evotec

#RESEARCHNEVERSTOPS

ANNUAL REPORT 2017

HOW TO...

www.evotec.com

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IMPRINT
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Evotec's Annual Report 2017 published on 28 March 2018 containing the Consolidated financial statements according to German Commercial Code (Handelsgesetzbuch) is available in English and German.

Disclaimer/Forward-looking statements
Information set forth in this annual report contains forward-looking statements, which involve a number of risks and uncertainties. The forward-looking statements contained herein represent the judgement of Evotec as of the date of this report. Such forward-looking statements are neither promises nor guarantees, but are subject to a variety of risks and uncertainties, many of which are beyond our control, and which could cause actual results to differ materially from those contemplated in these forward-looking statements. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any such statements to reflect any change in our expectations or any change in events, conditions or circumstances on which any such statement is based.

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

Dr Werner Lanthaler
Chief Executive Officer

How to address the need for increased throughput, efficiency and cost effectiveness in the drug discovery industry

Dear Shareholders *and* Friends,

It was Charles Darwin, who came up with the idea of life as organised complexity. But only by applying this idea to a different world, the world of atoms and molecules, Nobel laureate Prof. Manfred Eigen laid the foundation of what we at Evotec use every day to discover and develop new therapeutic compounds. He was one of Evotec's scientific founders, provided the basis for evolutionary biotechnology, and thereby redirected the course of industrial drug discovery along entirely new lines. Evotec was built on this pioneering work and has grown in the spirit of Eigen to one of the very few profitable, global and innovative biotechnology companies. Today, the idea of developing solutions for efficient innovation in drug discovery is more relevant than ever before, therefore it is just as important for us to stay focused on our vision, strategy and growth path to achieve a clear global leadership position in our industry.

How we expanded our leadership position in external innovation

2017 was another very strong year for Evotec. We made significant progress towards achieving our long-term strategic objective of building a profitable, sustainable and durable biotechnology company with a broad and diverse co-owned clinical pipeline to treat the world's highest unmet medical needs. With approximately 80 programmes in our pipeline, 750 partners, and more than 2,100 dedicated employees across the globe, we have established Evotec as a recognised leader.

EVT Execute

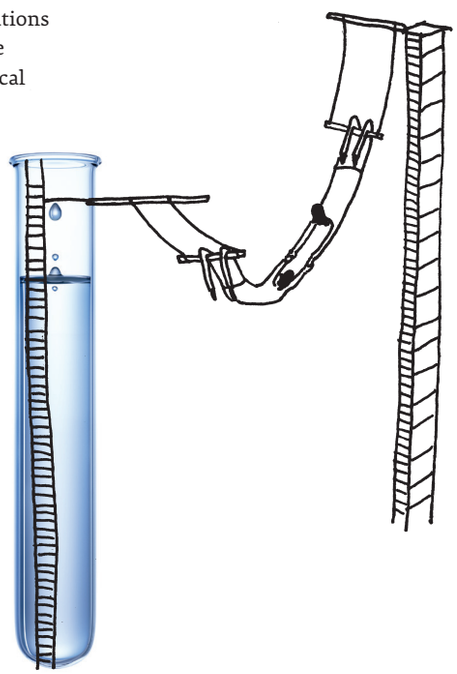
A key driver of value in 2017 was our acquisition of Aptuit, a partner research organisation of integrated outsourced drug discovery and development solutions. This acquisition extends our value chain offering to Investigational New Drug ("IND") submission, integrated drug substance, drug product and commercial manufacturing. This enables us to advance projects beyond pre-clinical development candidate ("PDC") stage – a critical development requirement especially for biotech companies and the EVT Execute segment. We also entered into a number of new and extended collaborations that enabled strong revenue growth and improved profitability and recorded strong milestone achievements.

EVT Innovate

Aligned with our overall mission to tackle the causes of diseases instead of only treating their symptoms, we committed extensive resources in EVT Innovate to discover new paths in drug discovery, which have the potential to result in new therapies. In 2017, we continued to invest in the further development and expansion of our iPSC platform as well as participate and invest in selected early-stage companies with promising, innovative approaches. We made progress in the development of our BRIDGE model and created our first North American Academic BRIDGE ("LAB150") with MaRS Innovation. This BRIDGE connects projects from Canadian academic institutions and teaching hospitals with Evotec's comprehensive drug discovery platform and expertise. Furthermore, we entered into new long-term agreements and continued our successful collaborations that fuelled the pipeline in 2017 and we made substantial progress in new clinical advancements within partnerships.

How we look upon our financial performance

Our corporate initiatives would not be possible without a solid financial foundation and a long-term financial plan. In 2017, we recorded a very strong financial performance. We achieved our guidance with strong revenue growth of 57% and increased our adjusted EBITDA significantly to € 58.0 m. In addition, we are able to guide for a strong outlook in 2018.



How to step into 2022

For the years ahead, we have defined our strategic vision to create sustainable value: Action Plan 2022 – "Leading External Innovation". In continuing the tradition of prior action plans, "Leading External Innovation" is our next framework to achieve our vision and maintain our global leadership position.

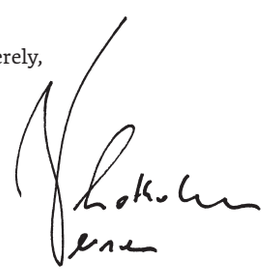
Under this Action Plan, we aim to achieve the following goals by 2022:

- Continue to expand our unique business model with EVT Execute, EVT Innovate and our corporate initiatives;
- Grow our strategic partnerships to further support our fundamental operating principle;
- Build one of the most exciting, broad and diverse co-owned clinical pipelines in the industry; and
- Accelerate our strategic growth to build the most innovative and highest quality drug discovery and development company in the world.

This is our long-term strategy. We are focused on achieving even more of the same. To us nothing could be more exciting than seeing what we accomplish scientifically and what we create each and every day. Thank you for making this possible.

We look forward to working together with you in 2018 towards the continued success of Evotec and let me thank you for your support, trust and contributions.

Yours sincerely,



OUR PEOPLE CREATE OUR SUCCESS

60
nationalities

>2,100
employees worldwide

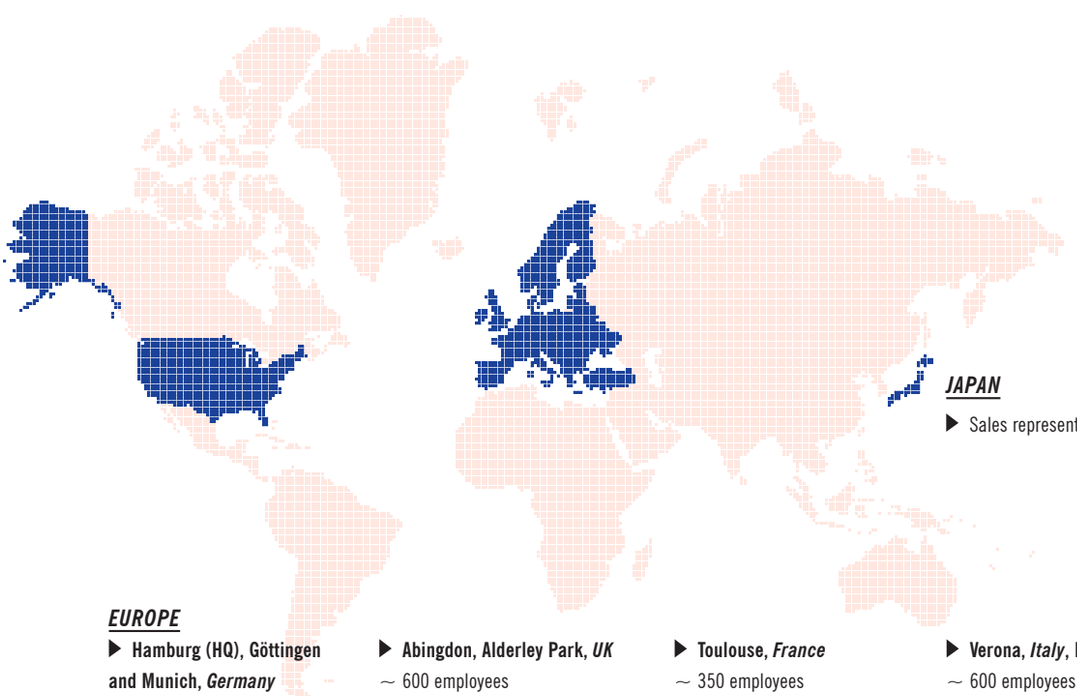
>1,800
scientists

82%
of all employees having an academic qualification

54%
of employees are women

On average
6.2
years of experience in drug discovery per individual

OUR OFFERING CLOSE TO PHARMA, BIOTECH AND ACADEMIA (AS OF 31 DECEMBER 2017)



USA

▶ **Branford, Watertown, Princeton, *USA***
~ 90 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***
~ 500 employees
- Hit identification
- *In vitro* & *in vivo* biology
- Chemical proteomics & Biomarker discovery and validation
- Cell & protein production
- Antibody discovery

▶ **Abingdon, Alderley Park, *UK***
~ 600 employees
- Medicinal chemistry
- ADME-Tox, DMPK
- Structural biology
- *In vitro* & *in vivo* anti-infective platform/ screening
- Process development
- CMC and Commercial manufacture
- Pre-formulation

▶ **Toulouse, *France***
~ 350 employees
- Compound management
- Hit identification
- *In vitro* & *in vivo* oncology
- Medicinal chemistry
- ADME & PK
- Cell, protein & antibody production

▶ **Verona, *Italy*, Basel, *CH***
~ 600 employees
- Hit identification
- *In vitro* & *in vivo* biology
- Medicinal Chemistry
- ADME-Tox, DMPK
- Biomarker discovery and validation
- INDiGO®
- CMC

€49m

capex investments over the last 5 years

OUR SPIRIT OF INNOVATION

611

new customers vs. previous year

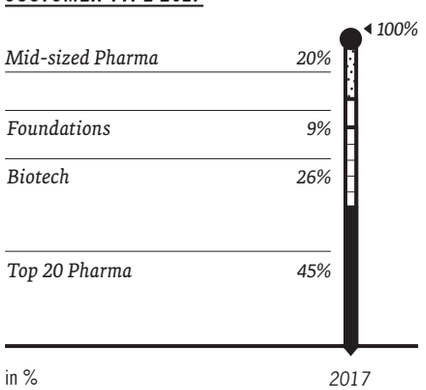
100%

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

>40

projects with Academia

THIRD-PARTY REVENUES BY CUSTOMER TYPE 2017

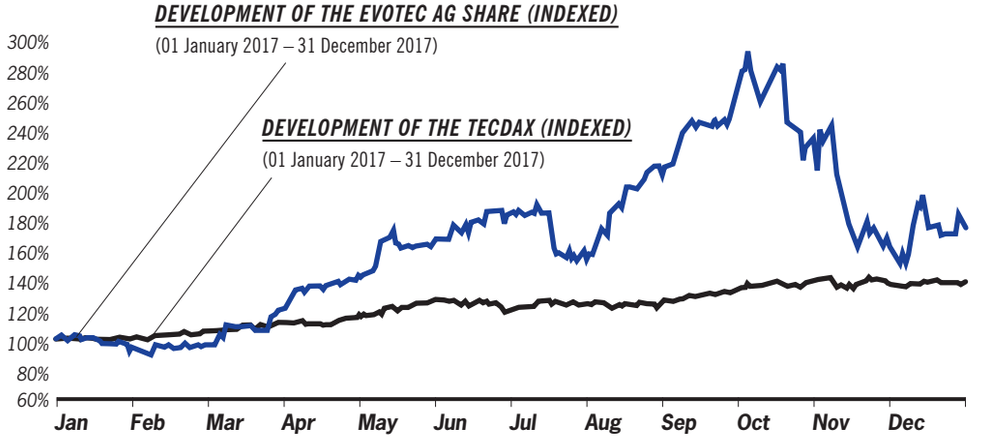


DEVELOPMENT OF THE EVOTEC AG SHARE (INDEXED)

(01 January 2017 – 31 December 2017)

DEVELOPMENT OF THE TECDAX (INDEXED)

(01 January 2017 – 31 December 2017)



Success rate of

95%

in e.g. assay development or protein production

>80

co-owned products

OUR PARTNERSHIPS

80%

repeat business in 2017

9

equity participations in breakthrough company formations

Involved in

>750

partnerships since its inception

HOW TO ...

... build a profitable, sustainable and durable biotech company

EVOTEC

Evotec is one of a handful of profitable, global biotechnology companies, which invests in innovation and provides meaningful research and drug discovery and development services to its partners around the globe. Since we began operations 25 years ago, Evotec has solidified its reputation as a global leader focused on external innovation and the partner of choice. The key to this success is two-fold: Our invaluable human talent consisting of more than 2,100 employees and our proven, hybrid business model designed for optimal value generation. Our Action Plan 2022 – "Leading External Innovation" is in perfect alignment with Evotec's tradition of consistency, continuity and long-term strategic planning to achieve our unwavering vision and a clear global leadership.

... benefit from the macro trend in R&D outsourcing

EVT EXECUTE

Biotechnology companies are continually striving to create drugs that are accessible, affordable, and revenue enhancing, and the market for outsourcing services is growing faster than the pharmaceutical industry as a whole. Over the last decade, in particular, there is a paradigm shift away from the traditional capital investment in scale, capacity and manufacturing, towards approaches that are focused on process development, technical expertise, access to innovation, and risk management. As a result, the relationship between partners has become stronger, more collaborative, and much more strategic. At Evotec, we were early adopters in the outsourcing R&D trend and we have been able to continually expanding our offerings to offer a wider variety of capabilities. In 2017, we continued to invest in outsourcing through EVT Execute, entering into a number of new and extended collaborations realising both strong revenue growth and improved profitability.

... expand our leadership position in external innovation

EVT EXECUTE

Our leadership position in external innovation is evidenced by our hybrid business model and our ability to attain technologies and resources across our broad value chain. An example of Evotec's success with this approach was our acquisition of Aptuit in 2017, which was executed to continue to build the highest quality integrated external innovation platform. Specifically, acquiring Aptuit enables us to strengthen our pre-clinical capabilities by harnessing Aptuit's INDiGO® platform of IND-enabling, drug discovery and high-end CMC capabilities. In addition to acquiring these innovative technologies, Aptuit and Evotec combine significant human talent of over 750 employees with discovery expertise in complementary fields, complementary customer bases, and demonstrated value with successes in development, cost and time savings. All told, this transaction exemplifies our leading position in external innovation and will lead to an increase in revenue growth and cash generation.

... reduce the cost of capital for drug discovery and development

EVT INNOVATE

The global demand for solutions to address unmet medical needs continues to grow, which requires capital-efficient development strategies and new financing models. In 2017, the European Investment Bank ("EIB") granted Evotec a senior unsecured loan facility of up to € 75 m to support EVT Innovate. These funds provide Evotec with a great deal of flexibility to further pursue novel drug discovery and development paths, such as disease-modifying therapies, while not diluting our shareholder base through a traditional equity raise.

... redefine what is smart and intelligent in drug discovery

EVT INNOVATE

Since the beginning, Evotec has put great emphasis on scrutinising the way our industry develops drugs and pioneering new ways to create value by redefining what is smart and intelligent in drug discovery. We believe that are significant advancements happening that

will generate next-generation drugs through increased efficiency, reduced costs, and overall discovery processes. An area that we strongly feel will redefine the way our industry discovers novel drugs is through artificial intelligence, or AI, and machine learning tools. In 2017, Evotec invested in these areas through its first EIB-supported investment in Exscientia to combine the power of artificial intelligence and our drug discovery experience to both accelerate and reduce the cost of the hit-to-lead and lead optimisation processes.

… build a leading and innovative iPSC technology platform

EVT INNOVATE

Since the initial discovery of iPSC, Evotec has rapidly created an iPSC-based drug screening platform, which meets the highest standards of reproducibility of data, throughput and robustness. Following the iPSC-based collaborations with Sanofi in diabetes and Celgene in neurodegeneration, Evotec continued to invest further in the expansion of its iPSC platform with the formation of new strategic collaborations to strengthen its comprehensive iPSC network, which now includes approximately 150 scientists and researchers.

… to build BRIDGES to support new, first-in-class innovative companies

EVT INNOVATE

We continue to seek equity participation in company formations with enticing upside participation for Evotec to continually deliver on its strategy in first-in-class innovation. Strategic BRIDGES with academic and other institutions are Evotec's next logical step to create value by investing in the next generation of companies. We successfully launched the model with LAB**282** in Oxford, a partnership to accelerate Oxford University drug discovery and LAB150, our first North American Bridge partnership to accelerate Toronto, Canada, drug discovery. Evotec plans to continue to expand our global academic BRIDGES network.

… benefit from the success we help our customers achieve

EVT INNOVATE

The signing of new long-term deals and the continuation of successful collaborations filled the pipeline in 2017 and we have achieved approximately 80 co-owned projects across a broad range of therapeutic areas and approaches. We have made substantial progress in new clinical advancements within partnerships, such as the expansion of our Bayer alliance around chronic kidney disease as well as a new product franchise with Bayer in chronic cough, a debilitating pulmonary fibrotic condition with no therapeutic cure.

In addition to the clinical successes demonstrated from our partners, our EVT Innovate segment advanced our Cure *X* and Target *X* initiatives and we joined two consortia in the treatment of kidney-diseases. Through NURTuRE, we are accessing detailed data from kidney disease patients, and with NEPLEX, we are building highly sophisticated *in vitro* functional systems in the kidney disease space.

… "play the long game" to create sustainable value

EVOTEC

Our newest plan to create long-term, sustainable value is Action Plan 2022 – "Leading External Innovation". Action Plan 2022 outlines our strategies to continue to grow our global leadership position as a profitable, global biotechnology company that provides meaningful research and drug discovery and development services to our partners around the globe.

Through this plan, Evotec intends to become the world-class innovation partner in drug discovery and development for biotechnology and pharmaceutical companies as well as foundations. Action Plan 2022 highlights our business priorities from today through the year 2022 and addresses changes, challenges and next steps to achieve our goals.

Our value generation through Action Plan 2022 will from three coordinated strategic initiatives:

EVT EXECUTE:

- Establish critical mass and a world-leading performance, with a culture focused on delivery and technology leadership along our offering in drug discovery and development.
- Maintain cost efficiency and operational excellence, with focus on long-term and repeat business for Pharma, biotech and foundations.
- Leverage platforms and capabilities within integrated project flows to reduce time and improve R&D efficiency for our partners.

EVT INNOVATE:

- Develop first-in-class/best-in-class programmes within co-owned pipeline.
- Increase predictiveness and efficiency in discovery through disruptive technologies (e.g. accelerate iPSC leadership).
- Use co-financing tools (e.g. artificial intelligence) and BRIDGES as acceleration vehicles for academic translation to Pharma.

CORPORATE:

- Build a portfolio of innovative co-owned products with our capabilities and with a five-year value generation timeframe.
- Expand leadership position through additional acquisitions or business development alliances to leverage EVT Execute and/or EVT Innovate.

This is our long-term strategy, which we believe will create sustainable value. We do not intend to change the strategy; we only intend to achieve even more of the same.

This is how we build a profitable, sustainable and durable biotech company.

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The Evotec share

Continued dialogue with the capital markets

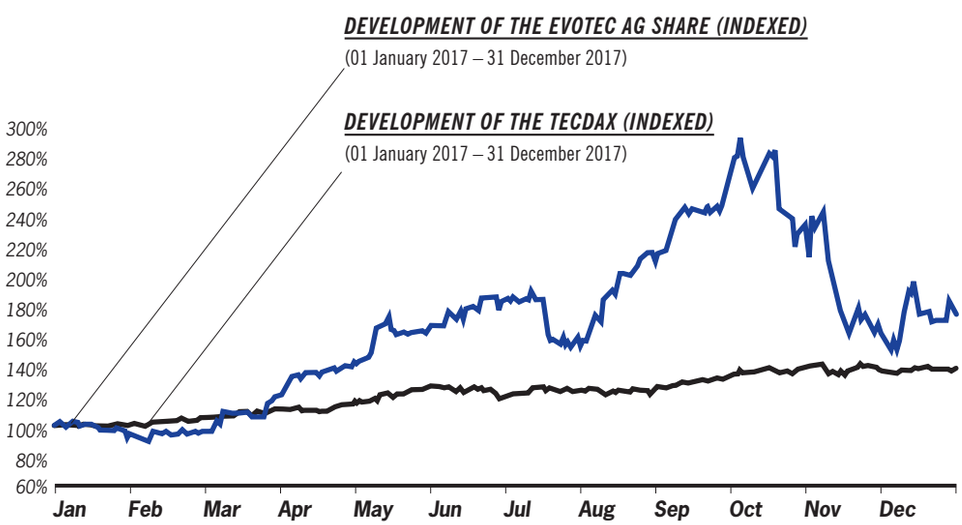
One of the pillars of Evotec's corporate strategy is to maintain a professional dialogue with capital markets. During the financial year 2017, the Company provided focused communications on the progress of its business segments EVT Execute and EVT Innovate. Compared to the prior year, Evotec increased its capital markets presence and Evotec's management represented the Company at twenty-seven national and international investor conferences as well as at twelve road shows in key financial centres, primarily in France, 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 2017, a total of eight analysts monitored and assessed the development of the Evotec share on a regular basis.

Stock markets development in 2017

At the beginning of 2017, the World Bank projected a moderate recovery of global growth compared to previous years. According to a publication of the World Bank in January 2018, the global economy grew from 2.4% in 2016 to 3.0% in 2017 and was characterised by significantly strengthened global trade, growing investments and favourable financing costs. The Eurozone showed accelerated growth of 2.4% in 2017 (2016: 1.8%) mainly driven by policy stimulus and strengthened global demand as well as the stimulative stance of the European Central Bank ("ECB"), resulting in both domestic demand and import growth showing robust developments. The US economy picked up from 1.5% in 2016 to an estimated 2.3% in 2017 due to rising profits, a weakening dollar, robust external demand, and a diminished drag from capacity adjustments in the energy sector. Interest rates remained on a level similar to previous years, and the ECB extended its quantitative easing programme into 2018.

Primarily as a result of the strong worldwide economy and the loose monetary policies of central banks, stock markets around the world recorded an overall positive development in 2017. The leading German stock market index DAX gained approximately 13% in 2017, reaching a new all-time high at 13,525 in November 2017 and closed at 12,917 at year-end 2017.

The main German benchmark index for the Evotec share, the TecDAX, gained about 40% in 2017. The non-German benchmark indices EURO STOXX 50 and NASDAQ Biotechnology were up 7% and 20%, respectively.



Performance of the Evotec share in 2017

In the course of 2017, Evotec's share showed a strong upward trend. It closed the year at € 13.50, gaining approximately 79% compared to its 2017 opening price of € 7.46. The stock showed some increased volatility in the second half of 2017 due to a higher number of short positions. Overall, Evotec's strong operational performance in new and extended alliances, the acceleration of innovation in drug discovery together with its partners, various important proof-of-concept milestone achievements (e.g. in its strategic iPSC-based collaborations with Celgene and Sanofi or in its long-term alliances with Bayer) as well as the pursuit of selected equity investments contributed to Evotec's share performance in 2017.
On 16 August 2017, Evotec updated its financial guidance (Group revenues and profitability) following the acquisition of Aptuit, which expands the Company's leading external innovation platform. In the course of October 2017, the Evotec share fell following short activities at the capital markets but was able to recover until year-end 2017 on the back of the Company's strong strategic focus and operational performance.

Evotec's average daily trading volume on all German stock exchanges amounted to 1,662,539 shares in 2017, compared to 696,076 shares in 2016.

Evotec's share capital

In 2017, no new acquisition was conducted in which Evotec used shares as currency.
On 09 February 2017, Evotec resolved on a capital increase from its authorised capital against cash. 13,146,019 new Evotec shares were issued to Novo Holdings A/S in a private placement capital increase at a price of € 6.87 per share at a zero discount to the XETRA closing auction price of the Evotec stock on 09 February 2017. Consequently, as of 31 December 2017, Evotec's share capital changed compared to the end of 2016.
Due to this capital increase and the exercise of 1,334,923 stock options and Share Performance Awards, Evotec's registered share capital increased to € 147,532,681.00 at year-end 2017 (year-end 2016: € 133,051,739.00).
In 2017, no stock options were serviced out of treasury shares. As of 31 December 2017, a total of 249,915 treasury shares remained from the trust agreement terminated in 2012.

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 Finanzdienstleistungs-aufsicht). According to notifications the Company received up to 31 December 2017, the following persons and institutions were known to have exceeded the 3% threshold. Novo Holdings A/S held just above 10%. Roland Oetker with ROI Verwaltungsgesellschaft mbH held just below 10%. Allianz Global Investors GmbH held just above 5%. Goldman Sachs and Deutsche Asset Management Investment GmbH each held more than 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 66% of the capital stock as of 31 December 2017.

2017 Annual General Meeting in Hamburg

On 14 June 2017, Evotec's Annual General Meeting 2017 took place in Hamburg. It attracted a total of 457 shareholders and guests, representing 64.21% of Evotec's share capital (2016: 36.34%). At the Company's Annual General Meeting 2017, 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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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

	2017	2016
High (date)	€ 22.50 (04 October)	€ 7.44 (30 December)
Low (date)	€ 6.91 (09 February)	€ 2.95 (08 February)
Opening price	€ 7.46	€ 4.11
Closing price	€ 13.50	€ 7.44
Weighted average number of shares outstanding	145,009,742	132,506,697
Total number of shares outstanding as at 31 December	147,532,681	133,051,739
Average trading volume (all exchanges)	1,662,539 shares	696,076 shares
Market capitalisation as at 31 December	€ 1,991.7 m	€ 990.2 m
Earnings per share (diluted/basic)	€ 0.16/€ 0.17	€ 0.20/€ 0.20

FINANCIAL CALENDAR 2018

28 March 2018	Annual Report 2017
09 May 2018	Quarterly Statement Q1 2018
20 June 2018	Annual General Meeting 2018
09 August 2018	Half-year 2018 Interim Report
13 November 2018	Quarterly Statement 9M 2018

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Corporate Governance Report

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 07 February 2017 (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 2017, 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 2017 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:

- *Pursuant to Section 4.2.3 of the Code, the monetary remuneration of the Management Board members comprises fixed and variable components. Variable remuneration components consist of a one-year variable remuneration determined by a bonus scheme and a long-term so-called Share Performance Plan scheme approved by the Annual General Meetings 2012, 2015 and 2017. The Share Performance Plans have a multiple-year assessment basis that has essentially forward-looking characteristics, whereas the bonus scheme is based on the achievement of certain strategic targets set by the Supervisory Board for a certain financial year.*

- *The Share Performance Plans 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". However, as the issuance of awards under the Share Performance Plans 2012 and 2015 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. That value will only be determined by the share price at that time. The Share Performance Plan 2017 has introduced a cap with a maximum level of 350% of the contractual issue value and therefore complies in all respects with the Code.*

- *Stock options issued in existing stock option programmes before their replacement by the Share Performance Plans remain valid. While the exercise of options under these stock option 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 123.

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, Human Resources, Investor Relations and Corporate Communications, the CFO for Finance, Controlling, Information Technology, Legal, Purchasing and Facility Management, the COO for Evotec's EVT Execute segment and global operations and the CSO for Evotec's EVT Innovate segment and Intellectual Property.

With regards to diversity within the Management Board, it has to be taken into account that Evotec works in a globalised industry and has a broad and international customer base. Therefore, the Supervisory Board selects Management Board members regardless of gender, nationality or age; instead, the focus lies on their qualifications and work experience only. However, for the first time in 2015, the Supervisory Board of Evotec AG set a target quota of 0% female members on the Management Board in accordance with § 111 section 5 AktG for the time being due to the fact that new contracts have been agreed upon with all current Management Board members shortly before the entry into force of the new legislation. All of these contracts have a term extending beyond 30 June 2017. This target quota was confirmed in 2017 for a further five-year period due to the current term of the contracts of the Management Board members. 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, 2015 and 2017 with their tenure ending at the end of the AGM 2019. As of 31 December 2017, Evotec's Supervisory Board consisted of six members. Evotec's Supervisory Board members were, in accordance with the Code's recommendations regardless of gender, nationality or age, appointed on the basis of their qualifications, work experience, independence and diversity.

However, the Supervisory Board has specified concrete objectives and a corresponding competence profile 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: four out of six members are independent, four nationalities are represented and there are two female members.

Prof. Dr Wolfgang Plischke (Chairman), Bernd Hirsch (Vice Chairman), Dr Claus Braestrup and Prof. Dr Iris Löw-Friedrich are considered to be independent in accordance with Section 5.4.2 of the Code, while Elaine Sullivan is CEO of Carrick Therapeutics Ltd, a company in which Evotec AG holds 4.57% of the shares, and Michael Shalmi is Managing Director, Head of Principal Investments of Novo Holdings A/S, which is a shareholder of Evotec AG with a shareholding amounting to more than 10%.

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.

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. 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 and other current topics such as strategy, planning, risk management and compliance management systems during numerous conference calls, held whenever appropriate.

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.

Furthermore and upon request, the Supervisory Board Chair is available to discuss Supervisory Board-related issues with investors.

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 not informed about any potential conflict of interest among one of its members in the course of 2017.

Information on the professional affiliations of board members and on related party transactions can be found on pages 118 and 122.

*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[2]	2017		×
Prof. Dr Iris Löw-Friedrich	2019	×	
Michael Shalmi[3]	2019		×
Dr Elaine Sullivan	2019		×

[1] *Following the AGM in June 2019*
[2] *Until the AGM in June 2017*
[3] *Following the AGM in June 2017*

* *Information on the professional affiliations of Supervisory Board members can be found on page 122.*

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 72 of the "Remuneration Report".

More details on the activities of the Supervisory Board can be found in the "Supervisory Board Report" on page 21.

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 AGM, at which approximately 64% of the share capital was represented, took place in Hamburg on 14 June 2017.

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 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 72.

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 2017 was as follows: see table below.

DIRECTORS' SHAREHOLDINGS AS OF 31 DECEMBER 2017

	SHARES	STOCK OPTIONS	SHARE PERFORMANCE AWARDS
Management Board			
Dr Werner Lanthaler	838,053	–	771,210
Enno Spillner	–	–	77,157
Dr Cord Dohrmann	46,218	111,814	299,956
Dr Mario Polywka	60,000	–	309,430
Supervisory Board			
Prof. Dr Wolfgang Plischke	–	–	–
Bernd Hirsch	–	–	–
Dr Claus Braestrup	–	–	–
Prof. Dr Paul Linus Herrling[1)]	–	–	–
Prof. Dr Iris Löw-Friedrich	–	–	–
Michael Shalmi[2)]	–	–	–
Dr Elaine Sullivan	–	–	–

[1)] *Until the AGM in June 2017*

[2)] *Following the AGM in June 2017*

DIRECTORS' DEALINGS

Under the European Market Abuse Regulation, 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 € 5,000.00 (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 2017, the following Directors' Dealings were reported:

Date	Name	Position	Type	No of items	Price	Total
15 September 2017	Werner Lanthaler	Member of Management	Purchase of shares by exercising stock options (Share Performance Plan)	59,905	€ 17.7711	€ 1,064,577.75
15 September 2017	Werner Lanthaler	Member of Management	Exercise against Cash Settlement (Share Performance Plan)	55,000	€ 17.7711	€ 977,410.50
07 September 2017	Cord Dohrmann	Member of Management	Exercise against Cash Settlement (Share Performance Plan)	48,883	€ 16.6007	€ 811,492.02
04 September 2017	Mario Polywka	Member of Management	Exercise against Cash Settlement (Share Performance Plan)	43,261	€ 15.5612	€ 673,193.0732
23 August 2017	Werner Lanthaler	Member of Management	Exercise against Cash Settlement (Stock option programme)	132,000	€ 13.57	€ 1,791,240.00
23 August 2017	Werner Lanthaler	Member of Management	Purchase of shares by exercising stock options (Stock option programme)	118,000	€ 13.57	€ 1,601,260.00
18 August 2017	Werner Lanthaler	Member of Management	Purchase of shares by exercising stock options (Stock option programme)	20,654	€ 12.639	€ 261,045.906
18 August 2017	Werner Lanthaler	Member of Management	Exercise against Cash Settlement (Stock option programme)	11,940	€ 12.639	€ 150,909.66
17 August 2017	Werner Lanthaler	Member of Management	Exercise against Cash Settlement (Share Performance Plan)	55,400	€ 14.5105	€ 803,881.70
15 August 2017	Cord Dohrmann	Member of Management	Exercise against Cash Settlement (Share Performance Plan)	28,000	€ 12.08	€ 338,240.00
31 March 2017	Werner Lanthaler	Member of Management	Purchase of shares by exercising stock options (Stock option programme)	19,000	€ 6.908	€ 131,252.00
31 March 2017	Werner Lanthaler	Member of Management	Exercise against Cash Settlement (Stock option programme)	31,000	€ 6.908	€ 214,148.00
30 March 2017	Werner Lanthaler	Member of Management	Purchase of shares by exercising stock options (Stock option programme)	37,000	€ 6.6904	€ 247,544.80
30 March 2017	Werner Lanthaler	Member of Management	Exercise against Cash Settlement (Stock option programme)	63,000	€ 6.6904	€ 421,495.20
29 March 2017	Cord Dohrmann	Member of Management	Exercise against Cash Settlement (Share Performance Plan)	20,000	€ 7.9329	€ 158,658.00
29 March 2017	Werner Lanthaler	Member of Management	Exercise against Cash Settlement (Stock option programme)	63,000	€ 6.7029	€ 422,282.70
29 March 2017	Werner Lanthaler	Member of Management	Purchase of shares by exercising stock options (Stock option programme)	37,000	€ 6.7029	€ 240,007.30
17 February 2017	Mario Polywka	Member of Management	Exercise against Cash Settlement (Share Performance Plan)	52,313	€ 6.274	€ 328,211.762
15 February 2017	Cord Dohrmann	Member of Management	Exercise against Cash Settlement (Stock option programme)	50,000	€ 5.0868	€ 254,340.00

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 the Company's Code of Conduct, which stipulates fundamental ethical principles, such as integrity and professionalism that apply to board members and other employees alike.

The Code of Conduct sets standards for

- Accounting and the permissible use of the Company's funds and assets;
- 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. In case that a suspected compliance violation would affect a member of the Management Board, such report would be addressed to the Supervisory Board. In 2017, no reports via the central compliance hotline were registered.

Further information can be found in the Non-financial Group Report in accordance with section 289c and section 315c of the German Commercial Code. This report can be found on Evotec's website in the Investor Relations section under Financial Publications.

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 Non-financial Group Report in accordance with section 289c and section 315c of the German Commercial Code. This report can be found on Evotec's website in the Investor Relations section under Financial Publications.

DIVERSITY

Evotec has achieved its gender targets set in 2015 on all levels (Supervisory Board, Management Board and the next two management levels). The Company has confirmed these objectives going forward.

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 60.

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 108 and 119.

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 2017, management presented the Company at twenty-seven 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. With effect as of the end of the AGM 2017, Prof Dr Paul Linus Herrling resigned from Evotec's Supervisory Board. Instead, the AGM elected Michael Shalmi as new Supervisory Board member. The term of all members of Evotec's Supervisory Board will expire at the end of the AGM 2019.

The Supervisory Board has determined concrete objectives regarding its composition, and prepared a profile of skills and expertise reflecting the company-specific situation. These objectives and skills profile 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.

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 2017.

In the course of 2017, the Supervisory Board held five formal meetings and two extraordinary meetings to discuss the operational and strategic developments of Evotec AG. The Audit Committee convened separately for four meetings and the Remuneration and Nomination Committee convened for one meeting.

The individual participation of the Supervisory Board members as of 31 December 2017 in meetings of the Supervisory Board of Evotec AG and its committees in fiscal year 2017 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	11	92%
Dr Claus Braestrup	11	10	91%
Prof. Dr Paul Linus Herrling[1)]	4	1	25%
Prof. Dr Iris Löw-Friedrich	11	9	82%
Michael Shalmi[2)]	4	4	100%
Dr Elaine Sullivan	8	8	100%

* *Commercially rounded*
[1)] *Until AGM in June 2017*
[2)] *Following the AGM in June 2017*

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 and Supervisory Board monitored and discussed current topics such as strategy, planning, risk management and compliance management systems during numerous conference calls, held whenever appropriate.

Furthermore and upon request, the Supervisory Board Chair is available to discuss Supervisory Board-related issues with investors.

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 an extraordinary meeting in February 2017, the Supervisory Board approved the capital increase by 9.8% from the authorised capital without subscription rights and the placement of the newly issued shares with Novo Holdings A/S (previously "Novo A/S").

- In March 2017, the Supervisory Board discussed and approved the 2016 annual financial statements in the presence of the auditors and approved the bonus payments for the Management Board members for their performance in 2016. The Supervisory Board also discussed and approved the preliminary agenda for the AGM 2017, including the key parameters for a revised long-term incentive programme as suggested to the AGM 2017.

- In June 2017, the Supervisory Board focused on the upcoming AGM, the operational business

of the Company and on strategic development opportunities, including M&A and corporate formation opportunities. The Supervisory Board further discussed and approved the terms for a financing agreement with the European Investment Bank ("EIB"). In addition, in a second meeting following immediately after the AGM, the Supervisory Board welcomed its new member Michael Shalmi.

▸ In another extraordinary meeting in July 2017, the Supervisory Board approved the acquisition of the Aptuit group of companies.

▸ In its September 2017 meeting, the Supervisory Board discussed the operational business of the Company and further strategic development opportunities, including M&A and corporate formation opportunities, such as an investment in Exscientia Ltd. Furthermore, the Supervisory Board discussed and approved via circular resolution the grant of new Share Performance Awards to the Management Board.

▸ In December 2017, the Supervisory Board reviewed and approved the budget and guidance for the year 2018 as well as regular Corporate Governance matters. It discussed the performance of the Company in 2017 and the Company's five-year mid-range plan including potential development, acquisition and further corporate formation opportunities. The Supervisory Board further discussed and approved the amended terms for the financing agreement with the EIB.

The financial statements and the Management Report for Evotec AG for the fiscal year 2017 as well as the Consolidated Financial Statements together with the consolidated Management Report of the Evotec Group were audited by Ernst & Young GmbH Wirtschaftsprüfungs-gesellschaft, 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 22 March 2018, the auditors presented the status of the 2017 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 2018 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 2017.

The Supervisory Board was not informed about any potential conflict of interest among one of its members in the course of 2017.

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 2018.

Hamburg, 22 March 2018

The Supervisory Board
Prof. Dr Wolfgang Plischke

Group Management Report

Content

The Evotec Group

ORGANISATIONAL STRUCTURE AND BUSINESS ACTIVITIES

— BUSINESS MODEL —

Evotec is a drug discovery and development company providing project solutions to a large network of partners in the life science industry, e.g. pharmaceutical and biotechnology companies, academic institutions, 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 area expertise, 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 two business segments: EVT Execute and EVT Innovate.

EVT Execute provides stand-alone or integrated drug discovery and development solutions based on the Company's customers' intellectual property. These projects are provided on a fee-for-service basis or commercial structures may also selectively include performance-based components, such as milestones and royalties.

EVT Innovate develops drug discovery projects, assets and platforms, both internally or through academic collaborations. EVT Innovate projects, assets and platforms are starting points for strategic partnerships with Pharma and leading biotech companies 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 29 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 whole Evotec Group and is headquartered in Hamburg (Germany).

Evotec's Group structure reflects the strategic international operations of the Company. Developing and acquiring businesses with assets that leverage the Company's strategy is a vital part of Evotec's growth. With affiliates in France, Germany, Italy, Switzerland, UK and the USA, the Group has been successful in integrating acquisitions and achieving both operational and technological synergies between geographies. 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 2017

EVOTEC AG, HAMBURG, D

Evotec (UK) Ltd. Abingdon, UK 100%	Aptuit (Oxford) Ltd. Abingdon, UK 100%	Aptuit (Potters Bar) Ltd. Abingdon, UK 100%	Cyprotex Discovery Limited Macclesfield, UK 100%	Evotec International GmbH Hamburg, D 100%	Evotec (München) GmbH Munich, D 100%	Aptuit (Verona) SRL Verona, I 100%	Evotec (France) SAS Toulouse, F 100%	Aptuit (Switzerland) AG Basel, CH 100%	Evotec (US), Inc. Princeton, NJ, USA 100%
			Cyprotex US, LLC Watertown, USA 100%						

[1)] *Indirect and direct holdings*

— EVOTEC'S PRODUCTS AND SERVICES —

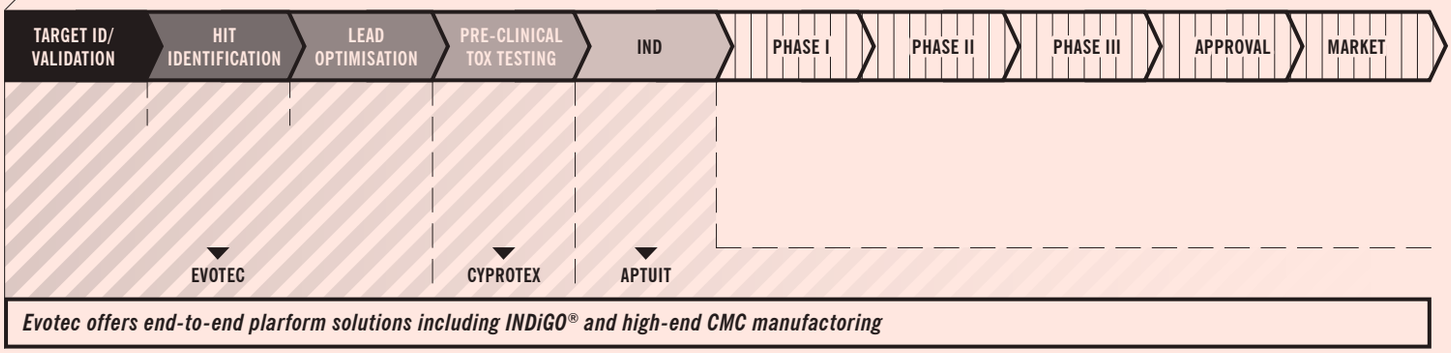
Effective 11 August 2017, Evotec acquired all operational sites of Aptuit (Verona, Italy; Abingdon, UK; and Basel, Switzerland), whose operations are currently in the process of being integrated into the Evotec Group.

Including the newly acquired Aptuit sites, operating sites are located in Toulouse (France), Hamburg, Göttingen and Munich (Germany), Verona (Italy), Basel (Switzerland), Abingdon and Alderley Park (UK), and Branford, Princeton and Watertown (USA). Employees in France, Germany, Italy, Japan, UK, and the USA drive Evotec's international business development activities.

Historically, Evotec's core expertise in the life sciences market focused on early-stage drug discovery up to the point of generating a pre-clinical development candidate ("PDC"). Following the acquisition of Aptuit, Evotec extended its value chain offering through to IND submission and beyond through integrated drug substance and drug product manufacture.

Evotec's drug discovery and development platform and business provide an industrialised, cutting-edge, comprehensive and unbiased infrastructure that meets the industry's need for innovation in drug discovery and development.

EVOTEC'S POSITIONING IN THE DRUG DISCOVERY AND DEVELOPMENT PROCESS

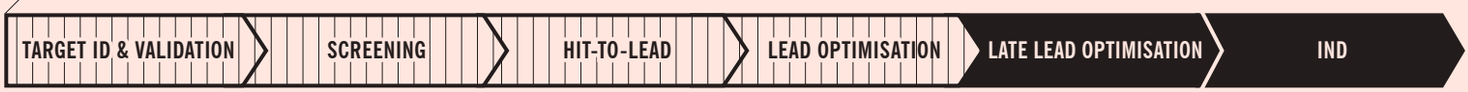


(Source: Company information; Paul et al. Nature Reviews Drug Discovery, 9 (2010))

Drug discovery services

Evotec's capabilities span the key stages of drug discovery and development up to and including IND submission and beyond to integrated drug substance and drug product manufacture. An overview of all the integrated disciplines is provided in the diagram below. 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



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

- Assay development and screening
- (u)HTS[1)]
- HCS
- Microbiological phenotypic screening (class 2)
- Electrophysiology
- *In silico* screening technologies
- FBDD
- Sample management
- Chemo-proteomic
- Phosphoproteomics

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

- Medicinal chemistry
- *In vitro* & *in vivo* biology Disease biology and target class expertise
- Cellular selectivity analysis & MoA[5)] analysis
- Translational assays
- Computational chemistry & SBDD
- *In silico* & *in vitro* ADME[2)]
- Biomarker discovery
- PKPD[6)] Profiling and mathematical modelling

De-risking solutions

- API[7)] route scouting and optimisation
- Synthesis scale-up
- Early drug formulation and solid form screening
- Discovery Toxicology
- ADME[2)] drug developability testing

INDiGO® and integrated CMC[8)]

- API[7)] manufacture
- Material sciences & formulation development
- Toxicology & pathology
- Safety pharmacology
- ADME[2)]
- Bioanalysis
- Immuno assays and biomarkers
- Drug abuse liability
- Drug product
- Analytical development and QC
- Stability
- Controlled and highly potent substances
- SEND and Regulatory support

[1)] *Ultra-high throughput screening*
[2)] *Absorption, distribution, metabolism, excretion, toxicity*
[3)] *Minimum inhibitory concentration*
[4)] *Minimum bactericidal concentration*
[5)] *Mode of action*
[6)] *Pharmacokinetics and pharmacodynamics*
[7)] *Active Pharmaceutical Ingredient*
[8)] *Chemistry, Manufacturing and Controls*

Asset portfolio

Strategically, Evotec is active in several therapeutic areas, such as neuronal diseases, diabetes and complications of diabetes, pain and inflammation, oncology, infectious diseases, respiratory diseases and fibrosis. The Company has a large portfolio of revenue-generating programmes as well as a number of product opportunities being progressed internally for future partnering. The strategy for the asset portfolio is to partner the programmes either early in the discovery chain or, in some cases, to develop them up to PDC and/or IND submission, in which case subsequent pre-clinical and clinical development is managed and financed by the partner. Evotec identifies the appropriate business models for each project while aiming 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 29. An overview of Evotec's portfolio is provided on page 35 of this Management Report.

Alliances and partnerships

Evotec's partners include many of the Top 20 pharmaceutical companies, biotechnology and mid-sized pharmaceutical companies, academic institutions, foundations and not-for-profit organisations. In 2017, Evotec continued to deliver on established, long-term partnerships and also entered into new significant collaborations. An overview of Evotec's Top customers in 2017 is given in the table "Development of Top 10 collaborations" on page 32 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 31 of this Management Report.

— MARKET AND COMPETITIVE POSITION —

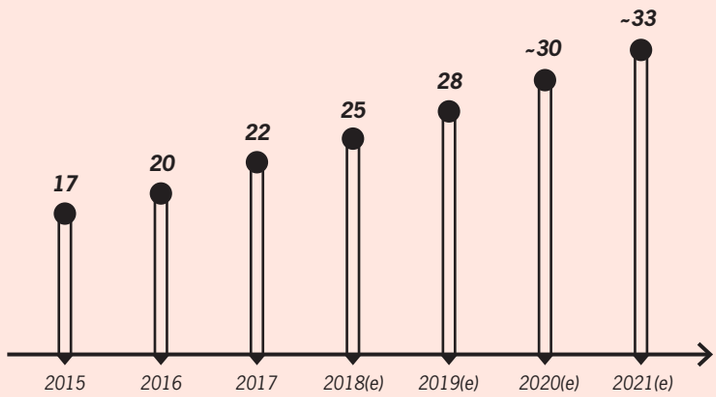
The drug discovery outsourcing market and Evotec's competitive position (EVT Execute business)

For 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 internal departments in many large Pharma companies and to an increased need and willingness to outsource activities traditionally performed in-house. In 2017, this trend continued. Through the use of external innovation solution providers, fixed costs can be converted into variable external costs. This outsourcing model also provides expertise in selected areas without the clients having 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 to $ 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. Based on research by Grand View Research, the global pre-clinical CRO market generated $ 3.25 bn in 2016 in revenues. It is estimated that this number is going to reach $ 6.6 bn in 2025. Evotec entered into this market following the acquisitions of Cyprotex in 2016 and Aptuit in 2017.

MACRO TREND DRUG DISCOVERY OUTSOURCING – MARKET OVERVIEW

Revenues, in $ bn



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

Over the years, contract service providers have expanded their service offerings to better meet the need for 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 and development providers with a unique hybrid model, critical mass and a long-standing track-record of success. The recent acquisition of Aptuit has further improved the advantageous position of the Company to exploit the expected increase in strategic outsourcing opportunities. Evotec's growth continues to track the growth in outsourcing in both discovery and development.

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

Evotec has ongoing alliances and partnerships with pharmaceutical and biotechnology companies, not-for-profit organisations, foundations and academic institutions in many disease areas of neuronal diseases (especially neurodegenerative diseases), diabetes, oncology, pain, inflammation, infectious diseases, fibrosis as well as respiratory. These disease areas present markets with huge unmet medical needs and significant revenue and value opportunities. Background information on the therapeutic markets of these disease areas are given below.

Neuronal diseases

According to the World Health Organization ("WHO"), about 14.1% of the global population will suffer from some form of central nervous system ("CNS") disorder by 2020. 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 $ 145 bn in 2024 according to Global Industry Analysts (2017), 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 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 have 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. In the course of 2017, Evotec reached important project milestones and extended existing partnerships in this area (for details, see chapter "Research and development" on page 34 of this Management Report).

Diabetes and diabetic complications

Diabetes mellitus ("Diabetes") is a chronic incapacitating disease associated with severe lifelong conditions that require extensive 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 425 million people worldwide had diabetes in 2017 (2015: 415 million). Of these, about 50% have not yet been diagnosed and are at risk of costly and debilitating diabetes complications. Concerning the diabetes market volume, approx. $ 727 bn was spent on the treatment of diabetes in 2017 (2015: $ 673 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 modify, prevent or even revert 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, in doing so, has built a unique portfolio of partnerships and approaches pursuing potentially first-in-class products. In 2017, Evotec also made good progress in kidney disease research in the context of various collaborations and consortiums (for details, see chapter "Research and development" on page 34 of this Management Report).

Oncology

According to the Global Burden of Disease Cancer Collaboration, there were 17.5 million new cancer cases and 8.7 million cancer deaths in 2015 worldwide. Cancer deaths are expected to increase to more than 21.7 million by 2030. According to EvaluatePharma, oncology-related drug sales are expected to rise to approximately $ 192.2 bn in 2022.

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 2017, Evotec continued to focus its research on oncology through existing and new partnerships (for details, see "Research and development" chapter on page 34 of this Management Report).

Pain, inflammation, infectious diseases, respiratory and fibrosis

Evotec has substantial experience and expertise in key therapeutic areas including pain, inflammation, infectious diseases, respiratory and fibrosis. According to Transparency Market Research, the pain management therapeutic market is expected to increase from $ 60.2 bn in 2015 to $ 83 bn in 2024. 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. Please refer to the "Research and development" chapter for further information on the progress and current status of this collaboration.

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.

According to Research and Markets, global revenue from the respiratory market is forecasted to increase from $ 30.9 bn in 2016 to $ 41.3 bn in 2023, at a CAGR of 4.23% (drugs only). The overall fibrosis market, which encompasses various forms of fibrosis (e.g. Cystic fibrosis, Idiopathic Pulmonary Fibrosis, Cirrhosis, Atrial fibrosis) is valued at approx. $ 10 bn in 2017. The Company recently expanded its expertise in these areas with the acquisition of Aptuit (see "Research and development" chapter) and reached a milestone within an alliance with Boehringer Ingelheim, which ended in 2013 (see "Corporate objectives and strategy" chapter).

Information regarding Evotec's internal early-stage assets can be found in the "Research and development" chapter on page 34 of this Management Report.

CORPORATE OBJECTIVES AND STRATEGY

Evotec's objective is to be the global leader in providing drug discovery and development solutions to the life science industry. Revenue-generating partnerships provide near-term growth and profitability, while a co-owned broad and deep pipeline of first-in-class products is expected to generate additional significant long-term upside. Through this unique business model, Evotec aims to continuously increase the value of the Company for its shareholders.

Evotec's strategy is transparent, long-term oriented and supported by the Company's action plans: Action Plan 2012 – Focus and Grow, Action Plan 2016 – Leadership in Drug Discovery Solutions, and Action Plan 2022 – Leading External Innovation. The Company translates first-in-class innovation into high-potential projects ready for partnering. Evotec aims to bring drugs to the patient via its broad range of partners in the pharmaceutical and biotech industry. In addition, Evotec very selectively participates in strategic investments and company formations to accelerate innovation and value creation from a different angle.

Today, Evotec has established a global leadership position in the high-quality drug discovery and development outsourcing and external innovation space. The Company has an industrialised, cutting-edge drug discovery platform, covering the full value chain from target identification to IND-enabling studies (INDiGO®) and high-end CMC. IND-enabling studies up to CMC manufacturing processes were added following the acquisition of Aptuit in 2017.

On top of its outstanding platform capabilities, Evotec has built a deep internal knowledge base in the therapeutic areas of neuronal diseases, diabetes and complications of diabetes, pain and inflammation, oncology, infectious diseases, respiratory diseases and fibrosis. The Company partners with Pharma and biotech companies, not-for-profit organisations, and distinguished academic institutions. Evotec operates through two business segments: EVT Execute and EVT Innovate. These segments effectively comprise various project types operating from one common drug discovery and development platform. A description of both business segments can be found in the "Organisational structure and business activities chapter" on page 26 of this Management Report.

In 2017, Evotec consistently delivered on this strategy by accelerating its portfolio building, expanding the Company's industrial drug discovery platform and driving efficiencies across the drug discovery and development value chain. This strategy was supported in 2017 through the acquisition of Aptuit, a partner research organisation for integrated drug discovery and development solutions. This addition substantially grows the Company's business and extends the value chain offering through to IND submission and beyond to integrated drug substance and drug product manufacture. Also in 2017, Evotec continued to invest in the further development and expansion of its iPSC platform and entered into new strategic collaborations with partners to strengthen its comprehensive iPSC network. Furthermore, proof-of-concept milestones were reached in the Company's strategic iPSC-based alliances with Celgene in neurodegeneration and Sanofi in diabetes. In addition, alongside its EVT Innovate strategy, Evotec invested in companies, e.g. Forge Therapeutics, Inc. ("Forge"), FSHD Unlimited Coorp ("FSHD Unlimited"), and Exscientia Ltd ("Exscientia"). Evotec also created its first North American Academic BRIDGE ("LAB150") with MaRS Innovation. This BRIDGE joins projects from Canadian academic institutions and teaching hospitals with Evotec's comprehensive drug discovery platform and expertise to commercially progress cutting-edge drug discovery projects emerging from the 15 member institutions of MaRS Innovation.

The Company's 2017 objectives for its two business segments and major achievements are summarised in the following table:

	SPECIFIC OBJECTIVES 2017	***MAJOR ACHIEVEMENTS 2017***
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	▸ New long-term deals with large and mid-sized Pharma and new performance-based integrated technology/disease alliances (e.g. ABIVAX, Asahi Kasei Pharma, Novartis) ▸ Expansion of foundations and biotech network in USA/Europe (e.g. Blackthorn Therapeutics, Dermira, STORM Therapeutics) ▸ Milestones from existing alliances (e.g. start of second clinical Phase I study in endometriosis alliance with Bayer, a Phase I initiation in respiratory with Boehringer Ingelheim)
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	▸ New clinical initiations and good progress of clinical pipeline within partnerships (e.g. expansion of CKD Bayer alliance, indication extension of existing clinical asset with Bayer in new product franchise (Chronic cough)) ▸ Expansion of academic BRIDGE network (e.g. initiation of LAB150 with MaRS Innovation (Toronto, Canada)) ▸ Strong R&D progress within Cure *X*/Target *X* initiatives (e.g. focus on initiatives in the nephrology field) ▸ Strong focus on iPSC (induced pluripotent stem cells) platform and strong network of partners established (e.g. Censo, Fraunhofer, Ncardia)

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

- Understanding the needs of the industry for innovative new medicines,
- Serving the macro trend of externalisation of Pharma R&D,
- Expanding critical mass through highly experienced drug discovery and development expertise, and
- Accelerating innovative projects along the drug discovery and development value chain to better serve industry needs and ultimately patients.

The Company's objectives defined for 2018 can be found in the "Business direction and strategy" section of the "Outlook" chapter on page 68 of this Management Report.

PERFORMANCE MEASUREMENT

— FINANCIAL PERFORMANCE INDICATORS —

Financial goals for the business, 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 defined to support these goals.

The Company's performance is measured against budgeted financial targets and the prior-year performance. Evotec's management performs monthly financial reviews with a strong emphasis on performance drivers such as revenues, order book status, EBITDA and margins against these targets. In addition, the management reviews comprehensive cost data and analysis focused on research and development as well as selling, general and administrative expenses. Liquidity levels are monitored in comparison to the forecast and against 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 and net present value models are the most important financial evaluation and control criterion for Evotec's investment decisions regarding merger and acquisition projects, equity investments and in-licensing opportunities.

— DEVELOPMENT OF FINANCIAL KEY PERFORMANCE INDICATORS —

A multiple-year overview of the performance of Evotec's current financial key performance indicators for the years 2013-2017 is shown in the table below.

in T€	*2013*	*2014*	*2015*	*2016*	***2017***
Revenues	85,938	89,496	127,677	164,507	**257,630**
Research and development expenses	9,664	12,404	18,343	18,108	**17,614**
Adjusted Group EBITDA*	10,394	7,711	8,690	36,225	**57,990**

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

A reconciliation of Adjusted Group EBITDA with operating result can be found in the "Results of operations" chapter on page 47 of the Management Report. The Company's 2017 performance compared to planned figures can be found in the "Comparison of 2017 financial results with forecast" chapter on page 44 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 through 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 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. With the addition of Cyprotex and Aptuit, the Company now works with approximately 750 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

	2013	2014	2015	2016	**2017**
Number of alliances*	106	150	177	270	**760**
Number of alliances* > € 1 m revenues	15	19	21	22	**38**
Repeat business**	93%	85%	63%	94%	**80%**
New business during the year***	39	82	67	158	**611**

** number of alliances equal number of customers*

*** numbers diluted in 2015 due to Sanofi collobaration and 2017 due to Aptuit acquisition*

**** 2014: thereof 19 added with Euprotec acquistition, 2016: thereof 69 related to Cyprotex acquistition, 2017: thereof more than 500 related to Cyprotex and Aptuit acquisition*

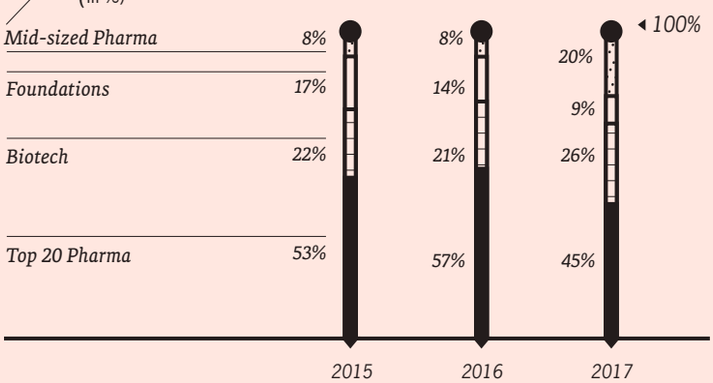
DEVELOPMENT OF TOP 10 COLLABORATIONS* (SORTED BY REPORTING YEAR)

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

in T€	2013	2014	2015	2016	**2017**
Top 3 (in 2017: Sanofi, Bayer, Celgene)	37,558	30,388	61,647	83,298	**92,463**
Remaining Top 10	26,650	27,066	30,072	38,423	**48,955**
Total Top 10 revenues	**64,208**	**57,454**	**91,719**	**121,721**	**141,418**
Growth in %		*(11)%*	*60%*	*33%*	*16%*

THIRD-PARTY REVENUES BY CUSTOMER TYPE 2015-2017

(in %)



Notably, a number of collaborations have significantly increased in size in recent years, clearly indicating success and customer satisfaction. In addition, the number of alliances from which Evotec generates more than € 1 m of revenues per year increased. Except for Sanofi, no single customer contributed more than 10% of total Group revenues in 2017. Evotec's largest customer by revenue, Sanofi, contributed 22% in 2017. Evotec's repeat business, as defined by the percentage of 2017 revenues coming from customers that the Company already had in 2016, amounted to 80%. This number is diluted by the addition of the Aptuit alliances. Evotec's position as the leading high-quality drug discovery and development company is underlined by the continued upward trend of the total number of alliances shown in the first table. Effective 11 August 2017, Evotec acquired Aptuit. Aptuit's complete set of integrated early discovery to mid-phase drug development services complemented by high-end integrated CMC is in the process of being integrated into the Evotec Group. Aptuit's business activities have traditionally been more short-term oriented, resulting in a slight shift in customer type in 2017.

Research and development performance in development partnerships

Evotec is a company, which discovers and develops novel, innovative pharmaceutical drug compounds. Therefore, the progression of drug programmes and candidates 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 without financial risk. Evotec participates in the progress and success of those programmes through potential milestone payments and royalties.

STATUS OF ADVANCED DRUG CANDIDATES*, **

Drug candidate	Partner (Start of partnership)	PDC	Phase I	Phase II	Phase III	Development in 2017
EVT201	JingXin (2010)					All safety studies completed; Phase II ongoing
EVT401	CONBA (2012)					Ongoing
Pain (Undisclosed)	Novartis (2008)					Under review
Respiratory diseases (Undisclosed)	Boehringer Ingelheim (2009)					Entired Phase I
Endometriosis (Undisclosed)	Bayer (2012)					2nd project in Phase I
Inflammation/Pain (SGM-1019)	Second Genome (2015)					Phase I study completed: Targeted exposure levels achieved and safety and tolerability demonstrated
Endometriosis (Undisclosed)	Bayer (2012)					An additional compound entered pre-clinical development; alliance extended by one year (until 2018)
Chronic cough (Undisclosed)	Bayer (2012)					Entered pre-clinic in a new indication (previously part of the endometriosis alliance)
EVT770	MedImmune (2010)					Termination letter received, negotiations regarding licence transfer to Evotec ongoing

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

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

— 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 39 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 quarterly 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") in partnership with Pharma and biotech companies, venture capital groups, academic institutions, foundations and not-for-profit organisations. The Company offers project-driven solutions and services from a comprehensive pre-clinical discovery and development platform and through customised business arrangements. Evotec's partners can choose standalone services from the platform or fully integrated drug discovery and development solutions for their projects. Such research collaborations 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€	*2013*	*2014*	*2015*	*2016*	***2017***
Proprietary Innovate projects	5,352	9,143	14,516	13,518	**13,610**
Platform R&D	1,754	742	47	69	**601**
Overhead R&D	2,558	2,519	3,780	4,521	**3,403**
Total R&D	**9,664**	**12,404**	**18,343**	**18,108**	**17,614**
Public grants for R&D	425	703	456	526	590

In 2017, Evotec's R&D expenses amounted to € 17.6 m, mainly in line with expectations and strategic plans. Investments focused on key disease areas and on the continued build-up of Evotec's industry leading iPSC platform.

Evotec continues to invest in EVT Innovate Cure *X*/Target *X* projects to expand its pharmaceutical pipeline of proprietary product candidates that have the potential to deliver significant short and long-term value through strategic Pharma partnerships including upfront, research and milestone as well as royalty payments. The associated costs for contract research conducted under service agreements and R&D alliances are not accounted for as R&D expenses in the Company's income statement but shown under "Costs of revenue".

— GROUP RESEARCH AND DEVELOPMENT ACTIVITIES —

Strategic expansion of Evotec's project pipeline

Over the last seven years, Evotec has built a broad and deep pipeline of approximately 80 partnered projects bearing significant financial upside in the form of potential development milestone and royalty payments dependent on pre-clinical and clinical progress. Generally, expenses for formal pre-clinical and clinical development as well as marketing of product candidates generated in these partnerships are covered by Evotec's Pharma and biotech partners. This pipeline of potential product opportunities spans from discovery to pre-clinical to clinical development stages, in particular for indications with high unmet medical need.

EVT Execute contributes projects to Evotec's pipeline by entering into partnerships based on the clients' intellectual property. In contrast, EVT Innovate develops projects based on internally derived intellectual property initially funded by Evotec, namely its Cure *X* and Target *X* initiatives. These projects form the basis for 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 approximately 80 in 2017.

LARGE PORTFOLIO OF PRODUCT OPPORTUNITIES WITH SIGNIFICANT UPSIDE

Molecule	Therapeutic Area/Indication	Partner	Discovery	Pre-clinical	Phase I	Phase II
Clinical						
EVT201	CNS – Insomnia	JingXin				
EVT401	Immunology & Inflammation	CONBA GROUP				
ND[1)]	Oncology	Boehringer Ingelheim				
ND[1)]	Oncology	Roche				
VARIOUS	Women's health – Endometriosis	Bayer				
VARIOUS	Women's health – Endometriosis	Bayer				
ND[1)]	Immunology & Inflammation	Second Genome				
VARIOUS	Oncology	Carrick Therapeutics				
ND[1)]	Chronic cough	Bayer				
ND[1)]	Respiratory	Boehringer Ingelheim				
Pre-clinical						
ND[1)]	CNS – Pain	Novartis				
ND[1)]	Immunology & Inflammation	Topas Therapeutics				
ND[1)]	Oncology	Boehringer Ingelheim				
EVT770	Metabolic – Diabetes (type 2/1)	MedImmune/AstraZeneca				
ND[1)]	Respiratory	Boehringer Ingelheim				
VARIOUS	Women's health – Endometriosis	Bayer				
EVT801	Oncology	Sanofi				
EVT701	Oncology	Sanofi				
EVT601	Oncology	Sanofi				
VARIOUS ND[1)]	Oncology – Immunotherapy	Sanofi/APEIRON				
VARIOUS	CNS, Metabolic, Pain & Inflammation	>10 further programmes				
Discovery						
VARIOUS ND[1)]	Nephrology	Bayer				
VARIOUS ND[1)]	Immunology & Inflammation	UCB				
VARIOUS ND[1)]	Metabolic – Diabetes (type 2/1)	MedImmune/AstraZeneca				
VARIOUS ND[1)]	Metabolic – Diabetes (type 2/1)	Harvard				
VARIOUS ND[1)]	Nephrology	AstraZeneca				
VARIOUS ND[1)]	Metabolic – Diabetes	Sanofi				
VARIOUS	Immunology & Inflammation – Tissue fibrosis	Pfizer				
VARIOUS	Neurodegeneration	Celgene				
LpxC inhibitor	Anti-bacterial	Forge Therapeutics				
VARIOUS	All indications	LAB**282**, LAB150				
INDY inhibitor	Metabolic	Eternygen				
VARIOUS	Fibrotic disease	Fibrocor Therapeutics				
VARIOUS	Antiviral	Haplogen				
VARIOUS	Internal: Oncology, CNS, Metabolic, Pain & Inflammation	>30 further programmes				

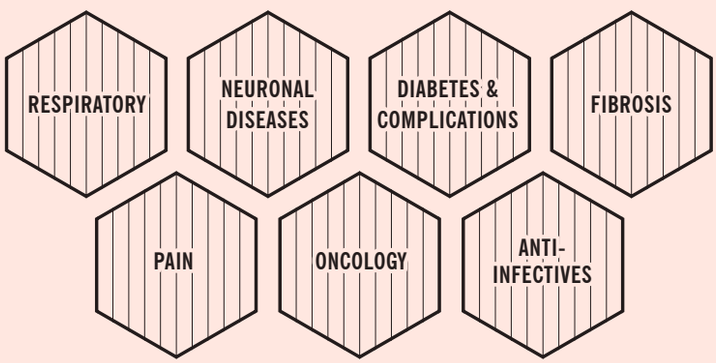
Note: Several projects have fallen back to Evotec, where Evotec does not intend to run further clinical trials unpartnered, e.g. EVT302, EVT101

[1)] 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 reflect the principle of risk and reward sharing, i.e. both partners contribute to the project and share potential financial rewards according to their respective contributions. The focus is on developing product opportunities with first-in-class potential in indications with high unmet medical need. 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 thereby expanding Evotec's proprietary pre-clinical and clinical pipeline. Evotec mainly focuses its research on seven areas of core expertise as depicted below. With the acquisition of Aptuit, the Company expanded its expertise in the disease areas respiratory and fibrosis.

CORE DISEASE AREAS



The EVT Innovate strategy and first Cure *X* and Target *X* initiatives were started in 2010. Since 2010, Evotec has initiated more than 40 Cure *X*/Target *X* projects together with academic laboratories and biotech companies. A large proportion of these EVT Innovate projects has been partnered with Pharma and biotech companies with significant strategic upside value. Currently, Evotec's partnered product portfolio comprises a pipeline of approximately 80 projects reaching from early discovery all the way to Phase II of clinical development. Evotec continuously enters into new Cure *X*/Target *X* initiatives with the aim of creating further high-value partnerships with significant upside potential through participation in the development of product opportunities.

In September 2017, the European Investment Bank ("EIB") granted Evotec an unsecured loan facility of up to € 75 m to support Evotec's EVT Innovate R&D strategy. This innovative and flexible financing structure includes a reward-sharing component for those projects co-financed by the EIB. Financing by the EIB will be matched with Evotec's funding and will be invested in EVT Innovate R&D projects over a period of four years. The loan facility will be drawn down in tranches according to project progress. The maturity of each tranche is seven years. The character of the financing substantially reduces Evotec's cost of capital for innovation.

Update on EVT Innovate activities in 2017

Evotec has built a broad and deep pipeline of partnered product opportunities at clinical, 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 pipeline progress in 2017.

Pre-clinical and discovery-stage pipeline

Milestone achievements in strategic alliance with Bayer in chronic kidney diseases

In the first quarter of 2017, Evotec reached two important milestones in its kidney disease alliance with Bayer. The goal of this five-year, multi-target research partnership (signed in 2016) is to develop 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. Under the terms of the agreement, Bayer has exclusive access to selected candidates as well as to Evotec's Cure*Nephron* target pipeline. The partners share responsibilities during pre-clinical development of potential clinical candidates and Bayer is responsible for any subsequent clinical development and commercialisation. Evotec can receive a minimum of € 14 m over the contract period including research payments and an undisclosed licence fee. In addition, Evotec is eligible for 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.

First milestone achievement in iPSC partnership with Sanofi in diabetes

In April 2017, Evotec announced that its strategic alliance (Target*BCD*) with Sanofi in the field of diabetes has achieved an important pre-clinical proof-of-concept milestone, triggering a milestone payment of € 3.0 m. The goal of this collaboration is to develop a beta cell replacement therapy based on functional beta cells derived from human stem cells. In addition, Sanofi and Evotec aim to use human beta cells for high-throughput drug screening to identify small molecules or biologics beneficial for beta cell activity.

Focus on creating the next-generation patient-focused kidney platform

In 2017, Evotec joined two consortia in the kidney disease field with the aim to significantly expand its kidney disease platforms.

In June 2017, Evotec joined the NURTuRE consortium to drive kidney disease-focused drug discovery based on patient derived-data. NURTuRE is uniquely positioned to collect clinical data at the UK Renal Registry and analyse samples from 14 kidney disease centres in the UK, constituting one of the largest kidney patient registries worldwide. The NURTuRE consortium will initially focus on chronic kidney disease and nephrotic syndrome patients and will leverage established institutions such as the UK Renal Registry and Evotec's integrated kidney drug discovery platform. Alongside other consortium members, Evotec will access patient samples including kidney biopsies, blood, serum and urine for an in-depth histological and molecular analysis to identify and validate targets and biomarkers.

In November 2017, Evotec announced the start of a strategic collaboration with leading academic institutions in the UK and Italy to accelerate the discovery of novel drugs to treat kidney diseases. The collaboration combines key technologies from Evotec and the academic institutions to develop a novel drug discovery device ("Nephron-on-a-Chip"). It merges state-of-the-art microfluidics technology established at the Cambridge

University with world-class expertise in iPSC technology and kidney disease from the University of Bristol, the Mario Negri Institute in Bergamo and from Evotec.

Grant from IFB Hamburg in immunotherapy/immuno-oncology
In July 2017, Evotec announced the award of a 'Programm für Innovation' grant for a period of two years from the Hamburgische Investitions- und Förderbank ("IFB Hamburg"), the central development institution of the Free and Hanseatic city of Hamburg, to identify and develop therapeutic antibodies directed at novel immune-checkpoints on T-cells to improve future cancer treatments. This public grant enables both Evotec and the University Medical Center Hamburg-Eppendorf to transfer and strengthen important know-how in developing an innovative antibody-based cancer therapy.

First milestone achievement in iPSC partnership with Celgene in neurodegeneration
In October 2017, the first milestone was reached in Evotec's strategic alliance with Celgene, triggering a milestone payment of $ 5.0 m to Evotec. This milestone was defined in a five-year agreement between Evotec and Celgene (signed in December 2016), and was achieved due to the successful completion of a screening campaign using Evotec's iPSC-based screening platform. The goal of this collaboration is to identify disease-modifying therapeutics for a broad range of neurodegenerative diseases by leveraging Evotec's unique iPSC platform. Upon signing of the agreement in December 2016, 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.

Strong focus on induced pluripotent stem cell ("iPSC") platform in 2017
Over the course of 2017, Evotec maintained a strong focus on further developing its iPSC-based drug discovery platform with the goal to industrialise iPSC-based drug screening in terms of throughput, reproducibility and robustness. As part of this initiative, Evotec entered into new strategic collaborations with Censo Biotechnologies (UK), Fraunhofer IME-SP (Germany) and Ncardia (Belgium/Germany) to further strengthen its broad iPSC network.

Spin-offs and equity investments
As part of Evotec's EVT Innovate strategy, Evotec continued to participate in strategic investments in 2017 with the aim of developing assets to key value inflection points.

In January 2017, Evotec announced the launch of Fibrocor Therapeutics LP ("Fibrocor"), a Toronto-based company focused on developing first-in-class therapeutics targeting fibrotic diseases. Evotec provides all drug discovery activities and received an equity stake of 16.5%. Fibrocor takes a new approach to understanding and treating fibrosis, bringing together clinical expertise and access to disease tissue with high-throughput molecular analysis infrastructure and expertise in clinically predictive animal models of fibrosis.

In February 2017, Evotec expanded its relationship with Forge Therapeutics ("Forge") by participating in Forge's Series A funding round. Forge focuses on the development of novel antibiotics to treat multi-drug resistant bacteria. Evotec invested $ 3.0 m to the latest funding round resulting in an equity stake of 14.42% in the company. With its proprietary chemistry approach, Forge develops small molecule inhibitors targeting metalloenzymes. Forge's lead effort is focused on LpxC, an essential zinc metalloenzyme found only in Gram-negative bacteria. Forge has discovered novel small molecule inhibitors of LpxC that are potent *in vitro*, efficacious *in vivo*, and effective against drug resistant Gram-negative bacteria 'superbugs'.

In June 2017, Evotec announced a strategic investment in FSHD Unlimited Coorp. ("FSHD Unlimited") together with Australian, European and North American members of the Facioscapulohumeral Dystrophy ("FSHD") community, thereby extending its ongoing drug discovery partnership with FSHD Unlimited. Evotec will carry out all discovery work. Evotec invested € 1.5 m which resulted in an equity stake of 21.51% in the company. FSHD Unlimited solely focuses on finding a safe, effective, and affordable cure for FSHD. FSHD is a progressive muscle-wasting disease, for which there is currently no treatment option available. Since 2015, FSHD Unlimited and Evotec have collaborated to identify DUX4 protein-repressing small-molecule compounds as a potential treatment to stop the progression of FSHD.

In September 2017, Evotec made a € 15 m investment for a 24.54% minority stake in Exscientia, thereby extending its ongoing partnership with Exscientia. Through this investment, Evotec becomes the first strategic shareholder in the UK-based company. Exscientia is focused on Artificial Intelligence ("AI")-driven drug discovery and design. Exscientia and Evotec have cooperated since early 2016 to advance small molecules and bispecific small molecules in immuno-oncology. Exscientia's approach fuses the power of AI with the discovery experience of seasoned drug hunters and chemistry experts. This investment enables Exscientia to drive higher value partner programmes and expand discovery on its automated design platform.

Further information regarding these strategic ventures can be found in the "Corporate objectives and strategy" chapter on page 29 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 entered into agreements with more than 10 leading academic and biotech partners in the USA, Germany, France and the UK. Through these academic bridges, Evotec continued to broaden and deepen its network to source highly innovative projects in 2017.

In February and June 2017, various awards were distributed in two evaluation rounds within Evotec's academic BRIDGE LAB**282** with Oxford University. Combined with financial support, those projects will receive ongoing translational support from Oxford University Innovation ("OUI"), the University's research commercialisation company, and full access to Evotec's pre-clinical platforms and expertise. LAB**282** funding and expertise will facilitate the scale-up of these projects to the point that they can become fully-fledged, successful Oxford University spin-out companies. LAB**282** was initiated in November 2016 with the University of Oxford, OUI and Oxford Sciences Innovation and aims to accelerate the translation of basic biomedical research from Oxford University into new therapeutics.

In September 2017, Evotec launched its first North American academic BRIDGE partnership (LAB150) with MaRS Innovation ("MI"), along the same principle as Evotec's LAB**282** partnership with Oxford University. This transformational Toronto-based partnership gives Canadian academic institutions and teaching hospitals access to the world-class infrastructure and drug discovery expertise of Evotec and pairs it with cutting-edge drug discovery projects emerging from the 15 member institutions of MaRS Innovation. MI will identify projects and build technical and business cases from scientific concepts that focus on first-in-class and disease-related novel biological pathways. Evotec will contribute infrastructure and pre-clinical drug development expertise to translate such discoveries into potential medicines.

First milestone achievement in immuno-oncology alliance with Sanofi and APEIRON

At the end of 2017, Evotec and APEIRON Biologics received the first milestone payment from Sanofi under a three-party alliance signed in August 2015. The milestone payment of € 3 m was split equally between Evotec and APEIRON Biologics and was triggered when the partners successfully advanced an undisclosed, novel immuno-oncology small molecule into late-stage pre-clinical development. The strategic collaboration was initiated in 2015 and has a potential value of over € 200 m in milestone payments and significant royalties.

Clinical-stage pipeline

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

An update on their progress in 2017 is listed below.

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 further clinical studies.

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 from both Bayer and Evotec, or that were started jointly. Both partners have joint responsibility for early research and pre-clinical characterisation of potential clinical candidates. Bayer is responsible for any subsequent clinical development and commercialisation. Evotec received € 12 m as an upfront payment. Potential payments from pre-clinical, clinical and sales milestones could total up to approximately € 580 m, plus potential royalties of up to low double-digit percent of net sales.

▸ **Status**

During the course of 2017, the alliance with Bayer has gone from strength to strength with a further compound progressed into pre-clinical development, bringing the total to six during the course of the past five years. In addition, a second compound successfully entered into Phase I clinical trials. Evotec continues to progress a strong portfolio of targets with several options for further clinical progression in the coming year. This collaboration was also extended by one year until 2018. Additionally, an existing asset progressed into pre-clinical development in a new indication (Chronic cough).

Second Genome – SGM-1019

▸ **Background**

In 2015, Evotec and Second Genome entered into a collaboration in small molecule-based discovery and development activities for the treatment of microbiome-mediated diseases, leading to clinical development of SGM-1019, a first-in-class oral therapeutic candidate for treatment of nonalcoholic steatohepatitis ("NASH").

▸ **Status**

In 2016, Second Genome completed a Phase I double blind, placebo controlled, single ascending oral dose trial in healthy subjects. At the end of 2017, Second Genome announced that it successfully completed a Phase I study, which evaluated the safety, tolerability, pharmacokinetics and target inhibition of SGM-1019 in healthy volunteers. In the study, SGM-1019 achieved targeted exposure levels and was safe and well tolerated. In addition, in an external study SGM-1019 demonstrated efficacy in a non-human primate model of liver fibrosis.

Boehringer Ingelheim – Respiratory (undisclosed)

▸ **Background**

In 2004, Evotec entered into a multi-year, multi-target drug discovery alliance with Boehringer Ingelheim to jointly identify and develop pre-clinical development candidates for the treatment of various disease areas including CNS, inflammation, cardiometabolic, respiratory diseases and oncology. Under the terms of the agreement, Boehringer Ingelheim has full ownership and global responsibility for clinical development, manufacturing and commercialisation of the compounds identified. In return, Evotec received research payments and pre-clinical milestones. Even though the contract ended in 2013, it provides substantial long-term upside for Evotec through potential payments for successful milestone achievements of alliance projects in clinical development and royalties when new drugs reach the market.

▸ **Status**

At the end of 2017, Evotec reported on a clinical milestone under this drug discovery alliance with Boehringer Ingelheim. The milestone was for the transition of a respiratory candidate compound into a Phase I clinical trial.

Update on EVT Execute activities in 2017

Acquisition

Effective 11 August 2017, Evotec acquired Aptuit, a partner research organisation for integrated outsourced drug discovery and development solutions, for € 253.2 m in cash. The one-time transaction costs related to this acquisition were approx. € 3.3 m in 2017. The acquisition strengthens Evotec's position as the leading global player in the external innovation marketplace. Furthermore, it grows Evotec's business substantially and extends the value chain offering through to IND submission and beyond to integrated drug substance and drug product manufacture.

New alliances

In January 2017, Evotec announced an integrated drug discovery collaboration on an ion channel target with Asahi Kasei Pharma Corporation, a wholly owned subsidiary of Asahi Kasei Corporation, Tokyo, Japan. Under the terms of the agreement, Evotec applies its integrated drug discovery platform including medicinal chemistry, computational chemistry and *in vitro* pharmacology to optimise hit compounds identified and selected from the Evotec compound library collection through an earlier, successful high-throughput screening campaign executed at Evotec.

In the first quarter of 2017, Evotec entered into a new integrated lead discovery collaboration with Dermira to identify inhibitors of a novel target for treatment of itch and neuro-inflammation. Under the terms of the agreement, Dermira takes advantage of Evotec's expertise and proprietary, industry-leading capabilities for rational design of molecules and integrated drug discovery capabilities.

In the first half of 2017, Evotec announced a new multi-year, integrated drug discovery collaboration with Blackthorn Therapeutics. The focus is on delivering best-in-class small molecules that modulate novel targets expressed in key brain regions for the regulation of behavioural disorders and on ultimately selecting a pre-clinical development candidate.

In September 2017, Evotec and ABIVAX entered into a strategic collaboration to discover and develop novel treatments for multiple serious viral infectious diseases. ABIVAX is responsible for identifying the targets and discovers initial drug candidates whilst Evotec leverages its industrial state-of-the-art drug discovery platform to optimise ABIVAX's candidates and performing early target development. Targets in RSV, Influenza and Dengue viral infections have already been identified by ABIVAX and are being evaluated for further development under the partnership.

In October 2017, Evotec entered into a three-year integrated drug discovery collaboration with TESARO to discover and develop novel small molecule product candidates against an undisclosed immuno-oncology target. Under the terms of the collaboration, Evotec applies its integrated drug discovery platform, from lead discovery through nomination of a pre-clinical development candidate, to TESARO's translational research pipeline to advance best-in-class oncology therapies.

Contract extensions and milestone achievements

Various collaborations were extended in 2017, e.g. Evotec's agreement with STORM Therapeutics that developed into an integrated alliance to focus on new small molecule epigenetic drugs for oncology and other diseases.

In 2017, EVT Execute's strong operational performance was underlined by important milestone achievements in its collaborations with Bayer, Boehringer Ingelheim and UCB (see above).

— INTELLECTUAL PROPERTY —

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

Evotec reviews its patent portfolio regularly and decides whether to maintain or to withdraw its patent applications and patents. These decisions are based on the importance of such intellectual property for maintaining Evotec's competitive position and deliver on its strategy. As of 31 December 2017, besides two patent families jointly filed with third parties, Evotec has more than 55 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 platform, Evotec owns a patent estate for molecular detection and other platform technologies. Furthermore, Evotec has developed a number of patent-protected biological assays, e.g. methods to measure the chemical or biological activity of any combination of targets and compounds.

The Company monitors intellectual property resulting from its EVT Innovate activities in order to identify patentable drug candidate series with 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 —

The global economy grew more than expected in 2017. According to a publication by the World Bank in January 2018, the global economy is expected to increase its growth rate from 2.4% in 2016 to 3.0% in 2017. The World Bank states that 2017 was characterised by significantly strengthened global trade, growing investments and favourable financing costs. Overall growth in emerging market economies was estimated to have reached 4.3% in 2017 and is expected to reach 4.5% in 2018. The Eurozone is expected to show accelerated growth of 2.4% in 2017 (2016: 1.8%) mainly driven by policy stimulus and strengthened global demand. In the Eurozone, especially the private sector credit responded to the stimulative stance of the European Central Bank with both domestic demand and import growth showing robust developments. Despite some major hurricane landfalls in September, the US economy was relatively healthy and growing in 2017. Growth picked up from 1.5% in 2016 to an estimated 2.3% in 2017 due to rising profits, a weakening dollar, robust external demand, and a diminished drag from capacity adjustments in the energy sector. According to the Federal Statistical Office, the German economy continued its upward trend in 2017 with a growth rate of 2.2% of its price-adjusted gross domestic product (2016: 1.9%).

— RECENT TRENDS IN THE PHARMACEUTICAL AND BIOTECHNOLOGY SECTOR —

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

The demand for new therapies continues to see steady growth, a favourable trend for the long-term industry dynamics. In 2017, the U.S. Food & Drug Administration ("FDA") approved 46 new drugs, more than twice compared to 2016. A steadily growing proportion of these new drugs originates from Biotech companies, confirming the trend that the biotechnology industry is a key innovation driver. 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.

As a result of these ongoing developments, the pharmaceutical industry continues to seek more capital-efficient ways to accelerate the discovery and development of new therapeutics for indications with an unmet or underserved medical need. With constant demand for new therapies on one side and patent expiration on the other, the Pharma and biotech sector operates under a large pressure for innovation.

Key emerging aspects of innovation include:

- Broader human genetic testing and push for personalised medicine to match patients and treatments,
- Exciting breakthroughs and new therapeutics in the immuno-oncology market. For example, the approval of Novartis' Kymriah and Gilead's Yescarta in 2017 marked the potential beginning of a new wave of cancer therapies products that are re-engineered versions of a patient's own immune cells.
- Stem cell therapies,
- Patient-derived disease models (e.g. iPSC),
- Technology platforms such as CRISPR and ribonucleic acid ("RNA") therapeutics,
- Public/private efforts to meet the global challenge of anti-microbial resistance (CARB-X). In March 2017, the WHO issued an unprecedented warning listing the 12 resistant bacteria that pose the greatest threat to human health.
- Artificial intelligence, machine learning, deep learning techniques. FDA has recognised this approach with the first FDA-approved application of deep learning for diagnosing heart conditions, in early 2017 ("Arterys").

All these approaches could pave the way for a more 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 is expected for the coming years. 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 a growing, yet aging 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. Moreover, academic institutes are of growing importance for the innovative capabilities of the Pharma and biotech sector. The prospect of a faster reaction to a highly competitive, diverse and evolving market has led many Pharma companies to start looking for external innovation to further their own pipeline development. Starting from the acquisition

of single-discovery-project start-ups, this outsourcing trend has grown and covers all steps of drug development – even including validation and CMC manufacturing. Research partnership companies like Evotec stand to benefit from this trend.

— 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 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 FDA in the USA and other national regulatory and supervisory authorities. Evotec focuses on drug discovery and development and also supports commercial products in some cases although commercialisation is predominantly conducted and funded by the Company's Pharma partners. Consequently, any changes in the regulatory environment could 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 could have a positive impact on Evotec's business as stem cell-based research is one of the promising technologies in drug discovery.

In 2017, legal factors affecting Evotec were largely unchanged, and the Group's operating business was not materially affected. However, in 2017 the General Data Protection Regulation ("GDPR") became visible, a new European data protection law that will take effect on 25 May 2018. It supersedes the Data Protection Directive as well as national implementations of the Data Protection Directive (95/46/EC) in all European member states. As a general rule, the GDPR applies to companies based in the EU as well as non-EU based companies that offer goods and services to individuals in the EU. While Evotec is fully committed to supporting its customers' compliance with the GDPR in relation to services provided by Evotec, the GDPR will bring additional complexity and requirements for Evotec's data processes.

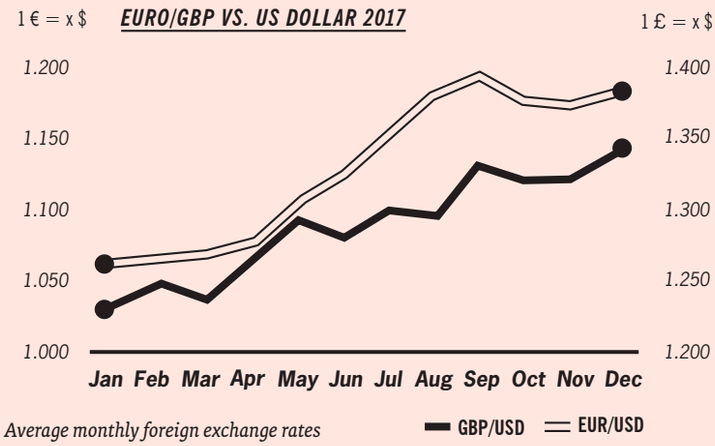
— EXCHANGE RATE DEVELOPMENT, INTEREST RATES AND FINANCING —

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 may affect aspects of its integrated CMC business.

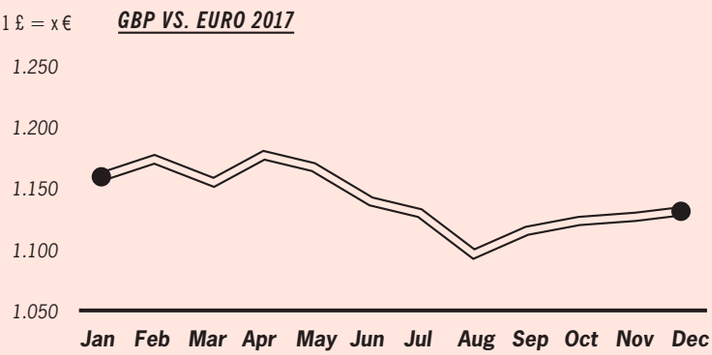
The biggest impact from currency movements on Evotec's financial position in 2017 resulted from the Pound Sterling (£) to Euro (€) exchange rate. In 2017, the Pound Sterling (£) to Euro (€) exchange rate fluctuated between € 1.08 and € 1.20. The average exchange rate in 2017 was € 1.14 per Pound Sterling compared to € 1.22 in 2016. From January to August 2017, the Pound Sterling depreciated from € 1.17 to € 1.08 due to the uncertainty of the outcome of the UK Brexit negotiations. The Pound Sterling exchange rate recovered until the end of the year and ended the year with € 1.13 per Pound Sterling.

The Euro (€) to US dollar ($) exchange rate fluctuated between $ 1.04 and $ 1.20 to the Euro. On average, the US dollar slightly depreciated against the Euro from $ 1.11 per Euro in 2016 to $ 1.13 per Euro in 2017. Year-on-year, the Euro strengthened steadily from $ 1.05 at the end of 2016 to $ 1.20 at the end of 2017.

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



Average monthly foreign exchange rates
Source: vwdgroup



Average monthly foreign exchange rates
Source: vwdgroup

In Europe, the European Central Bank's ("ECB") inter-bank interest rate (3-month Euribor) remained negative in 2017 and decreased slightly to (0.33)% at the end of the year. The ECB continued its bond-buying programme and extended quantitative easing into 2017. In October 2017, the ECB announced that it intends to reduce its bond-buying to € 30 bn per month, down from the previous level of € 60 bn per month. The reduction came into force in January 2018, and Quantitative Easing ("QE") will continue until September 2018, nine months longer than previously announced.

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 as well as a reduction in interest expense paid on the bank loans with variable interest.

SIGNIFICANT CORPORATE DEVELOPMENT EVENTS 2017

2017 saw a number of important corporate developments. Information on significant events regarding progress in research and development within the business segments EVT Execute and EVT Innovate are found in the "Research and development" chapter on page 34 of this Management Report.

NOVO HOLDINGS A/S NEW STRATEGIC INVESTOR IN EVOTEC HOLDING >10%

On 09 February 2017, Evotec announced that Novo Holdings A/S invested € 90.3 m, through a private placement capital increase, to subscribe to 8.99% shares of Evotec at a price of € 6.87 per share. The placement was at a zero discount to the XETRA closing auction price of the Evotec stock on 09 February 2017. Subsequent to this initial investment, Novo Holdings A/S increased its shareholding in Evotec to above 10% by acquisition of additional shares through public markets. This investment from Novo Holdings A/S supports Evotec in its efforts to become the global leading science-driven drug discovery and development company. On 14 June 2017, Michael Shalmi, Managing Director, Head of Principal Investments, Novo Holdings A/S, was elected as a member to Evotec's Supervisory Board at Evotec's Annual General Meeting 2017.

UPSIDE PARTICIPATION IN FIRST-IN-CLASS INNOVATION VIA EQUITY INVESTMENTS

Complementary to its EVT Innovate strategy, Evotec continued to participate in strategic investments and company formations. Further information on Evotec's strategy can be found in the "Corporate objectives and strategy" chapter on page 29 of this Management Report.

In January 2017, Evotec announced an agreement with MaRS Innovation to launch a company focused on developing first-in-class therapeutics targeting fibrotic diseases. Evotec provides all drug discovery activities to the company. As of 31 December 2017, Evotec's stake in this company (Fibrocor Therapeutics LP, "Fibrocor") amounted to 16.5%. Fibrocor takes a new approach to understanding and treating fibrosis.

In February 2017, Evotec expanded its relationship with Forge Therapeutics by investing $ 3 m. As of 31 December 2017, Evotec's stake in Forge amounted to 14.42%. Forge focuses on the development of novel antibiotics to treat multi-drug resistant bacteria. With its proprietary chemistry approach, Forge develops small molecule inhibitors targeting metalloenzymes.

In June 2017, Evotec made a strategic investment in FSHD Unlimited together with Australian, European and North American members of the Facioscapulohumeral dystrophy ("FSHD") community, thereby extending its ongoing drug discovery partnership with FSHD Unlimited. As of 31 December 2017, Evotec's stake in FSHD Unlimited amounted to 21.51%. FSHD Unlimited focuses solely on finding a safe, effective, and affordable cure for FSHD. FSHD is a progressive muscle-wasting disease, for which there is currently no treatment available.

In September 2017, Evotec made a € 15 m investment to take a minority stake in Exscientia, thereby expanding its ongoing joint venture partnership. Through this investment, Evotec became the first strategic shareholder in the UK-based company. As of 31 December 2017, Evotec's stake in Exscientia amounted to 24.54%. Exscientia focuses on Artificial Intelligence ("AI")-driven drug discovery and design to develop new and better drug candidates in a faster and more cost-effective manner.

ACQUISITION OF APTUIT: EXPANDING EVOTEC'S POSITION AS THE LEADING PLAYER IN EXTERNAL DRUG DISCOVERY AND DEVELOPMENT INNOVATION

Effective 11 August 2017, Evotec acquired Aptuit, a partner research organisation for integrated outsourced drug discovery and development, for € 253.2 m in cash. This acquisition was financed through a mix of existing cash reserves and an additional new € 140 m senior debt bridge facility at highly attractive terms. The one-time transaction costs related to this acquisition amounted to approx. € 3.3 m in 2017. At the time of the acquisition, Aptuit had approx. 750 employees and three main operating sites in Europe (Verona, Italy; Abingdon, UK; and Basel, Switzerland). Aptuit provides a complete set of integrated early discovery to clinical phase drug development services, including INDiGO®, an integrated and highly efficient pre-clinical set of capabilities and processes to IND submission, complemented by high-end integrated CMC. The acquisition strengthens Evotec's position as the leading global player in the external innovation marketplace. Furthermore, it grows the Company's business substantially and extends the value chain offering through to IND submission and beyond to drug substance and drug product manufacture.

LOAN FACILITY ISSUED BY EUROPEAN INVESTMENT BANK TO SUPPORT EVT INNOVATE R&D STRATEGY

In September 2017, the EIB granted Evotec an unsecured loan facility of up to € 75 m to fund and support Evotec's EVT Innovate R&D strategy through a unique, innovative and flexible financing structure including a moderate long-term reward-sharing component for the EIB. Evotec intends to invest the total loan financing of € 75 m in EVT Innovate R&D projects

and equity investments over a period of four years. After draw-down of respective tranches, these will mature over seven years. The character of this financing reduces substantially the cost of capital for innovation.

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 has resulted in significant restructuring and consolidation in the industry including diversification, large-scale mergers, increasing 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 2017, the number of projects and demand from newly founded US and European companies grew further. 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. These newly founded companies form an important customer group for Evotec. As these companies often tend to operate virtually rather than with an own operational infrastructure, Evotec can provide the drug discovery and development platform required to deliver on their projects. To meet these market requirements and trends, Evotec continues to invest heavily in upgrading its platforms. As part of this effort, effective 11 August 2017, Evotec acquired Aptuit, a partner research organisation for integrated outsourced drug discovery and development solutions, including INDiGO®, a highly efficient set of pre-clinical capabilities and processes to support IND submission, complemented by high-end integrated CMC. This acquisition strengthens Evotec's position as the leading global player in the external innovation marketplace. 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 issue, Evotec continued to focus on the iPSC field and reached important proof-of-concept milestones in its iPSC-based alliance with Celgene in neurodegeneration (initiation in December 2016) and with Sanofi in diabetes (initiation in August 2015). Also, Evotec continued to invest in the further development and expansion of its iPSC platform and entered into new strategic collaborations with partners globally to strengthen its comprehensive iPSC network.

COMPARISON OF 2017 FINANCIAL RESULTS WITH FORECAST

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FINANCIAL PERFORMANCE REFLECTS STRONG GROWTH PATH IN 2017 – ALL ELEMENTS OF GUIDANCE 2017 COMFORTABLY ACHIEVED

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PERFORMANCE AGAINST FORECASTS

	Guidance Annual Report 2016	*Guidance August 2017*	*Actual 2016*	*Actual 2017*
Group revenues	More than 15% growth	More than 40% growth	€ 164.5 m	**€ 257.6 m (+57%)**
R&D expenses	Approx. € 20 m	Approx. € 20 m	€ 18.1 m	**€ 17.6 m**
Adjusted Group EBITDA*	Significantly improved compared to prior year	More than 50% growth	€ 36.2 m	**€ 58.0 m (+60%)**

** 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 2017 was updated in August 2017, as shown in the table above, following the acquisition of Aptuit which became effective on 11 August 2017.

In 2017, Evotec comfortably achieved all its financial goals. The increase in Group revenues from € 164.5 m in 2016 to € 257.6 m in the reporting period was driven primarily by three factors: the strong performance in the base business, increased milestone payments and contributions from the acquired businesses of Cyprotex (€ 24.5 m) and Aptuit (€ 45.9 m). R&D expenses for the year amounted to € 17.6 m. The Company recorded a significant increase of adjusted Group EBITDA from € 36.2 m in 2016 to € 58.0 m in 2017 mainly due to the strong growth in revenues and milestone payments and the contributions from the acquired businesses.

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).

RESULTS OF OPERATIONS

The 2016 and 2017 results are not fully comparable. The difference stems mainly from the acquisitions of Cyprotex PLC ("Cyprotex"), effective 14 December 2016, and Aptuit, effective 11 August 2017. The results from Cyprotex are only included from 14 December 2016 onwards. The results from Aptuit are included from 11 August 2017 onwards.

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

CONDENSED INCOME STATEMENT

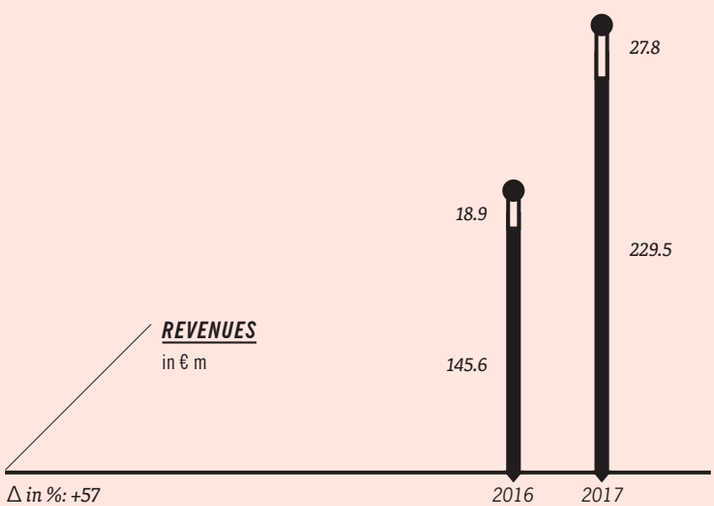
		2016	***2017***
Revenues	T€	164,507	**257,630**
Gross margin	*%*	*35.6%*	***32.0%***
— R&D expenses	T€	(18,108)	**(17,614)**
— SG&A expenses	T€	(27,013)	**(42,383)**
— Impairment result (net)	T€	(5,406)	**(1,180)**
— Other operating income (expenses), net	T€	23,315	**16,104**
Operating income (loss)	T€	31,342	**37,495**
Net income (loss) total	**T€**	**26,839**	**23,999**
Adjusted Group EBITDA*	***T€***	***36,225***	***57,990***

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

— REVENUES —

Strong performance of base business, increased milestone achievements and significant contribution from acquisitions

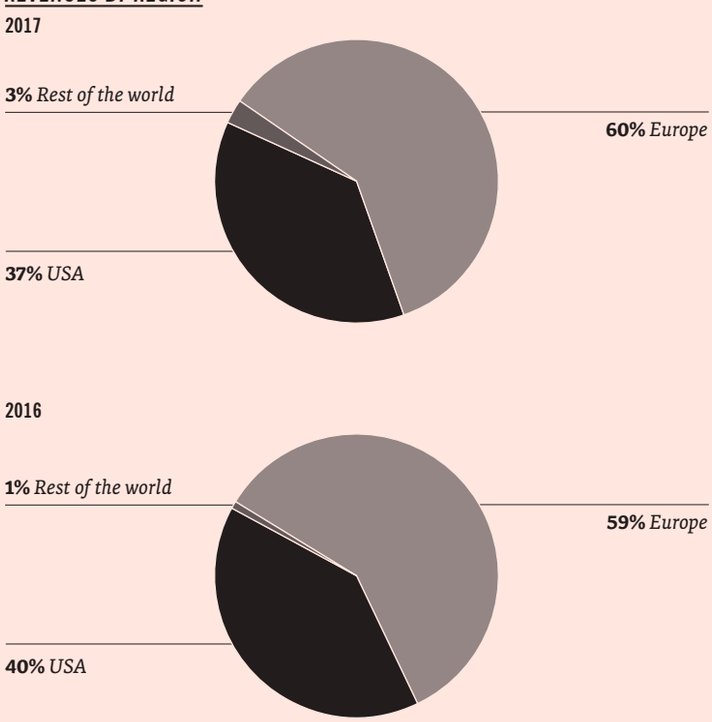
Total Evotec Group revenues amounted to € 257.6 m in 2017, an increase of 57% compared to the previous year (2016: € 164.5 m). This increase resulted primarily from the strong performance in the base business, increased milestone payments and positive contributions from the acquired businesses of Cyprotex (€ 24.5 m) and Aptuit (€ 45.9 m). At constant 2016 foreign exchange rates, 2017 revenues would have amounted to € 259.9 m.



Revenues from milestones, upfronts and licences amounted to € 27.8 m, an increase of 47% in comparison to the previous year (€ 18.9 m) which resulted mainly from higher milestone achievements. Milestones in 2017 resulted mainly from the collaborations with Bayer in endometriosis and kidney diseases, Celgene in neurodegeneration, and Sanofi in diabetes and oncology.

Geographically, 60% of Evotec's revenues were generated with customers in Europe, 37% in the USA and 3% in Japan and the rest of the world compared to 59%, 40% and 1%, respectively, in the previous year. The Aptuit business shows a similar geographical split as the remaining Evotec business.

REVENUES BY REGION



— COSTS OF REVENUE/GROSS MARGIN —

Margin decrease due to linear amortisation of intangible assets

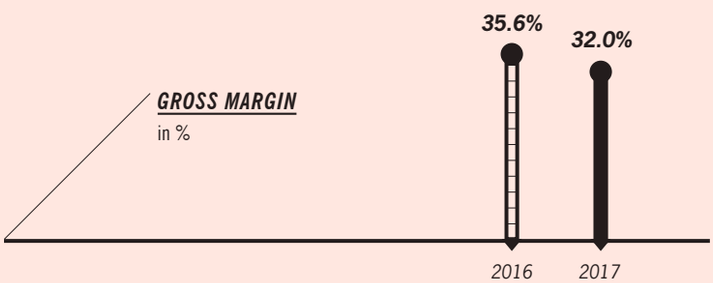
Costs associated with Group revenues include the cost of personnel directly associated revenue-generating projects, facilities and overhead used to support those projects as well as materials consumed in the provision of the product or service.

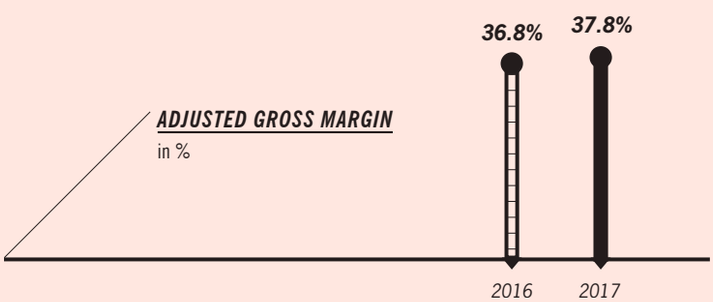
Costs of revenue increased by 65% to € 175.1 m (2016: € 106.0 m). This increase compared to the prior-year period resulted mainly from costs associated to the significant base revenue increase, including costs of revenue from the acquisition of Aptuit and Cyprotex and from a different revenue mix after these acquisitions. In addition, the purchase price allocations for Cyprotex and Aptuit resulted in intangible assets, which are regularly amortised. This amortisation added € 5.6 m in 2017. Cost of revenue also increased due to higher volume in the EVT Execute service business and related costs which enabled the expansion at various sites (e.g. Hamburg (Germany) and Princeton (USA)). Overall, the gross margin decreased to 32.0% (2016: 35.6%).

At constant 2016 exchange rates, the gross margin in 2017 would have been 31.5%. Adjusted for Aptuit and amortisation, the gross margin improved by 1.0% points to 37.8%.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.

	2016	2017
Total Gross Profit	**58,554**	**82,568**
add back Amortisation	1,908	**7,041**
deduct Gross Profit Aptuit	-	**9,542**
Adjusted Gross Profit	**60,462**	**80,067**

	2016	2017
Total Gross Margin %	**35.6%**	**32.0%**
GM % excl Amortisation	36.8%	**34.8%**
GM % excl Aptuit	35.6%	**34.5%**
Adj GM % excl Amort. & Aptuit	**36.8%**	**37.8%**





— RESEARCH AND DEVELOPMENT EXPENSES —

Focus on strategic areas of first-in-class innovation

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 34 of this Management Report).

In 2017, overall R&D expenses amounted to € 17.6 m (2016: € 18.1 m) which fall into three major categories: (i) Proprietary Innovate projects, (ii) Platform R&D and (iii) Overhead expenses. Proprietary Innovate projects accounted for approximately 77% (2016: 74%) of total R&D expenses. In 2017, Evotec increased its R&D spend in the metabolic and oncology space. On the other hand, reduced R&D expenses occurred in the field of CNS diseases, mainly following the reallocation of projects to the Celgene collaboration portfolio, which is recognised in costs of revenue. Platform R&D accounted for approximately 4% (2016: 1%) and mainly related to Cyprotex. Overhead expenses accounted for 19% (2016: 25%) of total R&D expenses. Overhead expenses decreased by € 1.1 m and consisted in particular of management expenses and patent costs (see table below).

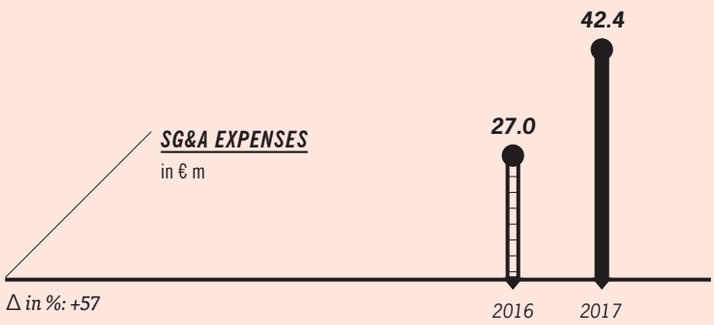
R&D EXPENSES BY CATEGORIES

		2016	2017
Proprietary Innovate projects	T€	13,518	**13,610**
Platform R&D	T€	69	**601**
Overhead expenses	T€	4,521	**3,403**
Total	**T€**	**18,108**	**17,614**

— SELLING, GENERAL AND ADMINISTRATIVE EXPENSES —

Impacted by expenses of Cyprotex and Aptuit as well as M&A-related expenses

In 2017, the Group's selling, general and administrative ("SG&A") expenses increased substantially by 57% to € 42.4 m (2016: € 27.0 m). This increase resulted primarily from a first full year contribution of Cyprotex, approx. 4.5 months of expenses of Aptuit as well as significant M&A-related expenses. Furthermore, the SG&A headcount increased in Business development and administrative functions in response to organic company growth.



— IMPAIRMENTS —

Intangible assets impaired in 2017

In 2017, Evotec recorded an impairment of intangible assets and goodwill in the amount of € 1.2 m (2016: € 5.4 m). In the first quarter of 2017, developed assets resulting from the acquisition of Panion Ltd., London, UK, did not show promising data in a pre-clinical study in pain leading to an impairment of € 1.2 m for this asset.

In 2016, impairments of € 5.4 m were recorded, mainly related to the EVT100 series (impairment of intangible assets of € 1.4 m) and to the National Institutes of Health ("NIH") contract termination in the US Compound Management Business (impairment of goodwill of € 4.0 m). Further information can be found in the "Goodwill and intangible assets" section in the "Assets, liabilities and stockholders' equity" chapter on page 54 of this report.

— OTHER OPERATING INCOME AND EXPENSES —

Other operating income and expenses, net amounted to € 16.1 m in 2017 (2016: income of € 23.3 m). Other operating income in 2017 mainly resulted from R&D tax credits in France, Italy and the UK. In 2016, operating income was affected by increased research and development tax credits in the UK and France in the amount of € 10.9 m, as well as a decrease in the DeveloGen contingent consideration (earn-out) provision due to a change in expected future cash outflows.

— OPERATING INCOME (LOSS) —

Evotec's operating result amounted to € 37.5 m in 2017 (2016: operating result of € 31.3 m) being positively impacted by the increase in gross profit yet partly off-set by the transaction-related M&A expenses as well as purchase price allocations related amortisation in context of the Cyprotex and Aptuit acquisitions.

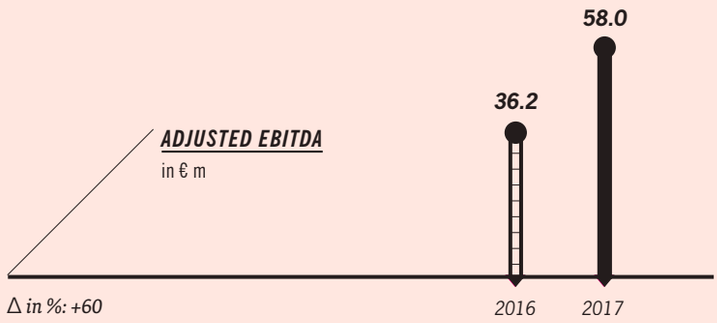
— ADJUSTED EBITDA —

Substantial step-up in adjusted Group EBITDA
Adjusted Group EBITDA for 2017 increased significantly to € 58.0 m (2016: € 36.2 m), yielding an adjusted EBITDA margin of 22.5% (2016: 22.0%). A definition of EBITDA can be found on page 44 of this Management Report.

CALCULATION OF ADJUSTED EBITDA

		2016	**2017**
Operating income (loss)	T€	31,342	**37,495**
+ Depreciation	T€	9,985	**13,725**
+ Amortisation	T€	1,908	**7,041**
+ Impairment result (net)	T€	5,406	**1,180**
- Income from bargain purchase	T€	-	**-**
+ Change in contingent considerations*	T€	(12,416)	**(1,451)**
Adjusted Group EBITDA	**T€**	**36,225**	**57,990**

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



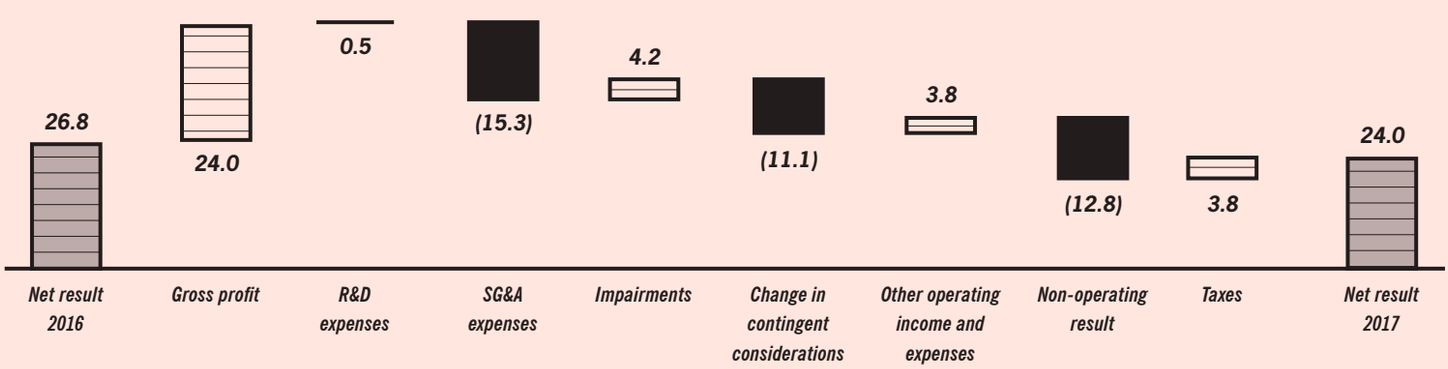
— NET RESULT —

Impact of fair value adjustments and foreign exchange effects
The Company's net result in 2017 amounted to € 24.0 m (2016: net result of € 26.8 m). The net result in 2017 decreased compared to the prior year mainly due to increased amortisation resulting from the preliminary purchase price allocation of Aptuit and the finalisation of the purchase price allocation of Cyprotex, adverse foreign currency effects, and the higher share of the loss of associates accounted for using the equity method. Evotec's net result in 2016 was significantly positively affected by changes in contingent considerations (€ 12.4 m), whereas this effect was comparatively low in 2017 (€ 1.5 m).

In 2017, the total non-operating result amounted to € (11.2) m (2016: € 1.6 m), mainly affected by adverse foreign currency effects (€ (8.6) m) due to the significant weakening of the US Dollar against the Euro and the share of the loss of associates accounted for using the equity method (€ (1.8) m). The total non-operating result in 2016 was impacted by a foreign currency exchange gain.

Total tax expenses amounted to € 2.3 m in 2017 (2016: € 6.1 m). Current tax expenses of € 8.5 m were only partly offset by a deferred tax income of € 6.1 m. Current tax expenses resulted mainly from the increased profitability and occurred primarily in France, Germany and the UK. The deferred tax income is mainly impacted by the recognition of deferred tax assets in one German entity that proved in 2017 to generate sustainable profits.

NET RESULT – CHANGES 2017 VS 2016
in € m



The total net result per share (basic) for Evotec of € 0.17 (2016: € 0.20) is based on a weighted average number of shares of 145,009,742 (2016: 132,506,697).

MULTIPLE-YEAR OVERVIEW OF RESULTS OF OPERATIONS

in T€

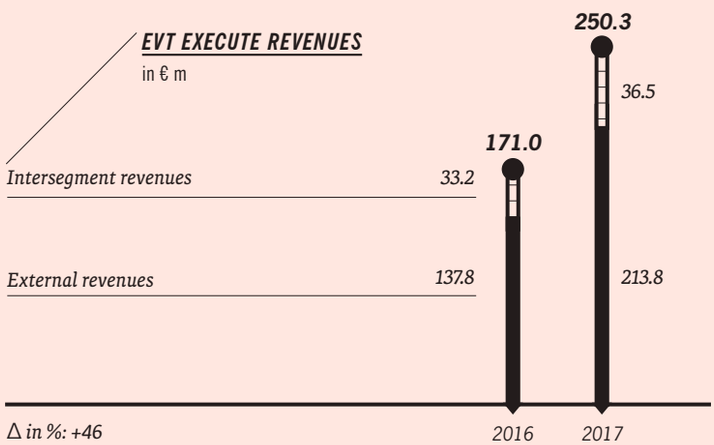
	2013	2014	2015	2016	2017
Revenues	**85,938**	**89,496**	**127,677**	**164,507**	**257,630**
Costs of revenue	(56,746)	(62,246)	(92,550)	(105,953)	**(175,062)**
Gross profit	**29,192**	**27,250**	**35,127**	**58,554**	**82,568**
Research and development expenses	(10,855)	(12,738)	(18,343)	(18,108)	**(17,614)**
Selling, general and administrative expenses	(16,597)	(17,990)	(25,166)	(27,013)	**(42,383)**
Amortisation of intangible assets*	-	-	-	-	**-**
Impairment of goodwill (net)	(1,948)	-	-	(3,989)	**-**
Impairment of intangible assets (net)	(22,023)	(8,523)	(7,242)	(1,417)	**(1,180)**
Impairment of tangible assets (net)	(1,076)	-	-	-	**-**
Restructuring expenses	(474)	-	-	-	**-**
Income from bargain purchase	-	137	21,414	-	**-**
Other operating income and (expenses), net	2,430	5,483	5,850	23,315	**16,104**
Operating result	**(21,351)**	**(6,381)**	**11,640**	**31,342**	**37,495**
Non-operating income and (expense), net	(2,297)	1,222	851	1,608	**(11,162)**
Profit (loss) before taxes	**(23,648)**	**(5,159)**	**12,491**	**32,950**	**26,333**
Tax income (expense)	(1,785)	(1,819)	4,025	(6,111)	**(2,334)**
Net result	**(25,433)**	**(6,978)**	**16,516**	**26,839**	**23,999**
Gross margin	34.0%	30.4%	27.5%	35.6%	**32.0%**
Operating margin	(24.8)%	(7.1)%	9.1%	19.1%	**14.6%**
EBITDA adjusted margin	12.1%	8.6%	6.8%	22.0%	**22.5%**
R&D cost ratio	11.2%	13.9%	14.4%	11.0%	**6.8%**
SG&A cost ratio	19.3%	20.1%	19.7%	16.4%	**16.5%**
Personnel costs to total costs**	43.9%	44.5%	50.4%	55.2%	**48.6%**

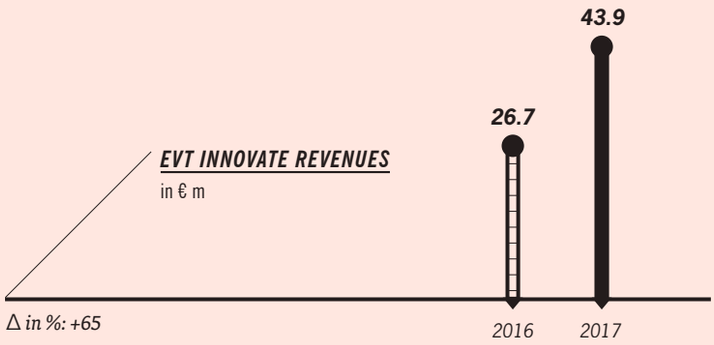
** Change in presentation for all 5 years: Amortisation reclassed to Costs of revenue and Research and development expenses*

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

— SEGMENT REPORTING —

Revenues from the EVT Execute segment amounted to € 250.3 m in 2017 (2016: € 171.0 m) and included € 36.6 m of intersegment revenues (2016: € 33.2 m). The increase in third-party revenues is primarily attributable to a strong performance of the base business and initial contributions from acquisitions. The EVT Innovate segment generated revenues of € 43.9 m (2016: € 26.7 m) consisting entirely of third-party revenues. The increase in revenues resulted on the one hand from extended collaborations and the full year impact of new partnerships with Celgene and Bayer signed in 2016 and on the other hand from higher milestone achievements from several collaborations.





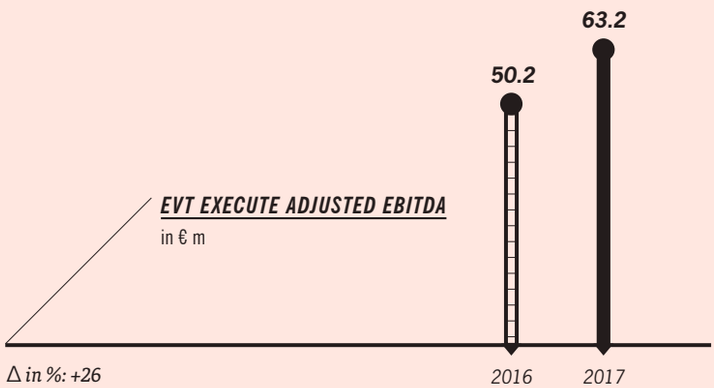
For the EVT Execute segment, costs of revenue amounted to € 182.7 m in 2017 (2016: € 119.8 m), yielding a gross margin of 27.0% (2016: 29.9%). The margin decrease compared to 2016 is attributable to the same drivers as in Group margin. The EVT Innovate segment reported costs of revenue of € 24.4 m (2016: € 14.6 m), yielding a gross margin of 44.3% (2016: 45.3%).

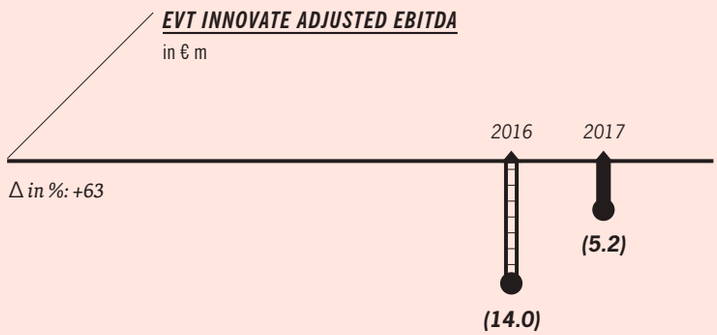
The EVT Innovate segment reported R&D expenses in the amount of € 21.4 m (2016: € 22.7 m), containing € 4.5 m of intersegment margin as services were provided by the EVT Execute segment.

SG&A expenses in 2017 amounted to € 35.5 m for the EVT Execute segment (2016: € 20.9 m) and € 6.9 m for the EVT Innovate segment (2016: € 6.1 m). The increase in SG&A expenses in EVT Execute resulted primarily from a full year expenses of Cyprotex, approx. 4.5 months of expenses of Aptuit as well as M&A-related expenses. Furthermore, the SG&A headcount increased to support both segments in Business development and administrative functions in response to the organic company growth.

In 2017, no goodwill impairment charges were recorded (2016: € 4.0 m, attributed to EVT Execute). The impairment charges in intangible assets (€ 1.2 m) were attributed to EVT Innovate (2016: € 1.4 m).

In fiscal year 2017, the adjusted EBITDA of the EVT Execute segment was strongly positive at € 63.2 m (2016: € 50.2 m). As expected, the EVT Innovate segment reported a negative adjusted EBITDA of € (5.2) m but improved significantly compared to last year (2016: € (14.0) m).





SEGMENT INFORMATION 2017

		EVT Execute	EVT Innovate	Intersegment eliminations	Evotec Group
External revenues	T€	213,777	43,853	-	257,630
Intersegment revenues	T€	36,557	-	(36,557)	-
- Costs of revenue	T€	(182,690)	(24,433)	32,061	(175,062)
Gross margin	%	27.0%	44.3%	0.0%	32.0%
- R&D expenses	T€	(724)	(21,386)	4,496	(17,614)
- SG&A expenses	T€	(35,497)	(6,886)	-	(42,383)
- Impairment result (net)	T€	-	(1,180)	-	(1,180)
- Other operating income (expenses), net	T€	12,059	4,045	-	16,104
Operating income (loss)	**T€**	**43,482**	**(5,987)**	**-**	**37,495**
*Adjusted EBITDA**	*T€*	*63,181*	*(5,191)*	-	*57,990*

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

FINANCING AND FINANCIAL POSITION

— FINANCIAL MANAGEMENT PRINCIPLES —

Evotec actively manages its financial resources to support its business strategy of providing innovative drug discovery and development outsourcing and external innovation solutions and alliances to the pharmaceutical and biotechnology industry. Evotec is a biotechnology company, which generates positive operating cash flows and has sufficient finance to support its ongoing business and operations. Apart from commercial bank debt, the Company has no major long-term financial obligations or liabilities.

The Company may selectively utilise debt financing and raise capital through the issuance of new shares when appropriate. As of 31 December 2017, the liquidity of the Evotec Group amounted to € 91.2 m (2016: € 126.3 m). This strong liquidity position supports the Company in further investing in EVT Innovate R&D projects, in maintaining and augmenting its drug discovery and development platform and in considering M&A opportunities. In order to accelerate its strategy, Evotec selectively considers 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.

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

— CASH FLOW —

Aptuit transaction affecting cash flow

Group *cash flow provided by operating activities* amounted to € 10.8 m in 2017 (2016: € 67.4 m). In 2017, the increased operating income was partly offset by an increase in working capital of € 20.6 m mainly due to a decrease in deferred revenues. In 2016, the operating cash flow was positively impacted by the receipt of a $ 45 m upfront payment (€ 43.0 m) due to the initiation of the drug discovery collaboration with Celgene in neurodegenerative diseases.

Group *cash flow used in investing activities* was € 269.0 m (2016: € 6.0 m). Proceeds from the sale of current investments (€ 96.7 m) significantly exceeded purchases of current investments (€ 78.5 m). The purchases were made in order to invest the proceeds from the capital increase in Q1 2017. The proceeds were required to pay for the Aptuit transaction in August in cash. Capital expenditure in property plant and equipment increased to € 17.6 m (2016: € 10.0 m); thereof € 3.7 m were invested by Aptuit. Purchase of investments in affiliated companies net of cash acquired amounted to € 248.1 m and related to the Aptuit acquisition. Cash acquired amounted to € 5.2 m. Purchase of investments in associated companies and other long-term investments amounted to € 22.2 m.

Group *cash flow provided by financing activities* amounted to € 240.7 m (2016: Cash flow used in financing activities of € 19.7 m) and mainly related to the capital increase (net € 90.2 m) and the increase in bank loans by net € 149.1 m. Bank loans were increased to support the financing of the Aptuit acquisition through a bridge loan of € 140 m and to support the financing of Evotec's EVT Innovate strategy through the "European fund for strategic investments", a key element of the "Investment Plan For Europe" (so-called "Juncker Plan").

The impact of exchange rate movements on the net increase in cash and cash equivalents in 2017 was € 0.6 m (2016: € (2.3) m).

CONDENSED STATEMENT OF CASH FLOWS

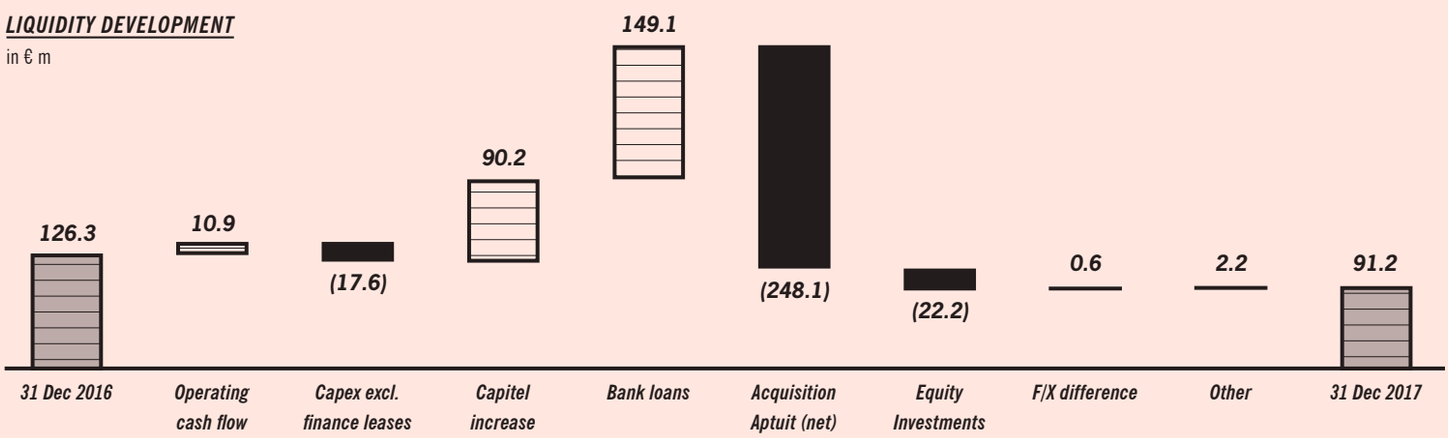
in T€

	2016	***2017***
Net cash provided by (used in)		
— Operating activities	67,360	**10,828**
— Investing activities	(5,973)	**(269,033)**
— Financing activities	(19,671)	**240,724**
Net increase/decrease in cash and cash equivalents	**41,716**	**(17,481)**
Exchange rate difference	(2,273)	**558**
Cash and cash equivalents		
— At beginning of year	44,497	**83,940**
— **At end of year**	**83,940**	**67,017**
— Investments	42,330	**24,139**
Liquidity at end of year	**126,270**	**91,156**

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

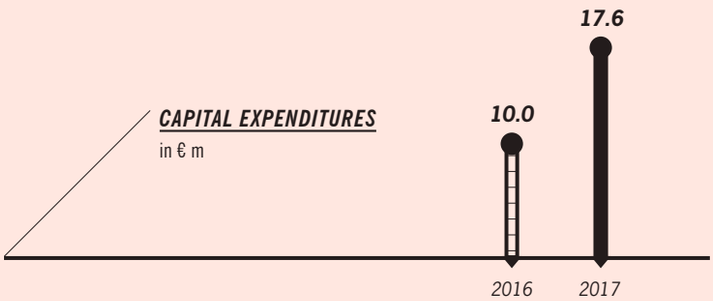
LIQUIDITY DEVELOPMENT

in € m



— CAPITAL EXPENDITURE —

Continued investments in upgrading and expanding Evotec's platforms
Capital expenditure amounted to € 17.6 m in 2017 (2016: € 10.0 m), thereof € 3.7 m related to Aptuit. 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 and office areas mainly in Hamburg (Germany) and Abingdon (UK).



— COST OF CAPITAL —

Only slight changes 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 2017, these ranged between 9.5% and 11.2% for the Company's drug discovery and development programmes (2016: 9.0% to 10.8%) and between 5.3% and 8.5% (2016: 5.6% to 8.3%) for the Company's service entities.

Interest rates that Evotec was able to achieve on the commercial markets were significantly lower than the calculated WACC.

— LIQUIDITY AND HEDGING —

Liquidity reduced due to Aptuit acquisition partly paid with own cash
Evotec ended 2017 with a liquidity of € 91.2 m (2016: € 126.3 m), which was composed of cash and cash equivalents (€ 67.0 m) and investments (€ 24.2 m). Cash and cash equivalents as well as current investments can be accessed within a period of less than three months. Liquidity in 2017 decreased in comparison to 2016 mainly due to the Aptuit acquisition of € 253.2 m which was partly paid with own cash.

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

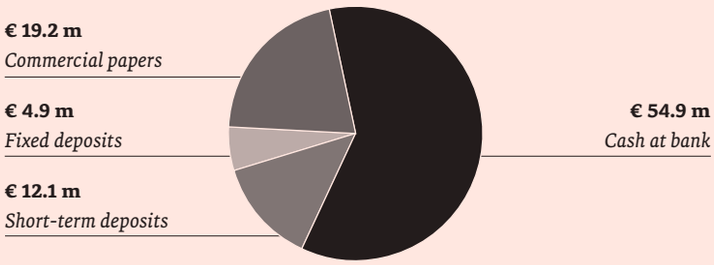
LIQUIDITY AS OF 31 DECEMBER
in T€

	2013	2014	2015	2016	**2017**
Cash and cash equivalents	45,644	48,710	44,497	83,940	**67,017**
Current investments	50,499	40,112	89,443	42,330	**24,139**
Total liquidity	**96,143**	**88,822**	**133,940**	**126,270**	**91,156**

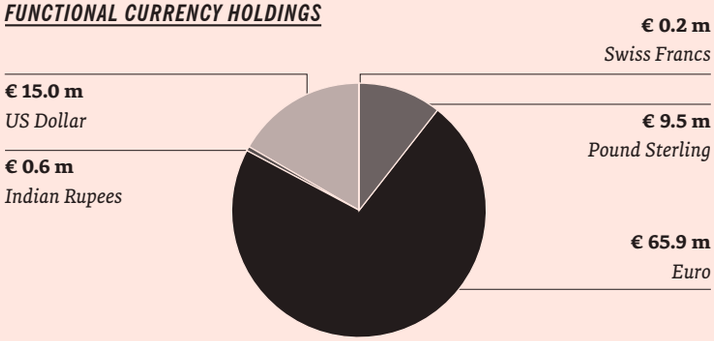
Deposits are primarily held in the three major currencies in which the Group trades – Euro, Pound Sterling and US dollar (see pie chart below). In 2017, approximately 35% of the Company's revenues were in US dollars and approximately 20% of its costs of revenue were in Pound Sterling. Therefore, one 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. In consequence of the payment of the purchase price for Aptuit in $, the currency holdings in US dollars decreased from € 63.0 m at the end of 2016 to € 15.0 m at the end of 2017. The currency holding in Pound Sterling at 31 December 2017 was € 9.5 m (31 December 2016: € 9.6 m) and was kept at a relatively low level with the objective of having sufficient cash available to meet the short-term local operating needs of the UK sites. The Company also held small amounts in Indian Rupees, Swiss Francs and Japanese Yen.

Evotec actively manages its funds to maximise returns while seeking to maintain principal preservation and preserve liquidity. Evotec's cash and investments are held with 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). All investments need to be in line with Evotec's internal investment policy.

LIQUIDITY BY INVESTMENT TYPE



FUNCTIONAL CURRENCY HOLDINGS



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A CONTINUED CHALLENGING CASH MANAGEMENT ENVIRONMENT

—

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

During 2017, the US dollar continuously weakened to the Euro and to Pound Sterling in comparison with the 2016 exchange rates. Overall, the US dollar exchange rate had a negative impact of € 1.1 m on 2017 revenues and of € 0.8 m on 2017 gross profit compared to prior year. The substantial weakening of Pound Sterling against the Euro due to the Brexit decision had a significant impact on revenues and costs of Evotec's UK sites after conversion into Euro. Revenue were impacted negatively by € 1.2 m and the costs positively by € 2.7 m. Overall Group gross profit was favourably impacted by currency movements by € 0.7 m which translated into a gross margin improvement of 0.6 percentage points compared to prior year. The liquidity position decreased by € 2.4 m at the end of 2017 compared to prior year-end's closing rates mainly due to the significantly weakened US dollar versus the Euro. In order to protect itself against adverse currency movements, the Company entered into forward contracts, selling US dollars against Pound Sterling. This resulted in a realised gain of € 0.8 m in 2017 (2016: foreign exchange loss of € 2.8 m).

As of 31 December 2017, the Company did not hold any derivative financial instruments (31 December 2016: $ 0.0 m). During 2017, forward contracts in the amount of $ 22 m were traded, 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 2016, the level of debt financing increased significantly by € 161.1 m to € 189.9 m at 31 December 2017 (2016: € 28.8 m); thereof € 188.0 m related to bank loans (2016: € 28.6 m) and € 1.9 m to finance leases (2016: € 0.2 m). € 181.1 m of the bank loans were denominated in Euro, € 6.1 m in US dollar and € 0.8 m in Pound Sterling. Bank loans increased by net € 159.4 m to support the financing of the Aptuit acquisition through a bridge loan of € 140 m and to support the financing of Evotec's EVT Innovate strategy through a € 16.4 m loan provided as a first tranche by the EIB. Furthermore, in August Evotec took over € 10.2 m of bank loans from Aptuit.

MULTIPLE-YEAR OVERVIEW FINANCIAL POSITION

in T€

	31 Dec 2013	31 Dec 2014	31 Dec 2015	31 Dec 2016**	**31 Dec 2017**
Liquidity*	96,143	88,822	133,940	126,270	**91,156**
Debt	17,241	21,549	22,943	28,827	**189,928**
Net liquidity	**78,902**	**67,273**	**110,997**	**97,443**	**(98,772)**
Current liabilities	38,953	33,068	56,400	73,390	**245,775**
Non-current liabilities	29,460	33,149	45,044	66,781	**89,746**
Total stockholders' equity	158,967	158,383	187,094	213,936	**331,747**
Total liabilities and stockholders' equity	**227,380**	**224,600**	**288,538**	**354,107**	**667,268**
Cash flow from operating activities	6,657	(3,797)	15,651	67,360	**10,828**
Cash flow from investing activities	(31,513)	2,975	(23,422)	(5,973)	**(269,033)**
Cash flow from financing activities	31,936	3,096	2,486	(19,671)	**240,724**
Movements in investments and fx differences	24,904	(9,595)	50,403	(49,386)	**(17,633)**
Net increase/decrease in liquidity	**31,984**	**(7,321)**	**45,118**	**(7,670)**	**(35,114)**
Capital expenditures	5,160	5,282	11,164	10,003	**17,565**
Investment rate	21.3%	22.0%	29.1%	23.0%	**23.5%**
Capex to write-downs	86.8%	87.0%	122.9%	100.2%	**128.0%**

** Cash and cash equivalents and investments*
*** Modified by the effect of the finalization of Cyprotex's purchase price allocation in 2017 in accordance with IFRS 3, see Note 4 in the Notes*

ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY

— ACQUISITIONS —

Effective 11 August 2017, Evotec acquired 100% of the shares in Aptuit Global LLC, Princeton, NJ, USA; Aptuit (Switzerland), Basel, Switzerland, and Aptuit (Potters Bar) Ltd, Abingdon, UK. The purchase price for all shares amounted to € 253.2 m and was paid in cash.

— CAPITAL STRUCTURE —

Financing structure changed with Aptuit; Equity ratio remains very strong at 50%

In 2017, Evotec's share capital increased by 10.9% to € 147.5 m (31 December 2016: € 133.1 m) and additional paid-in capital by 11.6% to € 778.9 m (31 December 2016: € 698.1 m). On 09 February 2017 Evotec resolved on a capital increase from its authorised capital against cash. In this private placement capital increase, Evotec issued 13,146,019 new shares to Novo Holdings A/S (previously "Novo A/S") (Denmark) who invested € 90.3 m in cash to subscribe to shares of Evotec. The non-controlling interest related to the acquisition of Panion in 2015 amounted to € 1.0 m at 31 December 2017.

Total stockholders' equity increased by € 117.8 m to € 331.7 m as of the end of 2017 (31 December 2016: € 213.9 m) mainly due to the capital increase and the net income of the year under review.

Furthermore, in 2017, a total of 597,594 stock options (2016: 258,584 options) were exercised. As of 31 December 2017, the total number of options available for future exercise amounted to 111,814 (approximately 0.1% of issued shares). Options have been accounted for under IFRS 2 as an equity-settled plan using the fair value at the grant date.

At the Annual General Meetings in 2012, 2015 and 2017, contingent capital amounting to € 4 m, € 6 m and € 6 m, respectively was approved for use in Share Performance Plans. In 2017, a total of 1,160,236 Share Performance Awards ("SPA") were exercised. During the third quarter of 2017, a total of 390,804 SPAs (2016: 793,903 awards) were granted to the Management Board and key employees. These awards could result in a maximum of 781,608 bearer shares (2016: 1,587,806) being issued at maturity. As of 31 December 2017, the total number of awards granted for future exercise amounted to 3,476,204 (2016: 4,368,425) (approximately 2.4% and 3.3% of issued shares in 2017 and 2016, respectively).

Evotec's equity ratio remained strong, amounting to 49.7% at the end of 2017 (2016: 60.9%).

— ASSETS AND LIABILITIES —

Acquisition of Aptuit influenced Evotec's balance sheet in 2017

The Company's total assets increased by € 313.2 m to € 667.3 m as of 31 December 2017 (31 December 2016: € 354.1 m) mainly due to the acquisition of Aptuit.

Current assets as of 31 December 2017 grew by € 11.1 m to € 180.3 m (31 December 2016: € 169.2 m).

Liquidity, which consists of cash and cash equivalents and investments, decreased by € 35.1 m to € 91.2 m (31 December 2016: € 126.3 m). The decrease in liquidity resulted mainly from the investing and financing activities (see chapter "Financing and financial position" on page 50 of this Management Report).

Trade accounts receivables and accounts receivables from related parties increased from € 28.3 m as of 31 December 2016 to € 46.1 m at the end of December 2017 due to the acquisition of Aptuit's receivables and general business growth. Inventories increased to € 9.0 m at the balance sheet date (31 December 2016: € 4.3 m) for the same reason. Current tax receivables increased by € 5.4 m to € 6.9 m (31 December 2016: € 1.5 m) and related mainly to R&D tax credits from Evotec's entities in France, Italy and UK. Other current financial assets amounted to € 10.4 m and increased by € 8.8 m mainly due to accrued revenues at Aptuit. Prepaid and other current assets increased by € 9.4 m to € 16.6 m (31 December 2016: € 7.2 m) mainly due to prepaid expenses occurred at Aptuit.

Investments accounted for using the equity method and other long-term investments increased due to several new strategic minority shareholdings from € 3.9 m to € 22.1 m at 31 December 2017. This includes Evotec's investments in Carrick Therapeutics, Eternygen, Exscientia, Forge, FSHD Unlimited, and Topas Therapeutics.

Property, plant and equipment increased by € 31.7 m to € 74.7 m in 2017 (31 December 2016: € 43.0 m) again, mainly due to fixed assets acquired with Aptuit.

Goodwill and intangible assets increased by € 236.2 m to € 355.2 m (31 December 2016: € 119.0 m). Intangible assets increased by € 101.8 m to € 135.0 m mainly due to assets resulting from the purchase price allocation of Aptuit. Goodwill increased by € 134.5 m to € 220.2 m mainly due to the acquisition of Aptuit. The purchase price allocation of Cyprotex was still preliminary in 2016 and was finalised and amended during 2017 resulting in modified 2016 balance sheet positions; the purchase price allocation of Aptuit is preliminary in the 2017 numbers so that the goodwill amount may be subject to change.

Deferred tax assets increased to € 19.2 m (31 December 2016: € 10.5 m) mainly due to the Aptuit acquisition. Non-current tax receivables amounted to € 11.2 m and related mainly to R&D tax credits in France.

In 2017, total current liabilities increased by € 172.4 m to € 245.8 m (31 December 2016: € 73.4 m) mainly due to the partial financing of the Aptuit acquisition through a bridge loan of € 140 m as well as trade accounts payable and provisions added with Aptuit.

Trade accounts payable mainly increased by € 14.1 m to € 26.1 m (31 December 2016: € 12.0 m) due to the acquisition of Aptuit. Current provisions increased from € 15.5 m at year-end 2016 to € 22.1 m at year-end 2017, amongst others due to employee-related provisions and acquired earn-out provisions associated with Aptuit. Current deferred revenues increased by € 3.3 m to € 18.7 m (31 December 2016: € 15.4 m). The current portion of loans increased to € 167.8 m as of 31 December 2017 (2016: € 21.4 m) to bridge finance the Aptuit acquisition.

Total non-current liabilities increased by € 25.5 m to € 89.5 m as of 31 December 2017 (31 December 2016: € 64.0 m). The long-term portion of the Celgene upfront payment from December 2016 is shown as deferred revenues. Deferred revenues hence decreased during 2017 mainly due to the progressing Celgene iPSC collaboration to € 28.7 m (31 December 2016: € 41.1 m). Deferred tax liabilities increased to € 23.5 m (31 December 2016: € 2.9 m) due to the acquisition of Aptuit. The long-term portion of loans increased by € 13.1 m to € 20.3 m as of 31 December 2017 (31 December 2016: € 7.2 m) mainly due to the unsecured loan facility provided by the EIB to support Evotec's EVT Innovate strategy.

CONDENSED BALANCE SHEET

in T€

	*2016**	***2017***
Cash, cash equivalents and investments	126,270	**91,156**
Trade accounts receivables	28,300	**46,113**
Inventories	4,305	**9,017**
Other current assets	10,360	**33,966**
Deferred tax assets	10,462	**19,233**
Property, plant and equipment	43,018	**74,662**
Intangible assets, excluding goodwill	33,267	**135,033**
Goodwill	85,688	**220,178**
Other non-current assets	12,437	**37,910**
Total assets	**354,107**	**667,268**
Current maturities of loans and finance leases	21,603	**168,468**
Trade accounts payable	11,997	**26,078**
Current provisions	15,539	**22,090**
Other current liabilities	24,251	**29,139**
Long-term loans and finance leases	7,224	**21,460**
Non-current provisions	14,801	**15,366**
Non-current deferred revenues	41,129	**28,680**
Other non-current liabilities	3,627	**24,240**
Total stockholders' equity	213,936	**331,747**
Total liabilities and stockholders' equity	**354,107**	**667,268**

** Modified by the effect of the finalization of Cyprotex's price allocation in 2017 in accordance with IFRS 3, see Note 4 in the Notes*

WORKING CAPITAL CALCULATION

in T€

= Current assets excl. cash, cash equivalents and investments - current liabilities excl. bank loans	*2016*	***2017***
Trade accounts receivables	28,300	**46,113**
Inventories	4,305	**9,017**
Other current assets	10,360	**33,966**
Current Assets	**42,965**	**89,096**
Trade accounts payable	11,997	**26,078**
Current provisions	15,539	**22,090**
Other current liabilities	24,251	**29,139**
Current Liabilities	**51,787**	**77,307**
Working Capital	**(8,822)**	**11,789**
Δ Working Capital		**20,611**

— GOODWILL AND INTANGIBLE ASSETS —

Goodwill impairment

In the fourth quarter of 2017, Evotec performed its annual goodwill review. No impairment was necessary for any of the goodwill.

Intangibles impairment

In the third quarter of 2017, the intangible asset related to project P2Y14 (Panion) was impaired by € 1.2 m due to a delay in the project and therefore in a change of the valuation model.

The Company also performed its annual regular review of intangible assets for potential impairment in accordance with IFRS during the final quarter of 2017. 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 56 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 2,500 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 2017, the Company had operating lease obligations in the amount of € 101.4 m (31 December 2016: € 83.3 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 € 16.9 m (31 December 2016: € 9.1 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 2013	*31 Dec 2014*	*31 Dec 2015*	*31 Dec 2016**	***31 Dec 2017***
Cash, cash equivalents and investments	96,143	88,822	133,940	126,270	**91,156**
Trade accounts receivables	17,777	25,259	21,069	28,300	**46,113**
Inventories	2,358	3,111	3,133	4,305	**9,017**
Other current assets	6,248	8,108	8,798	10,360	**33,966**
Deferred tax assets	-	-	8,812	10,462	**19,233**
Property, plant and equipment	24,239	24,045	38,334	43,018	**74,662**
Intangible assets, excluding goodwill	39,826	30,210	25,154	33,267	**135,033**
Goodwill	40,136	44,815	45,648	85,688	**220,178**
Other non-current assets	653	230	3,650	12,437	**37,910**
Total assets	**227,380**	**224,600**	**288,538**	**354,107**	**667,268**
Loans and finance leases	17,241	21,549	22,943	28,827	**189,928**
Trade accounts payable	6,653	9,450	12,171	11,997	**26,078**
Provisions	24,374	21,651	44,036	30,340	**37,456**
Deferred revenues	14,433	7,150	15,272	56,484	**47,332**
Other liabilities	5,712	6,417	7,022	12,523	**34,727**
Total stockholders' equity	158,967	158,383	187,094	213,936	**331,747**
Total liabilities and stockholders' equity	**227,380**	**224,600**	**288,538**	**354,107**	**667,268**
Working capital	4,657	16,773	(9,187)	(8,822)	**11,789**
Current ratio	3.15	3.79	2.96	2.31	**0.73**
Receivables turnover	4.83	3.54	6.06	5.81	**5.59**
Intangibles and goodwill to total assets	35.2%	33.4%	24.5%	32.9%	**53.2%**
Provisions to total liabilities and stockholders' equity	10.7%	9.6%	15.3%	8.6%	**5.6%**
Equity ratio	69.9%	70.5%	64.8%	60.9%	**49.7%**

** Modified by the effect of the finalization of Cyprotex's purchase price allocation in 2017 in accordance with IFRS 3, see Note 4 in the Notes*

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

In 2017, Evotec recorded a very strong top-line performance with 57% Group revenue growth driven by a strong performance in the base business, increased milestone payments and contributions from the acquired businesses of Cyprotex and Aptuit. Revenues from milestones, upfronts and licences increased by 47% in 2017 compared to the previous year, mainly due to milestone revenues earned in Evotec's collaborations with Bayer in endometriosis and kidney diseases, Celgene in neurodegeneration, and Sanofi in diabetes and oncology.

2017 was a strong year for both segments. The EVT Execute segment achieved continued profitable growth with revenues increasing by 46% compared to the prior year due to a strong performance of the base business and initial contributions from acquisitions. Revenues in the EVT Innovate segment increased by 65%. The increase in revenues resulted on the one hand from extended collaborations and the full year impact of new partnerships with Celgene and Bayer signed in 2016 and on the other hand from higher milestone achievements from several collaborations. Adjusted Group EBITDA for 2017 was positive and increased significantly by 60% compared to the prior year. In fiscal year 2017, the adjusted EBITDA of the EVT Execute segment was positive, resulting in an adjusted EBITDA margin of 25%. The adjusted EBITDA of the EVT Innovate segment remained negative as expected but improved by 63% compared to the prior year.

Evotec's year-end liquidity and equity ratio continued to be strong at € 91.2 m and 49.7%, 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 EVT Innovate R&D via Cure *X* and Target *X* initiatives to generate significant additional future upside potential. In addition, it allows the Company to selectively participate in company formations and equity investments.

In 2018 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 improve compared to 2017.

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 again in 2017.

— HEADCOUNT —

As of 31 December 2017, the Evotec Group employed a total of 2,178 people worldwide. This is an absolute increase of 940 or nearly 76% compared to prior year's end, which besides continued organic growth mainly reflects the significant expansion of the Company's drug discovery and development resources through the acquisition of Aptuit in Italy, Switzerland and the UK. Within the Evotec Group, 808 people are employed at Aptuit as of 31 December 2017.

Across all sites and functions both in Europe and the USA, 266 new employees were hired in 2017 to further increase the Company's capacity for innovation and to provide best service to Evotec's partners and clients. The reduction within the USA is due to the closure of the sites in South San Francisco and Kalamazoo.

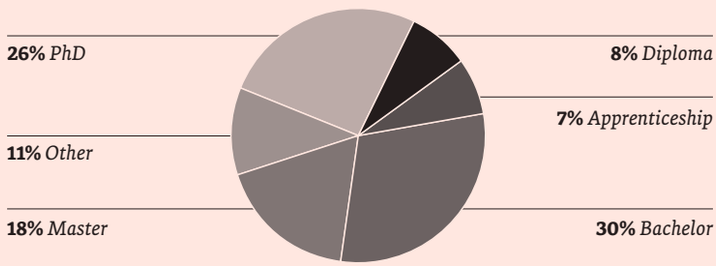
HEADCOUNT AS OF 31 DECEMBER

	2016	2017
Research*	1,017	**1,344**
Development*, **	-	**521**
Compound Management*	46	**41**
Sales and Administration*	175	**272**
Total Evotec Group	**1,238**	**2,178**
Total France	301	**356**
Total Germany	431	**509**
Total Italy	-	**600**
Total Switzerland	-	**10**
Total UK	395	**604**
Total USA	111	**99**
Total Evotec Group	**1,238**	**2,178**

** Across all Evotec sites*
*** Development operations includes all the services needed to transform a drug candidate typically originating from Research into a finished drug product ready to be administered in humans by the oral or the inhalation route.*

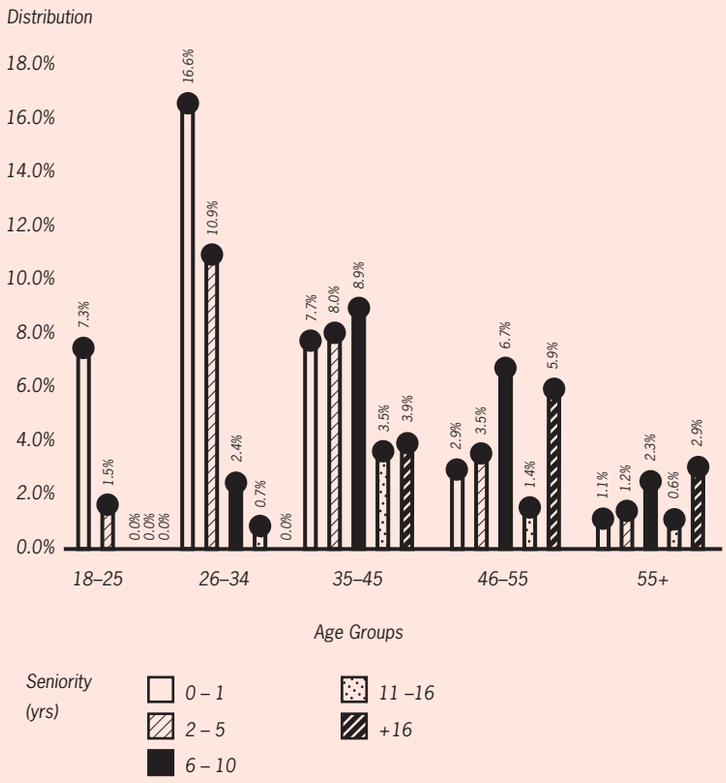
The workforce at Evotec is highly skilled with 82% of all employees having at least one academic qualification. 26% of the Company's total workforce hold a PhD degree.

EMPLOYEES BY LEVEL OF EDUCATION AS OF 31 DECEMBER 2017



Approximately 40% 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 2017 was 39 years.

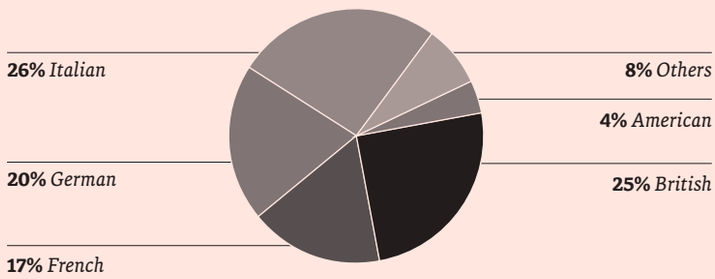
EMPLOYEES BY AGE GROUPS AND SENIORITY



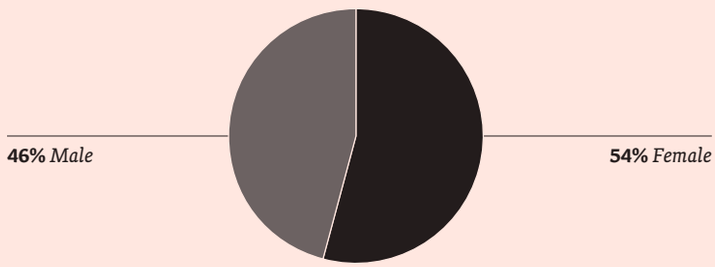
— DIVERSITY —

Evotec operates in a global industry with a broad international customer base. Therefore, the Company seeks the most suitably qualified talent regardless of gender, nationality or age. By embracing diversity, Evotec can better adjust to changing markets, secure access to a broader pool of highly qualified, talented people and benefit from the subsequent high cultural diversity. At the end of 2017, Evotec employed individuals from 60 nationalities.

EMPLOYEES BY NATIONALITY AS OF 31 DECEMBER 2017



Men account for 46% and women account for 54% of all employees globally.



— WORK-LIFE BALANCE —

As an employer, Evotec is fully aware that offering a good balance between work and personal 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 2017, the Company continued to offer training programmes in different areas. One focus was on Lean trainings. 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, the employees or the organisation. Lean training courses provide employees with the tools and the skills to lead improvement projects with the goal of making business processes at the Company as effective and efficient as possible. Since 2013, more than 150 employees from different sites, of varying seniority and representing a range of departments and functions have been trained and achieved green, yellow and black belt accreditations.

An additional crucial part of the Company's trainings in 2017 was the further development of a professional feedback culture, improving the interaction between employees. The Company continued to train its employees on giving and receiving regular meaningful feedback by using the SBI model. SBI stands for Situation, Behaviour, Impact. It is considered an ideal way to present feedback in a constructive and motivational manner. This year's SBI trainings were scheduled to bring all employees to a higher performance level and provide a cooperative working environment.

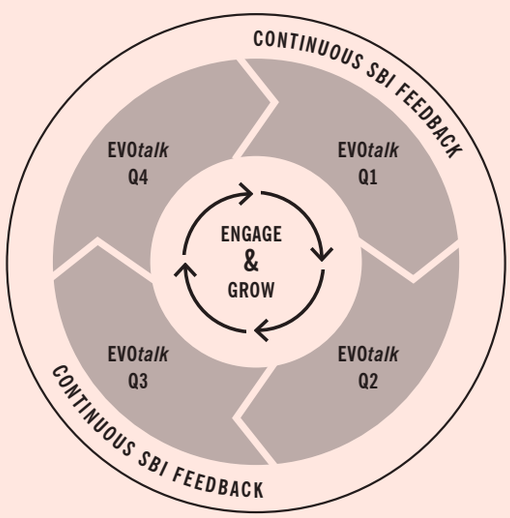
In addition, intensive and practical workshops were held to facilitate successful EVO*talks*. Both line managers and employees were able to strengthen their skills and confidence with respect to initiating a continuous and constructive dialogue about expectations, priorities and performance.

— PERFORMANCE MANAGEMENT —

Evotec has applied a standardised performance management process and incentive schemes for many years. In order to make the current performance management, including incentive schemes, more relevant, effective and rewarding to the Evotec workplace, a global improvement project was initiated in 2016 and successfully concluded in 2017. Based on Evotec's corporate strategy, a tailor-made reward strategy was defined as a basis for the new approach. Every aspect from goal-setting and evaluation to incentives and rewards was reviewed. Based on the feedback given by employee and line manager focus groups, a new model called "EVO*connect*", shaped by and for the Company's employees, was developed.

Through EVO*connect*, the Company creates an individual employee experience that concentrates on people's engagement and growth as well as performance, skills and career progression throughout the year.

In essence, formal yearly reviews are replaced in favour of regular forward-looking meetings called "EVO*talk*", thus enabling real-time feedback and creating a forum for ongoing dialogue. Either line managers or direct reports can request an EVO*talk* at any point during the year, resulting in at least one meeting per quarter.



Based on the approval of the AGM, in 2017, Evotec designed and launched a new global long-term incentive scheme ("LTI"). This LTI is a Share Performance Plan in which participants are allocated shares, the vesting of which is subject to the actual performance versus two equally weighted Key Performance Indicators ("KPIs") – absolute share price development and

total shareholder return – vesting over a four calendar year period. These two KPIs were carefully selected on the basis of being the indicators that will focus the Company's performance on shareholder value and ensure the future success of Evotec. The launch of the LTI was a crucial step to ensure alignment of the interests of the Management Board and Senior Management with shareholders' interests. Evotec made awards to the members of the Management Board and Senior Management in 2017.

PROCUREMENT AND FACILITY MANAGEMENT IN 2017

In 2017, the procurement and logistics function at Evotec extended the mid-term ONE Procurement strategy roadmap (established in 2013) to its new Manchester site. The main pillars of this strategy are the further development of an efficient supply chain, the establishment of strategic partnerships and disciplined cost control while maintaining the highest level of product quality. Lean projects focussing on efficiency were implemented and rolled out on a global level. A further optimised use of the resources added value for the Company, enhancing service levels and, ultimately, project delivery and customer satisfaction.

With the appointment of a new US Procurement and Logistics manager, all procurement activities of the Princeton, Watertown and Branford sites are now supported locally and efficiently from the Princeton, NJ, site.

The acquisition of Aptuit strengthens the global relationship with the joint suppliers of Evotec and Aptuit.

2017 saw the further development and fit-out of Evotec's headquarters in Hamburg (Germany), the Manfred Eigen Campus. Evotec leased new additional premises next door to its headquarters from February 2018 onwards to support the continued growth of the business in Hamburg. These premises will be used to outplace the administration and management team.

At the beginning of 2017, Cyprotex' Macclesfield operation was transferred to new laboratories and offices at Alderley Park in Alderley Edge. Cyprotex's previous Macclesfield site was sold at the end of 2017. Evotec's existing Manchester site also moved its premises into Alderley Park in the course of 2017, thus consolidating all northwest operations on one site.

As part of the Cyprotex transaction, Evotec acquired two small sites in the USA: Kalamazoo, MI, and Watertown, MA. To better focus its business, the site in Kalamazoo was closed in the course of 2017, while the Watertown site complements Evotec's existing sites in Princeton, NJ, and Branford, CT.

As part of the acquisition of Aptuit, Evotec took over three new sites in Verona, Italy, Basel, Switzerland, and Abingdon, UK. With over 500 employees, the Verona site has become the largest site within the Evotec Group. The Aptuit Abingdon site is located directly next to Evotec's existing premises in Abingdon. Merging both premises into one Abingdon site will recognise some potential synergies and facilitate light integration.

In the USA, Evotec's San Francisco site was closed in 2017 with a subsequent consolidation of US compound management services in its facility in Branford, CT.

Reporting pursuant to section 289c and section 315c of the German Commercial Code

Evotec AG publishes a separate Non-financial Group Report in accordance with section 289c and section 315c of the German Commercial Code. This report can be found on Evotec's website in the Investor Relations section under Financial Publications.

Post-balance sheet events

On 08 March 2018, Evotec announced that Evotec and Sanofi have entered into exclusive negotiations to accelerate infectious disease research and development through a new open innovation platform led by Evotec. Under the agreement, Sanofi would licence its infectious disease research and early-stage development portfolio and transfer its infectious disease research unit in Lyon, France, which includes more than 100 employees to Evotec. Sanofi will pay Evotec an initial one-time cash upfront payment of € 60 m and provide further significant long-term funding to ensure support and progression of the portfolio. This transaction is expected to close in the first half of 2018, subject to finalization of definitive agreements and completion of the appropriate social process.

Risk and opportunities management

RISK AND OPPORTUNITIES MANAGEMENT PRINCIPLES

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

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, operating and financial functions allows Evotec to recognise risks and opportunities at an early stage. Where possible, Evotec's Management Board responds to these risks and opportunities by implementing the necessary 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. 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 such activities are in line with its strategy, when they have a risk profile consistent with industry norms, and when there is a corresponding opportunity for an increase in business 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.

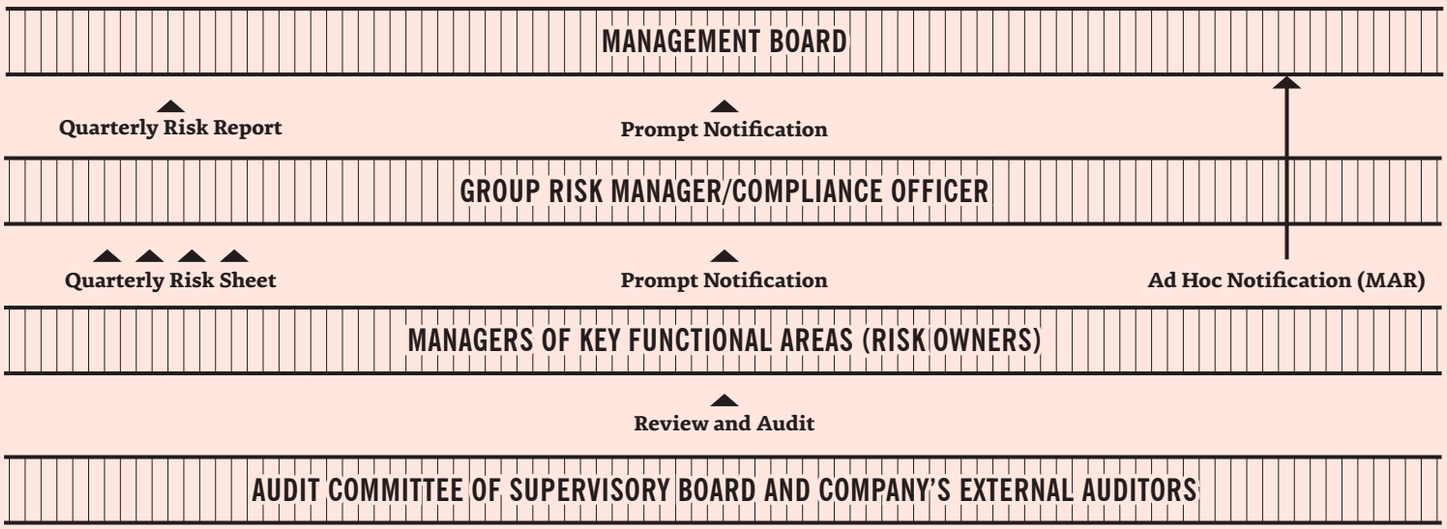
To cover other risks associated with the Company's business, including those that would not have a short-term financial impact, Evotec performs regular commercial project portfolio reviews. Strict application of project and investment approval processes, legal contract reviews and signing authorities 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 regarding 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 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 Risk Manager, 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 early as possible, to precisely describe and quantify them, to estimate their probability of occurrence, and to report them immediately to the management so that it can deal with them in a timely manner. The Risk Owners have the 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 that 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 these cash stress tests.

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.



(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 4 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 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 effectiveness of the control environment, Evotec maintains 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 subject to annual testing by an independent third party expert. These assessments identified no material weaknesses in 2017, and all detected deficiencies were addressed and remediated immediately where possible. For all remaining deficiencies, 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 independent 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 to avoid risks from fraud and 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"). 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.

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 may also generate Group accounting-related risks. To this end, 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 comprehensive information.

Evotec is confident that the systems and processes implemented significantly reduce the risk of negative impacts on the Company's financial results and its financial reporting. They enable the Company to appropriately recognise specific Company-related issues in the Consolidated Financial Statements. However, due to the very nature of business activity, discretionary decision-making, faulty checks, following criminal acts or other 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 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 the 2016 Annual Report.

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 to implement appropriate countermeasures.

PROBABILITY OF OCCURRENCE

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

POTENTIAL FINANCIAL IMPACT ON LIQUIDITY

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 out-licensing 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	**medium**	**high**	**changed**
Risk from investment strategy	**low/medium**	**medium**	**unchanged**
Financial risks			
Liquidity risks	**low/medium**	**medium/high**	**unchanged**
Default risks	**low**	**medium/high**	**unchanged**
Currency risks	**low/medium**	**high**	**changed**
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**
Cyber-attacks	**high**	**medium**	**new risk**
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 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. In reflection of the size of the Aptuit acquisition, the risk from M&A compared to 2016 was changed to a medium probability of occurrence and high potential impact regarding

the amount. In addition, cyber-attacks become a more and more constant threat for companies like Evotec which need to be addressed adequately.

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. 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 and development 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 funds 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 may only 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 and may impact Evotec's financial position.

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 *high failure rates*. At each stage, there is an inherent risk that developments are delayed or even need to be aborted due to undesired results. The earlier the stage of a programme, the higher is the rate of failure. However, the cost of failure tends to increase in the later stages 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 may not be received, may 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.

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 monitored closely. In 2017, Evotec's Top 3 largest customer accounted for 36% of total revenues (see the "Top 10 collaborations" table on page 32 of this Management Report).

- Some of the service contracts contain *scientific or technical delivery risks*, which can be only partly mitigated by 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 importance to maintain this good reputation and avoid any negative impact on its branding which could lead to a loss of customers. 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 number of active drug discovery and early development programmes that it intends to license to pharmaceutical companies for clinical development and commercialisation. Furthermore, commercial risks also include the continuation of such established collaborations and partnerships during the further development along the value chain. In addition, also a significant portion of Evotec's service business is dependent of the Company's partners and customers continuing to develop their programmes, which are developed with Evotec's support during drug discovery and early development stages.

However, 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 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 continues 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 academic or research institutions to important value inflection points for partnering. Investments might be allocated to the development of ultimately unsuccessful products partnerships and 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 high-quality services. However, the Company is pursuing ambitious growth targets both organically and also via acquisitions of complementary service capacities and capabilities, as exemplified by the acquisition of Aptuit in August 2017 and Cyprotex in December 2016. The Aptuit acquisition has added sites in Verona, Italy, Abingdon, UK, and Basel, Switzerland with approximately 750 employees. In order to address the risk of integration, dedicated staff will handle the harmonisation of business critical processes and systems.

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 (prior to the Aptuit acquisition), 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 2017, Evotec continued to expand its EVT Innovate business strategy through equity participation in selected companies. These investments enable Evotec to accelerate its business model as they provide an optimal risk-reward profile through to potentially clinical 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 and is exposed to the risks inherent to drug discovery and development (see "Business environment and industry risks" paragraph in this chapter).

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 or applying other refinancing tools is reviewed on an ongoing basis. Such additional financing might also be required if new opportunities arise for 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. In 2017, Evotec has reserved € 1.1 m for doubtful receivables in few cases.

▸ 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 tries to manage this exposure via close market monitoring, forwards, natural hedges and selective hedging instruments. The hedging instruments used do not expose the Company to any material additional risk. Hedging transactions are entered into 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. Despite active currency management this risk cannot be fully eliminated due to unpredictable volatility within the mentioned currencies.

▸ 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 some 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 2017, Evotec did not encounter any significant legal risks.

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 its strong personnel growth.

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 natural disasters, power failures, system upgrade failures, theft and data corruption. Complying with guidelines relating to *data protection*, which also regulate the assignment of access rights is mandatory.

▸ The Company performs regular IT risk assessments to identify and rectify weaknesses. In addition to these, an IT Security Committee 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 2017, the exposure to *cyber-attacks* further increased in the industry. The related risks are: loss, destruction, unauthorised encryption or corruption of data arising out of captured passwords, virus attacks, physical access to Evotec's servers by non-authorised people or other unauthorised modifications to the Company's systems. Evotec's own and/or client data required for the day-to-day operations might be inaccessible or destroyed and might prevent Evotec from day-to-day management and delivery of its business. To protect the Company from virus attacks and cybercrime activities, Evotec employs antivirus and antimalware software, as well as firewalls running at relevant points of entry. In addition, systems are updated as often as possible, enabling the installation of new versions or patches with better secured authorised access, improved protection against malware and viruses to all systems possible. Systems that cannot be updated for technical reasons (e.g. due to lack of technical support) are – where feasible – isolated from the main network or replaced. In addition, relevant employees (e.g. in the financial and IT departments) are educated and regularly reminded of the risks and kinds of potential attacks that may occur. Evotec will increase resources and investments to further secure its IT in 2018.

Compliance risks

Since February 2016, Evotec has repeatedly experienced unsuccessful fraud attacks by criminals using a technique called 'Fake President', whereby cyber criminals use social networks such as LinkedIn to understand the Company's organisation structure in order to target employees in the finance/treasury departments. These criminals then try to induce payments to false accounts or to trigger separate payments. Although various countermeasures have been implemented, Evotec's management is repeatedly sensitising both its IT and finance departments to be extremely cautious with emails that look unusual or suspicious, or that ask for payments to be made to an unknown account. Despite these efforts, in October 2017, Evotec suffered a cyber-attack leading to a fraudulent payment of T$ 395 to an unknown person/corporation. Thanks to immediate action, it was possible to identify the money and freeze it at another bank so far. Currently, further measures are ongoing to recover this money and transfer it back to Evotec.

Other risks

Risks concerning industrial action/labour disputes, especially in Germany and France, exist. However maintaining a constructive and close dialogue and relationship between management and employee's representatives has negated any such action.

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

With the acquisition of Aptuit, parts of the operation are carried out under GMP, GLC and GLP regulations that are certified and periodically audited by the regulatory agencies such as FDA, MHRA, AISA and the Company's customers. Audit findings may lead to a loss of the GxP certification with the regulatory agencies or a loss of the approved supplier status at the Company's customers and a subsequent loss in revenues. To control the risk, Evotec has established a Quality Assurance System that monitors the compliance to the regulations. There has been no audit findings during the recent years leading to a loss of any of the Company's certifications.

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 outsourcing their research and development activities. Such outsourcing enables Pharma companies to convert fixed costs into variable costs, gives them access to expertise in selected areas and spares them the need to build internal capabilities and infrastructure. Evotec is aware of this trend and consequently pursues 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 a broad and deep co-owned pharmaceutical pipeline without taking the financial risk of clinical development. Currently, Evotec participates in the potential success of a number of clinical assets through development partnerships with pharmaceutical companies. These clinical development programmes are financed by Evotec's partners and thus do not carry any cash-related financial risks for Evotec but only significant commercial upside potential. Within the EVT Innovate business segment, the Company continuously invests into Cure *X*/Target *X* projects that are either based on highly innovative academic or internal R&D projects. Cure *X*/Target *X* projects are positioned as starting points for future strategic Pharma partnerships with significant commercial upside.

The Company's liquidity and profitability 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. For more than 20 years, 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 750 partners across the industry on a global basis. The excellent record of accomplishment 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 conservative 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 —

Human resource is the critical asset for companies in the Pharma and biotech industry. The Company believes that its success in alliances and partnerships is attributable to its key personnel. As stated in the "Employees" chapter on page 56 of this Management Report, approximately 40% of Evotec's employees have worked for the Company for more than five years. Retention of employees who have outstanding expertise and skills in the long term will have a positive impact on the Company's business, results of operations and financial position.

Expertise in key therapeutic indication areas and knowledge of innovative technologies are essential in developing new platforms or research initiatives – such as the further development of the iPSC drug discovery platform that may result in new business opportunities for the Company. Evotec is well positioned to attract key personnel to drive the company's scientific and business strategy.

Outlook

Information set forth in this section contains forward-looking statements. These statements are neither promises nor guarantees, but are subject to a variety of risks and uncertainties, many of which are beyond Evotec's control and 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 3.1% in 2018 and on average 3% in 2019-20, showing a similar growth compared to the estimated growth rate of 3.0% in 2017. Economic growth in the USA is expected to amount to 2.5% in 2018, up from an estimated 2.3% in 2017. Eurozone growth in 2018 is projected to amount to 2.1% (2017: 2.4%); although the cyclical upturn is expected to continue, it is estimated that it will happen at a more restrained pace following this strong increase in 2017. However, due to the heightened level of political uncertainty in major economies, protectionist tendencies, and the possibility of disorderly financial market movements (e.g. tightening of global financing conditions), these projections can be subject to change during 2018. 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 AND DEVELOPMENT ALLIANCES —

The global drug discovery and development market is expected to experience continued growth as described earlier. This demand for efficient external innovation will be met increasingly by companies such as Evotec. Detailed market data of the global drug discovery and development market can be found in the "Organisational structure and business activities" chapter on page 28 of this Management Report.

The pharmaceutical industry will increasingly favour larger strategic research contracts that are easy to manage and that carry commercial risks, which are perceived to be low. This presents a challenge for the highly fragmented drug discovery and development outsourcing industry. However, Evotec is ideally positioned to take full advantage of these market developments. The acquisition of Aptuit in 2017 supports and confirms Evotec's position as one of the largest and financially stable drug discovery and development service providers. Furthermore, Evotec is able to undertake large strategic and integrated drug discovery projects from target identification to IND submission, thus accelerating drug discovery processes along the value chain.

— TRENDS IN RESEARCH AND DEVELOPMENT —

Following a dip in the number of novel drug approvals in 2016 (22 new medical entities ("NME")), the FDA approved 46 new drugs in 2017. Of these, a steadily growing proportion originates from biotech companies, demonstrating their importance as a key innovation driver in this field. However, Pharma companies continue to need access to significant numbers of new innovative medicines in order to ensure their sustainable growth. Against this backdrop, pharmaceutical companies will continue to make significant investments into the development of innovative and promising drug candidates and are turning to external innovation sources and partners to replenish their pipelines.

BUSINESS DIRECTION AND STRATEGY

Following the strategic frameworks Action Plan 2012 – "Focus and Grow", and Action Plan 2016 – "Innovation Efficiency", Evotec implemented Action Plan 2022 – "Leading External Innovation" at the end of 2017. This plan supports the increase in growth and value of the Company by expanding its leadership position in high-quality drug discovery and development solutions. Evotec's strategy is to become the external innovation partner of choice in drug discovery and development for large Pharma and biotech companies as well as foundations. Via its hybrid business model, consisting of its two operating business segments EVT Execute and EVT Innovate, Evotec is able to engage in service alliances, tailor-made risk-based collaborations as well as enter translational (BRIDGE) agreements with Academia.

Evotec continues to manage its drug discovery and development activities under the business segments EVT Execute and EVT Innovate. EVT Execute represents all collaborations in which the customer brings the underlying intellectual property to the collaboration. EVT Innovate comprises all collaborations derived from Evotec's developed assets and platforms (developed either internally or through academic collaborations) and Evotec's equity participation in certain companies. Further information on Evotec's two business segments can be found in the "Corporate objectives and strategy" chapter on page 29 of this Management Report.

Specific objectives for the segments EVT Execute and EVT Innovate as well as Corporate goals for 2018 were defined at the end of 2017.

EVT EXECUTE	EVT INNOVATE	CORPORATE
▸ New long-term alliances integrating offering of Aptuit ▸ New performance-based integrated technology/disease alliances ▸ Expansion of foundations and biotech network in USA/Europe ▸ Milestones from existing alliances	▸ New clinical initiations and good progress of clinical pipeline within existing partnerships ▸ Expansion of academic BRIDGE network ▸ Strong R&D progress within Cure *X*/Target *X* platforms ▸ Strong expansion of iPSC (induced pluripotent stem cells) platform	▸ Continued integration of Cyprotex and Aptuit ▸ Corporate investing initiatives

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 and companies. Evotec upgrades its capabilities continually to maintain the best infrastructure and skills. This is essential for meeting the expectations of its partners in drug discovery and development, like the iPSC platform described earlier, as well as the extension of its value chain following the acquisition of Aptuit in 2017. This trend is expected to continue in 2018 and beyond.

The Company will continue to invest in highly innovative approaches to address disease areas of significant unmet medical need. 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 2018, Evotec sees a significant opportunity to accelerate selected projects, e.g. in oncology, neuronal disease, diabetes, endometriosis, kidney disease and NASH as well as a further expansion of its iPSC platform.

FINANCIAL OUTLOOK FOR 2018

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

— EXPECTED OPERATING RESULTS —

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 2018, total **Group revenues** are expected to increase by more than 30%. 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 2017 exchange rates.

Evotec expects **Group research and development (R&D) expenses** in 2018 to be approximately € 20-30 m in total and thus to increase compared to 2017. The funding will be used to optimally develop Cure *X*/Target *X* projects and position them for future Pharma partnerships. The Company maintains its focus on key programmes and targets to invest in, in particular selecting projects with first-in-class potential in fields such as diabetes and diabetic complications, diseases of the central nervous system, oncology, and fibrosis.

Evotec's **adjusted Group EBITDA** is expected to improve by approx. 30% compared to 2017. 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 STRATEGIC MEASURES —

With the exemption of a potential take-out financing of the € 140 m bridge loan established in context of the Aptuit transaction, the Company's mid-term financial plan does not require any additional external financing. 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 or equity-linked tools.

DIVIDENDS

Payment of dividends is dependent upon Evotec AG'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 67 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 and development solutions. Evotec is well-positioned to deliver value to the pharmaceutical and biotechnology industry as well as to 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. Furthermore, following the acquisition of Aptuit in 2017, the Evotec Management Board believes that it can create the premier drug discovery and development innovation partner by leveraging both companies' extensive partner networks, platforms and maximising commercial synergies. On this basis, the Management Board expects Evotec to show strong Group revenue growth and a significantly improved adjusted Group EBITDA in 2018. The Company's strong cash position will provide a firm foundation to further strengthen the business and increase shareholder value.

Information pursuant to section 289a paragraph 1 and section 315a paragraph 1 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 2017, the share capital of Evotec AG amounted to € 147,532,681.00 and was divided into 147,532,681 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 control voting rights of any shares owned by employees.

No shareholder holds the right to have representatives on the Company's Supervisory Board, or is restricted or bound to specific votes at the Annual General Meeting ("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 € 29,332,457.00 in one or more tranches until 13 June 2022 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 2017, the remaining conditional capital of the Company amounted to € 39,834,976.00. Conditional capital in the amount of € 13,318,160.00 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, 28 August 2008, 16 June 2011, 14 June 2012, 09 June 2015 and 14 June 2017, exercise their rights to subscribe for new shares in the Company. In 2017, conditional capital in the total amount of € 1,334,923.00 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 27 February 2017, Evotec was last notified that the direct shareholdings of Novo Holdings A/S, Hellerup, Denmark, amounted to 10.10%.

On 15 February 2017, Evotec was last notified that the direct shareholdings of Roland Oetker plus his shareholdings via ROI Verwaltungsgesellschaft mbH, Königsallee 20, 40212 Düsseldorf (Germany) decreased from 10.09% to 9.16%.

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 its 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 is not allowed under the AGM authorisation. The respective authorisation is effective until 08 June 2020. As of 31 December 2017, 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 76 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 289f 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. Variable remuneration components consist of a one-year variable remuneration determined by a bonus scheme and a long-term scheme, the so-called Share Performance Plan, which was approved by the AGM 2012, 2015 and 2017. The Share Performance Plans have a multiple-year assessment basis that has essentially forward-looking characteristics, whereas the bonus scheme is based on the achievement of certain targets set by the Supervisory Board for a certain financial year. 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. That value will only be determined by the share price at that time. The Share Performance Plan 2017 has introduced a cap with a maximum level of 350% of the contractual issue value and therefore complies with the Code in all respects.

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). In accordance with this regulation, the Management Board and the Supervisory Board of Evotec AG proposed such an approval at the AGM in 2012 and again in 2017. At the AGM 2017, the shareholders and shareholder representatives voted in favour of this item of the agenda with a majority of 58.60% of the votes. As outlined to the AGM, it should be noted that prior to the renewal of the management contracts in 2016, a benchmarking against biotech companies and other members of the TecDAX index has been conducted based on which both the Supervisory Board and the Management Board consider the current remuneration system and its fixed and variable components as appropriate with regards to the duties and responsibilities of the Management Board members. It should be noted that the Supervisory Board uses a performance metric to determine whether the set targets have been achieved by the Management Board members. The respective objectives are specified every year by the Remuneration and Nomination Committee of the Supervisory Board and subsequently approved by the Supervisory Board.

In 2017, the fixed and one-year variable remuneration of the active members of the Management Board totalled T€ 2,478, of which the variable part amounted to T€ 896.

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, expenditures and expenses are reimbursed.

One-year variable remuneration is determined by a bonus scheme.

The variable portion of the remuneration paid out in March 2017 was based on the achievement of certain targets for the financial year 2016. The variable portion of the remuneration for the achievement of strategic targets for the financial year 2017 will be paid out in March 2018. In 2017, the bonus paid to Dr Werner Lanthaler, Colin Bond, Dr Cord Dohrmann, Dr Mario Polywka and Enno Spillner was based on the achievement of corporate milestones and objectives. As per 31 December 2017, the Company had accrued a total of T€ 1,066 for the variable portion of the remuneration paid to the members of the Management Board, thereof T€ 420 for Dr Werner Lanthaler, T€ 238 for Dr Cord Dohrmann, T€ 237 for Dr Mario Polywka, and T€ 171 for Enno Spillner.

The 2016 and 2017 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 ramp-up of an iPSC initiative in 2017 and the integration and expansion of the Cyprotex business as well as the achievement of the first milestone in the collaboration with Celgene in 2017.

In addition to their fixed and variable remuneration, the members of the Management Board received 186,984 Share Performance Awards ("SPA") in 2017 (2016: 396,291) under the Company's Share Performance Plan. These 2017 SPAs vest after four years depending on the achievement of defined key performance indicators over a four-year performance measurement period. SPAs can only be exercised if and when the key performance indicators are achieved. The key performance indicators for the grant in 2017 are "Share Price" and "Total Shareholder Return", as approved by the AGM. The fair values of all SPAs granted as of the grant date amounted to a total of T€ 2,724 in 2017 (2016: T€ 1,534).

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		Dr Werner Lanthaler				Enno Spillner				Dr Cord Dohrmann				Dr Mario Polywka			
b	Benefits granted (in T€)	CEO				CFO				CSO				COO			
c																	
d		**2016**	**2017**	**2017 (min)**	**2017 (max)**	**2016**	**2017**	**2017 (min)**	**2017 (max)**	**2016**	**2017**	**2017 (min)**	**2017 (max)**	**2016**	**2017**	**2017 (min)**	**2017 (max)**
1	Fixed compensation	406	420	420	420	141	310	310	310	333	340	340	340	342	320	320	320
2	Fringe benefits	97	100	75	125	17	22	22	34	15	15	15	15	58	55	55	55
3	**Total**	**503**	**520**	**495**	**545**	**158**	**332**	**332**	**344**	**348**	**355**	**355**	**355**	**400**	**375**	**375**	**375**
4	One-year variable compensation	289	407	-	609	-	78	-	78	153	211	-	200	214	200	-	241
5	Multi-year variable compensation	840	840	-	2,940	206	206	-	721	248	248	-	867	240	241	-	845
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)	840	840	-	2,940	206	206	-	721	248	248	-	867	240	241	-	845
6	**Total**	**1,632**	**1,767**	**495**	**4,094**	**364**	**616**	**332**	**1,142**	**749**	**814**	**355**	**1,422**	**854**	**816**	**375**	**1,462**
7	Service cost	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	**Total**	**1,632**	**1,767**	**495**	**4,094**	**364**	**616**	**332**	**1,142**	**749**	**814**	**355**	**1,422**	**854**	**816**	**375**	**1,462**

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)*

	Allocation (in T€)	Dr Werner Lanthaler		Enno Spillner		Dr Cord Dohrmann		Dr Mario Polywka	
b		CEO		CFO		CSO		COO	
c									
d		2016	2017	2016	2017	2016	2017	2016	2017
1	Fixed compensation	406	420	141	310	333	340	342	320
2	Fringe benefits	97	100	17	22	15	15	58	55
3	**Total**	**503**	**520**	**158**	**332**	**348**	**355**	**400**	**375**
4	One-year variable compensation	289	407	-	78	153	211	214	200
5	Multi-year variable compensation	-	9,409	-	-	-	1,604	-	996
5a	Share Performance Programme 2012 (term until 2019)	-	3,951	-	-	-	1,351	-	996
5b	Stock Option Programme 1999 (term until 2021)	-	-	-	-	-	-	-	-
5c	Stock Option Programme 2000 (term until 2016)	-	-	-	-	-	-	-	-
5d	Stock Option Programme 2001 (term until 2021)	-	3,782	-	-	-	-	-	-
5e	Stock Option Programme 2005 (term until 2017)	-	-	-	-	-	-	-	-
5f	Stock Option Programme 2007 (term until 2016)	-	-	-	-	-	-	-	-
5g	Stock Option Programme 2008 (term until 2016)	-	-	-	-	-	-	-	-
5h	Stock Option Programme 2011 (term until 2019)	-	1,676	-	-	-	253	-	-
6	Other	-	-	-	-	-	-	-	-
7	**Total**	**792**	**10,336**	**158**	**410**	**501**	**2,170**	**614**	**1,571**
8	Service cost	-	-	-	-	-	-	-	-
9	**Total**	**792**	**10,336**	**158**	**410**	**501**	**2,170**	**614**	**1,571**

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)*

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 allows 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€ 202 (2016: T€ 204). 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 memberships in 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 is paid T€ 75, and the Vice Chairman is 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 2017, the individual members of the Evotec Supervisory Board received the following compensation in 2018:

REMUNERATION OF THE SUPERVISORY BOARD 2017

	Total remuneration in T€[1)]
Prof. Dr Wolfgang Plischke	95
Bernd Hirsch	70
Dr Claus Braestrup	35
Prof. Dr Paul Linus Herrling *(until 14 June 2017)*	16
Prof. Dr Iris Löw-Friedrich	35
Michael Shalmi *(from 14 June 2017)*	19
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)

In 2017, 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€ 74 (2016: T€ 75). An appropriately sized deductible was agreed upon for the members of the Supervisory board. The deductible agreed upon for the members of the Management Board is in line with the stipulations of the legal provisions of the VorstAG.

Hamburg, 22 March 2018

Dr Werner Lanthaler *Dr Cord Dohrmann*

Dr Mario Polywka *Enno Spillner*

Consolidated Financial Statements (IFRS)

EVOTEC AG AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2017

in T€ except share data	*footnote reference*	*as of 31 December 2017*	*as of 31 December 2016**
ASSETS			
Current assets:			
Cash and cash equivalents	5	67,017	83,940
Investments	5	24,139	42,330
Trade accounts receivables	6	45,590	27,448
Accounts receivables from related parties		523	852
Inventories	7	9,017	4,305
Current tax receivables		6,903	1,528
Other current financial assets		10,419	1,592
Prepaid expenses and other current assets	8	16,644	7,240
Total current assets		**180,252**	**169,235**
Non-current assets:			
Investments accounted for using the equity method and other long-term investments	9	22,113	3,885
Property, plant and equipment	10	74,662	43,018
Intangible assets, excluding goodwill	11	135,033	33,267
Goodwill	12	220,178	85,688
Deferred tax asset	18	19,233	10,462
Non-current tax receivables	13	11,168	5,967
Other non-current financial assets		28	83
Other non-current assets	14	4,601	2,502
Total non-current assets		**487,016**	**184,872**
Total assets		**667,268**	**354,107**

* *Modified by the effect of the finalization of Cyprotex's purchase price allocation in 2017 in accordance with IFRS 3, see Note 4*

See accompanying notes to consolidated financial statements.

in T€ except share data	*footnote reference*	*as of 31 December 2017*	*as of 31 December 2016**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Current loan liabilities	15	167,763	21,413
Current portion of finance lease obligations		705	190
Trade accounts payable		26,078	11,997
Advanced payments received		342	552
Provisions	16	22,090	15,539
Deferred revenues	17	18,652	15,355
Current income tax payables	18	2,033	802
Other current financial liabilities		1,666	1,503
Other current liabilities		6,446	6,039
Total current liabilities		**245,775**	**73,390**
Non-current liabilities:			
Non-current loan liabilities	15	20,295	7,194
Long-term finance lease obligations		1,165	30
Deferred tax liabilities	18	23,499	2,856
Provisions	16	15,366	14,801
Deferred revenues	17	28,680	41,129
Other non-current financial liabilities		741	771
Total non-current liabilities		**89,746**	**66,781**
Stockholders' equity:			
Share capital**	20	147,533	133,052
Additional paid-in capital		778,858	698,069
Accumulated other comprehensive income		(28,903)	(25,152)
Accumulated deficit		(566,733)	(592,934)
Equity attributable to shareholders of Evotec AG		**330,755**	**213,035**
Non-controlling interest		992	901
Total stockholders' equity		331,747	213,936
Total liabilities and stockholders' equity		**667,268**	**354,107**

* *Modified by the effect of the finalization of Cyprotex's purchase price allocation in 2017 in accordance with IFRS 3, see Note 4*

** *147,532,681 and 133,051,739 shares issued and outstanding in 2017 and 2016, respectively*

See accompanying notes to consolidated financial statements.

EVOTEC AG AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT FOR THE PERIOD FROM 01 JANUARY TO 31 DECEMBER 2017

in T€ except share and per share data	*footnote reference*	*Year ended 31 December 2017*	*Year ended 31 December 2016*
Revenues	21	257,630	164,507
Costs of revenue		(175,062)	(105,953)
Gross profit		**82,568**	**58,554**
Operating income and (expenses)			
Research and development expenses	22	(17,614)	(18,108)
Selling, general and administrative expenses	23	(42,383)	(27,013)
Impairment of intangible assets	11	(1,180)	(1,417)
Impairment of goodwill	12	-	(3,989)
Other operating income	24	32,485	38,964
Other operating expenses	24	(16,381)	(15,649)
Total operating expenses		**(45,073)**	**(27,212)**
Operating income (loss)		**37,495**	**31,342**
Non-operating income (expense)			
Interest income		903	863
Interest expense	25	(1,261)	(1,523)
Share of the loss of associates accounted for using the equity method	9	(1,783)	(375)
Other income from financial assets		340	459
Other expense from financial assets		(583)	(339)
Foreign currency exchange gain (loss), net		(8,569)	2,519
Other non-operating income		128	4
Other non-operating expense		(337)	-
Total non-operating income (expense)		**(11,162)**	**1,608**
Income before taxes		**26,333**	**32,950**
Current tax expense	18	(8,478)	(7,861)
Deferred tax income	18	6,144	1,750
Total taxes		**(2,334)**	**(6,111)**
Net income		**23,999**	**26,839**
thereof attributable to:			
Shareholders of Evotec AG		24,257	27,530
Non-controlling interest		(258)	(691)
Weighted average shares outstanding		**145,009,742**	**132,506,697**
Net income per share (basic)		**0.17**	**0.20**
Net income per share (diluted)		**0.16**	**0.20**

EVOTEC AG AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 01 JANUARY TO 31 DECEMBER 2017

in T€	*footnote reference*	*Year ended 31 December 2017*	*Year ended 31 December 2016*
Net income		**23,999**	**26,839**
Accumulated other comprehensive income			
Items which are not re-classified to the income statement			
Remeasurement of defined benefit obligation		(408)	1,064
Taxes		120	(303)
Items which have to be re-classified to the income statement at a later date			
Foreign currency translation		(3,725)	(6,312)
Revaluation and disposal of available-for-sale securities		262	(263)
Other comprehensive income		**(3,751)**	**(5,814)**
Total comprehensive income		**20,248**	**21,025**
Total comprehensive income (loss) attributable to:			
Shareholders of Evotec AG		20,506	21,716
Non-controlling interest		(258)	(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 2017

in T€	*footnote reference*	*Year ended 31 December 2017*	*Year ended 31 December 2016*
Cash flows from operating activities:			
Net income		23,999	26,839
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation of property, plant and equipment	10	13,725	9,985
Amortisation of intangible assets	11	7,041	1,908
Depreciation of current assets		1,246	312
Impairment of intangible assets	11	1,180	1,417
Impairment of goodwill		-	3,989
Stock compensation expense	19	2,915	3,979
Interest income/expense	25	358	653
Loss on sale of financial assets		583	339
Gain on sale of financial assets		(292)	(172)
Share of the loss of associates accounted for using the equity method		1,783	375
Loss on sale of property, plant and equipment		193	3
Gain on sale of property, plant and equipment		(62)	-
Deferred tax expense (benefit)	18	(6,144)	(1,750)
Decrease (increase) in:			
Accounts receivables		(7,875)	(4,114)
Inventories		814	(360)
Other assets		(6,012)	855
Other tax assets		(5,200)	(3,900)
Increase (decrease) in:			
Accounts payable		1,899	(1,302)
Advanced payments received		(211)	455
Deferred revenues	17	(20,326)	41,228
Provisions		(227)	(15,154)
Current income taxes payable		2,777	841
Other liabilities		(1,320)	686
Cash received during the year for:			
Interest		909	861
Taxes		1,419	-
Cash paid during the year for:			
Interest		(822)	(342)
Taxes		(1,522)	(271)
Net cash provided by operating activities		**10,828**	**67,360**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

in T€	*footnote reference*	*Year ended 31 December 2017*	*Year ended 31 December 2016*
Cash flows from investing activities:			
Purchase of current investments		(78,527)	(17,656)
Purchase of investments in affiliated companies net of cash acquired	4	(248,083)	(40,585)
Purchase of investments in associated companies and other long-term investments	9	(22,240)	(2,859)
Purchase of property, plant and equipment	10	(17,565)	(10,003)
Purchase of intangible assets	11	(22)	(146)
Proceeds from sale of property, plant and equipment		691	-
Proceeds from sale of current investments		96,713	65,276
Net cash used in investing activities		**(269,033)**	**(5,973)**
Cash flows from financing activities:			
Proceeds from capital increase	20	90,248	-
Proceeds from option exercise	19	2,108	818
Proceeds from issuance of loans	15	179,102	23,115
Payment of subsequent contingent considerations	16	-	(765)
Repayment of finance lease obligation		(519)	-
Repayment of loan notes		(203)	(25,681)
Repayment of loans		(30,012)	(17,158)
Net cash provided by (used in) financing activities		**240,724**	**(19,671)**
Net increase (decrease) in cash and cash equivalents		**(17,481)**	**41,716**
Exchange rate difference		558	(2,273)
Cash and cash equivalents at beginning of year		83,940	44,497
Cash and cash equivalents at end of the period		**67,017**	**83,940**

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 2017

		Share capital		
in T€ except share data	*footnote reference*	*Shares*	*Amount*	
Balance at 01 January 2016		**132,584,082**	**132,584**	
Exercised stock options	19	467,657	468	
Stock option plan	20	-	-	
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**	
Capital increase	20	13,146,019	13,146	
Exercised stock options	20	1,334,923	1,335	
Stock option plan	19	-	-	
Capital increase of subsidiary with non-controlling interest		-	-	
Deferred tax on future deductible expenses		-	-	
Other comprehensive income				
Net income for the period				
Total comprehensive income				
Balance at 31 December 2017		**147,532,681**	**147,533**	

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***
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**
77,102				90,248		90,248
773	-	-	-	2,108	-	2,108
2,914	-	-	-	2,914	-	2,914
-	-			-	349	349
-	-	-	1,944	1,944	-	1,944
	(3,725)	(26)	-	(3,751)	-	(3,751)
	-	-	24,257	24,257	(258)	23,999
	(3,725)	**(26)**	**24,257**	**20,506**	**(258)**	**20,248**
778,858	**(35,287)**	**6,384**	**(566,733)**	**330,755**	**992**	**331,747**

Notes to consolidated financial statements for the year 2017

(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 and development to its customers. Evotec is positioned in key therapeutic areas such as neuronal diseases, diabetes and complications of diabetes, pain, inflammation, oncology, infectious diseases, respiratory and fibrosis. 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 22 March 2018, the Management Board authorised the consolidated financial statements for the financial year 2017 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 Sec 315e 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.

— 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
- Valuation 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 receivables, liabilities and all intercompany revenue, income, expenses and all intragroup profits or losses are 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 the respective functional currency using the monthly foreign exchange rate. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated into the respective functional currency using the exchange rates at the end of the period. Gains or losses resulting from translating foreign currency denominated transactions into the respective functional currency are included in other non-operating income and expense or other comprehensive income.

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 securities, trade accounts and other receivables, cash and cash equivalents, loans, trade accounts and other payables. These instruments (excluding securities) are initially recognised when they are originated. All other financial instruments are recognised upon contract conclusion.
Financial assets are derecognised if either the payment rights arising from the instrument has 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 and interest hedges are economic hedges, however, they do not qualify for hedge accounting 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 the useful lives of buildings and leasehold improvements and plant, machinery and equipment changed due to disposals in comparison to the previous year:

Buildings and leasehold improvements	6-22 years
Plant, machinery and equipment	3-12 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:

Trademarks	2-10 years
Developed technologies	7-18 years
Customer list	2-8 years
Patents and licences	15 years or shorter life
Favourable contracts	41.4 years

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

If the net assets exceed the fair value of the consideration transferred, the income from bargain purchase is recognised in profit or 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. Non-current 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.
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 net of tax 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 net of tax 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 and from 2017 onwards also for the Management Board. The Share Performance Awards from the Share Performance Plan granted before 2017 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 price-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 cowllectability 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 2017 and 2016, 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€ 673 (2016: T€ 1,433) 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 2017 and 2016 (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 recoverable amount 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 or other comprehensive income.

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 19-34%.

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	**2017**	2016
Issued ordinary shares 01 January	**133,052**	132,584
Treasury shares 01 January	**(250)**	(250)
Effect of weighted average share capital increase	**11,597**	-
Effect of weighted average share options exercised	**611**	173
Weighted average number of ordinary shares 31 December	**145,010**	**132,507**

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 2017, the number of potentially dilutive shares to be issued from stock options and Share Performance Awards amounted to 2,929,547 (2016: 3,339,534). 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 endorsed by the EU were not effective and have not been applied by Evotec until the end of 2017.

New or changed standards	***Summary of the standard***	***Possible impact on Evotec***
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. The expected impact is listed below.
IFRS 15	IFRS 15, Revenue from Contracts with Customers standard regulates through comprehensive rules in which amount, when and if revenues are recognised. IFRS 15 supersedes existing guidelines on revenue recognitions, such as 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. Endorsed clarifications to IFRS 15 were added to the Standard.	Evotec is expecting the consolidated financial reporting impact as listed below.
IFRS 16	According to IFRS 16 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.	Evotec expects impacts on the consolidated financial statements as listed below.

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 9: The Company will apply the Standard from the financial year 2018 onwards. Evotec intends not to make use of the option to restate comparative information for previous periods with regard to changes in categorisation and measurement (including impairment). Differences between the carrying amounts of financial assets and financial liabilities resulting from the application of IFRS 9 as far as these arise will generally be recognised in accumulated deficit as of 01 January 2018. The specification of the business model and some financial instruments' designations should be made based on facts and circumstances that exist at the time of initial application:

- Classification: IFRS 9 contains a new method for the classification and measurement of financial assets that reflects the business model within which the assets are held and the characteristics of their cash flows. Evotec assumes that the carry amount of investments who are currently held for sale in accordance with IAS 39 are not materially changed under IFRS 9 whereby changes in fair value will be presented directly in other comprehensive income (equity). From these new classification requirements, Evotec expects no material impact on its financial reporting.

- Impairment: IFRS 9 replaces the current "incurred loss"-model of IAS 39 with a future-orientated "expected credit loss"-model. Measuring expected credit losses requires discretionary decisions.

▸ Trade accounts receivables:
In the past, Evotec experienced credit losses at minimal levels only (average of T€ 42 per annum). Estimated expected credit loss rates were determined based on actual credit loss experience over the past three years and adjusted by changes in the Company and its environment to obtain a consistent data basis. Furthermore, possible effects from the latest business acquisition were considered, which are not reflected in historic data. From the application of the new impairment requirements of IFRS 9, Evotec expects an impairment loss of T€ 10 as of 01 January 2018, based on expected credit losses calculated as follows:

	31 December 2017 T€	*estimated, expected failure rate*	*valuation reserve* T€	*impairment of creditworthiness*
Not past due	31,737	0.010%	3	no
Past due 0-30 days	7,985	0.030%	2	no
Past due 31-120 days	5,107	0.050%	3	no
More than 120 days	1,843	0.086%	2	no
Total trade accounts receivables	**46,672**		**10**	

▸ Further disclosures will be required under IFRS 9.

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. There will be no changes in the statement of cash flow. 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.
▸ 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 confirmatison 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.

By approximation, the following adjustments would have been made if IFRS 15 had been applied in 2017. The impact on other financial performance indicators presented in the management report, such as adjusted EBITDA will be similar.

€ m	***31 Dec 2017***	*01 Jan 2017*
Work-in-progress, unfinished service	**4.0**	1.4
IFRS 15 Adjustments	**(3.4)**	(1.0)
Inventories IFRS 15	**0.6**	0.4
Not yet invoiced accounts receivable	**3.8**	1.4
Adjustment of equity from IFRS 15	**0.4**	**0.4**

€ m	***January to December 2017***
Revenues	**258.0**
IFRS 15 adjustments at beginning of the year	(1.4)
IFRS 15 adjustments 2017	1.6
Revenues IFRS 15	**258.2**
Costs of revenue	**(175.0)**
IFRS 15 adjustments at beginning of the year	1.0
IFRS 15 adjustments 2017	(1.2)
Costs of revenue IFRS 15	**(175.2)**
Gross profit	83.0
Gross profit IFRS 15	83.0

IFRS 16: The new standard aims to ensure that generally all leases and related contractual rights, in particular right-of-use, and obligations are recognised in the lessee's statement of financial position. The previously mandatory distinction between finance lease and operating lease is no longer required from the lessee. Simplified reporting methods are in place for short-term leases and leased assets with low value. Evotec has conducted an initial assessment of the impact on its consolidated statements with this assessment being constantly updated. The actual impact will depend on, amongst others, Evotec's borrowing rate in 2019, the portfolio of lease contracts at that date, the then latest assessment of exercising renewal options and the yet to be made decision by Evotec on practical expedients and application options. Currently, the largest impact stems from building lease contracts. This will be accompanied by increased financing liabilities, a reduced equity ratio as well as an improved adjusted EBITDA. The amounts shown in Note 30 are a reasonable approximation – on an undiscounted basis – of the right-of-use assets and lease liabilities to be recognised.

(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. Please refer to the group management

report for further information. 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. Please refer to the group management report for further information.

The segment information for the financial year 2017 is as follows:

in T€	*EVT Execute*	*EVT Innovate*	*Intersegment eliminations*	*Evotec Group*
External revenues	213,777	43,853	-	257,630
Intersegment revenues	36,557	-	(36,557)	-
Costs of revenue	(182,690)	(24,433)	32,061	(175,062)
Gross profit	**67,644**	**19,420**	**(4,496)**	**82,568**
Operating income and (expenses)				
Research and development expenses	(724)	(21,386)	4,496	(17,614)
Selling, general and administrative expenses	(35,497)	(6,886)	-	(42,383)
Impairment of intangible assets	-	(1,180)	-	(1,180)
Impairment of goodwill	-	-	-	-
Other operating income	25,338	7,147	-	32,485
Other operating expenses	(13,279)	(3,102)	-	(16,381)
Total operating expenses	**(24,162)**	**(25,407)**	**4,496**	**(45,073)**
Operating income (loss)	**43,482**	**(5,987)**	**-**	**37,495**
Interest result				(358)
Share of the loss of associates accounted for using the equity method				(1,783)
Other income (expense) from financial assets, net				(243)
Foreign currency exchange gain (loss), net				(8,569)
Other non-operating income (expense), net				(209)
Income (loss) before taxes				**26,333**
EBITDA adjusted	**63,181**	**(5,191)**		**57,990**

The EBITDA adjusted as of 31 December 2017 is derived from operating income (loss) as follows:

in T€	*EVT Execute*	*EVT Innovate*	*Evotec Group*
Operating income (loss)	**43,482**	**(5,987)**	**37,495**
plus depreciation of tangible assets	13,035	691	13,726
plus amortisation of intangible assets	6,664	376	7,040
plus impairment of intangible assets	-	1,180	1,180
plus change in contingent consideration (earn-out)	-	(1,451)	(1,451)
EBITDA adjusted	**63,181**	**(5,191)**	**57,990**

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

in T€	EVT Execute	EVT Innovate	Intersegment eliminations	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 (loss) as follows:

in T€	EVT Execute	EVT Innovate	Evotec Group
Operating income (loss)	**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 (earn-out)	(237)	(12,179)	(12,416)
EBITDA adjusted	**50,183**	**(13,958)**	**36,225**

Revenues by region is analysed as follows:

	2017		2016	
	T€	%	T€	%
USA	**97,490**	38	63,629	39
France	**60,180**	23	56,085	34
Germany	**30,747**	12	18,007	11
United Kingdom	**26,820**	10	7,996	5
Others	**42,393**	17	18,790	11
	257,630		164,507	

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 2017 relate to Germany in the amount of T€ 45,949 and to foreign states in the amount of T€ 262,406. Thereof, T€ 117,559 of non-current assets relate to Italy, T€ 97,107 to the UK, T€ 22,848 to France and T€ 20,891 to USA as well as T€ 4,002 to Switzerland. Further T€ 137,287 are not allocated (2016: Germany T€ 43,803; UK T€ 83,412; USA T€ 21,155 and France T€ 19,284; Italy T€ 0; Switzerland T€ 0).

Sanofi is Evotec's largest customer and the only one having a share of more than 10% of the Group revenues in 2017, representing in total more than 22% or T€ 57,610 (2016: 33% or T€ 54,517) of the Group revenues, allocated to the segments EVT Execute and EVT Innovate.

(4) ACQUISITIONS

Effective 11 August 2017, Evotec acquired 100% of the shares in Aptuit Global LLC, Princeton, USA and hereby Aptuit Verona SRL, Verona, IT and Aptuit Oxford Ltd, Abingdon, UK; Aptuit (Switzerland) Basel, CH and Aptuit (Potters Bar) Ltd, Abingdon, UK. Aptuit is a partner organisation for integrated outsourced drug discovery and development solutions. The purchase price amounted to T€ 253,239 in cash. Aptuit provides expertise across drug discovery, pre-clinical testing and both drug substance and drug product manufacturing to its Biopharma partners. Evotec´s offerings benefit from extended capabilities from this acquisition.

The preliminary goodwill resulting from this acquisition amounts to T€ 137,286 and is not yet allocated to any cash-generating units but is allocated to the EVT Execute segment. Due to the preliminary assessment of the valuation premises relating to the period prior to the acquisition which could result in changes in the valuation of the intangibles assets the initial accounting is provisional with regard to the allocation of the purchase price and the determination of fair values in accordance with IFRS 3.

The net income recorded by Evotec for the financial year 2017 included a net income of T€ 2,959 as well as revenues of T€ 45,854 from Aptuit. If this business combination had taken place on 01 January 2017, the Company would have recognised total revenues in the amount of T€ 322,468 and a net income in the amount of T€ 21,820. Included in this amount are not recurring expenses e.g. for the preparation of the transaction in the amount of T€ 7,842. Under consideration of these expenses, Evotec would have recorded a net income in the amount of T€ 29,662.

Transaction costs in the amount of T€ 3,282 were recognised through profit or loss as selling, general and administrative expenses in 2017.

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

T€	11 August 2017 Fair value
Cash and cash equivalents	5,156
Trade accounts receivables	11,122
Inventories	5,870
Current tax assets	1,686
Prepaid expenses and other current assets	18,549
Property, plant and equipment	28,916
Trademarks	6,539
Customer list	43,402
Favourable contracts	62,033
Deferred tax asset	1,873
Other non-current assets	967
Loans	(10,219)
Lease liabilities	(2,120)
Trade accounts payable	(13,162)
Provisions	(7,943)
Deferred revenues	(11,289)
Other current liabilities	(3,662)
Deferred tax liabilities	(21,765)
Net assets acquired	**115,953**
Goodwill	137,286
Cost of acquisition	**253,239**
Less cash and cash equivalents acquired	(5,156)
Cash outflow from acquisition	**248,083**

The trade receivables include a fair value adjustment of T€ 199.

Effective 14 December 2016, Evotec acquired 100% of the shares in Cyprotex PLC, Manchester, UK. The purchase price amounted to T€ 49,670 in cash. The initial accounting for the acquisition was finalised in June 2017. Consequently, amongst others a fair value adjustment regarding customer list has been recorded, which was estimated based on net present value modelling. Related deferred tax liabilities were also recorded. The goodwill after those changes amounts to T€ 47,481 and is allocated to the EVT Execute segment.

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	5,717
Customer list	11,433
Deferred tax asset	538
Trade accounts payable	(1,513)
Provisions	(1,698)
Other current liabilities	(910)
Finance lease obligation	(237)
Loan notes	(25,890)
Deferred tax liabilities	(2,858)
Net assets acquired	**2,189**
Goodwill	47,481
Cost of acquisition	**49,670**
Less cash and cash equivalents acquired	(9,085)
Cash outflow from acquisition	**40,585**

The modification of the prior-year figures due to the finalization of Cyprotex's purchase price allocation is presented below:

T€	*2016 as reported*	*IFRS 3 adjustment*	*2016 after IFRS 3 adjustments*
Balance sheet item			
Property, plant and equipment	**43,421**	**(403)**	**43,018**
Intangible assets, excluding goodwill	22,454	10,813	33,267
Deferred tax asset	10,592	(130)	10,462
Deferred tax liabilities	115	2,741	2,856
Goodwill	**93,227**	**(7,539)**	**85,688**

(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 2017, unrealised losses in the amount of T€ 261 (31 December 2016: losses of T€ 275) 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 2017 and 2016 amounts to T€ 1,082 and T€ 31, respectively. This allowance represents a partly write-down of the respective receivables. There are no use restrictions on trade accounts receivable.

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

T€	*31 December* ***2017***	*2016*
Not past due	**31,737**	22,532
Past due 0-30 days	**7,985**	2,891
Bad debt 0-30 days	**(3)**	-
Past due 31-120 days	**5,107**	1,509
Bad debt 31-120 days	**(765)**	-
More than 120 days	**1,843**	547
Bad debt more than 120 days	**(314)**	(31)
Total trade accounts receivables	**45,590**	**27,448**

The increase of the trade accounts receivables at 31 December 2017 compared to the prior year is primarily due to the acquisition of Aptuit (T€ 18,491) as well as the general revenues growth.

(7) INVENTORIES

Inventories consist of the following:

T€	*31 December* ***2017***	*2016*
Raw materials	**5,060**	2,948
Work-in-progress	**3,957**	1,357
Total inventories	**9,017**	**4,305**

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 2017 and 2016 consists of costs incurred on customer projects, which were not completed at year-end. The increase in inventories is mainly related to the acquisition of Aptuit (T€ 5,041) 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* ***2017***	*2016*
Raw materials	**1,516**	1,263
Work-in-progress	-	-
Total inventories	**1,516**	**1,263**

The allowances are included in the costs of revenue.

(8) PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses as of 31 December 2017 mainly relate to payments for insurance premiums in the amount of T€ 1,132 (31 December 2016: T€ 2), licences and other IT-related prepayments in the amount of T€ 955 (31 December 2016: T€ 847) as well as prepayment of rent in the amount of T€ 1,010 (31 December 2016: T€ 401). The other current assets mainly comprise VAT-related receivables of T€ 6,356 (31 December 2016: T€ 550). The increase in prepaid expenses as of 31 December 2017 compared to the prior-year period mainly relates to the acquisition of Aptuit adding T€ 7,877.

	31 December	
T€	**2017**	2016
Prepaid expenses	**8,600**	4,561
Other	**8,044**	2,679
Total prepaid expenses and other current assets	**16,644**	**7,240**

(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:

	31 December	
T€	**2017**	2016
Investments accounted for using the equity method		
Eternygen GmbH, Berlin, Germany	**992**	1,500
Exscientia Ltd., Dundee, UK	**14,845**	-
FSHD Unlimited Coorp, Leiden, Netherlands	**1,218**	-
Topas Therapeutics GmbH, Hamburg, Germany	**776**	1,566
Other long-term investments		
Carrick Therapeutics Ltd,, Dublin, Ireland	**1,780**	819
Fibrocor LLP, Toronto, Canada	**-**	-
Forge Therapeutics, Inc., San Diego, CA, USA	**2,502**	-
	22,113	**3,885**

In 2017, Evotec invested in Exscientia (24.54%), FSHD (21.51%) and Forge (14.42%). Further, Evotec obtained 16.5% in Fibrocor in the course of a newly established strategic partnership.

The following table shows the net assets of investments accounted for using the equity method:

T€	***Net assets 31 December 2017***	***Loss share not attributable to Evotec 2017***
Eternygen GmbH, Berlin, Germany	1,286	1,799
Exscientia Ltd., Dundee, UK	14,897	424
FSHD Unlimited Coorp, Leiden, Netherlands	3,087	1,173
Topas Therapeutics GmbH, Hamburg, Germany	6,373	1,221

The reconciliation of the significant investment in Exscientia is shown below:

T€	
Balance at 01 January 2017	-
Acquisition	15,000
Net income from 01 October to 31 December	(156)
Other changes recorded in equity	1
Net book value 31 December 2017	**14,845**

The following table shows further financial information of the significant investments in Excscientia:

T€	***31 December 2017***
Current assets	**14,789**
Non-current assets	**108**
Current liabilities	**35**
Non-current liabilities	**2**
Revenues from 01 October to 31 December	**355**
Net result from 01 October to 31 December	**(641)**
Other comprehensive income	**4**
Total comprehensive income	**(637)**

(10) PROPERTY, PLANT AND EQUIPMENT

The development of property, plant and equipment in 2017 and 2016 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
			2017				
Acquisition and manufacturing costs							
Amount beginning of the year	14,215	71,317	6,541	1,756	152	1,322	95,303
Foreign currency translation	(906)	(1,620)	(200)	-	(8)	(7)	(2,741)
Additions	3,020	10,290	2,433	337	735	750	17,565
Business combination	7,794	13,693	1,300	1,024	2,202	2,903	28,916
Disposals	1,692	5,412	1,554	110	-	-	8,768
Reclass	89	424	45	1	-	(559)	-
Amount end of the year	**22,520**	**88,692**	**8,565**	**3,008**	**3,081**	**4,409**	**130,275**
Depreciation, amortisation and write-downs							
Amount beginning of the year	9,297	37,835	3,581	1,558	14	-	52,285
Foreign currency translation	(608)	(1,261)	(160)	-	(26)	-	(2,055)
Additions	1,891	9,146	1,981	323	384	-	13,725
Disposals	1,397	5,315	1,520	110	-	-	8,342
Amount end of the year	**9,183**	**40,405**	**3,882**	**1,771**	**372**	**-**	**55,613**
Net book value							
Amount beginning of the year	4,918	33,482	2,960	198	138	1,322	43,018
Amount end of the year	**13,337**	**48,287**	**4,683**	**1,237**	**2,709**	**4,409**	**74,662**

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 currency translation	(1,742)	(2,922)	(906)	-	(1)	(7)	(5,578)
Additions	724	6,214	1,780	160	-	1,125	10,003
Business combination	636	4,770	40	-	153	-	5,599
Disposals	-	6,674	5,101	48	-	-	11,823
Reclass	77	245	1	13	-	(336)	-
Amount end of the year	**14,215**	**71,317**	**6,541**	**1,756**	**152**	**1,322**	**95,303**
Depreciation, amortisation and write-downs							
Amount beginning of the year	9,923	39,261	8,126	1,458	-	-	58,768
Foreign currency translation	(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	**4,918**	**33,482**	**2,960**	**198**	**138**	**1,322**	**43,018**

** Modified by the effect of the finalization of Cyprotex's purchase price allocation in 2017 in accordance with IFRS 3, see Note 4*

The additions in 2017 relate in particular to capital expenditure for software upgrades and software licences as well as instruments and equipment to support the state-of-the-art platform offering in Evotec's sites. The capital expenditure focused on laboratory and office expansions, in particular in Hamburg (Germany) and Abingdon (UK). 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).

The disposals in 2017 primarily relate to plant and equipment of Compound Management in San Francisco, which was not moved to Branford.

Upon completion of the assets under construction, costs are transferred into their respective fixed assets classification.

Due to the finalisation of the purchase price allocation of the business combination with Cyprotex, additions from business combinations in 2016 on buildings and leasehold improvements were changed subsequently in 2017 in the amount of T€ (403).

(11) INTANGIBLE ASSETS, EXCLUDING GOODWILL

The development of intangible assets in 2017 and 2016 is shown in the following tables.

	2017					
T€	Patents and licences	Developed technology	Customer list	Trademarks	Favourable contracts	Total
Acquisition and manufacturing costs						
Amount beginning of the year	6,261	90,628	19,859	-	-	116,748
Foreign currency translation	-	(2,209)	(1,370)	-	-	(3,579)
Additions	20	-	-	-	-	20
Business combination	-	-	43,402	6,539	62,033	111,974
Disposals	-	-	-	-	-	-
Amount end of the year	**6,281**	**88,419**	**61,891**	**6,539**	**62,033**	**225,163**
Depreciation, amortisation and write-downs						
Amount beginning of the year	6,022	69,921	7,538	-	-	83,481
Foreign currency translation	-	(798)	(774)	-	-	(1,572)
Additions	149	921	4,688	704	579	7,041
Disposals	-	-	-	-	-	-
Impairment	-	1,180	-	-	-	1,180
Amount end of the year	**6,171**	**71,224**	**11,452**	**704**	**579**	**90,130**
Net book value						
Amount beginning of the year	239	20,707	12,321	-	-	33,267
Amount end of the year	**110**	**17,195**	**50,439**	**5,835**	**61,454**	**135,033**

	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 currency translation	-	(3,754)	160	(3,594)
Additions	146	-	-	146
Business combination	-	-	11,433	11,433
Disposals	-	21,573	-	21,573
Amount end of the year	**6,261**	**90,628**	**19,859**	**116,748**
Depreciation, amortisation and write-downs				
Amount beginning of the year	5,863	92,837	6,482	105,182
Foreign currency translation	-	(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**	**20,707**	**12,321**	**33,267**

** Modified by the effect of the finalization of Cyprotex's purchase price allocation in 2017 in accordance with IFRS 3, see Note 4*

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

The additions to customer list, trademarks and favourable contracts from business combinations in 2017 result from the Aptuit acquisition. The favourable contracts relate to free leases in Italy, which were primarily assessed on the basis of an external expert opinion and with a cash flow model. Following the finalisation of the purchase price allocation of the business combination with Cyprotex, additions resulting from business combinations in 2016 to developed technologies and customer list were changed subsequently in 2017 by T€ (620) and T€ 11,433, respectively.
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 2017 amounted to T€ 4,124 (31 December 2016: T€ 4,500). 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 2016, it was identified that the commercialisation of some of these technologies would be delayed. Hence the estimated useful live was reduced from 01 January 2017 onwards from nine to seven years. The carrying amount at 31 December 2017 amounted to T€ 1,590 (31 December 2016: T€ 1,928).

The developed technologies which were not yet amortised were tested for impairment on the annual designated test date in the fourth quarter 2017. The annual impairment test in 2017 is based on discounted cash flow models by using the assumptions in the table below.

31 December 2017
Developed technologies

	Evotec International GmbH	Evotec (US), Inc.
Denominated in	EUR	USD
Basis for cash flow model	PP 16-21 years	PP 15 years
Post-tax discount rate	9.51%	11.16%

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 2017 in no impairment.

In the first half of 2017, developed technologies from the acquisition of Panion did not meet the expected results, and consequently developed technologies were tested for impairment resulting in an impairment loss in the amount of T€ 1,180 that was allocated to the EVT Innovate segment. The net book value of these technologies is T€ 229 as of 31 December 2017.

— IMPAIRMENT TEST 2016 —

The annual impairment test in 2016 was based on a discounted cash flow model 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

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.

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 2017 and 2016 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 2017 and 2016. Only one assumption will be shown in the case that only for one assumption a change is expected to be possible.

			2017		
	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	59	9.51	0.64	30.0	1.1
Developed technologies Evotec International	265			30.0	1.6
Developed technologies Evotec International	176			30.0	5.7

			2016		
	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	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

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 2017 based on the net book values as of 30 September 2017. 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***	***not allocated***	***Evotec (München) Execute***	***Evotec (US) Execute***	***Evotec (US) Innovate***	***Total***
	T€	T€	T€	T€	T€	T€	T€
01 January 2017	62,241	9,189	-	7,983	4,510	1,765	85,688
Additions	-	-	-	-	-	-	-
Business combination	-	-	137,286	-	-	-	137,286
Disposal	-	-	-	-	-	-	-
Foreign currency translation	(2,011)	(25)	-	-	(546)	(214)	(2,796)
31 December 2017	**60,230**	**9,164**	**137,286**	**7,983**	**3,964**	**1,551**	**220,178**

	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	47,481	-	-	-	-	47,481
Disposal	-	-	-	3,989	-	3,989
Foreign currency translation	(3,499)	(120)	-	108	59	(3,452)
31 December 2016*	**62,241**	**9,189**	**7,983**	**4,510**	**1,765**	**85,688**

** Modified by the effect of the finalization of Cyprotex's purchase price allocation in 2017 in accordance with IFRS 3, see Note 4*

The addition in 2017 from business combinations in the amount of T€ 137,286 has not yet been allocated to any cash-generating unit and stems from the business combination with Aptuit. The purchase price allocation is preliminary and therefore the goodwill from this business combination might change. The correction of the addition in 2016 relating to OAI/Evotec International Execute in the amount of T€ (7,539) results from the purchase price allocation of the Crypotex business combination being finalised in 2017. The purchase price allocation was preliminary and the goodwill from this business combination changed. This is related to the valuation of the customerlist and the deferred tax liability.

In the tables below, the assumptions for the discounted cash flow models used in the annual impairment tests in the fourth quarter 2017 and 2016, 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 2017

	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 15 years
Post-tax discount rate	6.64% - 8.47%	9.51% - 11.16%	6.75%	8.47%	11.16%
Growth rate for terminal value	0.0%	0.0%	0.0%	0.0%	0.0%

LRP = Long-range Plan 2018-2027
MRP = Mid-range Plan 2018-2022
PP = Project planning

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

In 2017 and 2016, 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 2017 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 2017 and 2016 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 2017 and 2016.

2017

	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	21,063	6.75	-
Evotec (US) Execute	1,026	8.47	2.53
Evotec (US) Innovate	2,855	11.16	-

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

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 2017 and 2016 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 2017 and 2016 relate primarily to payments to Haplogen GmbH, Vienna, in the amount of T€ 3,700 (2016: T€ 2,500). In return, Evotec received rights to potential future revenues.

(15) LOAN LIABILITIES

Throughout the years 2017 and 2016, Evotec met all covenants under the various loan agreements shown below. All loans are unsecured. In 2017 and 2016, 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***	***2017 Fair Value***	***2017 Carrying amount***	*2016 Fair Value*	*2016 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
Germany	EUR	Euribor+0.8%	2018	**140,000**	**140,000**	-	-
Germany	EUR	1.60%	2021	**17,001**	**16,394**	-	-
Germany	EUR	1.25%	2021	**2,359**	**2,319**	3,046	3,032
Italy	EUR	Euribor+1.7%	2021	**1,707**	**1,707**	-	-
Italy	EUR	1.50%	2019	**482**	**474**	-	-
Italy	EUR	Euribor+1.4%	2018	**700**	**700**	-	-
Italy	EUR	Euribor+1.25%	2018	**972**	**972**	-	-
Italy	EUR	Euribor+1.05%	2018	**420**	**420**	-	-
Italy	EUR	1.80%	2020	**1,129**	**1,099**	-	-
UK	USD	Libor+1.5%	-	**6,128**	**6,128**	7,115	7,115
UK	GBP	Libor+1.5%	2019	**845**	**845**	1,460	1,460
				188,743	**188,058**	**28,621**	**28,607**

** with Euribor > 0%*

Current loan liabilities consisted of unsecured bank loans in the amount of T€ 167,763 as of 31 December 2017 (31 December 2016: T€ 21,413).

As of 31 December 2017, the Company maintained unutilized lines of credit totalling T€ 58,733. As of 31 December 2016, the Company utilized all its lines of credit.

(16) PROVISIONS

The current provisions consist of the following:

T€	31 Dec 2017	31 Dec 2016
Bonus accruals	**11,726**	8,406
Accrued vacation	**6,625**	3,943
Other provisions for personnel	**373**	1,306
Contingent consideration	**1,965**	418
Accrued lease expenses	**237**	158
Other provisions	**1,164**	1,308
Total current provisions	**22,090**	**15,539**

The non-current provisions consist of the following:

T€	31 Dec 2017	31 Dec 2016
Contingent consideration	**2,865**	3,287
Pension	**8,415**	7,484
Accrued lease expenses	**2,085**	2,266
Bonus accruals	**1,716**	1,526
Other provisions	**285**	238
Total non-current provisions	**15,366**	**14,801**

The following table summarises the development of total provisions recorded during 2017:

	01 January 2017	Business combination	Consumption	Release	Foreign exchange	Additions	31 December 2017
	T€	T€	T€	T€	T€	T€	T€
Personnel expenses	15,181	5,618	13,360	2,053	(244)	15,298	20,440
Contingent consideration	3,705	2,213	-	1,451	(19)	382	4,830
Pensions	7,484	-	2	-	-	933	8,415
Accrued lease expenses	2,424	-	262	-	(20)	180	2,322
Other provisions	1,546	113	1,123	133	(27)	1,073	1,449
Total	**30,340**	**7,944**	**14,747**	**3,637**	**(310)**	**17,866**	**37,456**

The provision for personnel expenses mainly consists of bonus accruals and accrued vacation. The reversal of the provision for personnel expenses in 2017 mainly results from unused holidays.
The contingent consideration (earn-out) provision as of 31 December 2017 consists of four contingent considerations (earn-outs) relating to the two following acquisitions and to two acquired contingent considerations:

- DeveloGen in the amount of T€ 2,636 (31 December 2016: T€ 3,620), including an unwind of discount in the amount of T€ 381 (2016: T€ 1,170) as well as a change in expected future cash outflows in the amount of T€ (1,365) (31 December 2016: T€ (12,179)),
- Bionamics in 2017 in the amount of T€ 0 (31 December 2016: T€ 85) including an unwind of discount in the amount of T€ 1 (2016: T€ 1), and a change in expected future cash outflows in the amount of net T€ 86 (31 December 2016: T€ 0),
- Aptuit (Potters Bar) in the amount of T€ 1,360 with no provision consumption and no change in expected future cash outflows. This contingent consideration is shown as addition from business combinations. The provision was denominated in GBP, which led to a foreign exchange difference of T€ (3) and
- Aptuit (Switzerland) in the amount of T€ 834 with no provision consumption and no change in expected future cash outflows. This contingent consideration is shown as addition from business combinations. The provision was denominated in USD, which led to a foreign exchange difference of T€ (16).

In 2016, a consumption in the amount of T€ 764 and a change in expected future cash outflows in the amount of T€ (234) as well as a foreign exchange difference of T€ (161) was recognised for the contingent consideration relating to Euprotec. 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 20-21 years. The change in expected future cash outflows in 2017 primarily relates to the delay of two projects. 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:

T€	31 December 2017	2016
Supervisory Board fees	**305**	305
Dilapidation	**203**	210
Provision for favourable contracts	**158**	-
Interest SWAP	**50**	107
Consulting fees	**-**	199
Other provisions	**733**	725
Total other provisions	**1,449**	**1,546**

(17) DEFERRED REVENUES

As of 31 December 2017 and 2016, deferred revenues mainly relate to the drug discovery collaboration with Celgene Corporation and Celgene RIVOT LLC in the amount of T€ 32,398 (2016: T€ 42,313) of which T€ 8,647 is classified as current deferred revenues. Those deferred revenues originated from the upfront payment received in 2016 due to the Celgene collaboration.

(18) INCOME TAXES

a) AMOUNTS RECOGNISED IN CONSOLIDATED INCOME STATEMENT

Income tax benefit and expense for the years 2017 and 2016 comprise the following:

T€	2017	2016
Current taxes:		
- Current tax expense	**(8,676)**	(7,874)
- Adjustment for prior years	**198**	13
Total current taxes	**(8,478)**	(7,861)
Deferred taxes:		
- Tax loss carry forwards	**1,674**	1,021
- Temporary differences	**4,470**	729
Total deferred taxes	**6,144**	1,750
Total income tax income (expense)	**(2,334)**	**(6,111)**

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€	2017	2016
Income (loss) before taxes	**26,333**	32,950
Expected German income tax rate	**32.28%**	32.28%
Expected income tax benefit (expense)	**(8,500)**	(10,636)
Non-deductible expenses and income	**4,030**	572
Deviation tax rates to expected tax rate	**83**	626
Change in tax rates	**(10,168)**	(420)
Change in recognition of deferred tax assets	**12,018**	3,747
Non-periodic taxes	**198**	13
Other	**5**	(13)
Effective income tax income (expense)	**(2,334)**	**(6,111)**
Effective income tax rate	**8.86%**	**18.55%**

Deferred income tax assets and liabilities calculated with the anticipated tax rates of each entity as of 31 December 2017 and 2016 relate to the following:

	01 Jan 17					31 Dec 17		
	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	(610)	132	-	-	-	(478)	551	(1,029)
Intangible assets	(8,516)	3,237	-	216	(29,977)	(35,040)	1,223	(36,263)
Financial assets	(417)	685	-	-	-	268	1,069	(801)
Provisions and deferred revenues	2,860	302	156	-	342	3,660	4,167	(507)
Other	(155)	69	-	-	-	(86)	31	(117)
Tax credits	1,440	45	1,403	-	-	2,888	2,888	-
Loss carryforward	13,053	1,674	-	(69)	9,864	24,522	24,522	-
Total	**7,655**	**6,144**	**1,559**	**147**	**(19,771)**	**(4,266)**	**34,451**	**(38,717)**
Set off of tax							(15,218)	15,218
Net	**7,655**	**6,144**	**1,559**	**147**	**(19,771)**	**(4,266)**	**19,233**	**(23,499)**

	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)**

c) UNRECOGNISED DEFERRED TAX LIABILITIES

For outside basis differences for undistributed foreign subsidiaries earnings, temporary differences in the amount of T€ 1,919 were not recorded according to IAS 12.39 (2016: T€ 1,597).

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 2017, 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. Additionally, another German entity proved in 2017 to generate sustainable profits. Therefore, additional deferred tax assets on tax loss carryforwards were recognised.

Due to the continuing loss history of the USA entities as well as the Swiss entity, no additional deferred tax asset on tax loss carryforwards, exceeding the recognised deferred tax liabilities, were 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€	***2017***	*2016*
Tax loss carryforwards (not expiring)	**399,016**	419,411
Time-limited tax losses		
- expiring until 2022	**10,795**	26,300
- expiring from 2022 to 2027	**10,675**	25,559
- expiring from 2028 to 2032	**103,596**	56,297
Interest carryforward	**9,187**	10,749
Tax credits	**1,088**	1,146
Total	**534,357**	**539,462**

A net asset position for temporary differences amounting to T€ 346 was not recorded as of 31 December 2017 (31 December 2016: T€ 1,333).

(19) STOCK-BASED COMPENSATION

a) SHARE PERFORMANCE AWARDS

To further incentivise executives via variable long-term incentive compensation, the Annual General Meeting in June 2017, June 2016 and June 2012 approved the respective contingent capital necessary to support the Share Performance Plan 2017 ("SPP 2017"), 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 2017), 6,000,000 bearer shares (SSP 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 under SSP 2017 can be exercised at the earliest after a vesting period of four years and one month after the date of their grant, whereas SPAs under SSP 2015 and SSP 2012 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 under SSP 2017 can only be exercised, if, when and to the extent that two specified and equally weighted key performance indicators are achieved in a single of four consecutive calendar years. These performance indicators consist of Evotec's share price and total shareholder return. The Supervisory Board determines annually key performance indicators for each individual tranche of awards at grant date. The Share Performance Plan SPP 2017 is subject to certain restrictions regarding issuing periods and the allocation of the grants to members of the Management Board and other key employees.

SPAs under SSP 2015 and SSP 2012 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 management members.

A summary of the status of the Share Performance Plans as of 31 December 2017 and 2016 and the changes during the year then ended is presented as follows:

		31 December		
	2017 Share Performance Awards (SPAs)	***2017 Weighted average exercise price***	*2016 Share Performance Awards (SPAs)*	*2016 Weighted average exercise price*
		€ per share		€ per share
Outstanding at beginning of the year	**4,245,637**	**1.00**	3,858,742	1.00
SPAs granted	**390,804**	**1.00**	793,903	1.00
SPAs exercised	**(1,160,236)**	**1.00**	(331,861)	1.00
SPAs forfeited	**(11,517)**	**1.00**	(75,147)	1.00
Outstanding at end of the year	**3,464,688**	**1.00**	**4,245,637**	**1.00**
Thereof exercisable	**53,775**	**1.00**	**533,670**	**1.00**

In the financial year 2017, 186,984 SPAs (2016: 396,291 SPAs) from the total granted 390,804 SPAs were given to the members of the Management Board. The SPAs exercised in 2017 correspond to 737,329 shares (2016: 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:

	25 August 2017	*20 September 2016*	*28 September 2015*	*01 October 2014*	*04 September 2013*
Risk-free interest rate in %	**(0.50)**	(0.61)	(0.09)	0.05	0.67
Volatility of Evotec share in %	**34.0**	33.0	37.0	47.0	35.0
Volatility of TecDAX index in %	**12.0**	n/a	n/a	n/a	n/a
Fluctuation in %	**0.0 - 5.0**	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	1.00
Share price at grant date in Euro	**16.24**	4.66	4.04	3.10	2.90
Market value of TecDAX index at grant date in Euro	**2,266.43**	n/a	n/a	n/a	n/a
Fair value according to IFRS 2 at grant date per SPA in Euro	**3.87**	3.87	2.69	1.80	1.55

The performance measurement period for this vesting in 2017 started on 01 January 2017 (2016: 01 January 2016). The expected dividend yield is zero, the expected life is 4 years.

In the financial year 2017, the assumption relating to the SPAs granted in 2016 and 2015 (2016: SPAs granted in 2015) 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€ 262 (2016: T€ 1,200) of the total amount to be recognised as compensation expense. Correspondingly, a T€ 207 higher (2016: T€ 830 higher) than originally expected compensation expense was recorded in 2017.

b) SHARE OPTION PLANS

There remain a few stock options from the past. A summary of the status of the stock option plans as of 31 December 2017 and 2016 and the changes during the years then ended is presented as follows:

	31 December			
	2017 ***Options***	***2017*** ***Weighted average exercise price***	*2016* *Options*	*2016* *Weighted average exercise price*
		€ per share		€ per share
Outstanding at beginning of the year	**1,728,252**	**2.60**	2,031,961	2.57
Options granted	**-**	**-**	-	-
Options exercised	**(597,594)**	**2.29**	(258,584)	2.35
Options expired	**(1,018,844)**	**2.79**	(45,125)	2.48
Options forfeited	**-**	**-**	-	-
Outstanding at end of the year	**111,814**	**2.50**	**1,728,252**	**2.60**
Thereof exercisable	**111,814**	**2.50**	**709,408**	**2.33**

A summary of the stock options outstanding as of 31 December 2017 is as follows:

Range of exercise prices	***Weighted average remaining contractual life***
€ per share	
2.23 - 2.79	2.08 years

The Company recognised compensation expense in 2017 and 2016 for all Share Performance Awards totalling T€ 2,915 and T€ 3,979, respectively, which was reflected as operating expenses in the consolidated income statement. Thereof, T€ 927 are related to Share Performance Awards of the Management Board in 2017 (2016: T€ 1,847). In 2017 and 2016, no compensation expense related to stock options were recognised. 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 2017***	*31 Dec 2016*
Issued as of 01 January	**133,052**	132,584
Capital increase (cash contribution)	**13,146**	-
Exercise of share purchase rights	**1,335**	468
Issued as of 31 December	**147,533**	**133,052**

On 31 December 2017, there are 147,532,681 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 2017 show an average exercise price amounting to € 6.38 (2016: € 1.75) per share.

The conditional capital (bedingtes Kapital) as of 31 December 2017 consists of 13,318,160 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 2017 amounted in total to 39,834,976 shares.

At the Annual General Meeting on 14 June 2017, the statutes in respect of authorised capital were amended. The Management Board of the Company is now authorised to issue up to 29,332,457 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 13 June 2022.

At the Annual General Meeting on 17 June 2014, the statutes in respect of authorised capital were amended. The Management Board of the Company has been authorised to issue up to 26,292,038 new shares for cash or contributions in kind. In 2017, the Company exercised this in part through a capital increase of € 13,146,019.00 issuing 13,146,019 new common bearer shares without nominal value (non-par value shares). Following this partial exercise, the remaining amount of authorised capital under the 2014 shareholder resolution was € 13,146,019.00.

Evotec owns 249,915 of Evotec's shares as of 31 December 2017 (2016: 249,915), representing 0.2% (2016: 0.2%) of Evotec's share capital as of 31 December 2017. 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).

(21) REVENUES

Revenues in 2017 include milestone payments amounting to T€ 20,228 (2016: T€ 11,858) and royalty income in the amount of T€ 0 (2016: T€ 46). Also included in 2017 are licence revenues from discovery collaborations in the amount of T€ 42 (2016: T€ 1,253).

(22) RESEARCH AND DEVELOPMENT

In 2017, research and development expenses mainly relate to early and clinical discovery programmes amounting to T€ 13,610 (2016: T€ 13,444) as well as overhead expenses in the amount of T€ 3,403 (2016: T€ 4,521). 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 2017 are expenses for sales and marketing in the amount of T€ 6,802 (2016: T€ 3,185). Other administrative expenses in 2017 amount to T€ 35,581 (2016: T€ 23,828). The increase in administrative expenses is in particular due to the first full year of Cyprotex as well as approximately 4.5 months of Aptuit expenses. Additional expenses occurred also in the context of M&A activities.

(24) OTHER OPERATING INCOME AND EXPENSE

In 2017, other operating income mainly relates to T€ 2,323 (2016: T€ 2,429) 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€ 10,082 (2016: T€ 8,492) and Italy in the amount of T€ 1,090 (2016: T€ 0). This credit is akin to a government grant and as a result is shown as other operating income. 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, amounting to T€ 1,451 in 2017.
In 2017, other operating income includes T€ 15,225 (2016: T€ 5,189) related to the recharge of costs to third parties whereas the respective costs are included in other operating expense with the same amount.

(25) INTEREST EXPENSE

Interest expense in 2017 include the unwind of discounts of contingent consideration (earn-out) provisions in the amount of T€ 382 (2016: T€ 1,171).

(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 2017 and 2016 each against the Euro:

	Average rate			*31 December*	
€	***2017 01 January - 31 December***	***2017 11 August - 31 December***	*2016 01 January - 31 December*	***2017***	*2016*
USD	**0.88521**	**0.84683**	0.90330	**0.8338**	0.9487
GBP	**1.14068**	**1.11947**	1.22049	**1.1271**	1.1680
CHF	**0.89954**	**0.86559**	0.93020	**0.8546**	0.9312

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 2017		*Variance 2016*	
T€	***Equity***	***Profit and loss***	*Equity*	*Profit and loss*
USD (10% strengthening)	**1,638**	**1,638**	6,380	6,380
USD (10% weakening)	**(1,638)**	**(1,638)**	(6,380)	(6,380)
GBP (10% strengthening)	**1,393**	**1,393**	240	240
GBP (10% weakening)	**(1,393)**	**(1,393)**	(240)	(240)
EUR (10% strengthening)	**154**	**154**	157	157
EUR (10% weakening)	**(154)**	**(154)**	(157)	(157)

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. Foreign currency contracts are carried at fair value. No foreign currency forward contracts were held by the Company as of 31 December 2017 and 2016, respectively. 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 gain of T€ 790 and to a net loss of T€ 2,478 for the years 2017 and 2016, 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 2017 and 2016, no cash flows were hedged.

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 2017 and 2016 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 2017, the effect on net income without considering any potential tax effects would have been T€ 270 higher (lower) (31 December 2016: net income T€ 521 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 2017 and 2016 would vary by the following amounts:

T€	31 December 2017	2016
Variable interest rate +1% point	**270**	77
Variable interest rate (1)% point	**(270)**	(77)

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 2017 and 2016 are included in the following tables:

	31 December 2017				
T€	*Carrying amount*	*Contractual cash flow*	*Due in 1 year*	*Due in 2 - 5 years*	*More than 5 years*
Non-derivative financial liabilities					
Loans	(188,058)	(190,698)	(168,584)	(22,114)	-
Finance lease obligations	(1,870)	(1,941)	(839)	(1,102)	-
Contingent consideration	(4,830)	(10,393)	(2,122)	(571)	(7,700)
Trade accounts payable	(26,078)	(26,078)	(26,078)	-	-
Other current financial liabilities	(1,666)	(1,666)	(1,666)	-	-
Total non-derivative financial liabilities	**(222,502)**	**(230,776)**	**(199,289)**	**(23,787)**	**(7,700)**
Derivative financial liabilities					
FX forward contracts USD/GBP	-	-	-	-	-
Interest rate swap	(49)	(49)	(49)	-	-
Total derivative financial liabilities	**(49)**	**(49)**	**(49)**	**-**	**-**

	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 obligations	(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 USD/GBP	-	-	-	-	-
Interest rate swap	(107)	(107)	(107)	-	-
Total derivative financial liabilities	**(107)**	**(107)**	**(107)**	**-**	**-**

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):

	31 December	
T€	**2017**	2016*
Total assets	**667,268**	354,107
Equity attributable to the shareholders of Evotec AG	**330,755**	213,035
Equity ratio (in %)	**49.6%**	60.2%
Net cash	**(122,911)**	**55,113**

** Modified by the effect of the finalization of Cyprotex's purchase price allocation in 2017 in accordance with IFRS 3, see Note 4*

To manage short-term and medium-term liquidity, the Company makes use also of bank loans. As of 31 December 2017 and 2016, all debts are unsecured. However, Evotec has to hold a minimum level of cash in the amount of T€ 35,000 in 2017 and 2016, respectively. As of 31 December 2017, liquidity amounts to T€ 91,156 (31 December 2016: T€ 126,270). The sum of these debt instruments – including both current and non-current portions – at the end of 2017 is T€ 188,058 (2016: T€ 28,607).

Evotec remains well financed with an equity ratio relating to equity attributable to Evotecs shareholders of 49.6% as of 31 December 2017 (31 December 2016: 60.2%) 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 at the reporting date by geographic region was:

	31 December	
T€	**2017**	2016
United States	**19,400**	12,312
France	**9,372**	2,551
Rest of Europe	**7,355**	2,418
United Kingdom	**5,339**	1,696
Germany	**3,065**	8,131
Rest of the world	**1,059**	340
	45,590	**27,448**

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 2017, one customer accounted for 20% of trade receivables (31 December 2016: 25%). 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 few and this is not expected to change.

In 2017, 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 2017, represented in total 22% of the Group revenues. All other customers had a revenue share below 10%. In 2016, only one customer had more than 10% of the Group revenues and together more than 33% of the Group revenues in 2016. 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 projects.

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.

Reconciliation of cash flows from financing activities to the changes in financial liabilities

T€	*Loan liabilities*	*Finance lease obligation*	*Loan Notes*	*Contingent consideration*
As of 01 January 2017	**28,607**	**220**	**209**	**3,705**
Proceeds from issuance of loans	179,102	-	-	-
Repayment of loan notes	-	-	(203)	-
Repayment of finance lease obligation	-	(519)	-	-
Repayment of loans	(30,012)	-	-	-
Payment of subsequent contingent considerations	-	-	-	-
Cashflow from financing activities	**149,090**	**(519)**	**(203)**	**-**
Business combination	10,219	2,120	-	2,213
Foreign currency translation	142	49	(3)	(19)
Changes in fair value	-	-	-	(1,451)
Other changes				
unwind of discount	-	-	-	382
As of 31 December 2017	**188,058**	**1,870**	**3**	**4,830**

(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 2017		31 December 2016	
T€	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	**67,017**	**67,017**	**83,940**	**83,940**
Available-for-sale financial assets				
Investments	**24,139**	**24,139**	42,330	42,330
Total available-for-sale-financial assets	**24,139**	**24,139**	**42,330**	**42,330**
Financial assets measured at fair value				
Other non-current financial assets	**-**	**-**	83	83
Total financial assets measured at fair value	**-**	**-**	**83**	**83**
Loans and receivables				
Trade accounts receivables	**45,590**	**45,590**	27,448	27,448
Other current financial assets	**10,419**	**10,419**	1,592	1,592
Total loans and receivables	**56,009**	**56,009**	**29,040**	**29,040**
Financial liabilities measured at amortised cost				
Current loan liabilities	**(167,763)**	**(167,763)**	(21,413)	(21,413)
Non-current loan liabilities	**(20,295)**	**(20,980)**	(7,194)	(7,219)
Current portion of finance lease obligations	**(705)**	**(705)**	(190)	(190)
Long-term finance lease obligations	**(1,165)**	**(990)**	(30)	(30)
Trade accounts payable	**(26,078)**	**(26,078)**	(11,997)	(11,997)
Other current financial liabilities	**(1,666)**	**(1,666)**	(1,503)	(1,503)
Total financial liabilities measured at amortised cost	**(217,672)**	**(218,182)**	**(42,327)**	**(42,352)**
Financial liabilities measured at fair value				
Derivative financial instruments	**-**	**-**	-	-
Contingent consideration	**(4,830)**	**(4,830)**	(3,705)	(3,705)
Total financial liabilities measured at fair value	**(4,830)**	**(4,830)**	**(3,705)**	**(3,705)**
	(75,337)	**(75,847)**	**109,361**	**109,336**
Unrecognised (gain)/loss		**510**		**25**

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 (2017: 30%; 2016: 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 2017			
T€	***Level 1***	***Level 2***	***Level 3***	***Total***
Available-for-sale financial assets	**24,139**	**-**	**-**	**24,139**
Financial assets measured at fair value	**-**	**-**	**-**	**-**
Financial liabilities measured at fair value	**-**	**-**	**(4,830)**	**(4,830)**

	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)

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 2017 and 2016, respectively:

T€	***Note***	***Contingent consideration***
As of 01 January 2017		3,705
Business combinations	(16)	2,213
Exchange rate difference		(19)
Consumption		-
Included in other operating expense		
Changes in fair value, unrealised		-
Included in other operating income		
Changes in fair value, unrealised		(1,451)
Included in expense from long-term investment		
Changes in fair value, unrealised		-
Included in interest expense		
Interest change in net present value, unrealised		382
As of 31 December 2017		**4,830**

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		-
Included in other operating income		
Changes in fair value, unrealised		(12,413)
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**

For the fair value of the contingent consideration, possible alternative assumptions of significant unobservable inputs would have ceteris paribus the following effects as of 31 December 2017 and 2016:

T€	2017 Profit and loss Increase	2017 Profit and loss Decrease	2016 Profit and loss Increase	2016 Profit and loss Decrease
Contingent consideration				
Discount rate (movement of 0.15 % points)	50	(101)	56	(114)
Commercialisation success rate (movement of 10% points)	875	(1,149)	1,206	(1,206)

In the financial years 2017 and 2016, 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 Aptuit in 2017, the Company took over other additional plans. The pension charge for the year represents contributions payable by the Company to the fund (and to employees' own pension schemes) and amounted in 2017 to T€ 1,953 (2016: T€ 1,507). Contributions amounting to T€ 280 (2016: T€ 108) were payable to the fund at the year-end 2017 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 operates 401K plans in the USA with the contribution to these plans amounting to T€ 319 during 2017 (2016: T€ 92).

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 2017 and 2016, a calculation for this obligation was done which includes the following assumptions.

	31 Dec 2017	31 Dec 2016
Actuarial interest rate	1.75%	1.45%
Salary increase	1.50%	1.50%
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 2017
Actuarial interest rate +0.50% points	**(477)**
Actuarial interest rate -0.50% points	**494**

T€	31 Dec 2016
Actuarial interest rate +0.50%-points	(458)
Actuarial interest rate -0.50%-points	399

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 2017 and 2016 for this obligation. The calculations are based on assumed pension increases of 1.5% and a discount rate of 1.81% in 2017 and 1.1% and 1.6% in 2016. The discount rate reflects market conditions. The provision amounted to T€ 202 and T€ 204 as of 31 December 2017 and 2016, respectively.

The pension provisions developed as follows:

T€	Year ended 31 December 2017	2016
Pension provision at beginning of the year	**7,484**	7,946
Addition at acquisition date	**-**	-
Included in other comprehensive income:		
Actuarial gains from:		
Changes in financial assumptions	**278**	(645)
Experience adjustments	**130**	(419)
Included in net income:		
Current service costs	**415**	462
Interest cost	**107**	140
Pension provision at year-end	**8,414**	**7,484**

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 2017***	*31 Dec 2016*
Less than one year	**17,426**	15,428
Between one and five years	**59,075**	56,765
More than five years	**24,897**	11,134
Total	**101,398**	**83,327**

The majority of operating lease obligations relate to rent expenses for facilities. The rent expense for such leases amounted to T€ 18,881 and T€ 16,188 for the years ended 31 December 2017 and 2016, respectively. The increase in rent expenses is the result of the rent agreements of Cyprotex, which were only included for half of a month in the year 2016, and of Aptuit, which are included in the figures from 12 August 2017 onwards only.

— (b) OTHER COMMITMENTS AND CONTINGENCIES —

The future minimum payments associated with miscellaneous long-term commitments total approximately T€ 14,507 and T€ 6,003 at 31 December 2017 and 2016, respectively. The significant portion thereof related to long-term commitments in connection with facility expenses.

As of 31 December 2017 and 2016, the Company has entered into purchase commitments in the amount of T€ 2,395 and T€ 3,155, 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 Evotec's 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 2017.

(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).

Evotec AG recorded revenues from contracts in the normal course of business in the amount of T€ 14,738 and T€ 15,605 with related parties in 2017 and 2016, respectively. Subsidiaries of Evotec AG recorded corresponding revenues with related parties in the amount of T€ 13,217 and T€ 8,787 in 2017 and 2016, 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 2017 in the amount of T€ 6,758 (2016: T€ 1,901).

(32) PERSONNEL EXPENSES AND COST OF MATERIAL

The personnel expenses of the Company in 2017 amounted to T€ 113,644 of which T€ 66,988 relate to personnel expenses outside Germany in the UK, Italy, Switzerland, France and USA (2016: T€ 83,484 and T€ 52,043, respectively). Thereof expenses for the statutory retirement insurance amounted to T€ 9,311 of which T€ 4,302 relate to expenses outside Germany in the UK, Italy, Switzerland, France and USA (2016: T€ 6,471 and T€ 4,712, respectively).

Cost of materials in 2017 amounted to T€ 44,904, thereof T€ 31,822 were cost of materials outside Germany in the UK, Italy, Switzerland, France and USA (2016: T€ 26,793 and T€ 17,254, 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 people employed by the Company in 2017 was 1,652 (2016: 1,072). Thereof 202 (2016: 155) employees are allocated to sales and administration. The increase is mainly due to the business combination with Aptuit.

— (b) REMUNERATION OF THE AUDITOR —

In 2017, remunerations, shown as expenses, to Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft and other Ernst & Young companies totalled T€ 587 (2016: T€ 458), which is broken down into auditing of financial statements (T€ 453; 2016: T€ 348), other assurance services (T€ 15; 2016: T€ 15) as well as other services (T€ 119; 2016: T€ 95). The amount for auditing the financial statements includes T€ 6 in 2017 (2016: T€ 25) relating to the

prior-year financial statements. The remunerations relating to Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft alone amounted to T€ 412. Thereof T€ 288 relating to auditing of financial statements, T€ 15 to other assurance services and T€ 109 to other services. Included in the amount of auditing of financial statements was an amount of T€ 10 relating to the prior-year financial statements.

— (c) CORPORATE GOVERNANCE CODEX —

According to Sec 161 AktG, the Management Board and the Supervisory Board issued a statement of compliance with regard to the German Corporate Governance Codex. This statement has been made accessible to the Company's shareholders in the 'Investor Relations' section on Evotec's website (www.evotec.com).

— (d) CONSOLIDATED SUBSIDIARIES AND EQUITY INVESTEES —

Information below shows Evotec AG's direct and indirect voting rights in their subsidiaries and other investments. Evotec's direct and indirect voting rights in dormant companies are not included.

%	*2017 Company's voting rights*
Subsidiaries	
Aptuit Global LLC, Princeton, NJ, USA	100.0
Aptuit (Verona) SRL, Verona, Italy	100.0
Aptuit (Oxford) Ltd., Abingdon, UK	100.0
Aptuit (Switzerland) AG, Basel, Switzerland	100.0
Aptuit (Potters Bar) Ltd, Abingdon, UK	100.0
Cyprotex Discovery Ltd., Manchester, UK	100.0
Cyprotex PLC, Manchester, UK	100.0
Cyprotex US, LLC., Watertown, MA, USA	100.0
Evotec (Hamburg) GmbH, Hamburg, Germany	100.0
Evotec (India) Private Limited, Thane, India*	100.0
Evotec International GmbH, Hamburg, Germany	100.0
Evotec (München) GmbH, Munich, Germany	100.0
Evotec (UK) Ltd., Abingdon, UK	100.0
Evotec (US), Inc., Princeton, NJ, USA	100.0
Panion Ltd., London, UK	51.0
Associates	
Eternygen GmbH, Berlin, Germany	22.02
FSHD Unlimited Coorp, Leiden, Netherlands	21.51
Exscientia Ltd., Dundee, UK	24.54
Topas Therapeutics GmbH, Hamburg, Germany	39.52
Other Investments	
Carrick Therapeutics Ltd., Dublin, Ireland	4.57
European ScreeningPort GmbH i.L., Hamburg*, Germany	19.9
Forge Therapeutics, Inc., San Diego, CA, USA	14.42
Fibrocor LLP, Toronto, Canada	16.50

** in voluntary liquidation*

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) and
Enno Spillner, Business Executive, Hamburg, DE (CFO).

The remuneration paid to the members of the Management Board in the financial year 2017 totalled T€ 2,478 (2016: T€ 2,346) of which T€ 896 (2016: T€ 796) was variable remuneration. The Management Board received also Share Performance Awards in 2017 and 2016 as components with a long-term incentive effect with a fair value in 2017 of T€ 2,724 (2016: T€ 1,534). Compensation expense in the amount of T€ 927 (2016: T€ 1,847) were recorded in 2017 for Share Performance Awards of the Management Board.

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 2017, the variable pay in 2018 is based on the achievement of four sets of corporate milestones (strategic targets). As of 31 December 2017, the Company has accrued T€ 1,066 for this purpose, which is composed of T€ 420 for Dr Werner Lanthaler, T€ 238 for Dr Cord Dohrmann, T€ 237 for Dr Mario Polywka and T€ 171 for Enno Spillner.

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	30	70
Dr Cord Dohrmann	30	70
Dr Mario Polywka	30	70
Enno Spillner	30	70

For the financial year 2016, the variable pay in 2017 was based on the achievement of four sets of corporate milestones (strategic targets). As of 31 December 2016, the Company had accrued T€ 992 for this purpose, which was composed of T€ 407 for Dr Werner Lanthaler, T€ 211 for Dr Cord Dohrmann, T€ 214 for Dr Mario Polywka, T€ 78 for Enno Spillner and T€ 82 for Colin Bond.

The achievement of targets for the year 2016 splits as follows:

%	*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

In addition to their fixed and variable remuneration, the members of the Management Board received 186,984 (2016: 396,291) Share Performance Awards (SPA) in 2017 under the Company's Share Performance Plans. These Share Performance Awards vest after four years according to achievement level of defined key performance indicators over a four-year (2016: 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€ 2,724 (2016: T€ 1,534). Further information concerning SPAs is available in Note (19).

	2017 ***Fixed remuneration***	***2017*** ***Variable remuneration***	***2017*** ***Share Performance Awards***	***2017*** ***Fair values of SPAs granted***	***2017*** ***Total remuneration***
	T€	T€	in pcs	T€	T€
Dr Werner Lanthaler	520	407	102,314	1,491	2,418
Dr Cord Dohrmann	355	211	30,172	440	1,006
Dr Mario Polywka	375	200	29,415	428	1,003
Enno Spillner	332	78	25,083	365	775
Total	**1,582**	**896**	**186,984**	**2,724**	**5,202**

	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**

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€ 74 in total in 2017 (2016: T€ 75) 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 2017, T€ 82 was paid to Colin Bond as a former Management Board member as part of his bonus payment. In 2016, no payments were made to any former Management Board member.

The Members of the Management Board and their additional memberships in supervisory boards and memberships in comparable governing bodies of enterprises are listed at the end of this report.

— (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 (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 Iris Löw-Friedrich, Ratingen, DE, Member of the Management Board (Chief Medical Officer & Head of Development & Medical Practices) of UCB S.A.;
Michael Shalmi, Hellerup, DK, Member of the Management Board (Head of Principal Investments) of Novo Holdings A/S (Member of the Supervisory Board since 14 June 2017);
Dr Elaine Sullivan, London, UK, CEO of Carrick Therapeutics Ltd;
Prof. Dr Paul Linus Herrling, Küsnacht, CH, Former Head of Global Research of Novartis Pharma AG (Member of the Supervisory Board until 14 June 2017).

The remuneration accrued for the members of the Supervisory Board in the financial year 2017 was as follows:

T€	***2017 Remuneration***
Prof. Dr Wolfgang Plischke	95
Bernd Hirsch	70
Dr Claus Braestrup	35
Prof. Dr Iris Löw-Friedrich	35
Michael Shalmi (since 14 June 2017)	19
Dr Elaine Sullivan	35
Prof. Dr Paul Linus Herrling (until 14 June 2017)	16
Total	**305**

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**

In 2017 and 2016, 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 2017 and 2016, there was no share-based remuneration.

The total remuneration accrued for the Supervisory Board members in 2017 totalled T€ 305 (2016: T€ 305). 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€ 74 in total in 2017 (2016: T€ 75) 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 Sec 125 par. 1 fifth sentence of the AktG are listed at the end of this report.

(34) SUBSEQUENT EVENTS

On 08 March 2018, Evotec announced that Evotec and Sanofi have entered into exclusive negotiations to accelerate infectious disease research and development through a new open innovation platform led by Evotec. Under the agreement, Sanofi would licence its infectious disease research and early-stage development portfolio and transfer its infectious disease research unit in Lyon, France, which includes more than 100 employees to Evotec. Sanofi will pay Evotec an initial one-time cash upfront payment of € 60 m and provide further significant long-term funding to ensure support and progression of the portfolio. This transaction is expected to close in the first half of 2018, subject to finalization of definitive agreements and completion of the appropriate social process.

Hamburg, 22 March 2018

Dr Werner Lanthaler *Dr Cord Dohrmann*

Dr Mario Polywka *Enno Spillner*

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
Bernd Hirsch Vice Chairman of the Supervisory Board *Neuler/DE* *CFO of Bertelsmann SE & Co. KGaA*	***Director:*** Bertelsmann Inc., New York/USA RTL Group S.A., Luxemburg/LU
Dr Claus Braestrup Member of the Supervisory Board *Copenhagen/DK* *Former President and Chairman 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 (until March 2017) Bavarian Nordic A/S, Kvistgaard/DK Evolva SA, Basel/CH (until May 2017) Kastan ApS, Frederiksberg/DK (since January 2017)
Prof. Dr Iris Löw-Friedrich Member of the Supervisory Board *Ratingen/DE* *Member of the Management Board (Chief Medical Officer & Head of Development & Medical Practices) of UCB S.A.*	***Member of the Supervisory Board:*** Fresenius SE & Co. KGaA, Bad Homburg/DE TransCelerate BioPharma Inc, King of Prussia/USA (Chairman of the Supervisory Board until September 2017)
Michael Shalmi Member of the Supervisory Board (since 14 June 2017) *Hellerup/DK* *Member of the Management Board (Head of Principal Investments) of Novo Holdings A/S*	***Member of the Supervisory Board:*** Orexo AB, Uppsala/SE Synlab Ltd., Marylebone/UK Momentum Gruppen A/S, Roskilde/DK ERT Inc., Philadelphia/USA ERT HoldCo A/S, Hellerup/DK Xellia HoldCo A/S, Copenhagen/DK Novo Invest 1 A/S, Hellerup/DK
Dr Elaine Sullivan Member of the Supervisory Board *London/UK* *CEO of Carrick Therapeutics Ltd.*	***Member of the Supervisory Board:*** IP Group plc, London/UK
Prof. Dr Paul Linus Herrling Member of the Supervisory Board (until 14 June 2017) *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 ***Vice president of the Rat:*** Eidgenössische Technische Hochschule, Bern/CH

MANAGEMENT BOARD

Dr Werner Lanthaler Chief Executive Officer *Hamburg/DE* *Business Executive*	***Non-Executive Member of the Board of Directors & Chairman of the Audit Committee:*** arGEN-X, Breda/NL ***Member of the Supervisory Board:*** Topas Therapeutics GmbH, Hamburg/DE
Dr Cord Dohrmann Chief Scientific Officer *Göttingen/DE* *Biologist*	***Member of the Supervisory Board:*** Eternygen GmbH, Berlin/DE ***Non-Executive Member of the Board of Directors:*** FSHD Unlimited, Leiden/NL (since June 2017)
Dr Mario Polywka Chief Operating Officer *Oxfordshire/UK* *Chemist*	***Member of the Board of Directors:*** Forge Therapeutics, Inc., San Diego/USA (since May 2017) Exscientia Ltd., Dundee/UK (since September 2017)
Enno Spillner Chief Financial Officer *Hamburg/DE* *Business Executive*	***Non-Executive Member of the Board of Directors & Chairman of the Audit Committee:*** Nanobiotix SA, Paris/FR

Independent Auditor's Report

The translation of this audit opinion reads as follows:

To Evotec AG

Report on the audit of the consolidated financial statements and of the group management report

Opinions

We have audited the consolidated financial statements of Evotec AG, Hamburg and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the fiscal year from 1 January to 31 December 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Evotec AG for the fiscal year from 1 January to 31 December 2017. In accordance with the German legal requirements, we have not audited the content of sections "Declaration of corporate management" containing the group declaration of corporate management, "Information pursuant to section 289a paragraph 1 and section 315a paragraph 1 of the German Commercial Code and explanatory report" and "Remuneration report".

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2017, and of its financial performance for the fiscal year from 1 January to 31 December 2017, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the sections "Declaration of corporate management", "Information pursuant to section 289a paragraph 1 and section 315a paragraph 1 of the German Commercial Code and explanatory report" and "Remuneration report" in the group management report.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January to 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

Impairment of intangibles including goodwill

Reasons why the matter was determined to be a key audit matter

Evotec Group's management accounts for material intangible assets such as acquired developed technologies and goodwill from acquisitions. Recoverability of these assets is based on forecasting and discounting future cash flows. Both are highly judgmental. Due to the allocation of the intangible assets to one of the cash-generating units, the estimated future cash flows vary because of different risk profiles and possible triggering events. For developed technologies the main risk is achieving successful trial results and obtaining the required regulatory approvals. The valuation of these technologies is tested in an annual impairment assessment performed by management where the recoverable amount is compared to the carrying

amount. Regarding the goodwill, an impairment assessment is also carried out annually by management by assessing the value in use of the Group's cash generating units which requires significant assumptions about future developments. Due to the judgment and inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability, we consider the impairment of intangibles including goodwill to be a key audit matter.

Auditor's response

In this area our audit procedures included testing the Group's implemented controls surrounding intangible asset impairments and evaluating management's assumptions used in assessing the recoverability of intangible assets, in particular, revenue and cash flow projections, useful economic lives and discount rates. We also performed sensitivity analyses over individual intangible assets' cash flow models, if there was a higher risk of impairment, to assess the level of sensitivity to key assumptions. For developed technologies, one of the key assumption is the probability of obtaining the necessary clinical and regulatory approvals. Our procedures for products in development included critically assessing the reasonableness of the management's assumptions through consideration of trial readouts, regulatory announcements and the Group's internal governance and approval process. We also interviewed a range of key research, development and commercial personnel and compared assumptions with industry practice and corresponding statistics. For developed technologies we challenged key assumptions regarding the size of the therapeutic area market, the product's projected share of this and expected pricing and associated costs. We assessed arithmetic accuracy of the underlying cash flow models through recalculation and challenged discount rates by comparison to third party information, the Group's cost of capital and relevant risk factors. Our procedures also included holding discussions with relevant management personnel and challenging management's statements by retrospective assessment of the accuracy of the Group's projections. We also assessed the adequacy of related disclosures in the Group's financial statements.

Our audit procedures did not lead to any reservations relating to the accounting for the impairment of intangibles including goodwill.

Reference to related disclosures

With regard to the accounting and measurement policies applied in accounting for the impairment of intangibles including goodwill, refer to note "(11) Intangible assets, excluding goodwill" and "(12) Goodwill" within the notes to the consolidated financial statements.

Purchase price allocations in conjunction with business combinations

Reasons why the matter was determined to be a key audit matter

On 14 December 2016, Evotec AG acquired 100 % of the shares of the pre-clinical contract research organization Cyprotex PLC, Manchester. Furthermore, on 11 August 2017 Evotec AG completed the acquisition of 100 % of the shares of Aptuit Global LLC, Greenwich, a partner research organization for integrated outsourced drug discovery and development solutions. For both acquisitions, Evotec Group's management performed a purchase price allocation in which assets acquired and liabilities assumed were identified and for which fair values were determined. The fair values of customer lists, favorable contracts and trademarks identified were derived from discounted cash flow calculations which are based on assumptions about future developments. Given the magnitude of the assets' fair values for the Group's financial position and since management applied significant judgment in forecasting future cash flows we consider the purchase price allocations in conjunction with business combinations a key audit matter.

Auditor's response

An important element of our audit procedures concerned the identification of acquired assets and liabilities assumed. We have corroborated this identification with our knowledge of the business of Evotec Group, business plans, and management's explanations on the rationale of the acquisitions and future plans. We have reviewed the allocation of the purchase price by assessing whether management's assumptions about future sales and expenses, existing customer attrition and discount rates were reasonable and how those were incorporated into the cash flow models. We have compared management's forecasts with previous performance of the businesses acquired, general market and industry growth, the amount of recurring business with existing customers and contractual evidence. We challenged discount rates by comparison to third party information, the Group's cost of capital and relevant risk factors. Moreover, we have verified whether the fair values were determined applying commonly used valuation models. We further assessed the adequacy of management's disclosures on these business combinations.

Our audit procedures did not lead to any reservations relating to the purchase price allocations in conjunction with business combinations.

Reference to related disclosures

With regard to the accounting and measurement policies applied in accounting for purchase price allocations in conjunction with business combinations, refer to "(4) Acquisitions" within the notes to the consolidated financial statements.

Revenue Recognition from Milestone payments

Reasons why the matter was determined to be a key audit matter

In addition to income from services and from licenses and royalties, Evotec Group generates revenues from the receipt of milestone payments. Those payments from contractual collaborations become due as soon as medical compounds achieve different scientific results ('milestones') as part of the overall development and regulatory approval process. Milestone payments are often individually material according to amount and indicative of the likelihood to generate future revenues under existing collaboration agreements. This may also entail a significant participation of Evotec Group in future market share. Management discloses and comments on revenue from milestones separately in the notes to the consolidated financial statements and management report. It qualifies milestones as a significant financial upside potential, while failure to achieve milestones would likely have an adverse impact on the Group's financial position, results of operations and cash flows. Improper revenue recognition in relation to milestone payments (e.g. recording fictitious milestones) may not only be individually material to the Group but also be significantly misleading in assessing the Group's financial position and result from operations, which is why we have determined revenue recognition from milestone payments to be a key audit matter.

Auditor's response

In order to form an opinion on the appropriateness of revenue recognition in conjunction with milestone payments we obtained confirmations for the achievement of milestones reached, which the Group receives from its respective contractual partners. For all revenues from milestone collaborations we further compared the confirmation with the underlying contracts and with subsequent payments received.

Our audit procedures did not lead to any reservations relating to the revenue recognition of milestone payments.

Reference to related disclosures

With regard to the accounting and measurement policies applied in accounting for revenue recognition of milestone payments, refer to "(2) Summary of significant accounting policies" within the notes to the consolidated financial statements.

Other information

The supervisory board is responsible for the supervisory board report. In all other respects, the management board is responsible for the other information. The other information in the Annual Report comprises "Letter to shareholders", "Evotec at a glance", "How to", "The Evotec share", "Corporate Governance report 2017", "Supervisory Board report", "Supervisory Board and Management Board" and "Responsibility statement". In addition, the other information contained within the Group's management report comprises the group non-financial statement contained in section "report pursuant to section 289c and section 315c of the German Commercial Code", the group statement on corporate governance contained in section "Declaration of corporate management" of the group management report, section "Information pursuant to section 289a paragraph 1 and section 315a paragraph 1 of the German Commercial Code and explanatory report" and the section "Remuneration report".

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the management board and the supervisory board for the consolidated financial statements and the group management report

The management board is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the management board is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the management board is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the management board is are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the management board is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those

risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the management board and the reasonableness of estimates made by the management board and related disclosures.

- Conclude on the appropriateness of the management board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Company's position it provides.

- Perform audit procedures on the prospective information presented by the management board in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the management board as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 14 June 2017. We were engaged by the supervisory board on 18 December 2017. We have been the group auditor of Evotec AG without interruption since fiscal year 2014.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

In addition to the financial statement audit, we have provided to group entities the following services that are not disclosed in the consolidated financial statements or in the group management report:

- Assisting in the development and implementation of a new performance management system for Evotec AG

- Special audit of received grants for Cyprotex

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Eckehard Schepers.

Berlin, 22 March 2018
Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Schepers	**Machner**
Wirtschaftsprüfer	Wirtschaftsprüfer
German Public Auditor	*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, 22 March 2018

Dr Werner Lanthaler
Chief Executive Officer

Dr Cord Dohrmann
Chief Scientific Officer

Dr Mario Polywka
Chief Operating Officer

Enno Spillner
Chief Financial Officer