	14,801	27,342
Deferred revenues	17	41,129	6,509
Other non-current financial liabilities		771	925
Total non-current liabilities		**64,040**	**45,044**
Stockholders' equity:			
Share capital*	20	133,052	132,584
Additional paid-in capital		698,069	693,740
Accumulated other comprehensive income		(25,152)	(18,510)
Accumulated deficit		(592,934)	(622,312)
Equity attributable to shareholders of Evotec AG		**213,035**	**185,502**
Non-controlling interest		901	1,592
Total stockholders' equity		213,936	187,094
Total liabilities and stockholders' equity		**351,366**	**288,538**

** 133,051,739 and 132,584,082 shares issued and outstanding in 2016 and 2015, respectively*

See accompanying notes to consolidated financial statements.

EVOTEC AG AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT FOR THE PERIOD FROM 01 JANUARY TO 31 DECEMBER 2016

in T€ except share and per share data	footnote reference	Year ended 31 December 2016	Year ended 31 December 2015*
Revenues	21	164,507	127,677
Costs of revenue		(105,953)	(92,550)
Gross profit		**58,554**	**35,127**
Operating income and (expenses)			
Research and development expenses	22	(18,108)	(18,343)
Selling, general and administrative expenses	23	(27,013)	(25,166)
Impairment of intangible assets	11	(1,417)	(7,242)
Impairment of goodwill	12	(3,989)	-
Income from bargain purchase		-	21,414
Other operating income	24	38,964	14,353
Other operating expenses	24	(15,649)	(8,503)
Total operating expenses		**(27,212)**	**(23,487)**
Operating income (loss)		**31,342**	**11,640**
Non-operating income (expense)			
Interest income		863	533
Interest expense	25	(1,523)	(1,726)
Share of the loss of associates accounted for using the equity method		(375)	(72)
Other income from financial assets		459	-
Other expense from financial assets		(339)	(15)
Foreign currency exchange gain (loss), net		2,519	1,868
Other non-operating income		4	383
Other non-operating expense		-	(120)
Total non-operating income (expense)		**1,608**	**851**
Income before taxes		**32,950**	**12,491**
Current tax expense	18	(7,861)	(2,641)
Deferred tax income	18	1,750	6,666
Total taxes		**(6,111)**	**4,025**
Net income		**26,839**	**16,516**
thereof attributable to:			
Shareholders of Evotec AG		27,530	16,516
Non-controlling interest		(691)	-
Weighted average shares outstanding		**132,506,697**	**131,678,865**
Net income per share (basic)		**0.20**	**0.13**
Net income per share (diluted)		**0.20**	**0.12**

** Costs of revenue for the year ended 31 December 2015 was adjusted for a change in presentation. Reference is made to Note (2) of the notes to consolidated financial statements.*

EVOTEC AG AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 01 JANUARY TO 31 DECEMBER 2016

in T€	footnote reference	Year ended 31 December 2016	Year ended 31 December 2015
Net income		**26,839**	**16,516**
Accumulated other comprehensive income			
Items which are not re-classified to the income statement			
Remeasurement of defined benefit obligation		1,064	(38)
Taxes		(303)	-
Items which have to be re-classified to the income statement at a later date			
Foreign currency translation		(6,312)	4,793
Revaluation and disposal of available-for-sale securities		(263)	(96)
Taxes		-	-
Other comprehensive income		**(5,814)**	**4,659**
Total comprehensive income		**21,025**	**21,175**
Total comprehensive income (loss) attributable to:			
Shareholders of Evotec AG		21,716	21,175
Non-controlling interest		(691)	-

See accompanying notes to consolidated financial statements.

EVOTEC AG AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 01 JANUARY TO 31 DECEMBER 2016

in T€	footnote reference	Year ended 31 December 2016	Year ended 31 December 2015
Cash flows from operating activities:			
Net income		26,839	16,516
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation of property, plant and equipment	10	9,985	9,081
Amortisation of intangible assets	11	1,908	2,860
Depreciation of current assets		312	100
Impairment of intangible assets	11	1,417	7,242
Impairment of goodwill		3,989	-
Stock compensation expense	19	3,979	3,973
Interest expense	25	653	1,127
Loss on sale of financial assets		339	16
Gain on sale of financial assets		(172)	-
Share of the loss of associates accounted for using the equity method		375	-
Income from bargain purchase	4	-	(21,414)
Loss on sale of property, plant and equipment		3	14
Deferred tax expense (benefit)	18	(1,750)	(6,666)
Decrease (increase) in:			
Accounts receivables		(4,114)	4,418
Inventories		(360)	(5)
Other assets		855	(2,303)
Other tax assets		(3,900)	(2,068)
Increase (decrease) in:			
Accounts payable		(1,302)	(8,810)
Advanced payments received		455	(444)
Deferred revenues		41,228	8,021
Provisions		(15,154)	2,747
Current income taxes payable		841	(2)
Other liabilities		686	1,938
Cash received during the year for:			
Interest		861	550
Cash paid during the year for:			
Interest		(342)	(448)
Taxes		(271)	(792)
Net cash provided by operating activities		**67,360**	**15,651**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

in T€	*footnote reference*	*Year ended 31 December 2016*	*Year ended 31 December 2015*
Cash flows from investing activities:			
Purchase of current investments		(17,656)	(108,169)
Purchase of investments in affiliated companies net of cash acquired	4	(40,585)	37,114
Purchase of investments in associated companies and other long-term investments	9	(2,859)	-
Purchase of property, plant and equipment	10	(10,003)	(11,164)
Purchase of intangible assets	11	(146)	(332)
Proceeds from sale of current investments		65,276	59,129
Net cash used in investing activities		**(5,973)**	**(23,422)**
Cash flows from financing activities:			
Proceeds from option exercise	19	818	1,971
Proceeds from issuance of loans		23,115	1,455
Payment of subsequent contingent considerations	16	(765)	(551)
Repayment of loan notes		(25,681)	-
Repayment of loans		(17,158)	(389)
Net cash provided by (used in) financing activities		**(19,671)**	**2,486**
Net increase (decrease) in cash and cash equivalents		**41,716**	**(5,285)**
Exchange rate difference		(2,273)	1,072
Cash and cash equivalents at beginning of year		44,497	48,710
Cash and cash equivalents at end of the period		**83,940**	**44,497**

See accompanying notes to consolidated financial statements.

EVOTEC AG AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY FOR THE PERIOD FROM 01 JANUARY TO 31 DECEMBER 2016

		Share capital		
in T€ except share data	footnote reference	Shares	Amount	
Balance at 01 January 2015		**131,710,876**	**131,711**	
Exercised stock options	19	873,206	873	
Stock option plan	19	-	-	
Purchase of subsidiary with non-controlling interest		-	-	
Other comprehensive income				
Net income for the period				
Total comprehensive income				
Balance at 31 December 2015		**132,584,082**	**132,584**	
Exercised stock options	19	467,657	468	
Stock option plan	19	-	-	
Disposal of revalued property, plant and equipment		-	-	
Deferred tax on future deductible expenses		-	-	
Other comprehensive income				
Net income for the period				
Total comprehensive income				
Balance at 31 December 2016		**133,051,739**	**133,052**	

See accompanying notes to consolidated financial statements.

	Income and expense recognised in other comprehensive income					
Additional paid-in capital	*Foreign currency translation*	*Revaluation reserve*	*Accumulated deficit*	*Stockholders' equity attributable to shareholders of Evotec AG*	*Non-controlling interest*	*Total stockholders' equity*
688,669	**(30,043)**	**6,874**	**(638,828)**	**158,383**	**-**	**158,383**
1,098	-	-	-	1,971	-	1,971
3,973	-	-	-	3,973	-	3,973
-	-	-	-	-	1,592	1,592
	4,793	(134)	-	4,659	-	4,659
	-	-	16,516	16,516	-	16,516
	4,793	**(134)**	**16,516**	**21,175**	**-**	**21,175**
693,740	**(25,250)**	**6,740**	**(622,312)**	**185,502**	**1,592**	**187,094**
350	-	-	-	818	-	818
3,979	-	-	-	3,979	-	3,979
-	-	(828)	828	-	-	-
-	-	-	1,020	1,020	-	1,020
	(6,312)	498	-	(5,814)	-	(5,814)
	-	-	27,530	27,530	(691)	26,839
	(6,312)	**498**	**27,530**	**21,716**	**(691)**	**21,025**
698,069	**(31,562)**	**6,410**	**(592,934)**	**213,035**	**901**	**213,936**

Notes to consolidated financial statements for the year 2016

(1) BUSINESS DESCRIPTION AND BASIS OF PRESENTATION

Evotec AG, Essener Bogen 7, Hamburg, Germany and subsidiaries ("Evotec" or the "Company") is a drug discovery and development company, continuously driving innovative approaches to develop new pharmaceutical products through own research as well as discovery alliances and development partnerships with leading Pharma and biotechnology companies as well as academic institutions, foundations and not-for-profit organisations and venture capital partners. Evotec operates worldwide, offering high quality, independent and integrated solutions in drug discovery to its customers.
Today, Evotec is positioned in key therapeutic areas such as neuronal diseases, diabetes and complications of diabetes, pain, oncology, inflammation and infection.
Evotec was founded on 08 December 1993 as EVOTEC BioSystems GmbH and is listed on Frankfurt Stock Exchange, Segment Prime Standard, under the trading symbol "EVT" since 10 November 1999.
All amounts in the notes are shown in thousands of Euro (T€), unless indicated otherwise. The Euro is the reporting currency of the Company.
On 14 March 2017, the Management Board authorised the consolidated financial statements for the financial year 2016 for issue.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations as issued by the International Accounting Standards Board (IASB) as adopted by the European Union (EU), as well as the additional requirements of German commercial law pursuant to § 315a par. 1 HGB (German Commercial Law). The consolidated financial statements have been prepared on the historical cost basis unless otherwise stated in the more detailed disclosures below.
The accounting policies below have been applied consistently to all periods presented in the consolidated financial statements and have been applied consistently by all entities except as explained in the section "Recently issued accounting pronouncements" which addresses changes in accounting policies.
The presented consolidated financial statements include a change in presentation in the financial years 2016 and 2015. From 01 January 2016 onwards, amortisation of intangible assets in the amount of T€ 1,908 (2015: T€ 2,860) are no longer presented in a separate line in the consolidated income statement but are allocated to the relating cost lines by function in the income statement. The prior-year period was changed accordingly resulting in higher costs of revenue. Such change in presentation is deemed to provide reliable and more relevant information.

— USE OF ESTIMATES —

The preparation of the accompanying consolidated financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses during the reporting period as well as the disclosure of contingent assets and liabilities as of the balance sheet date of the financial year.

Main estimates and assumptions affect the following subjects:
- Acquisitions (Note 4),
- Impairment testing (Note 11 and 12),
- Provisions (Note 16),
- Measurement of the share option plans and the Share Performance Awards (Note 19) and
- the recoverability of deferred tax assets (Note 18).

Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are made prospectively in the period in which the estimates are revised.

— PRINCIPLES OF CONSOLIDATION —

The consolidated financial statements include the accounts of Evotec and all companies which are under its control. Evotec controls an entity if it is exposed to, or has the right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are included in the consolidated financial statements from the date on which control is obtained until the date Evotecs control ceases.
If Evotec loses control over a subsidiary, all assets and liabilities of that subsidiary together with any related non-controlling interests and other

equity components are derecognised. Any resulting gain or loss is recognised in the income statement. Any retained interest in the former subsidiary is measured at fair value at the time of loss of control.
All intercompany transactions and balances have been eliminated in the consolidation.

— TRANSLATION OF FOREIGN CURRENCY DENOMINATED TRANSACTIONS AND FOREIGN OPERATIONS —

The assets and liabilities including goodwill of foreign subsidiaries with functional currencies other than the Euro are translated into Euro using the respective exchange rates at the end of the reporting period, while the income statements of such subsidiaries are translated using monthly average exchange rates during the period. Gains or losses resulting from translating foreign functional currency financial statements are recognised directly in other comprehensive income and realised on termination of the respective position.
Transactions in foreign currencies are translated into Euro using the monthly foreign exchange rate. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Euro using the exchange rates at the end of the period. Gains or losses resulting from foreign currency denominated transactions are included in other non-operating income and expense.
The transaction in foreign currency included in the consolidated statement of cash flows are translated at average exchange rates during the respective period.

— FINANCIAL INSTRUMENTS —

Financial instruments are classified as derivative financial instruments and non-derivative financial instruments.
The non-derivative financial instruments are classified into financial assets and liabilities at fair value through profit or loss, financial investments held to maturity, loans and receivables and available for sale assets and liabilities.
Non-derivative financial instruments consist of certain long-term and short-term investments, trade accounts and other receivables, cash and cash equivalents, loans, trade accounts and other payables. These instruments are recognised if Evotec becomes party to the contractual provisions of the financial instrument. Evotec accounts for financial assets and financial liabilities at the date of contract conclusion with the settlement amount.
Financial assets are derecognised if either the payment rights arising from the instrument have expired or substantially all risks and rewards attributable to the instrument have been transferred. Financial liabilities are derecognised if the obligations have expired or have been discharged or cancelled.
Financials assets and liabilities are offset and the net amount presented in the financial position when, and only when, Evotec has the legal right to offset the amounts and either to settle on a net basis or to realise the asset and settle the liability simultaneously.

At initial recognition, non-derivative financial instruments are measured at fair value. 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:

Financial assets at fair value through profit and loss	Evotec makes no use of the option to classify financial assets and financial liabilities as at fair value through profit or loss at initial recognition.
Loans and receivables	These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to the initial recognition they are measured at amortised cost using the effective interest method less any impairment losses.
Held-to-maturity financial assets	Held-to maturity financial assets are initially measured at fair value plus transactions costs. Subsequent to the initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment losses.
Available-for-sale financial assets	These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are measured at fair value and changes therein are recognised in OCI. Changes in fair value are not recognised in the income statement until the asset is sold or until an impairment loss is recorded.

Derivative financial instruments, such as foreign currency exchange contracts and interest rate swap contracts, are measured at fair value. Accounting for the change in fair value of derivatives depends on whether they are designated as hedging instruments and qualify as part of a hedge relationship under IAS 39. If these conditions are not met, even if there is an economic hedge relationship with an underlying transaction, changes in fair value of the derivatives are recognised directly in the income statement. Derivatives embedded in host contracts are accounted for separately if the economic characteristics and risk of the host contract and the embedded derivative are not closely related. The Company uses foreign currency derivative financial instruments as well as interest swaps to potentially hedge its exposure to foreign exchange risks and interest rate fluctuations. In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading purposes.
Evotec's foreign currency derivative financial instruments are economic hedges, however, they are not accounted for as hedges in accordance with IAS 39. Therefore, all changes in the fair value of the foreign currency derivative financial instruments are recognised in foreign currency exchange gains and losses.

Basis for determining fair values of financial instruments

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments.

The fair value of financial assets at fair value through profit or loss and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date unless the available-for-sale financial assets are unquoted equity instruments or financial assets without an active market.

Unquoted equity instruments are measured at cost. Available-for-sale financial assets without an active market are estimated using a valuation technique based on assumptions that are not supported by prices from observable markets.

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then the fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate.

The fair value of interest rate swaps is determined by reference to broker quote.

The fair value of contingent considerations arising in a business combination is calculated on the basis of discounted expected cash flows and related probabilities.

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

— CASH AND CASH EQUIVALENTS —

The Company considers all highly liquid short-term investments with original maturities at the date of acquisition of three months or less to be cash equivalents.

— INVENTORIES —

In accordance with IAS 2, inventories are valued at the lower of cost or net realisable value, with cost being generally determined on the basis of an average method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Costs consist of purchased component costs and manufacturing costs, which are comprised of direct material and labour costs and systematic allocated costs. Costs are removed from inventories to costs of revenue based on specific identification.

— PROPERTY, PLANT AND EQUIPMENT —

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses. Property, plant and equipment acquisitions, including leasehold improvements, are recorded at cost less any vendor rebates. Leased property, plant and equipment meeting certain criteria are capitalised at the lower fair value or present value of the minimum lease payments.

Depreciation of property, plant and equipment, which also includes depreciation of assets under finance leases, is generally calculated using the straight-line method over the estimated useful lives of the assets. Depreciation of leasehold improvements is calculated using the straight-line method over the shorter of the related lease term or the estimated useful life. The useful lives are as follows, whereas due to the acquisition of Cyprotex the useful lives of buildings and leasehold improvements changed in comparison to the previous year:

Buildings and leasehold improvements	6-50 years
Plant, machinery and equipment	3-15 years
Furniture and fixtures	3-10 years
Computer equipment and software	3-5 years

The depreciation period is reviewed at each balance sheet date. Differences from previous estimates are accounted for as a change in an accounting estimate in accordance with IAS 8. The costs included in property, plant and equipment related to assets under construction are not depreciated until the assets are placed into service by the Company. Upon sale or retirement, the costs and the related accumulated depreciation are removed from the respective accounts and any gain or loss is included in other operating income and expense. Maintenance and repairs of property, plant and equipment 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 licences and patents.

Intangible assets with definite useful lives are recorded at cost and are amortised using the straight-line method over the estimated useful lives of the assets:

Developed technologies	7-18 years
Customer list	2-7 years
Patents and licences	15 years or shorter life

Developed technologies acquired in business combinations are amortised as soon as the intangible assets start to generate sustainable benefits and tested for impairment at least annually.

The amortisation period is reviewed at each balance sheet date.

— GOODWILL —

Goodwill recognised in a business combination according to the acquisition method is recognised as an asset. Goodwill is measured at the acquisition date as

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interest in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- the net recognised amount of the identifiably assets acquired and liabilities assumed at fair value.

If the net assets exceed the fair value of the consideration transferred, the income from bargain purchase is recognised in profit and loss.

— PROVISIONS —

Provisions are recognised when the Company has a present obligation as a result of a past event which will result in a probable outflow of economic benefits that can be reliably estimated. The amount recognised represents the best estimate of the settlement amount of the present obligation as of the balance sheet date. Provisions are discounted applying a risk adjusted market interest rate. Expected reimbursements of third parties are not offset, but recorded as a separate asset if it is highly probable that the reimbursements will be received.
A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from such a contract are lower than the unavoidable expenses of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected expenses of terminating the contract and the expected net expense of continuing with the contract. Before a provision is established Evotec recognises any impairment expense on the assets associated with that contract.

Evotec recognises a provision for restructuring costs if there is an approved, detailed restructuring plan and restructuring has been completed or announced.

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 recognised in other comprehensive income in equity.
Service and interest costs for pensions and other postretirement obligations are recognised as an expense in the operating result.
The Company's obligations for contributions to defined contribution plans are recognised as expense in the income statement.

— SHARE CAPITAL —

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares are recognised as a deduction from equity. The Company applies the regulations of IAS 32 in accounting for treasury shares. When ordinary shares recognised as equity are reacquired, the amount of the consideration paid for those treasury shares is recognised as a deduction from equity. If treasury shares are subsequently sold or granted, the proceeds will be recognised as an increase in equity.

— STOCK COMPENSATION —

The Company applies the regulations of IFRS 2 with regard to the accounting for options granted under its stock option plans and under its Share Performance Plan. All plans are settled in shares. Compensation cost from the issuance of employee and Management Board stock options is measured using the fair value method at the grant date and is charged straight-line to expense over the service period in which the employee or member of the Management Board renders services. This is also the case for the grant of Share Performance Awards to employees. The Share Performance Awards from the Share Performance Plan granted to members of the Management Board are measured using the fair value method at the grant date and is charged to expense as graded vesting over the service period in which the members of the Management Board renders services. In case the estimates regarding the achievement of the key performance indicators change, the fair value of Share Performance Awards is adjusted as long as it is not a share-based indicator.

— REVENUE RECOGNITION —

Revenue is recognised when the relevant risks and rewards of ownership associated with the goods and products sold are transferred to the customer and it is probable that the economic benefits associated with the transaction will flow to the Company based upon the performance requirements of the respective agreements, the revenue can be reliably measured regardless of when the payment is being made and collectability is reasonably assured. The Company assesses collectability based on a number of factors, including past transaction history with the customer and the customer's credit-worthiness.
The Company has entered into multiple-element contracts and thoroughly determined whether the different revenue-generating elements are sufficiently separable and whether there exists sufficient evidence of their fair values to separately account for some or all of the individual elements of the contracts. Only if an element is considered to meet these criteria it represents a separate unit of accounting.
Evotec's revenues include service fees, FTE-based research payments revenue for delivered goods and deliverable kind of services, compound access fees as well as milestone fees, licences and royalties.

Service fees and FTE-based research payments

Revenues generated from service contracts or FTE-based research contracts are recognised as the services are rendered. Payments for contracted services are generally paid in advance and recorded as deferred revenue until earned.

Revenue for delivered goods and deliverable kind of services

Deliverable kind of contracted services are recorded as revenue upon delivery. Revenue from delivered products are also recognised upon delivery. Payments for deliverable kind of contracted services are generally paid proportionally in advance and recorded as advanced payments received.

Compound access fees

Revenue from compound access fees is recognised pro rata over the related forecasted service period.

Milestone fees

Revenue contingent upon the achievement of certain milestones is recognised in the period the milestone is successfully achieved. This occurs when the Company's contract partner agrees that the requirements stipulated in the agreement have been met.

Licences

Revenue from the sale of licences is recognised at the date of the sale. Revenue from out-licensing in combination with a collaboration is realised pro rata over the collaboration period.

Royalties

Revenue from royalties, which are dependent on other company's respective product sales, is recognised in the period in which the royalty report or the payment is received.

— RESEARCH AND DEVELOPMENT —

Research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding are expensed as incurred.
Development activities relate to a plan or design for substantially improved products and processes. Development expenses are capitalised only if they can be measured reliably, the product or process is technically feasible, future economic benefits are probable and Evotec has the intention and resources to complete development and use or sell it. Cost capitalised comprise costs of material and employee services and other directly attributable expenses. Due to the high uncertainty associated with development activities in the pharmaceutical sector the precondition for the capitalization of development expenses is generally not fulfilled. Evotec did not capitalise any development costs in 2016 and 2015 respectively.
Research and development projects that are acquired in a business combination are capitalised at fair value when those research and development projects are expected to generate probable future economic benefits to the Company. Research and development costs acquired in a business combination are not regularly amortised until they are sustainably generating benefits.
The Company receives grants in the amount of T€ 1,433 (2015: T€ 607) from government authorities as well as private foundations for the support of specific research and development projects. These grants are linked to projects. The grants are recognised as a reduction mainly of research and development expense when they are received. No grants were received for capitalised development expenditures.
Under the terms of the grants, governmental agencies and private foundations generally have the right to audit qualifying expenses submitted by the Company.

— IMPAIRMENT OF NON-FINANCIAL NON-CURRENT ASSETS AND GOODWILL —

The Company reviews non-financial non-current assets (property, plant and equipment and intangible assets including goodwill) for impairment, in the respect to the recoverable amount in accordance with IAS 36. An impairment review is performed at least annually for intangible assets with indefinite useful lives, intangible assets not yet available for use and goodwill, or whenever events or changes in circumstances indicate that the carrying amount of an asset or a group of assets may not be recoverable. In line with the Company's policy concerning the impairment of intangible assets with indefinite useful lives and goodwill, the Company carried out an impairment test in the fourth quarter of 2016 and 2015 (see Note 11 and 12).
An impairment loss is recognised if the carrying amount of an asset (or a group of assets when considering a cash-generating unit) exceeds its recoverable amount which is the higher of its fair value less costs to sell or value in use. The value in use for an asset or cash-generating unit, which is used by Evotec for the impairment testing of non-financial non-current assets and goodwill, is calculated by estimating the net present value of future cash flows arising from that asset or cash-generating unit. The discount rate used to calculate the value in use is determined to reflect the risks inherent for each asset or cash-generating unit. The evaluation of the net cash flow of the further use is based on a mid-range or where applicable long-range forecast. Management judgment is necessary to estimate discounted future cash flows.
Any impairment loss is reported as a separate component of operating expenses in the consolidated income statement. An impairment of property, plant and equipment and intangible assets excluding goodwill is again 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 or group of assets as one cash-generating unit. It is reversed only to the extent that the asset's or the group of assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been previously recognised. Impairments of goodwill are not reversed.

— INTEREST INCOME AND EXPENSE —

Interest is recorded as expense or income in the period to which it relates. All interest income and expense including the unwind of the discount on contingent considerations are recognised in the income statement using the effective interest rate method.
Evotec has no qualifying assets according to IAS 23 and therefore does not capitalise interest expenses.

— INCOME TAXES —

Income taxes comprise the current taxes on income in the individual countries as well as the deferred taxes. Income taxes are recorded in the income statement except to the extent they relate to a business combination, or for those items recorded directly in equity.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group generates taxable income. The tax rates for domestic companies are 27-32% and for foreign companies 20-35%.

Deferred tax

Deferred tax is recognised using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred taxes are recognised for all taxable temporary differences, except:
— temporary differences arising on the initial recognition of goodwill
— temporary differences on the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
— temporary differences relating to investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.
Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.
The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.
Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability

is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Future tax rate changes are taken into account if, in the scope of a legislative procedure, substantial prerequisites for its future applicability are met.
Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the income taxes relate to the same taxable entity and the same taxation authority.
Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction to goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

Tax exposures
In determining the amount of current and deferred tax Evotec takes into account the impact of uncertain tax positions and whether additional taxes and interest maybe due. This assessment relies on estimates and assumptions and may involve a series of judgement about future events. New information may become available that forces the Company to change its judgement regarding the adequacy of existing tax liabilities. Such changes to tax liabilities will impact tax expenses in the period in which such determination is made.

— NET INCOME PER SHARE —

Basic net income per share is calculated by dividing the net income (loss) by the weighted-average number of ordinary shares outstanding for the period, excluding common stock equivalents. The weighted average number of ordinary shares are calculated as follows:

Shares in thousands	**2016**	2015
Issued ordinary shares 01 January	**132,584**	131,711
Treasury shares 01 January	**(250)**	(272)
Effect of weighted average share options exercised	**173**	240
Weighted average number of ordinary shares 31 December	**132,507**	**131,679**

Diluted net income per share is computed by dividing the net income attributable to shareholders of Evotec, by the weighted-average number of ordinary shares and share equivalents outstanding for the period determined using the treasury-stock method. For purposes of this calculation, stock options and Share Performance Awards are considered to be common stock equivalents and are only included in the calculation of diluted net income per share when their effect is dilutive. In 2016, the number of potentially dilutive shares to be issued from stock options and Share Performance Awards amounted to 3,339,534 (2015: 2,845,150). For calculating the diluted net result per share the resulting dilutive shares are included from the beginning of the period.

— RECENT ACCOUNTING PRONOUNCEMENTS, NOT YET ADOPTED —

All of the following IFRS pronouncements that were issued by the IASB and the IFRIC and partially endorsed by the EU were not effective and have not been applied until end of 2016 by Evotec.

New or changed standards	*Summary of the standard*	*Possible impact on Evotec*
IAS 7	As of 29 January 2016, the IASB published the amendments to IAS 7. The amendments require disclosures that enable users of the financial statements to evaluate changes in liabilities arising from financing activities, including both changes from cash flow and non-cash changes.	To satisfy the new disclosure requirements Evotec intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.
IFRS 9	In July 2014, the IASB issued IFRS 9, Financial Instruments. IFRS 9 introduces a single approach for the classification and measurement of financial assets, and provides a new impairment model based on expected credit losses. IFRS 9 also includes new regulations regarding the application of hedge accounting. Further, the standard adopts the regulations of IAS 39 on recognition and derecognition of financial instruments. The new standard is effective for annual reporting periods beginning on or after 01 January 2018, while early application is permitted.	Evotec has very rare and immaterial credit losses and does not expect any material effects on Evotec's consolidated financial statements.
IFRS 15	IFRS 15, Revenue from Contracts with Customers standard regulates in which amount, when and if revenues are recognised. IFRS 15 supersedes IAS 11, Construction Contracts and IAS 18, Revenue as well as IFRIC 13 customer loyalty programmes. Effective date for IFRS 15 is the annual period beginning on or after 01 January 2018; early application is permitted.	Evotec is expecting the impact listed below.
IFRS 16	On 13 January 2016, the IASB issued IFRS 16 Leases. According to the new standard lessees have to recognise all leases and the respective contractual rights and liabilities in the balance sheet. In addition, the standard offers guidance on the presentation in the financial statements, notes disclosures as well as to sale-and-lease-back transactions. Effective date is the annual period beginning on or after 01 January 2019; early application is permitted if IFRS 15 also is applied.	The Company is currently assessing the impact on the consolidated financial statements. For information on the current volume of payment obligations from operating leases, which might be differently recognised in the future according to IFRS 16, are shown in Note (30).

The IASB issued various other pronouncements. These pronouncements, not yet endorsed by the EU, do not have a material impact on Evotec's consolidated financial statements.

IFRS 15: Evotec is going to apply this standard retrospectively in the financial year 2018 hence the comparison period will be presented according to IFRS 15. Changes in the total amount of revenue generated by a customer contract are currently expected to be minimal. Evotec has made the following analyses for the specific respective sort of revenue:

- Revenue for delivered goods and deliverable kind of services: Under IFRS 15, a part of the revenues for delivered goods and deliverable kind of services will be realisable in earlier periods. Evotec is currently assessing the impact on the consolidated financial statements.
- Milestone fees: the Company is not expecting any impact on the realisation of milestones, as a change in accounting policies (realisation on target achievement and confirmation of the contract partner) has a high risk of correction of revenues and is therefore according to IFRS 15 not realisable.
- Discounts: Very rarely arrangements are made regarding future discounts. Evotec is going to amend the accounting policies but is not expecting any material impact on the consolidated financial statements.
- Further Evotec is expecting changes in the balance sheet and additional disclosures in the notes to the consolidated financial statements.

(3) SEGMENT INFORMATION

EVT Execute and EVT Innovate were identified by the Management Board as operating segments. The responsibility for EVT Execute was allocated to the COO, Dr Mario Polywka, while the responsibility for EVT Innovate was allocated to the CSO, Dr Cord Dohrmann. The organisation of the whole Evotec Group was structured accordingly. The segments' key performance indicators are used monthly by the Management Board to evaluate the resource allocation as well as Evotec's performance. Intersegment revenues are valued with a price comparable to other third-party revenues. The evaluation of each operating segment by the management is performed on the basis of revenues and adjusted EBITDA. The adjusted EBITDA is calculated without non-operating income (expense) as well as the adjustments listed in the reconciliation below. For the EVT Innovate segment, R&D expenses are another key performance indicator. Expenses and income below operating result are not part of the segment result.

The income from bargain purchase resulting from the business combination with Evotec (France) is not allocated to any segment.

The segment information for the financial year 2016 is as follows:

in T€	EVT Execute	EVT Innovate	Intersegment eliminations	Not allocated	Evotec Group
External revenues	137,850	26,657	-	-	164,507
Intersegment revenues	33,165	-	(33,165)	-	-
Costs of revenue	(119,838)	(14,580)	28,465	-	(105,953)
Gross profit	**51,177**	**12,077**	**(4,700)**	**-**	**58,554**
Operating income and (expenses)					
Research and development expenses	(87)	(22,721)	4,700	-	(18,108)
Selling, general and administrative expenses	(20,930)	(6,083)	-	-	(27,013)
Impairment of intangible assets	-	(1,417)	-	-	(1,417)
Impairment of goodwill	(3,989)	-	-	-	(3,989)
Other operating income	23,246	15,718	-	-	38,964
Other operating expenses	(13,992)	(1,657)	-	-	(15,649)
Total operating expenses	**(15,752)**	**(16,160)**	**4,700**	**-**	**(27,212)**
Operating income (loss)	**35,425**	**(4,083)**	**-**	**-**	**31,342**
Interest result					(660)
Share of the loss of associates accounted for using the equity method					(375)
Other income (expense) from financial assets, net					120
Foreign currency exchange gain (loss), net					2,519
Other non-operating income					4
Income (loss) before taxes					**32,950**
EBITDA adjusted	**50,183**	**(13,958)**		**-**	**36,225**

The EBITDA adjusted as of 31 December 2016 is derived from operating income (expense) as follows:

in T€	EVT Execute	EVT Innovate	Intersegment eliminations	Evotec Group
Operating income (expense)	**35,425**	**(4,083)**	**-**	**31,342**
plus depreciation of tangible assets	9,386	599	-	9,985
plus amortisation of intangible assets	1,620	288	-	1,908
plus impairment of intangible assets	-	1,417	-	1,417
plus impairment of goodwill	3,989	-	-	3,989
plus change in contingent consideration	(237)	(12,179)	-	(12,416)
EBITDA adjusted	**50,183**	**(13,958)**	**-**	**36,225**

The segment information for the financial year 2015 is as follows:

in T€	EVT Execute	EVT Innovate	Intersegment eliminations	Not allocated	Evotec Group
External revenues	106,225	21,452	-	-	127,677
Intersegment revenues	27,726	-	(27,726)	-	-
Costs of revenue	(105,408)	(10,244)	23,102	-	(92,550)
Gross profit	**28,543**	**11,208**	**(4,624)**	**-**	**35,127**
Operating income and (expenses)					
Research and development expenses	(521)	(22,446)	4,624	-	(18,343)
Selling, general and administrative expenses	(19,257)	(5,909)	-	-	(25,166)
Impairment of intangible assets	(1,212)	(6,030)	-	-	(7,242)
Income from bargain purchase	-	-	-	21,414	21,414
Other operating income	11,553	2,800	-	-	14,353
Other operating expenses	(8,437)	(66)	-	-	(8,503)
Total operating expenses	**(17,874)**	**(31,651)**	**4,624**	**21,414**	**(23,487)**
Operating income (loss)	**10,669**	**(20,443)**	**-**	**21,414**	**11,640**
Interest result					(1,193)
Other expense from long-term investments					(72)
Other expense from financial assets					(15)
Foreign currency exchange gain (loss), net					1,868
Other non-operating income					383
Other non-operating expense					(120)
Income (loss) before taxes					**12,491**
EBITDA adjusted	**23,839**	**(15,149)**		**-**	**8,690**

The EBITDA adjusted as of 31 December 2015 is derived from operating income (expense) as follows:

in T€	EVT Execute	EVT Innovate	Intersegment eliminations	Not allocated	Evotec Group
Operating income (expense)	**10,669**	**(20,443)**	**-**	**21,414**	**11,640**
plus amortisation of tangible assets	8,536	545	-	-	9,081
plus amortisation of intangible assets	2,484	376	-	-	2,860
plus impairment of intangible assets	1,212	6,030	-	-	7,242
less income from bargain purchase	-	-	-	(21,414)	(21,414)
plus change in contingent consideration	938	(1,657)	-	-	(719)
EBITDA adjusted	**23,839**	**(15,149)**	**-**	**-**	**8,690**

39% of Evotecs revenues are generated with customers in the USA, 34% with customers in France, 11% with customers in Germany and 5% with customers in UK (2015: 42% USA, 30% France, 10% Germany and 8% UK). The revenues are allocated to regions according to the head office of the external customers.

The non-current assets according to IFRS 8 of Evotec as of 31 December 2016 are allotted to Germany in the amount of T€ 43,803 and to foreign states in the amount of T€ 123,851. Thereof, T€ 83,412 of non-current assets are allotted to UK, T€ 21,155 to USA and T€ 19,284 to France (2015: Germany T€ 45,171; UK T€ 28,443; USA T€ 24,094 and France T€ 14,998).

Sanofi is Evotec's largest customer and the only one having a share of more than 10% of the Group revenues in 2016, representing in total more than 33% of the Group revenues (T€ 54,517) which was allocated to the segments EVT Execute and EVT Innovate. In 2015, the two largest customers

represented in total more than 40% of the Group revenues. Sanofi had a revenue share in 2015 of T€ 38,598 which was allocated to the segments EVT Execute and EVT Innovate and CHDI T€ 14,011 out of the segment EVT Execute.

(4) ACQUISITIONS

Effective 14 December 2016 Evotec acquired 100% of the shares in Cyprotex PLC, Manchester, UK. The purchase price amounted to T€ 49,760 in cash. Cyprotex is a specialist pre-clinical contract research organisation in ADME-Tox and DMPK. The acquisition strengthens Evotec's drug discovery platform with access to the ADME-Tox platform and proven expertise in *in vitro* ADME screening, mechanistic and high-content toxicology screening and predictive modelling.
The preliminary goodwill resulting from this acquisition amounts to T€ 55,020 and was allocated to the EVT Execute segment. According to IFRS 3 and due to the preliminary assessment of valuation subjects for the acquisition of Cyprotex the initial accounting is provisional with regard to the allocation of the purchase price and the determination of fair values. It may therefore be subject to change.

The net income recorded by Evotec for the financial year 2016 included a net income of T€ 340 as well as revenues of T€ 1,227 from Cyprotex. If this business combination had taken place on 01 January 2016, the Company would have realised total revenues in the amount of T€ 186,238 and a net income in the amount of T€ 30,965. Transaction costs in the amount of T€ 877 were recognised through profit and loss as selling, general and administrative expenses in 2016.

Below is a breakdown of the preliminary fair value of Cyprotex at the date of acquisition:

T€	*13 December 2016 Fair value*
Cash and cash equivalents	9,085
Trade accounts receivables	3,320
Inventories	1,100
Prepaid expenses and other current assets	4,102
Property, plant and equipment	6,120
Intangibles	620
Deferred tax asset	668
Trade accounts payable	(1,513)
Provisions	(1,698)
Other current liabilities	(910)
Finance lease obligation	(237)
Loan notes	(25,890)
Deferred tax liabilities	(117)
Net assets acquired	**(5,350)**
Goodwill	55,020
Cost of acquisition	**49,670**
Less cash and cash equivalents acquired	(9,085)
Cash outflow from acquisition	**40,585**

Effective 01 April 2015, Evotec acquired 100% of the shares in Evotec (France) SAS, Toulouse, France. The purchase price amounted to € 1 in cash.
The income from bargain purchase resulting from the acquisition amounted to T€ 21,414 and was recognised as other operating income. The income from bargain purchase was not allocated to segments. It is a result of the fact that Sanofi wanted to reduce its activities at the Toulouse site and additionally wanted to assure that those activities will be pursued by an appropriate buyer.
Evotec acquired 51% of the shares in Panion Ltd, London, UK effective 09 December 2015. The purchase price amounted to T€ 1,666 in cash.
The initial accounting for the acquisition of Euprotec was closed according to IFRS 3 in May 2015. Consequently, a further fair value adjustment regarding developed technologies in the amount of T€ 1,568 has been recorded, which was estimated based on net present value modelling. Related deferred tax liabilities of T€ 329 net were also recorded. The goodwill resulting from the acquisition amounts to T€ 1,295.

(5) CASH AND CASH EQUIVALENTS AND INVESTMENTS

In the course of managing liquidity, Evotec is investing in funds, which invest in debt instruments with a maturity beyond three months. These are reported as investments in current assets at fair value. Included in investments are also corporate bonds, which also are reported at fair value. The investments and corporate bonds are classified as available-for-sale financial assets. As of 31 December 2016, unrealised losses in the amount of T€ 275 (31 December 2015: losses of T€ 134) were recognised in other comprehensive income relating to those assets.

(6) TRADE ACCOUNTS RECEIVABLES

The Company has assessed the non-payment risk of all trade accounts receivables. The resulting allowance as of 31 December 2016 and 2015 amounts to T€ 31 and T€ 30, respectively. The allowance was recognised for the full amount of each relating trade accounts receivable. There are no use restrictions on trade accounts receivable.

The ageing of trade receivables at the year-end was:

T€	*31 December* ***2016***	*2015*
Not past due	**22,532**	16,960
Bad debt not past due	**-**	-
Past due 0-30 days	**2,891**	2,290
Past due 31-120 days	**1,509**	1,412
More than 120 days	**547**	301
Bad debt more than 120 days	**(31)**	(30)
Total trade accounts receivables	**27,448**	**20,933**

The increase of the trade accounts receivables at 31 December 2016 compared to the prior year is primarily due to the acquisition of Cyprotex (T€ 3,571) as well as the general revenues growth.

(7) INVENTORIES

Inventories consist of the following:

T€	31 December 2016	2015
Raw materials	**2,948**	1,774
Work-in-progress	**1,357**	1,359
Total inventories	**4,305**	**3,133**

Raw materials consist mainly of compound libraries. Additionally, biological materials and substances as well as chemicals are included. Work-in-progress as of 31 December 2016 and 2015 consists of costs incurred on customer projects, which were not completed at year-end. The increase of inventories is mainly related to the acquisition of Cyprotex (T€ 1,071) as well as the general revenue growth.

The following allowances on inventories exist at the balance sheet date and are included in the table above:

T€	31 December 2016	2015
Raw materials	**1,263**	1,692
Work-in-progress	-	-
Total inventories	**1,263**	**1,692**

The allowances are included in the costs of revenue.

(8) PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses as of 31 December 2016 mainly relate to payments for licences and other IT-related prepayments in the amount of T€ 847 (31 December 2015: T€ 1,321) as well as prepayment of rent in the amount of T€ 401 (31 December 2015: T€ 470). The increase of prepaid expenses as of 31 December 2016 compared to the prior year period mainly relates to the acquisition of Cyprotex adding T€ 1,321.

T€	31 December 2016	2015
Prepaid expenses	**4,561**	3,268
Other	**2,679**	3,391
Total prepaid expenses and other current assets	**7,240**	**6,659**

(9) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD AND OTHER LONG-TERM INVESTMENTS

Investments accounted for using the equity method and other long-term investments consist of the following:

T€	31 December 2016	2015
Investments accounted for using the equity method		
Eternygen GmbH, Berlin	**1,500**	-
Topas Therapeutics GmbH, Hamburg	**1,566**	-
Other long-term investments		
Carrick Therapeutics Ltd., Dublin, Ireland	**819**	-
	3,885	**-**

In 2016, Evotec invested in Eternygen (22.02%) and Carrick Therapeutics (4.57%). Further, Evotec participated in a financing round of Topas Therapeutics GmbH and the investment changed to 39.52%. The share of the net loss of the investments accounted for using the equity method amounted to T€ 375 in 2016.

(10) PROPERTY, PLANT AND EQUIPMENT

The development of property, plant and equipment in 2016 and 2015 is shown in the following tables.

T€	Buildings and leasehold improvements	Plant, machinery and equipment	Furniture and fixtures	Purchased software	Finance leases	Assets under construction	Total
			2016				
Acquisition and manufacturing costs							
Amount beginning of the year	14,520	69,684	10,727	1,631	-	540	97,102
Foreign exchange	(1,742)	(2,922)	(906)	-	(1)	(7)	(5,578)
Additions	724	6,214	1,780	160	-	1,125	10,003
Business combination	1,039	4,770	40	-	153	-	6,002
Disposals	-	6,674	5,101	48	-	-	11,823
Reclass	77	245	1	13	-	(336)	-
Amount end of the year	**14,618**	**71,317**	**6,541**	**1,756**	**152**	**1,322**	**95,706**
Depreciation, amortisation and write-downs							
Amount beginning of the year	9,923	39,261	8,126	1,458	-	-	58,768
Foreign exchange	(1,430)	(2,422)	(851)	-	-	-	(4,703)
Additions	804	7,612	1,407	148	14	-	9,985
Disposals	-	6,616	5,101	48	-	-	11,765
Amount end of the year	**9,297**	**37,835**	**3,581**	**1,558**	**14**	**-**	**52,285**
Net book value							
Amount beginning of the year	4,597	30,423	2,601	173	-	540	38,334
Amount end of the year	**5,321**	**33,482**	**2,960**	**198**	**138**	**1,322**	**43,421**

T€	Buildings and leasehold improvements	Plant, machinery and equipment	Furniture and fixtures	Purchased software	Finance leases	Assets under construction	Total
			2015				
Acquisition and manufacturing costs							
Amount beginning of the year	13,414	46,445	9,424	1,590	14	2,190	73,077
Foreign exchange	759	1,944	521	-	-	68	3,292
Additions	349	8,848	1,607	22	-	338	11,164
Business combination	167	11,279	117	-	-	-	11,563
Disposals	832	145	1,003	-	14	-	1,994
Reclass	663	1,313	61	19	-	(2,056)	-
Amount end of the year	**14,520**	**69,684**	**10,727**	**1,631**	**-**	**540**	**97,102**
Depreciation, amortisation and write-downs							
Amount beginning of the year	9,210	30,841	7,625	1,342	14	-	49,032
Foreign exchange	625	1,541	469	-	-	-	2,635
Additions	920	7,010	1,035	116	-	-	9,081
Disposals	832	131	1,003	-	14	-	1,980
Amount end of the year	**9,923**	**39,261**	**8,126**	**1,458**	**-**	**-**	**58,768**
Net book value							
Amount beginning of the year	4,204	15,604	1,799	248	-	2,190	24,045
Amount end of the year	**4,597**	**30,423**	**2,601**	**173**	**-**	**540**	**38,334**

The majority of the additions in 2016 related to investments in licences and upgrades in software for instrumentation to support the Company's platform offering at the existing sites. Further investments focused on the expansion of laboratory areas in Princeton (USA) and Branford (USA).
In 2015, the main additions related to investments in instrumentation at Evotec's legacy sites to support the Company's platform offering, including upgrades to imaging systems, protein production, compound management and biophysical screening. Facility investments focused on the expansion of laboratory areas in Abingdon (UK) as well as the fit-out of a new protein production facility in Princeton (USA) and new laboratories in Göttingen (Germany).

The disposals of the year 2016 primarily relate to outdated plant, machinery and equipment in Germany as well as furniture and fixtures in UK.

Upon completion of the assets under construction, costs are transferred into their respective fixed assets classification. Depreciation expense amounted to T€ 9,985 and T€ 9,081 in 2016 and 2015, respectively.

As of 31 December 2016, assets held under finance lease with a net book value amounting to T€ 138 (31 December 2015: T€ 0) are included in property, plant and equipment.

(11) INTANGIBLE ASSETS, EXCLUDING GOODWILL

The development of intangible assets in 2016 and 2015 is shown in the following tables.

	2016			
T€	*Patents and licences*	*Developed technology*	*Customer list*	*Total*
Acquisition and manufacturing costs				
Amount beginning of the year	6,115	115,955	8,266	130,336
Foreign exchange	-	(3,742)	160	(3,582)
Additions	146	-	-	146
Business combination	-	608	-	608
Disposals	-	21,573	-	21,573
Amount end of the year	**6,261**	**91,248**	**8,426**	**105,935**
Depreciation, amortisation and write-downs				
Amount beginning of the year	5,863	92,837	6,482	105,182
Foreign exchange	-	(3,651)	198	(3,453)
Additions	159	891	858	1,908
Disposals	-	21,573	-	21,573
Impairment	-	1,417	-	1,417
Amount end of the year	**6,022**	**69,921**	**7,538**	**83,481**
Net book value				
Amount beginning of the year	252	23,118	1,784	25,154
Amount end of the year	**239**	**21,327**	**888**	**22,454**

	2015			
T€	Patents and licences	Developed technology	Customer list	Total
Acquisition and manufacturing costs				
Amount beginning of the year	5,783	126,501	39,208	171,492
Foreign exchange	-	(1,952)	(2,966)	(4,918)
Additions	332	-	-	332
Business combination	-	3,303	-	3,303
Disposals	-	11,897	27,976	39,873
Amount end of the year	**6,115**	**115,955**	**8,266**	**130,336**
Depreciation, amortisation and write-downs				
Amount beginning of the year	5,782	99,472	36,028	141,282
Foreign exchange	-	(3,186)	(3,143)	(6,329)
Additions	81	1,206	1,573	2,860
Disposals	-	11,897	27,976	39,873
Impairment	-	7,242	-	7,242
Amount end of the year	**5,863**	**92,837**	**6,482**	**105,182**
Net book value				
Amount beginning of the year	1	27,029	3,180	30,210
Amount end of the year	**252**	**23,118**	**1,784**	**25,154**

Intangible assets consist of developed technologies, customer list and acquired patent and licences.

Due to the preliminary purchase price allocation of Cyprotex, the additions of 2016 to developed technology and customer list might change retrospectively. The additions to developed technologies from business combination in 2015 result from the acquisition of developed technologies relating to the business combination with Panion Ltd. and the finalisation of the purchase price allocation of the business combination with Euprotec Ltd.

In 2016, the disposals of developed technology are related to the EVT100 series whose patents were abandoned in the financial year 2016.

The developed technologies acquired in a business combination are amortised as soon as the intangible assets start to generate sustainable benefits. Part of the developed technologies acquired in the business combination with DeveloGen (now: Evotec International GmbH) with historical acquisition costs of T€ 6,774 started to be amortised in 2011 due to revenues generated with this technology. The carrying amount at 31 December 2016 amounted to T€ 4,500 (31 December 2015: T€ 4,877). Furthermore, amortisation commenced in 2014 for one part of the developed technologies acquired at historical acquisition costs of T€ 3,131 as part of the business combination with Kinaxo (now: Evotec (München) GmbH) due to revenues generated from this technology. Together with the amortisation of further parts (historical acquisition costs of T€ 1,283), commenced for the same reasons in 2013, the whole of these developed technologies are amortised. End of 2015, it was identified that the commercialisation of some of these technologies would be delayed. Hence the estimated useful live was reduced from 01 January 2016 onwards from nine to seven years. The carrying amount at 31 December 2016 amounted to T€ 1,928 (31 December 2015: T€ 2,266).

The developed technologies which were not yet amortised were tested for impairment on the annual designated test date in the fourth quarter 2016. The annual impairment test in 2016 is based on discounted cash flow models by using the assumptions in the table below.

31 December 2016
Developed technologies

	Evotec International GmbH	Evotec (US), Inc.
Denominated in	EUR	USD
Basis for cash flow model	PP 18-21 years	PP 16 years
Post-tax discount rate	9.00%	10.80%

PP = Project planning

The post-tax discount rate is calculated with a risk-free interest rate, a beta factor determined on the basis of peer groups and a risk premium. These annual impairment tests resulted in 2016 in no impairment.

In the first quarter of 2016, Janssen Pharmaceuticals decided to discontinue the EVT100 series. Therefore Evotec tested this developed technology for the need of an impairment and concluded that an impairment had to be recorded in the amount of T€ 1,417. The impairment was allocated to the EVT Innovate segment.

No further impairments were recognised in 2016.

— IMPAIRMENT TEST 2015 —

The annual impairment test in 2015 was based on a discounted cash flow model by using the assumptions in the table below.

31 December 2015
Developed technologies

	Evotec International GmbH	Evotec (US), Inc.
Denominated in	EUR	USD
Basis for cash flow model	PP 20-22 years	PP 17 years
Post-tax discount rate	9.63%	11.00%

PP = Project planning

These annual impairment tests resulted in 2015 in an impairment of

- Developed technologies resulting from the acquisition of Evotec International GmbH. Theses developed technologies were impaired in the amount of T€ 4,840 and were allocated to the EVT Innovate segment. This impairment stemmed from a timely delay of the project and the related expected decrease in the commercialisation success rate.

- Developed technologies resulting from the acquisition of DeveloGen (now: Evotec International GmbH). These developed technologies were impaired in the amount of T€ 993 and were allocated to the EVT Innovate segment. The impairment stemmed from a timely delay in the project.

In the fourth quarter of 2015, it was identified that the estimated revenues as well as the life of the developed technologies from the acquisition of Evotec (München) GmbH were reduced. Based on this information Evotec reviewed the relating developed technologies and concluded that an impairment in the amount of T€ 1,212 had to be recorded. The impairment test is based on Euro denominated discounted cash flow models with a post-tax discount rate of 5.83%. The underlying project plan covers a period of 5 years.
Additionally, Evotec received notice in the fourth quarter of 2015, that the commercialisation of one developed technology from the acquisition of Bionamics GmbH is delayed and therefore Evotec's right to participate in future revenues terminated. Consequently, the developed technology was fully impaired. Another developed technology from this acquisition was fully impaired as Evotec's partner disclosed in the fourth quarter 2015 that the project will not be continued in the same form. As a result, the revenue participation of Evotec ended. The impairment test is based on Euro denominated discounted cash flow models with a post-tax discount rate of 9.63%. The underlying project plans cover a period of 11 to 19 years.

No further impairments were recognised in 2015.

The estimated cash flows for the above described cash-generating projects used in the impairment tests are based on past experience. In addition, following key assumptions were used in the models:

- The possibilities of reaching each development phase were obtained from external publications of attrition rates, which were adjusted according to the individual circumstances where necessary.

- The estimated timing of the different development phases in each cash-generating project was individually set based on the past experience and scientific knowledge of management.

- Market size was projected using market research databases. Management estimated the Company's market share based on experience in the specific market environment and by comparing with similar products.

- Milestone and royalty revenues for cash-generating projects were taken from the out-licensing agreements (partnered assets) or estimated based on comparable deal structures in the market and in the Company (unpartnered assets).

In addition to these key assumptions used in all models, commercialisation success rates are only used in some models. They are estimated based on the current knowledge of management.

Management has identified the discount rate and the commercialisation success rate as the two key assumptions that have the potential to vary and thereby may cause the decrease of the recoverable amount to be lower than the carrying amount. The following tables show the material intangible assets, which are part of the annual impairment testing and which might show a change in net book value of 2016 and 2015 if possible changes in one of the two key assumptions occur. Those changes in the material assumptions are shown which result in estimated recoverable amounts to be equal to the carrying amounts in 2016 and 2015. Only one assumption will be shown in the case that only for one assumption a change is expected to be possible.

	2016				
	Recoverable amount exceeding net book value	**Applied post-tax discount rate**	**Increase of post-tax discount rate**	**Applied commercialisation success rate**	**Decrease in commercialisation success rate**
	T€	in % points	in % points	in % points	in % points
Developed technologies Evotec International	88	9.00	0.69	30.0	0.9
Developed technologies Evotec International	2,213			30.0	9.5
Developed technologies Evotec International	822			50.0	14.7

	2015				
	Recoverable amount exceeding net book value	*Applied post-tax discount rate*	*Change of post-tax discount rate*	*Applied commercialisation success rate*	*Change in commercialisation success rate*
	T€	in % points	in % points	in % points	in % points
Developed technologies Evotec International	-	9.63	-	25.0 - 30.0	-

The categories listed above consist of several developed technologies.

(12) GOODWILL

The Company has tested the cash-generating units for impairment on the annual designated test date in the fourth quarter 2016 based on the net book values as of 30 September 2016. The impairment tests are based on discounted cash flow models.
With respect to the development of goodwill please refer to the following detailed schedules.

	OAI/Evotec International Execute	**OAI/Evotec International Innovate**	**Evotec (München) Execute**	**Evotec (US) Execute**	**Evotec (US) Innovate**	**Total**
	T€	T€	T€	T€	T€	T€
01 January 2016	18,259	9,309	7,983	8,391	1,706	45,648
Additions	-	-	-	-	-	-
Business combination	55,020	-	-	-	-	55,020
Disposal	-	-	-	3,989	-	3,989
FX revaluation	(3,499)	(120)	-	108	59	(3,452)
31 December 2016	**69,780**	**9,189**	**7,983**	**4,510**	**1,765**	**93,227**

	OAI/Evotec International Execute	*OAI/Evotec International Innovate*	*Evotec (München) Execute*	*Evotec (US) Execute*	*Evotec (US) Innovate*	*Total*
	T€	T€	T€	T€	T€	T€
01 January 2015	18,522	9,250	7,983	7,530	1,530	44,815
Additions	-	9	-	-	-	9
Disposal	1,239	-	-	-	-	1,239
FX revaluation	976	50	-	861	176	2,063
31 December 2015	**18,259**	**9,309**	**7,983**	**8,391**	**1,706**	**45,648**

The addition in OAI/Evotec International Execute in the amount of T€ 55,020 stems from the business combination with Cyprotex. The purchase price allocation is preliminary and therefore the goodwill from this business combination might change.

In the tables below, the assumptions for the discounted cash flow models used in the annual impairment tests in the fourth quarter 2016 and 2015, the post-tax discount rate considering the risks and rewards of the activities used in the impairment test and the growth rate for determining the terminal value are specified.

Cash generating units 2016

	OAI/Evotec International Execute	***OAI/Evotec International Innovate***	***Evotec (München) Execute***	***Evotec (US) Execute***	***Evotec (US) Innovate***
Denominated in	GBP/EUR	GBP/EUR	EUR	USD	USD
Basis for cash flow model	LRP	LRP/PP 17-21 years	LRP	MRP	PP 16 years
Post-tax discount rate	6.57% - 8.19%	9.00% - 10.76%	6.65%	8.30%	10.80%
Growth rate for terminal value	0.0%	0.0%	0.0%	0.0%	0.0%

LRP = Long-range Plan 2017-2026
MRP = Mid-range Plan 2017-2021
PP = Project planning

Cash generating units 2015

	OAI/Evotec International Execute	*OAI/Evotec International Innovate*	*Evotec (München) Execute*	*Evotec (US) Execute*	*Evotec (US) Innovate*
Denominated in	GBP/EUR	GBP/EUR	EUR	USD	USD
Basis for cash flow model	LRP	LRP/PP 13-22 years	LRP	MRP	PP 17 years
Post-tax discount rate	7.15% - 8.32%	9.63% - 11.00%	7.19%	8.32%	11.00%
Growth rate for terminal value	0.0%	0.0%	0.0%	0.0%	0.0%

LRP = Long-range Plan 2016-2025
MRP = Mid-range Plan 2016-2020
PP = Project planning

In 2016 and 2015, the Company recorded no impairment as a result of these annual impairment tests.

The estimated cash flows for the impairment test of the goodwill in OAI/Evotec International Innovate and in Evotec (US) Innovate are based on the key assumptions of the underlying developed technologies.
The estimated cash flows for the goodwill of Evotec (München) Execute are based on management expectations for the future.

The impairment tests of the goodwill in Evotec (US) Execute as well as OAI/Evotec International Execute and the relating estimated cash flows are based on past experience and expectations for the future. In addition, the following key assumptions were used in the models:

- The estimates of revenues were based on knowledge of overall market conditions combined with specific expectations of customer growth and product performance.
- Cost estimates were developed using the 2016 budgeted cost base projected forward for volume increases, mix changes, specific investments and inflationary expectations.
- The exchange rates and interest rates used were based on current market expectations and predictions.

Management has identified the discount rate as one key assumption that has the potential to vary and thereby cause the recoverable amount to decrease and to be lower than the carrying amount. The following tables show the goodwill, which might show a decrease in net book value of 2016 and 2015 if possible changes in the key assumption occur. Those changes in the material assumption are shown which result in the estimated recoverable amount to be equal to the carrying amount in 2016 and 2015.

	2016		
	Recoverable amount exceeding net book value	**Applied post-tax discount rate**	**Increase of post-tax discount rate**
	T€	in % points	in % points
Evotec (München) Execute	2,648	6.65	1.26
Evotec (US) Execute	-	8.30	-
Evotec (US) Innovate	1,639	10.80	1.16

	2015		
	Recoverable amount exceeding net book value	*Applied post-tax discount rate*	*Increase of post-tax discount rate*
	T€	in % points	in % points
Evotec (München) Execute	1,911	7.19	0.91
Evotec (US) Execute	2,444	8.32	1.65

Regarding the impairment test of the goodwill in Evotec (München) Execute, Management has identified the gross profit as additional key assumption. Foreseeable changes in the customer structure of the cash-generating unit Evotec (US) Execute were the triggering event leading to an impairment test in the fourth quarter of 2016. As a result, of this test an impairment in the amount of T€ 3,989 was recorded as a disposal in the detailed schedule of goodwill. The impairment was allocated to the EVT Execute segment.

(13) NON-CURRENT TAX RECEIVABLES

Non-current tax receivables as of 31 December 2016 and 2015 relate to tax refunds from tax development programmes in the context of qualifying research and development expenses within France (crédit d'impôt recherche).

(14) OTHER NON-CURRENT ASSETS

Other non-current assets as of 31 December 2016 and 2015 relate to payments to Haplogen GmbH, Vienna, in the amount of T€ 2,500 and T€ 1,500, respectively which were given as a loan. In return, Evotec received rights to potential future revenues.

(15) LOAN LIABILITIES

Throughout the years 2016 and 2015, Evotec met all covenants under the various loan agreements shown below. All loans are unsecured. In 2016 and 2015, Evotec had always to maintain a minimum liquidity of T€ 35,000.

				31 December		*31 December*	
Country of lendor	***Currency***	***Nominal interest rate***	***Maturity until***	***2016 Fair Value***	***2016 Carrying amount***	*2015 Fair Value*	*2015 Carrying amount*
				T€	T€	T€	T€
Germany	EUR	Euribor+1.25%	-	**6,500**	**6,500**	6,500	6,500
Germany	EUR	Euribor+1.25%	-	**6,500**	**6,500**	6,500	6,500
Germany	EUR	Euribor+1.2%*	2018	**4,000**	**4,000**	4,000	4,000
UK	USD	Libor+1,5%	-	**7,115**	**7,115**	-	-
UK	GBP	Libor+1.5%	2019	**1,460**	**1,460**	2,375	2,375
Germany	EUR	1.25%	2021	**3,046**	**3,032**	3,594	3,568
				28,621	**28,607**	**22,969**	**22,943**

** with Euribor > 0%*

Current loan liabilities consisted of unsecured bank loans in the amount of T€ 21,413 as of 31 December 2016 (31 December 2015: T€ 14,213).

As of 31 December 2016, the Company utilized all its lines of credit. As of 31 December 2015, Evotec maintained lines of credit totalling T€ 6,876.

(16) PROVISIONS

The current provisions consist of the following:

	31 December	
T€	**2016**	2015
Bonus accruals	**8,406**	10,541
Accrued vacation	**3,943**	3,760
Other provisions for personnel	**1,306**	44
Contingent consideration	**418**	1,260
Accrued lease expenses	**158**	318
Other provisions	**1,308**	771
Total current provisions	**15,539**	**16,694**

The non-current provisions consist of the following:

	31 December	
T€	**2016**	2015
Contingent consideration	**3,287**	14,612
Pension	**7,484**	7,946
Accrued lease expenses	**2,266**	2,400
Bonus accruals	**1,526**	1,736
Other provisions for personnel	**-**	271
Other provisions	**238**	377
Total non-current provisions	**14,801**	**27,342**

The following table summarises the development of total provisions recorded during 2016:

	01 January 2016	*Business combination*	*Consumption*	*Release*	*Foreign exchange*	*Additions*	*31 December 2016*
	T€	T€	T€	T€	T€	T€	T€
Personnel expenses	16,352	470	13,582	1,420	(174)	12,229	13,875
Contingent consideration	15,872	-	764	12,413	(161)	1,171	3,705
Pensions	7,946	-	1,082	-	-	620	7,484
Accrued lease expenses	2,718	-	222	-	(76)	4	2,424
Other employee provisions	-	25	-	-	-	1,281	1,306
Other provisions	1,148	1,170	1,406	141	(196)	971	1,546
Total	**44,036**	**1,665**	**17,056**	**13,974**	**(607)**	**16,276**	**30,340**

The provision for personnel expenses mainly consists of bonus accruals and accrued vacation. The release of the provision for personnel expenses in 2016 mainly results from an agreement with the trade unions and workers' council of Evotec (France).

The contingent consideration (earn-out) provision as of 31 December 2016 consists of three contingent considerations (earn-outs) relating to the three following acquisitions:

- DeveloGen in the amount of T€ 3,620 (31 December 2015: T€ 14,629), including an unwind of discount in the amount of T€ 1,170 (2015: T€ 1,211) as well as a change in expected future cash outflows in the amount of T€ (12,179) (31 December 2015: T€ (1,623)),
- Bionamics in 2016 in the amount of T€ 85 (31 December 2015: T€ 84) including an unwind of discount in the amount of T€ 1 (2015: T€ 2), and a change in expected future cash outflows in the amount of net T€ 0 (31 December 2015: T€ (34)) and

▸ Euprotec in 2016 in the amount of T€ 0 (31 December 2015: T€ 1,159) including an unwind of discount in the amount of T€ 0 (2015: T€ 16), a consumption in the amount of T€ 764 (31 December 2015: T€ 551) and a change in expected future cash outflows in the amount of T€ (234) (2015: T€ 938). The provision was accounted for in GBP which led to a foreign exchange difference of T€ (161) (2015: T€ 49).

The contingent consideration (earn-out) relating to the business combination with DeveloGen was calculated based on estimated discounted future cash flows over a period of 18-21 years. The change in expected future cash outflows in 2016 primarily relates to the delay of a project and the resulting assumed lower probability of commercialisation. The adjustment of the change in expected future cash outflows was allocated to the EVT Innovate segment.

The unwind of the discount and the increase in the change in expected future cash outflows of the contingent consideration (earn-outs) is shown as addition in the provision table. A decrease in the change in expected future cash outflows of the contingent considerations (earn-outs) is shown as a release in the provision table.

The provision for personnel expenses may differ from the actual amounts due to the fact that the actual percentage of the variable portion of the remuneration may differ from the estimates. The actual amounts of the contingent consideration (earn-out) may vary from the provision if the underlying future revenues differ from the estimate or the underlying estimated milestones do not occur. The actual consumption of the accrued lease expenses may vary from the estimated if the lease period changes.

Other current and non-current provisions consist of the following:

	31 December	
T€	**2016**	2015
Supervisory Board fees	**305**	303
Dilapidation	**210**	504
Consulting fees	**199**	-
Interest SWAP	**107**	116
Other provisions	**725**	225
Total other provisions	**1,546**	**1,148**

(17) DEFERRED REVENUES

As of 31 December 2016, deferred revenues mainly relate to the drug discovery collaboration with Celgene Corporation and Celgene RIVOT LLC in the amount of T€ 42,313 of which T€ 8,647 is classified as current deferred revenues. Deferred revenues as of 31 December 2015 mainly relate to the collaboration and licence contract with Pfizer Inc. amounting to T€ 5,124, thereof current T€ 1,570, Sanofi group amounting to T€ 5,038, thereof current T€ 2,790 and with Bayer Pharma AG amounting to T€ 2,936, thereof current 1,766.

(18) INCOME TAXES

a) AMOUNTS RECOGNISED IN CONSOLIDATED INCOME STATEMENT

Income tax benefit and expense for the years 2016 and 2015 comprise the following:

T€	**2016**	2015
Current taxes:		
- Current tax expense	**(7,874)**	(2,621)
- Adjustment for prior years	**13**	(20)
Total current taxes	**(7,861)**	(2,641)
Deferred taxes:		
- Tax loss carry forwards	**1,021**	9,424
- Temporary differences	**729**	(2,758)
Total deferred taxes	**1,750**	6,666
Total income tax income (expense)	**(6,111)**	**4,025**

b) RECONCILIATION OF EFFECTIVE TAX RATE

The difference between the actual income tax expense and the product of the net income and the applicable Group tax rate in the reporting year and the previous year is made up as follows:

T€	**2016**	2015
Income (loss) before taxes	**32,950**	12,491
Expected German income tax rate	**32.28%**	32.28%
Expected income tax benefit (expense)	**(10,636)**	(4,032)
Non-deductible expenses and income	**572**	(857)
Deviation tax rates to expected tax rate	**626**	(486)
Change in tax rates	**(420)**	-
Change in recognition of deferred tax assets	**3,747**	9,098
Non-periodic taxes	**13**	(20)
Other	**(13)**	322
Effective income tax income (expense)	**(6,111)**	**4,025**
Effective income tax rate	**18.55%**	**(32.22%)**

Deferred income tax assets and liabilities calculated with the anticipated tax rates of each entity as of 31 December 2016 and 2015 relate to the following:

	01 Jan 16					31 Dec 16		
	Net balance	Recognised in profit or loss	Recognised in equity	Foreign currency translation	Business combination	Net	Deferred tax assets	Deferred tax liabilities
	T€	T€	T€	T€	T€	T€	T€	T€
Property, plant and equipment	(1,146)	355	-	181	-	(610)	298	(908)
Intangible assets	(6,055)	470	-	6	(115)	(5,694)	1,943	(7,637)
Financial assets	(592)	55	-	20	100	(417)	1,300	(1,717)
Provisions and deferred revenues	2,636	526	(303)	(12)	13	2,860	3,417	(557)
Other	(163)	8	-	-	-	(155)	11	(166)
Tax credits	1,105	(685)	1,020	-	-	1,440	1,440	-
Loss carryforward	11,489	1,021	-	-	543	13,053	13,053	-
Total	**7,274**	**1,750**	**717**	**195**	**541**	**10,477**	**21,462**	**(10,985)**
Set off of tax							(10,870)	10,870
Net	**7,274**	**1,750**	**717**	**195**	**541**	**10,477**	**10,592**	**(115)**

	01 Jan 15				31 Dec 15		
	Net balance	Recognised in profit or loss	Foreign currency translation	Business combination	Net	Deferred tax assets	Deferred tax liabilities
	T€	T€	T€	T€	T€	T€	T€
Property, plant and equipment	(1,125)	(68)	47	-	(1,146)	227	(1,373)
Intangible assets	(6,495)	1,416	(171)	(805)	(6,055)	2,426	(8,481)
Financial assets	1,503	(2,094)	(1)	-	(592)	882	(1,474)
Provisions and deferred revenues	1,187	(1,136)	(3)	2,588	2,636	3,285	(649)
Other	825	(988)	-	-	(163)	11	(174)
Tax credits	994	111	-	-	1,105	1,105	-
Loss carryforward	1,528	9,425	-	536	11,489	11,489	-
Total	**(1,583)**	**6,666**	**(128)**	**2,319**	**7,274**	**19,425**	**(12,151)**
Set off of tax						(10,613)	10,613
Net	**(1,583)**	**6,666**	**(128)**	**2,319**	**7,274**	**8,812**	**(1,538)**

c) UNRECOGNISED DEFERRED TAX LIABILITIES

For outside basis differences for undistributed foreign subsidiaries earnings, temporary differences in the amount of T€ 1,597 were not recorded according to IAS 12.39 (2015: T€ 1,512).

d) UNRECOGNISED DEFERRED TAX ASSETS

The Company's deferred tax assets are recorded to the extent it is probable that such tax benefits would be realised in future years. As of 31 December 2016, it was still assumed that two of the German entities will generate sufficient profits in the foreseeable future. Therefore deferred tax assets were recognised on tax loss carryforwards. The change in estimates in 2015 stemmed from the fact that one German entity proved in 2015 to generate sustainable profits. Due to the continuing loss history of the other German entities as well as the USA entity, no additional deferred tax asset on tax loss carryforwards, exceeding the recognised deferred tax liabilities, was recognised. In the following schedule, tax loss carryforwards, interest carryforwards and tax credits are shown, whereas tax loss carryforwards from different income taxes were added up.

T€	2016	2015
Tax loss carryforwards (not expiring)	**419,411**	431,540
Time-limited tax losses		
– expiring until 2020	**26,300**	26,632
– expiring from 2020 to 2025	**25,559**	24,479
– expiring from 2026 to 2030	**56,297**	48,114
– expiring from 2030	**-**	-
Interest carryforward	**10,749**	11,083
Tax credits	**1,146**	1,105
Total	**539,462**	**542,953**

A net asset position for temporary differences amounting to T€ 1,333 was not recorded as of 31 December 2016 (31 December 2015: T€ 370).

(19) STOCK-BASED COMPENSATION

a) SHARE PERFORMANCE AWARDS

To further incentivise executives via variable long-term incentive compensation, the Annual General Meeting in June 2015 and June 2012 approved the respective contingent capital necessary to support the Share Performance Plan 2015 ("SPP 2015") and 2012 ("SPP 2012"). Under these plans, Share Performance Awards ("SPA") may be granted to a level that may result in up to 6,000,000 bearer shares (SPP 2015) as well as 4,000,000 bearer shares (SPP 2012) of the Company being issued at maturity to members of the Management Board and other key employees. Each SPA grants up to two subscription rights to company shares, each of which in turn, entitle the holder to the subscription of one company share. SPAs can be exercised at the earliest after a vesting period of four years after the date of their grant but no later than five years after the respective grant. The holder has to contribute € 1.00 per share at the date of issue. SPAs can only be exercised, if, when and to the extent that key performance indicators are achieved within a performance measurement period of three years. These performance indicators consist of service conditions relating to certain key financial figures (e.g. revenue- and income-related indicators) of the Company as well as certain share-based measurements (e.g. Evotec's share price). The Supervisory Board determines annually key performance indicators for each individual tranche of awards at grant date. If a member of the Management Board leaves the company during the performance measurement period, he is entitled to receive proportionate Share Performance Awards dependent on the achievement of the key performance indicators. The selected key employees generally do not have this entitlement. The Share Performance Plans SPP 2015 and SPP 2012 are subject to certain restrictions regarding issuing periods and the allocation of the grants to members of the Management Board and other key employees.

A summary of the status of the Share Performance Plans as of 31 December 2016 and 2015 and the changes during the year then ended is presented as follows:

			31 December	
	2016 Share Performance Awards (SPAs)	**2016 Weighted average exercise price**	2015 Share Performance Awards (SPAs)	2015 Weighted average exercise price
		€ per share		€ per share
Outstanding at beginning of the year	**3,858,742**	**1.00**	3,090,348	1.00
SPAs granted	**793,903**	**1.00**	796,617	1.00
SPAs exercised	**(331,861)**	**1.00**	-	-
SPAs expired	**-**	**-**	-	-
SPAs forfeited	**(75,147)**	**1.00**	(28,223)	1.00
Outstanding at end of the year	**4,245,637**	**1.00**	**3,858,742**	**1.00**
Thereof exercisable	**533,670**	**1.00**	**-**	**-**

In 2016, 396,291 SPAs from the total granted 793,903 SPAs were given to the members of the Management Board (2015: 338,382). The SPAs exercised in 2016 correspond to 209,073 shares.

The fair value of the grant of Share Performance Awards was estimated on the date of grant using a Monte-Carlo-Simulation model with the following assumptions:

	20 September 2016	28 September 2015	01 October 2014	04 September 2013
Risk-free interest rate in %	**(0.61)**	(0.09)	0.05	0.67
Volatility in %	**33.0**	37.0	47.0	35.0
Fluctuation in %	**0.0 - 5.0**	0.0 - 5.0	0.0 - 5.0	0.0 - 5.0
Exercise price in Euro	**1.00**	1.00	1.00	1.00
Share price at grant date in Euro	**4.66**	4.04	3.10	2.90
Fair value according to IFRS 2 at grant date per SPA in Euro	**3.87**	2.69	1.80	1.55

The performance measurement period for this vesting in 2016 started on 01 January 2016 (2015: 01 January 2015). The expected dividend yield is zero, the expected life is 4 years.
In the financial year 2016, the assumption relating to the SPAs granted in 2015 (2015: SPAs granted in 2014 and 2013) changed with regard to the estimated achievement of the key performance indicators within the performance measurement period of three years. It relates to the achievement of performance indicators which are dependent on certain financial figures of the Company. Expected changes of share-based measurements are not affected. This led to an adjustment of T€ 1,200 (2015: T€ 2,682) of the total

amount to be recognised as compensation expense. Correspondingly, a T€ 830 higher (2015: T€ 1,972 higher) than originally expected compensation expense was recorded in 2016.

b) SHARE OPTION PLANS

The Annual General Meeting on 07 June 1999 established a stock option plan ("Option Plan 1999") and authorised the granting of stock options for up to 1,466,600 shares. The plan is subject to certain restrictions regarding the number of stock awards that may be granted in a single year and the allocation of the grants to members of the Management Board, other key management personnel and all other employees. The Annual General Meeting in 2000 and 2001 provided for the authorisation of additional 949,000 and 1,129,600 stock options, respectively.
Under the terms of the plan, each option entitles the holder to purchase one share of the Company's stock within ten years of the grant date at a set strike price. For all options granted in 1999, the strike price was the price of the initial public offering of € 13.00 (€ 6.50 after stock split). Options granted in 2000 and 2001 can be exercised at a strike price equal to the closing price of the shares or at a strike price equal to the closing price of the shares plus 5% on the trading day before the option was granted. Options have a graded vesting: a maximum of one-third of which can be exercised at the earliest after two years, a maximum of further two-thirds after three years and all remaining awarded options after four years. Options can only be exercised within certain specified periods.
The options can only be exercised if the stock price exceeds the strike price by at least 5%.

The terms of the stock option plan further provide that a grant of options is only allowed if the average closing price of the Company's stock has increased by at least 30% when comparing the last quarter of the last business year before the grant with the last quarter of the preceding year. The Supervisory Board, however, has the authority to override this restriction and to authorise the granting of options to employees if such a decision is considered necessary for the interests of the Company.
The Annual General Meetings on 07 June 2005, 30 May 2007 and 28 August 2008 established new stock option plans ("Option Plan 2005, 2007 and 2008") and authorised the granting of stock options for up to 1,741,481, 2,140,000 and 3,400,000 shares in 2005, 2007 and 2008, respectively. The plans are subject to certain restrictions regarding the number of stock awards that may be granted in a year and the allocation of the grants to members of the Management Board, other key management personnel and all other employees. Within one calendar year, no more than 40% of options from the Option Plan 2005 and 2007 and not more than 50% of options from the Option Plan 2008 shall be granted.

Each option entitles the holder to purchase one share of the Company's stock at a strike price equal to the price of one share at the time of the grant of the option. Options can be exercised after a vesting period of three years after the date of their grant but no later than six years after the respective grant. The Option Plan 2005, 2007 and 2008 stipulates an exercise hurdle of a 33% price increase against the share price at the time of granting. The option holder may exercise his options only if this hurdle is achieved on the day three years after the respective date of granting. In case the hurdle is not achieved, the same increase after four or five years, respectively, would make the options exercisable.

The Annual General Meeting on 04 June 2009 decided to change the exercise periods of the options under the Option Plan 2005, 2007 and 2008 to be generally exercisable throughout the year. Options cannot be exercised during certain specified three-weeks periods. The options under the Option Plan 2005, 2007 and 2008 used to be exercisable within the specific two weeks period relevant also to the other option programmes.
The Annual General Meeting on 16 June 2011 established a new stock option plan ("Option Plan 2011") and authorised the granting of stock options for up to 1,200,000 shares in 2011. The plan is subject to certain recommendations regarding the number of stock awards that may be granted in a year. All options under the Option Plan 2011 are destined for grant to members of the Executive Board. Each option entitles the holder to purchase one share of the Company's stock at a strike price equal to the price of one share at the time of the grant of the option. Options can be exercised after a vesting period of four years after the date of their grant but no later than eight years after the respective grant. The Option Plan 2011 stipulates an exercise hurdle of a 20% price increase against the share price at the time of granting. The option holder may exercise his options only if this hurdle is achieved on one relevant day during the waiting period. The "relevant day" is respectively the day prior to the annual financial report, the quarterly report, an interim report or the half-year financial report is made available to the public.

A summary of the status of the stock option plans as of 31 December 2016 and 2015 and the changes during the years then ended is presented as follows:

			31 December	
	2016 Options	**2016** Weighted average exercise price	2015 Options	2015 Weighted average exercise price
		€ per share		€ per share
Outstanding at beginning of the year	**2,031,961**	**2.57**	3,041,446	2.47
Options granted	**-**	**-**	-	-
Options exercised	**(258,584)**	**2.35**	(895,606)	2.20
Options expired	**(45,125)**	**2.48**	(77,379)	2.81
Options forfeited	**-**	**-**	(36,500)	2.78
Outstanding at end of the year	**1,728,252**	**2.60**	**2,031,961**	**2.57**
Thereof exercisable	**709,408**	**2.33**	**1,013,117**	**2.34**

A summary of the stock options outstanding as of 31 December 2016 is as follows:

Range of exercise prices	*Weighted average remaining contractual life*
€ per share	
2.23 - 3.68	3.92 years

The fair value of each option grant was estimated on the date of grant using a binomial model with the following assumptions:

	16 March 2011	*14 September 2011*
Risk-free interest rate in %	2.66	1.23
Volatility in %	33.0	44.0
Fluctuation in %	0.0 - 10.0	0.0
Price range in Euro	2.65 - 2.79	2.23
Fair value per option	0.75 - 0.94	0.96

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

The Company recognised compensation expense in 2016 and 2015 for all stock options and Share Performance Awards totalling T€ 3,979 and T€ 3,973, respectively, which was reflected as operating expenses in the consolidated income statement. Thereof, T€ 1,847 are related to stock options and Share Performance Awards of the Management Board in 2016 (2015: T€ 2,418). The compensation expenses relating to accelerated vesting as well as the adjustment of compensation expenses due to changes in estimates are included in the amount above.

(20) STOCKHOLDERS' EQUITY

The share capital is made up of:

Shares in thousands	*31 Dec 2016*	*31 Dec 2015*
Issued as of 01 January	**132,584**	131,711
Exercise of share purchase rights	**468**	873
Issued as of 31 December	**133,052**	**132,584**

On 31 December 2016, there are 133,051,739 shares issued and outstanding with a nominal amount of € 1.00 per share. Management is not aware of any restriction of the voting rights or the right to transfer. No binding lock-up agreements have been made with any shareholder, and neither stock loans, nor pre-emptive stock purchase rights are known to the Company.
Share purchase rights exercised in 2016 show an average exercise price amounting to € 1.75 (2015: € 2.20) per share.

The conditional capital (bedingtes Kapital) as of 31 December 2016 consists of 11,653,083 shares available with respect to the Share Performance Plans and the stock option plans and 26,516,816 shares available to issue no-par-value bearer shares to owners or creditors of convertible bonds and/or warrant-linked bonds, participation rights and/or income bonds (or a combination of such instruments). Evotec can award those based on the resolution of the Annual General Meeting as of 14 June 2016. Consequently, the remaining conditional capital (bedingtes Kapital) as of 31 December 2016 amounted in total to 38,637,556 shares.

At the Annual General Meeting on 17 June 2014, the statutes in respect of authorised capital were amended. The Management Board of the Company is now authorised to issue up to 26,292,038 new shares for cash or contributions in kind. Under German law, the shareholders of a stock corporation may empower the Management Board to issue shares in a specified aggregate nominal value not exceeding 50% of the issued share capital at the time of the shareholder vote, in the form of authorised capital (genehmigtes Kapital). The authorisation expires on 16 June 2019.

Evotec owns 249,915 of Evotec's shares as of 31 December 2016 (2015: 249,915), representing 0.2% (2015: 0.2%) of Evotec's share capital as of 31 December 2016. In the course of the acquisition of Renovis, Inc. by Evotec AG, certain options and deferred stock units ("DSU") held by Renovis employees were transformed into Evotec American Depository receipts ("ADR") delivered into an irrevocable Company Trust for the benefit of the Renovis employees. In accordance with the Trust Agreement between Renovis, Inc. and the Trustee, on 12 March 2012 all remaining ADRs held by the Company Trust were delivered to Evotec AG, as all obligations of the Trust to deliver ADRs under the option agreements or the DSU agreements were satisfied or otherwise expired (e.g. due to an expiry of exercise periods or non-occurrence/discontinuance of exercise conditions). In 2015, Evotec AG used some of the transferred ADRs to serve exercised options under its stock option programs rather than using contingent capital.

(21) REVENUES

Revenues in 2016 include milestone payments amounting to T€ 11,858 (2015: T€ 4,446) and royalty income in the amount of T€ 46 in 2016 (2015: T€ 828). Also included in 2016 are licence revenues from discovery collaborations in the amount of T€ 1,253 (2015: T€ 2,643).

(22) RESEARCH AND DEVELOPMENT

In 2016, research and development expenses mainly relate to early discovery programmes amounting to T€ 13,444 (2015: T€ 14,433) as well as overhead expenses in the amount of T€ 4,521 (2015: T€ 3,780). The overhead expenses consist mainly of patent costs and overhead personnel expenses.

(23) SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Included in selling, general and administrative expenses in 2016 are expenses for sales and marketing in the amount of T€ 3,185 (2015: T€ 3,135). Other administrative expenses amount to T€ 23,828 in 2016 (2015: T€ 22,031). The increase of administrative expenses is particularly due to additional expenses in the context of M&A activities.

(24) OTHER OPERATING INCOME AND EXPENSE

In 2016, other operating income mainly relates to the fair value adjustment of the contingent consideration (earn-out) provisions in the amount of T€ 12,416 (2015: T€ 1,726), with T€ 2,429 (2015: T€ 1,766) to refunds from the Research and Development expenditure credit (RDEC) in the UK as well as similar refunds from French CIR (crédit d'impôt recherche) in the amount of T€ 8,429 (2015: T€ 3,141). This credit is akin to a government grant and as a result is shown as other operating income.
In 2016, other operating income includes T€ 5,189 (2015: T€ 6,150) related to the recharge of costs to third parties whereas the respective costs are included in other operating expense with the same amount.
In 2015, other operating expense include T€ 1,007 related to the fair value adjustment of the contingent consideration (earn-out) provisions.

(25) INTEREST EXPENSE

Interest expense in 2016 include the unwind of discounts of contingent consideration (earn-out) provisions in the amount of T€ 1,171 (2015: T€ 1,229).

(26) FINANCIAL INSTRUMENTS

— FINANCIAL RISK MANAGEMENT —

Evotec is exposed to the following risks arising from financial instruments:

- currency risks
- interest rate risks
- liquidity risks (see note (27))
- capital management (see note (27))
- credit risks (see note (27))
- market risks (see note (27))

The Management Board has overall responsibility for the establishment and oversight of the Company's management framework. The Management Board has installed a Group Risk Manager, who is responsible for developing and monitoring the risk management policies. The Group Risk Manager reports regularly to the Management Board on its activities. The Audit committee oversees how management monitors compliance with the Company´s risk management policies and procedures.

Currency risks

The Company is exposed to currency risks, if Evotec companies enter into sales, purchases and borrowings that are denominated in a currency other than the functional currency of the respective Evotec company. The functional currencies of all Evotec companies consist mainly of Euro, US Dollar and Pound Sterling. The Evotec companies are in the normal course of business particularly exposed to currency fluctuations between US Dollar, Pound Sterling and the Euro.

The following table shows the average currency rates as well as the currency rates at 31 December 2016 and 2015 each against the Euro:

	Average rate		31 December	
€	**2016**	2015	**2016**	2015
USD	**0.90330**	0.90130	**0.94870**	0.91690
GBP	**1.22049**	1.37750	**1.16800**	1.35720

A strengthening (weakening) of the Euro, US Dollar or Pound Sterling as indicated below among each other and against other currencies at 31 December would have increased (decreased) equity and net profit/(loss) by the amounts shown below. This analysis relates to financial instruments classified as held for sale and assumes that all other variables remain constant and ignores any impact of sales and purchases.

	Variance 2016		Variance 2015	
T€	**Equity**	**Profit and loss**	Equity	Profit and loss
USD (10% strengthening)	**6,380**	**6,380**	1,154	1,154
USD (10% weakening)	**(6,380)**	**(6,380)**	(1,154)	(1,154)
GBP (10% strengthening)	**240**	**240**	247	247
GBP (10% weakening)	**(240)**	**(240)**	(247)	(247)
EUR (10% strengthening)	**157**	**157**	1,395	1,395
EUR (10% weakening)	**(157)**	**(157)**	(1,395)	(1,395)

The Company manages the foreign exchange exposure via natural hedges and selective hedging instruments such as forward currency contracts. The hedging instruments used do not expose the Company to any material additional risk. The objective of these transactions is to reduce the risk of exchange rate fluctuations of the Company's foreign currency denominated cash flows. Evotec does not enter into derivative transactions for trading or speculative purposes. As of 31 December 2015, the Company held US Dollar/GBP forward contracts with Euro equivalent notional amounts of T€ 27,508 and a fair value of T€ (483). Foreign currency contracts are carried at fair value. The maturity for all foreign currency contracts held by the Company is short-term. The fair value of the foreign currency contracts was included in other current financial liabilities on 31 December 2015. Gains and losses from the fair value accounting related to foreign currency derivatives are included in non-operating income and expense and amounted to a net loss of T€ 2,748 and T€ 528 for the years 2016 and 2015, respectively.
Derived regularly from the summarised quantitative data about the Company's currency risks, based on the report to the Management Board, the expected future USD cash flows which should be hedged with USD/GBP forward contracts are determined. As of 31 December 2016, no cash flows were hedged (31 December 2015: TUSD 30,000).
The fair value of cash and cash equivalents, investments, trade accounts receivable and trade accounts payable approximate their carrying values in the consolidated financial statements due to their short-term nature. Financial assets are accounted for at the settlement date.

Interest rate risks

The Company is exposed to interest rate risks in Germany, UK and USA due to current investments as well as loans. Financial instruments with fixed interest rates or those covered by an interest rate swap are not subject to cash flow risks and therefore are not included in the sensitivity analysis. Financial

instruments with variable interest rates as of 31 December 2016 and 2015 are included in the sensitivity analysis for the period of their existence. If the interest rate had been 100 basis points higher (lower) at 31 December 2016 the effect on net income without considering any potential tax effects would have been T€ 521 higher (lower) (31 December 2015: net income T€ 615 higher (lower)). Shareholders' equity would be impacted in the same amount.

The fair value of debt varies from the carrying amount, if there is a difference between the underlying interest rate to the market interest rate. The fair value is then determined using an appropriate market interest rate.

The fair values of the long-term loans with variable interest rates as of 31 December 2016 and 2015 would vary by the following amounts:

T€	31 December 2016	2015
Variable interest rate +1% point	**77**	146
Variable interest rate -1% point	**(77)**	(146)

Evotec regularly uses interest rate swaps to hedge the interest rate risks from its borrowings. In September 2014, two new four-year interest rate swaps with a notional of T€ 5,000 each were agreed with two German banks to swap Euribor against a fixed rate of 0.335% and 0.320% respectively. This resulted in a combined fixed interest rate of 1.585% and 1.570% respectively for an amount of T€ 10,000 of Evotec's credit lines.

The Company does not use fair value through profit or loss accounting for its financial assets and liabilities with fixed interest rates.

The Company is exposed to interest rate risk through predominantly variable interest-bearing loans. These interest rate risks are deemed not to be significant.

Other price risks

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

(27) RISKS

Liquidity risks

Expenditures on internal discovery and early development programmes and other costs as well as reduced revenues might negatively impact Evotec's short- to mid-term profitability and cash reserves. To actively address any related risk, Evotec's management has defined minimum liquidity levels and prepared a scenario planning to safeguard its cash position. Evotec believes that existing liquidity reserves are sufficient to cope with the cumulative impact of all identified risks. Evotec is currently well-financed and has no necessity to raise capital to maintain its operations in the near- to mid-term. However, the option of increasing capital is always considered. This additional financing might be required if new opportunities arise in terms of M&A or in-licensing. The Company does not intend to engage in projects unless adequate funding is allocated or secured. Evotec assesses the associated liquidity risks to be low/medium, remaining unchanged in comparison to the previous year.

The general risk of losing a significant amount of cash in cash investments should continuously be mitigated by spreading the investments across several different banks in high-credit quality instruments in full compliance with the Company's approved investment policy. Evotec monitors its banks and investments on an ongoing basis. Therefore, Evotec assesses the current default risks to be low, remaining unchanged in comparison to the previous year.

The Company has important collaborations with pharmaceutical and biotechnology companies. Any termination of such collaborations or failure to achieve contracted milestones would likely have an adverse impact on the Company's financial position, results of operations and cash flows.

Currency exchange movements also impact Evotec's reported liquidity primarily through the translation of liquid assets held in US Dollars or Pound Sterling into Euros. A portion of the funds is held in currencies other than Euro in order to meet local operating needs.

The contractual maturities of financial liabilities, including estimated interest payments as of 31 December 2016 and 2015 are included in the following table:

		31 December 2016			
T€	Carrying amount	Contractual cash flow	Due in 1 year	Due in 2 - 5 years	More than 5 years
Non-derivative financial liabilities					
Loans	(28,607)	(28,937)	(21,631)	(7,306)	-
Finance leases	(220)	(226)	(195)	(31)	-
Contingent consideration	(3,705)	(9,383)	(85)	(670)	(8,628)
Trade accounts payable	(11,997)	(11,997)	(11,997)	-	-
Other current financial liabilities	(1,503)	(1,503)	(1,503)	-	-
Total non-derivative financial liabilities	**(46,032)**	**(52,046)**	**(35,411)**	**(8,007)**	**(8,628)**
Derivative financial liabilities					
FX forward contracts	-	-	-	-	-
Interest rate swap	(107)	(107)	(107)	-	-
Total derivative financial liabilities	**(107)**	**(107)**	**(107)**	**-**	**-**

	31 December 2015				
T€	Carrying amount	Contractual cash flow	Due in 1 year	Due in 2 - 5 years	More than 5 years
Non-derivative financial liabilities					
Loans	(22,943)	(23,437)	(14,479)	(8,777)	(181)
Contingent consideration	(15,872)	(42,567)	(1,415)	(1,141)	(40,095)
Trade accounts payable	(12,171)	(12,171)	(12,171)	-	-
Other current financial liabilities	(150)	(150)	(150)	-	-
Total non-derivative financial liabilities	**(51,136)**	**(78,325)**	**(28,215)**	**(9,918)**	**(40,276)**
Derivative financial liabilities					
FX forward contracts	(483)	(483)	(483)	-	-
Interest rate swap	(116)	(116)	(116)	-	-
Total derivative financial liabilities	**(599)**	**(599)**	**(599)**	**-**	**-**

Capital management

Evotec actively manages its funds to primarily ensure liquidity and principal preservation while seeking to maximise returns. Evotec's cash and short-term investments are located at several different banks. Financial investments are made in liquid, highly diversified investment instruments having at minimum a Standard & Poor's rating (or equivalent) of at least BBB-.

The following table shows the total assets, equity as well as equity ratio and net cash (cash and cash equivalents minus current and non-current loan liabilities and current and non-current finance lease obligations):

	Years ended 31 December	
T€	**2016**	2015
Total assets	**351,366**	288,538
Equity attributable to the shareholders of Evotec AG	**213,035**	185,502
Equity ratio (in %)	**60.6%**	64.3%
Net cash	**55,113**	**21,554**

To manage short-term and medium-term liquidity, the Company makes use also of bank loans. As of 31 December 2016 and 2015, all debts are unsecured. However, Evotec has to hold a minimum level of cash in the amount of T€ 35,000 in 2016 and 2015, respectively. As at 31 December 2016, liquidity amounts to T€ 126,270 (31 December 2015: T€ 133,940). The sum of these debt instruments – including both long-term and current portions – at the end of 2016 is T€ 28,607 (2015: T€ 22,943).

Evotec remains well financed with an equity ratio relating to equity attributable to Evotecs shareholders of 60.6% as of 31 December 2016 (31 December 2015: 64.3%) and currently has no necessity to raise capital to maintain its operations in the near to mid-term. However, the option to increase capital may be considered if new opportunities arise in terms of M&A or in-licensing which should require additional financing.

No minimum capital requirements are stipulated in Evotec's statutes. The Company has obligations to issue shares out of the conditional capital relating to the exercise of stock options on the basis of miscellaneous stock option plans as well as Share Performance Awards on the basis of Share Performance Plans. Please refer to Note 19.

Credit risks

Credit risk is the risk of financial loss to the Company if a customer fails or partly fails to meet any of its contractual obligations and arises primarily from the receivables from customers and investment securities. The maximum exposure to credit risk for trade receivables including related parties at the reporting date by geographic region was:

	31 December	
T€	**2016**	2015
United States	**12,312**	8,244
Germany	**8,131**	3,708
France	**2,551**	1,090
Rest of Europe	**2,418**	3,579
United Kingdom	**1,696**	4,197
Rest of the world	**340**	115
	27,448	**20,933**

The Company has exposure to credit risk primarily with respect to its trade accounts receivables. The Company performs ongoing credit evaluations of its customers' financial condition and maintains an appropriate specific allowance for uncollectible accounts receivable based upon the expected collectability of all accounts receivable. The Company's accounts receivables are generally unsecured and are not backed by collateral from its customers. As of 31 December 2016, one customer accounted for 25% of trade receivables (31 December 2015: 20%). Concentrations of credit risk with respect to trade accounts receivables are generally limited by a number of geographically diverse customers and the Company's monitoring procedures.

Evotec's customers are predominantly financially stable pharmaceutical companies, foundations and larger biotech companies. There has been no history of material doubtful receivables except for one and this is not expected to change.

In 2016, the Company further expanded its customer base. However, the largest customers of Evotec (Sanofi), being the only customer having a share of more than 10% of the Group revenues in 2016, represented in total 33% of the Group revenues. All other customers had a revenue share below 10%. In 2015, two customers had each more than 10% of the Group revenues and together more than 40% of the Group revenues in 2015. A termination of these business relations could have adverse impacts on the Company's financial results.

Market risks

The market environment and competitive landscape for licensing and licensed projects or individual drug candidates, in general or for individual treatments might change while engaging in individual project.

Structured vehicles

Evotec has not had any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured entities or special purpose entities, established for the purpose of facilitating off-balance sheet arrangements or other contractual narrow or limited purposes. Therefore, Evotec is not materially exposed to any financing, liquidity, market or credit risk that could arise if it had been engaged in these relationships.

(28) FAIR VALUES

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

	31 December 2016		31 December 2015	
T€	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	**83,940**	**83,940**	**44,497**	**44,497**
Available-for-sale financial assets				
Investments	**42,330**	**42,330**	89,443	89,443
Total available-for-sale-financial assets	**42,330**	**42,330**	**89,443**	**89,443**
Financial assets measured at fair value				
Other non-current financial assets	**83**	**83**	80	80
Total financial assets measured at fair value	**83**	**83**	80	80
Loans and receivables				
Trade accounts receivables	**27,448**	**27,448**	20,933	20,933
Other current financial assets	**1,592**	**1,592**	1,018	1,018
Total loans and receivables	**29,040**	**29,040**	**21,951**	**21,951**
Financial liabilities measured at amortised cost				
Current loan liabilities	**(21,413)**	**(21,413)**	(14,213)	(14,213)
Non-current loan liabilities	**(7,194)**	**(7,219)**	(8,730)	(8,750)
Current portion of finance lease obligations	**(190)**	**(190)**	-	-
Long-term finance lease obligations	**(30)**	**(30)**	-	-
Trade accounts payable	**(11,997)**	**(11,997)**	(12,171)	(12,171)
Other current financial liabilities	**(1,503)**	**(1,503)**	(150)	(150)
Total financial liabilities measured at amortised cost	**(42,327)**	**(42,352)**	**(35,264)**	**(35,284)**
Financial liabilities measured at fair value				
Derivative financial instruments	**-**	**-**	(599)	(599)
Contingent consideration	**(3,705)**	**(3,705)**	(15,872)	(15,872)
Total financial liabilities measured at fair value	**(3,705)**	**(3,705)**	**(16,471)**	**(16,471)**
	109,361	**109,336**	**104,236**	**104,216**
Unrecognised (gain)/loss		**25**		**20**

In determining the fair values on level 2 and 3 the following valuation techniques are used:

Financial instruments measured at fair value
The asset value of the insurance cover for pension obligations is determined as the capital value of the premiums' saving components and is based on realised interest income so far.
The fair value of derivative financial instruments is determined by market-based methods. The valuation model is based upon quoted prices of similar instruments, whose characteristics are broadly similar to the instruments being measured.

The fair value of contingent considerations is determined by a discounted cash flow model. The cash flows used are based on the respective long-term project planning and/or the expected meeting of revenue targets. The discount rate is calculated using an interest rate on debt. Significant unobservable input used is to some extent the commercialisation success rate (2016: 30%; 2015: 25% - 30%).

Financial instruments not measured at fair value
For cash and cash equivalents, trade accounts receivables, loan liabilities, finance lease obligations and other current financial assets and liabilities, fair value is determined through a simplified discounted cash flow model without the use of significant unobservable inputs, respectively the net book values represent an appropriate approximation of the fair value.

Hierarchy levels
The following table allocates financial assets and financial liabilities to the three levels of the fair value hierarchy as defined in IFRS 13:

	31 December 2016			
T€	***Level 1***	***Level 2***	***Level 3***	***Total***
Available-for-sale financial assets	**42,330**	**-**	**-**	**42,330**
Financial assets measured at fair value	**-**	**83**		**83**
Financial liabilities measured at fair value	**-**	**-**	**(3,705)**	**(3,705)**

	31 December 2015			
T€	*Level 1*	*Level 2*	*Level 3*	*Total*
Available-for-sale financial assets	89,443	-	-	89,443
Financial assets measured at fair value	-	80	-	80
Financial liabilities measured at fair value	-	(599)	(15,872)	(16,471)

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

Level 1: quoted prices in active markets for identical assets or liabilities;
Level 2: inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3: inputs for the asset or liability that are not based on observable market data.

The following tables show the movement of fair values at level 3 for the financial years 2016 and 2015, respectively:

T€	***Note***	***Contingent consideration***
As of 01 January 2016		15,872
Exchange rate difference		(161)
Consumption	(16)	(764)
Included in other operating expense		
Changes in fair value, unrealised		(12,413)
Included in other operating income		
Changes in fair value, unrealised		-
Included in expense from long-term investment		
Changes in fair value, unrealised		-
Included in interest expense		
Interest change in net present value, unrealised		1,171
As of 31 December 2016		**3,705**

T€	*Note*	*Contingent consideration*
As of 01 January 2015		15,864
Exchange rate difference		49
Consumption	(16)	(551)
Included in other operating expense		
Changes in fair value, unrealised		1,007
Included in other operating income		
Changes in fair value, unrealised		(1,726)
Included in expense from long-term investment		
Changes in fair value, unrealised		-
Included in interest expense		
Interest change in net present value, unrealised		1,229
As of 31 December 2015		**15,872**

For the fair value of the contingent consideration, possible alternative assumptions of significant unobservable inputs would have ceteris paribus the following effects as at 31 December 2016 and 2015:

	2016 Profit and loss		2015 Profit and loss	
T€	Increase	Decrease	Increase	Decrease
Contingent consideration				
Discount rate (movement of 0.15 % points)	56	(114)	265	(270)
Commercialisation success rate (movement of 10% points)	1,206	(1,206)	183	(183)

In the financial years 2016 and 2015, no reclasses were made among the individual levels.

(29) PENSION PLAN

The Company operates a defined contribution Group Personal Pension Plan (GPPP) and makes contributions to employees' own schemes with the acquisition of Cyprotex the Company took over an additional plan. 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€ 1,507 (2015: T€ 1,624). Contributions amounting to T€ 108 (2015: T€ 127) were payable to the fund at the year-end 2016 and are included in provisions. The Company's contribution rate is employee specific and is determined by the level of an employee's contribution. There were no changes in the basis for such contributions during the year. The statutory retirement insurances are defined as contribution plan under IAS 19, but are not included in the amounts stated above.

Further the Company has a 401K in the USA the contribution to this plan amounted to T€ 88 during 2016 (2015: T€ 75). An additional plan was acquired with the business combination of Cyprotex and contributions in the amount of T€ 4 were recorded in 2016.

The company operates a defined benefit pension plan for employees in France. The calculation of the provision for this pension obligation is based on the projected unit credit method according to IAS 19. In 2016 and 2015, a calculation for this obligation was done which includes the following assumptions.

	31 Dec 2016	31 Dec 2015
Actuarial interest rate	1.45%	1.75%
Salary increase	1.5%	2.4% - 4.55%
Employee turnover	0% - 2.85%	0% - 2.85%
Retirement age	62 years	62 years

For the measurement of the mortality rate the mortality tables of France according to l'INSEE 2010-2012 were used. The mortality rate is not subject of a material sensitivity as the payment is processed at the beginning of the retirement. The sensitivity of the actuarial interest rate and the resulting change of the relating pension provision is shown in the following table. This change would be recognised as actuarial gain or loss in other comprehensive income in equity. For the other assumptions, no material change is expected, as they are based on historical values, which will not change much in the course of a year.

T€	31 Dec 2016
Actuarial interest rate +0.50% points	**(458)**
Actuarial interest rate -0.50% points	**399**

T€	31 Dec 2015
Actuarial interest rate +0.25%-points	(281)
Actuarial interest rate -0.25%-points	292

The Company operates a defined benefit pension plan for one former member of the Management Board of Evotec AG. The provision for this pension is calculated using the projected unit credit method in accordance with IAS 19. An actuarial report was prepared in 2016 and 2015 for this purpose. The calculations are based on assumed pension increases of 1.1% and a discount rate of 1.6% in 2016 and 2.1% in 2015. The discount rate reflects market conditions. The provision amounted to T€ 204 and T€ 182 as of 31 December 2016 and 2015, respectively.

The pension provisions developed as follows:

	Year ended 31 December	
T€	2016	2015
Pension provision at beginning of the year	**7,946**	216
Addition at acquisition date	**-**	7,664
Included in other comprehensive income:		
Actuarial gains from:		
— Changes in financial assumptions	**(645)**	(38)
— Experience adjustments	**(419)**	-
Included in net income:		
Current service costs	**462**	72
Interest cost	**140**	32
Pension provision at year end	**7,484**	**7,946**

The expenses for the statutory retirement obligations are explained in Note (32).

(30) 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 to 2024. Certain leases contain rent increases, rent holidays and renewal options. The total rents due under these leases are recognised on a straight-line basis over the lease term. The future minimum lease payments under non-cancellable operating leases are approximately as follows:

T€	***31 Dec 2016***	*31 Dec 2015*
less than one year	**15,428**	15,535
between one and five years	**56,765**	57,853
more than five years	**11,134**	15,834
Total	**83,327**	**89,222**

The majority of operating lease obligations relate to rent expenses for facilities. The rent expense for such leases amounted to T€ 16,188 and T€ 12,388 for the years ended 31 December 2016 and 2015, respectively. The increase in rent expenses is the result of the rent agreement of Evotec (France) which was only included for nine months in the year 2015.

— (b) OTHER COMMITMENTS AND CONTINGENCIES —

The future minimum payments associated with miscellaneous long-term commitments total approximately T€ 6,003 and T€ 3,997 at 31 December 2016 and 2015, respectively. The significant portion thereof related to long-term commitments in connection with facility expenses.

As of 31 December 2016 and 2015, the Company has entered into purchase commitments in the amount of T€ 3,115 and T€ 4,648, respectively.

The Company has licensed or acquired certain third party intellectual property for use in its business. Under these agreements, the Company is required to pay milestones, dependent on development progress and/or royalties and milestones dependent on present and future net income or on sublicensing fees received from third parties. The Company also agreed with several third parties on getting access to their technology and know-how for use in Evotecs business or within collaborations. Under those agreements, the Company is required to pay a share of the revenue relating to those technologies and know-how to the respective third parties.

The Company is not aware of any material litigation as of 31 December 2016.

(31) RELATED PARTY TRANSACTIONS

According to IAS 24, the Company discloses related party transactions where Supervisory Board members and Management Team members of the Company hold positions in other entities that result in them having significant influence over the financial or operating policies of these entities (the figures reflect the total Group).
In 2016, the Company acquired part of the Carrick Therapeutics Ltd. shares. Dr Elaine Sullivan is CEO of Carrick Therapeutics Ltd. In her function as member of the Supervisory Board of Evotec, she elected not to participate in any discussion relating to the acquisition and she abstained from voting.

Evotec AG recorded revenues from contracts in the normal course of business in the amount of T€ 15,605 and T€ 2,205 with related parties in 2016 and 2015, respectively. Subsidiaries of Evotec AG recorded corresponding revenues with related parties in the amount of T€ 8,787 and T€ 2,340 in 2016 and 2015, respectively. There has been no further material transactions with related parties.

Evotec recorded revenues from contracts in the normal course of business with associated companies and investees during 2016 in the amount of T€ 1,901 (2015: T€ 0).

(32) PERSONNEL EXPENSES AND COST OF MATERIAL

The personnel expenses of the Company in 2016 amounted to T€ 83,484 of which T€ 52,043 relate to personnel expenses outside Germany in the UK, France and USA (2015: T€ 68,468 and T€ 39,314, respectively). Thereof expenses for the statutory retirement insurance amounted to T€ 6,471 of which T€ 4,712 relate to expenses outside Germany in the UK, France and USA (2015: T€ 3,569 and T€ 1,955, respectively).
Cost of materials in 2016 amounted to T€ 26,793, thereof T€ 17,254 are cost of materials outside Germany in the UK, France and USA (2015: T€ 21,112 and T€ 12,451, respectively).

(33) OTHER DISCLOSURES

German law in accordance with the European Directives on Accounting and the Corporate Governance Codex requires the following additional disclosures.

— (a) NUMBER OF EMPLOYEES —

The average number of persons employed by the Company in 2016 was 1,072 (2015: 913). Thereof 155 employees are allocated to sales and administration (2015: 122).

— (b) REMUNERATION OF THE AUDITOR —

In 2016, remunerations, shown as expenses, to Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft and other Ernst & Young companies totalled T€ 458 (2015: T€ 303) broken down into auditing of financial

statements (T€ 348; 2015: T€ 287), other attestation services (T€ 15; 2015: T€ 16) as well as other services (T€ 95; 2015: T€ 0). The amount for auditing the financial statements includes T€ 25 in 2016 (2015: T€ 5) relating to the prior year financial statements. The remunerations relating to Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft alone amounted to T€ 322. Thereof T€ 213 relating to auditing of financial statements, T€ 15 to other attestation services and T€ 95 to other services. Included in the amount of auditing of financial statements was an amount of T€ 16 relating to the prior year financial statements.

— (c) CORPORATE GOVERNANCE CODEX —

A declaration according to § 161 AktG was made by the Management Board and the Supervisory Board of the Company. This declaration regarding the Company's compliance with the Corporate Governance Codex is accessible to the shareholders in the 'Investor Relations' section on Evotec's website (www.evotec.com).

— (d) CONSOLIDATED SUBSIDIARIES AND EQUITY INVESTEES —

Information below shows Evotec AGs direct and indirect voting interests in their subsidiaries and other investments.

%	*2016 Company's voting interest*
Subsidiaries	
Cyprotex Dicovery Ltd., Manchester, UK	100.0
Cyprotex PLC, Manchester, UK	100.0
Cyprotex US, LLC., Watertown, MA, USA	100.0
Evotec (France) SAS, Toulouse, France	100.0
Evotec (Hamburg) GmbH, Hamburg	100.0
Evotec (India) Private Limited, Thane, India*	100.0
Evotec International GmbH, Hamburg	100.0
Evotec (München) GmbH, Munich	100.0
Evotec (UK) Ltd., Abingdon, UK	100.0
Evotec (US), Inc., South San Francisco, CA, USA	100.0
Panion Ltd., London, UK	51.0
Associates	
Eternygen GmbH, Berlin	22.02
Topas Therapeutics GmbH, Hamburg	39.52
Other Investments	
Carrick Therapeutics Ltd., Dublin, Ireland	4.57
European ScreeningPort GmbH i.L., Hamburg	19.9

** in voluntary liquidation*

In 2016, Euprotec was wound up.

The subsidiaries listed in this table are included in the consolidated financial statements. Associates are accounted for at-equity.

The Group investments in subsidiaries, associated companies and other investments are not hedged as those currency positions are considered to be long-term in nature.

— (e) MANAGEMENT BOARD —

Dr Werner Lanthaler, *Business Executive, Hamburg, DE (CEO),*
Dr Cord Dohrmann, *Biologist, Göttingen, DE (CSO),*
Dr Mario Polywka, *Chemist, Oxfordshire, UK (COO),*
Enno Spillner, *Business Executive, Hamburg, DE (CFO since 18 July 2016) and*
Colin Bond, *Chartered Accountant, Hamburg, DE (CFO until 30 June 2016).*

The remuneration paid to the members of the Management Board in the financial year 2016 totalled T€ 2,346 (2015: T€ 2,365) of which T€ 796 (2015: T€ 930) was variable remuneration. The Management Board received also Share Performance Awards in 2016 and 2015 as components with a long-term incentive effect with a fair value in 2016 of T€ 1,534 (2015: T€ 910). Fixed remuneration includes base salaries, contributions to personal retirement insurance, premiums for accident, home costs and accidental death insurances as well as the benefit derived from the use of company cars. The variable remuneration of the Management Board is based on a bonus scheme. The respective objectives are specified every year by the Remuneration and Nomination Committee of the Supervisory Board, and subsequently approved by the Supervisory Board.

For the financial year 2016, the variable pay in 2017 is based on the achievement of four sets of corporate milestones (strategic targets). As at 31 December 2016, the Company has accrued T€ 992 for this purpose, which is composed of T€ 407 for Dr Werner Lanthaler, T€ 211 for Dr Cord Dohrmann and T€ 214 for Dr Mario Polywka, T€ 78 for Enno Spillner and T€ 82 for Colin Bond.

These corporate targets split as follows into the achievement of defined corporate milestones and financial corporate goals:

%	*Achievement of defined corporate targets*	*Achievement of corporate financial targets*
Dr Werner Lanthaler	40	60
Dr Cord Dohrmann	40	60
Dr Mario Polywka	40	60
Enno Spillner	40	60

For the financial year 2015, the variable pay in 2016 was based on the achievement of four sets of corporate milestones (strategic targets). As at 31 December 2015, the Company has accrued T€ 754 for this purpose, which is composed of T€ 289 for Dr Werner Lanthaler, T€ 140 for Colin Bond, T€ 153 for Dr Cord Dohrmann and T€ 172 for Dr Mario Polywka.
Additionally, a special transaction bonus was granted to each member of the Management Board in 2015 for the successful acquisition of Evotec (France).

The achievement of targets for the year 2015 splits as follows:

%	*Achievement of defined corporate targets*	*Achievement of corporate financial targets*
Dr Werner Lanthaler	60	40
Colin Bond	60	40
Dr Cord Dohrmann	60	40
Dr Mario Polywka	60	40

In addition to their fixed and variable remuneration, the members of the Management Board received 396,291 (2015: 338,382) Share Performance Awards (SPA) in 2016 under the Company's Share Performance Plan. These Share Performance Awards vest after four years according to achievement versus defined key performance indicators over a three-year performance measurement period. The fair values of all Share Performance Awards granted as of the grant date amounted to a total of T€ 1,534 (2015: T€ 910). Further information concerning SPAs is available in note (19).

	2016 Fixed remuneration	***2016 Variable remuneration***	***2016 Share Performance Awards***	***2016 Fair values of SPAs granted***	***2016 Total remuneration***
	T€	T€	in pcs	T€	T€
Dr Werner Lanthaler	503	289	217,054	840	1,632
Dr Cord Dohrmann	348	153	64,009	248	749
Dr Mario Polywka	400	214	62,016	240	854
Enno Spillner	158	-	53,212	206	364
Colin Bond	141	140	-	-	281
Total	**1,550**	**796**	**396,291**	**1,534**	**3,880**

	2015 Fixed remuneration	*2015 Variable remuneration*	*2015 Share Performance Awards*	*2015 Fair values of SPAs granted*	*2015 Total remuneration*
	T€	T€	in pcs	T€	T€
Dr Werner Lanthaler	413	256	141,667	381	1,050
Colin Bond	310	221	58,929	158	689
Dr Cord Dohrmann	315	224	64,286	173	712
Dr Mario Polywka	397	229	73,500	198	824
Total	**1,435**	**930**	**338,382**	**910**	**3,275**

The contracts of the Management Board members contain a common change-of-control clause that would allow them to terminate their current contracts in the event of a change in control. Such a change-of-control occurs when a third party assumes more than 30% of the shares of the Company. If members of the Management Board should make use of their right of termination, they are entitled to the following severance payments: Dr Werner Lanthaler receives a severance payment of two years base salary, Dr Mario Polywka 18 months base salary and Enno Spillner as well as Dr Cord Dohrmann an 18 months base salary plus agreed bonus. In no case, the respective severance payment shall be higher than the total compensation due for the remaining term of the respective Management Board member's contract.

The Company has a Directors and Officers (D&O) insurance policy in place for the Management Board, the Supervisory Board, its senior management and the directors of subsidiary companies. The insurance expense amounted to T€ 75 in total in 2016 (2015: T€ 91) and was paid by the Company. For the members of the Management Board, a deductible in line with the stipulations of the legal provisions of the Act on Appropriateness of Management Board Compensation (VorstAG) was agreed.

In 2016 and 2015, no payments were made to any former Management Board member.

Dr Werner Lanthaler is Non-Executive Member of the Board of Directors of arGEN-X, Breda,NL. Since December 2016, Dr Cord Dohrmann has been a member of of the Supervisory Board of Eternygen GmbH, Berlin, DE. Enno Spillner is Non-Executive member and Chairman of the audit committee of Nanobiotix SA, Paris, FR. Colin Bond was during his time as CFO Member of the Verwaltungsrat of Siegfried Holding AG, Zofingen, CH.

— (f) SUPERVISORY BOARD —

Prof. Dr Wolfgang Plischke, Aschau im Chiemgau, DE, Former Member of the Management Board of Bayer AG (Chairman of the Supervisory Board);
Bernd Hirsch, Neuler, DE, CFO of Bertelsmann SE & Co. KGaA since 01 April 2016 (Vice Chairman of the Supervisory Board);
Dr Claus Braestrup, Copenhagen, DK, former President and Chairman of the Management Board of Lundbeck A/S;
Prof. Dr Paul Linus Herrling, Küsnacht, CH, Former Head of global Research of Novartis Pharma AG;
Prof. Dr Iris Löw-Friedrich, Ratingen, DE, Chief Medical Officer of UCB S.A.;
Dr Elaine Sullivan, London, UK, Chairman of the Management Board of Carrick Therapeutics Ltd.

The remuneration accrued for the members of the Supervisory Board in the financial year 2016 was as follows:

T€	*2016 Remuneration*
Prof. Dr Wolfgang Plischke	95
Bernd Hirsch	70
Dr Claus Braestrup	35
Prof. Dr Paul Linus Herrling	35
Prof. Dr Iris Löw-Friedrich	35
Dr Elaine Sullivan	35
Total	**305**

The remuneration accrued for the members of the Supervisory Board in the financial year 2015 was as follows:

T€	*2015 Remuneration*
Prof. Dr Wolfgang Plischke	95
Bernd Hirsch	61
Dr Claus Braestrup	35
Prof. Dr Paul Linus Herrling	35
Prof. Dr Iris Löw-Friedrich	35
Dr Elaine Sullivan[1)]	20
Dr Walter Wenninger[2)]	22
Total	**303**

[1)] *relating to the period from 09 June 2015, when Dr Elaine Sullivan was appointed to the Supervisory Board by the Annual General Meeting of Evotec AG.*

[6)] *relating to the period until 09 June 2015*

In 2016 and 2015, the remuneration of each Supervisory Board member amounted to T€ 30 per year. The Chairman receives T€ 75 and his Vice Chairman T€ 45. Members of Supervisory Board committees additionally receive T€ 5 per committee, with the chairperson receiving T€ 20.
In 2016 and 2015, there was no share-based remuneration.

The total remuneration accrued for the Supervisory Board members in 2016 totalled T€ 305 (2015: T€ 303). The Company has a Directors and Officers (D&O) insurance policy in place for the Management Board, the Supervisory Board, its senior management and the directors of subsidiary companies. The insurance expense amounted to T€ 75 in total in 2016 (2015: T€ 91) and was paid by the Company. For the members of the Supervisory Board, an appropriately sized deductible was agreed.

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

(34) SUBSEQUENT EVENTS

On 09 February 2017, Evotec announced that it resolved on a capital increase from its authorised capital against cash. Evotec issued 13,149,019 new shares to Novo A/S (Denmark). In this private placement capital increase, Novo A/S invested € 90.3 m to subscribe shares of Evotec at a price of € 6.87 per share.

Hamburg, 14 March 2017

Dr Werner Lanthaler *Dr Cord Dohrmann*

Dr Mario Polywka *Enno Spillner*

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Supervisory Board and Management Board

SUPERVISORY BOARD

Prof. Dr Wolfgang Plischke Chairman of the Supervisory Board *Aschau im Chiemgau/DE* *Former Member of the Management Board of Bayer AG*	***Member of the Supervisory Board:*** Bayer AG, Leverkusen/DE (since April 2016)
Bernd Hirsch Vice Chairman of the Supervisory Board *Neuler/ DE* *CFO of Bertelsmann SE & Co. KGaA (since 01 April 2016)*	***Director:*** *Bertelsmann Inc., New York/USA (since April 2016)* *Penguin Random House LLC, New York/USA (since April 2016)* *RTL Group S.A., Luxembourg (since April 2016)*
Dr Claus Braestrup Member of the Supervisory Board *Copenhagen/DK* *Former President and Chairmen of the Management Board of Lundbeck A/S*	***Non-Executive Chairman of the Board of Directors:*** Saniona AB, Malmö/Ballerup/SE ***Non-Executive Member of the Board of Directors:*** Ataxion Inc., Boston/USA Bavarian Nordic A/S, Kvistgaard/DK Evolva SA, Basel/CH Gyros AB, Uppsala/SE (until April 2016)
Prof. Dr Paul Linus Herrling Member of the Supervisory Board *Küsnacht/CH* *Former Head of global Research of Novartis Pharma AG*	***Chairman of the Board:*** Novartis Institute for Tropical Disease Ltd, Singapur/SG ***Member of the Board:*** Novartis Institute for Functional Genomics, La Jolla/USA Novartis International Pharmaceuticals, Hamilton/USA (until November 2016) ***Vice president of the Rat:*** Eidgenössische Technische Hochschule, Bern/CH
Prof. Dr Iris Löw-Friedrich Member of the Supervisory Board *Ratingen/DE* *Chief Medical Officer of UCB S.A.*	***Chairman of the Supervisory Board:*** TransCelerate BioPharma Inc, King of Prussia/USA ***Member of the Supervisory Board:*** Fresenius SE & Co. KGaA, Bad Homburg/DE (since May 2016)
Dr Elaine Sullivan Member of the Supervisory Board *London/UK* *Chairman of the Management Board of Carrick Therapeutics Ltd.*	***Member of the Supervisory Board:*** IP Group plc, London/UK

MANAGEMENT BOARD

Dr Werner Lanthaler Chief Executive Officer *Hamburg/DE* *Business Executive*	***Non-Executive Member of the Board of Directors:*** arGEN-X, Breda/NL
Dr Cord Dohrmann Chief Scientific Officer *Göttingen/DE* *Biologist*	***Member of the Supervisory Board:*** Eternygen GmbH, Berlin/DE (since December 2016)
Dr. Mario Polywka Chief Operating Officer *Oxfordshire/UK* *Chemist*	
Enno Spillner Chief Financial Officer (since 18 July 2016) *Hamburg/DE* *Business Executive*	***Non-Executive Member of the Board of Directors & Chairman of the Audit Committee:*** Nanobiotix SA, Paris/FR
Colin Bond Chief Financial Officer (until 30 June 2016) *Hamburg/DE* *Chartered Accountant*	***Member of the Verwaltungsrat:*** Siegfried Holding AG, Zofingen/CH

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Audit Opinion

The audit opinion was rendered in German. The translation of this audit opinion reads as follows:

"We have audited the consolidated financial statements prepared by Evotec AG, Hamburg, comprising the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows, the consolidated statement of changes in stockholders' equity and the notes to the consolidated financial statements, together with the group management report for the fiscal year from 1 January to 31 December 2016. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (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 Sec. 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 the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315a (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, complies with the legal requirements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Berlin, 14 March 2017
Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Schepers
Wirtschaftsprüfer
German Public Auditor

Machner
Wirtschaftsprüfer
German Public Auditor

Responsibility statement

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

Evotec AG
The Management Board

Hamburg, 14 March 2017

Dr Werner Lanthaler
Chief Executive Officer

Dr Cord Dohrmann
Chief Scientific Officer

Dr Mario Polywka
Chief Operating Officer

Enno Spillner
Chief Financial Officer