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*Following new trends
to defeat incurable diseases*



Dr Werner Lanthaler
Chief Executive Officer

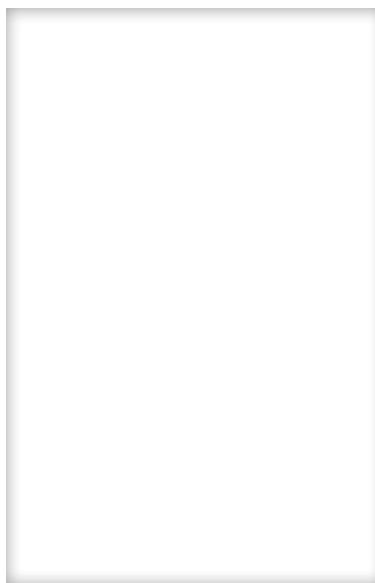
Dear Shareholders and Friends of Evotec,

We live in very exciting times: Over the past 20 years, the scientific progress has transformed our understanding of health and disease and has given us a new, much better set of tools for the discovery and development of new medications. Much of what was simply unimaginable less than a generation ago, such as immuno-, gene or cell therapies, has already – or is about to – become a reality in modern medicine. However, as it recently became once again obvious, we also still have many unsolved challenges ahead of us, which need to be addressed and which energise our daily work to further help pushing boundaries of healthcare to the benefit of humankind.

The future of medicine holds great potential for further radical changes. We can already see some of the outlines on the horizon: multimodality, personalised and regenerative medicine, artificial intelligence, multi-omics data analysis and gene editing. These trends will conspire to bring about the next wave of innovations. We at Evotec are ready to open new doors for new trends to defeat incurable diseases.

Today, we are in the very gratifying situation where the availability of effective treatment regimens is continuously improving across many different indications. However, there are areas such as many rare diseases, women's health or neurodegenerative disorders, where the medical progress has been much more selective or much slower than in other fields. In infectious diseases our current level of treatment will even likely decline rather than improve over the short term. At Evotec we do not accept any standstill or slowdown.

2019 was a very successful year for Evotec, both, operationally and strategically. We entered many new partnerships with pharma and biotech



companies as well as foundations. We also made significant progress in existing alliances, like the positive results from the clinical Phase II trial within our endometriosis and chronic cough alliance.

Strategically, we expanded our platform into biologics by acquiring our new business unit Just – Evotec Biologics to generate multimodality for our partners. We spun out a new oncology-focused biotech company, Breakpoint Therapeutics, and co-founded another one, NephThera, a nephrology-focused joint venture with Vifor Pharma. We built new BRIDGES,

LAB10x and LAB555, to translate academic research into medical progress, and successfully sourced many new projects for our existing BRIDGE partnerships.

However, 2019 was also the year we had to say goodbye to one of our Company's founders, Nobel laureate Manfred Eigen. In most of what he did, Eigen was at least 50 years ahead of his time. He brought together different disciplines from the natural sciences, founded evolutionary biotechnology and was programming early-stage artificial intelligence codes as early as the 1970s. For what we do at Evotec, the value of Manfred Eigen's work is simply immeasurable.

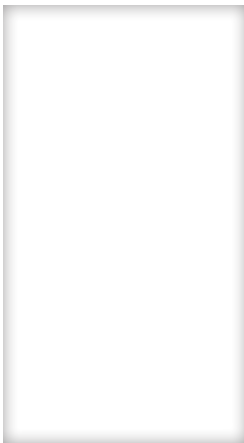
Manfred Eigen refused to accept the technical limitations of his time in a way that inspired him to solve the problems. This made him a visionary, an innovator, and – luckily for Evotec – also an entrepreneur. At Evotec, we live by his example. For us, like for everyone else, technological limitations are initially closed doors. We, however, fully intend to open them and to find new, alternative doors leading to new goals. When Manfred Eigen founded our Company, he gave us a head start. We carry it forward and expand it every day.

We thank you for your trust and your support. We look forward to opening many new doors together with you! ●

Yours sincerely,



*Unlocking doors with
pioneering state-of-the art
technologies and platforms*



OPENING NEW DOORS



*Creating new perspectives
for people management*

69

nationalities

OUR PEOPLE CREATE OUR SUCCESS

3,030

employees worldwide

>2,500

scientists

71%

of all employees
having an academic
qualification

55%

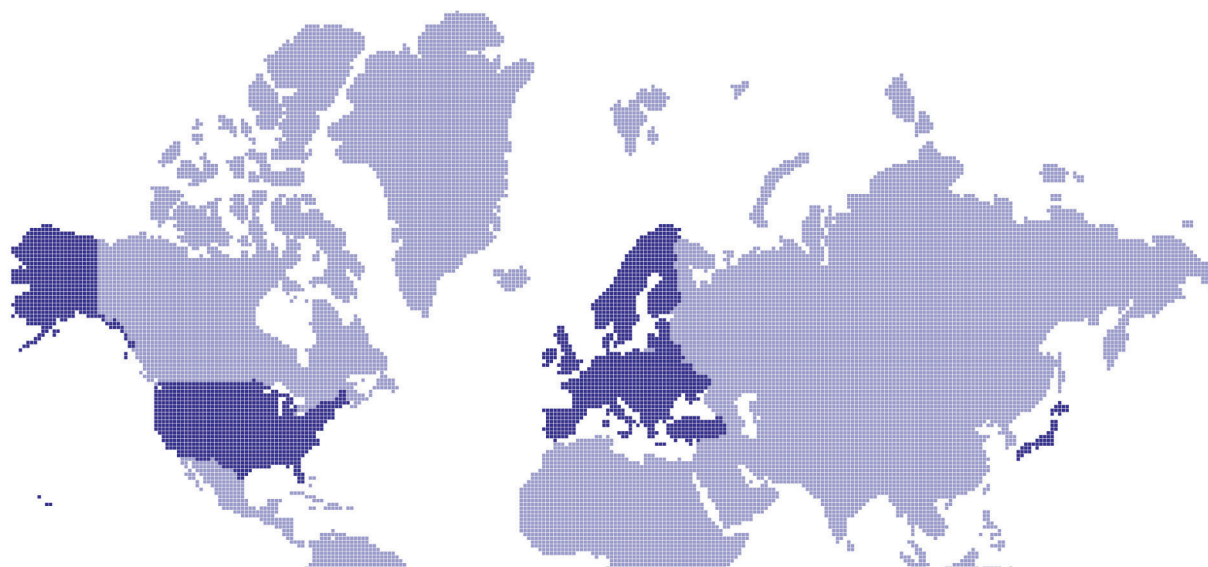
of employees
are women

On average

>8

years of experience
in drug discovery per
individual

OUR OFFERING CLOSE TO PHARMA, BIOTECH AND ACADEMIA (AS OF 31 DECEMBER 2019)



USA

- ▶ Branford, Princeton, Seattle, Watertown, USA
- ~ 250 employees
- Biologics design, development, and production
- Compound ID, selection and acquisition
- Compound QC, storage and distribution
- Cell & protein production
- ADME-Tox, DMPK

EUROPE

- ▶ Hamburg (HQ), Cologne, Göttingen and Munich, Germany
- ~ 700 employees
- Hit identification
- *In vitro* & *in vivo* biology
- Chemical proteomics & Biomarker discovery and validation
- Cell & protein production
- Antibody discovery

- ▶ Abingdon, Alderley Park, UK
- ~ 700 employees
- Medicinal chemistry
- ADME-Tox, DMPK
- Structural biology
- *In vitro* & *in vivo* anti-infective platform/screening
- Process development
- CMC and Commercial manufacture
- Pre-formulation

- ▶ Lyon, Toulouse, France
- ~ 650 employees
- Compound management
- Hit identification
- *In vitro* & *in vivo* oncology
- Medicinal chemistry
- ADME & PK
- Cell, protein & antibody production

- ▶ Verona, Italy
- ~ 660 employees
- Hit identification
- *In vitro* & *in vivo* biology
- Medicinal chemistry
- ADME-Tox, DMPK
- Biomarker discovery and validation
- INDiGO
- CMC

JAPAN

- ▶ Sales representative office

€ **96** m

capex investments
over the last 5 years

OUR SPIRIT OF INNOVATION

283

new customers vs. previous year

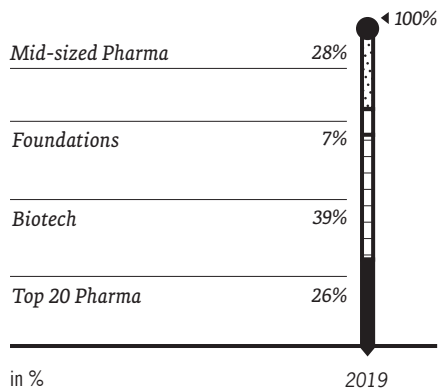
100%

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

>60

projects with Academia
and biotech partners
since 2010

THIRD-PARTY REVENUES BY
CUSTOMER TYPE 2019



DEVELOPMENT OF THE EVOTEC SE SHARE (INDEXED)

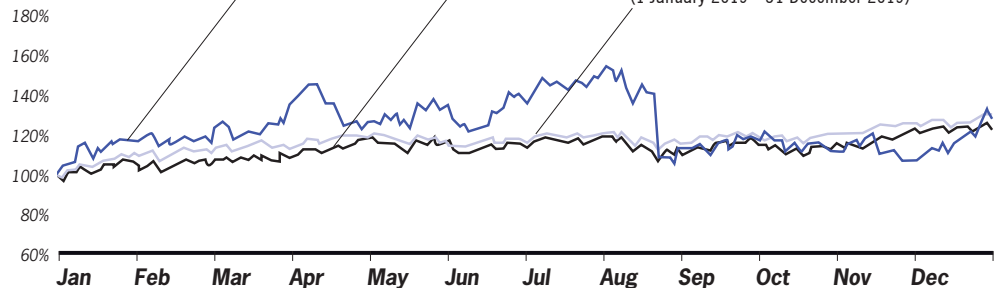
(1 January 2019 – 31 December 2019)

DEVELOPMENT OF THE TecDAX (INDEXED)

(1 January 2019 – 31 December 2019)

DEVELOPMENT OF THE MDAX (INDEXED)

(1 January 2019 – 31 December 2019)



Success rate of

95%

in e.g. assay development
or protein production

approx.

100

co-owned
products

OUR PARTNERSHIPS

92%

repeat business
in 2019

14

equity participations
in breakthrough company
formations

Involved in

769

alliances
in 2019

Opening pathways for innovation

At Evotec, we strive to discover and develop new and better drugs, which combine highest efficacy with superior safety for patients worldwide. The prerequisites for this endeavour are pioneering and state-of-the-art technology and highly innovative and unique drug development platforms that can unlock doors, which have never been opened before.

The need for sophisticated drug discovery tools and platforms with improved accuracy is highlighted by the fact that success rates of clinical trials remain at a low level. Following the Journal Biostatistics, only 13 to 14% of all drugs entering the clinic, throughout all disease areas, will ultimately be approved. In oncology, the success rate dropped to only 3.4%. These figures, combined with increasing development costs and decreasing average peak sales underline

that new and more doors need to be opened to improve success rates, reduce development and production cost and thus improve efficiency within the pharmaceutical industry.

The stakes of drug development are high, and so are the hurdles. The demands by regulatory authorities are increasing, complexity is growing, and as a result, the costs continue to rise. Major reasons for clinical trial failure are lack of efficacy and issues with safety. One of Evotec's goals is to dramatically improve the quality of the drug candidates and thereby improve success rates in subsequent clinical trials through world-leading pre-clinical technology platforms. To improve the prospects of successful drug discovery and development, Evotec is exploring new pathways in many areas:

- ▶ Make undruggable targets druggable
- ▶ Improve toxicology prediction in discovery and pre-clinical phases
- ▶ Improve predictability of *in vitro* & *in vivo* models
- ▶ Reduce or substitute *in vivo* testing
- ▶ Better and more efficient use of billions of data points
- ▶ Faster decision making and higher efficiency through one-stop shop approach

To that end, Evotec's scientists do not only work on developing new drug candidates but also continuously develop new technologies as well as improve and advance existing platforms. Opening new doors is fraught with technical challenges and often requires years of preparation. Evotec is equipped to make long-term commitments which will be the key to

overcome technical hurdles and thereby bolster Evotec's pole position in the race to new and improved drug discovery paradigms.

iPSC-based drug discovery

Neurological diseases, such as Alzheimer's, ALS or Huntington's disease, remain a major challenge for therapeutic drug development. Poor understanding of disease pathophysiology and insufficient representation of these diseases in animal models are the main causes why none of the treatments identified to date can halt or prevent disease progression. Although many transgenic animal models have been created, none of them capture the full spectrum of human disease pathology. And in several cases, positive efficacy results observed in pre-clinical animal models have not been reproduced in clinical trials. Therefore, it is essential to develop better predictive, ideally human, disease models that generally reflect human disease more accurately.

Evotec aims to open this door through applying its iPSC (induced pluripotent stem cell) platform, developed and progressed by our scientists into a scientifically and commercially very powerful tool for more than seven years. Patient-derived iPSC models are more suitable for modelling neuronal diseases because they share the same genetic background with patients and can have the same disease phenotypes.

iPSC-based drug discovery enables significant improvements in the research phase:

- ▶ Better *in vitro* models for drug screening/profiling
- ▶ Reduction of *in vivo* testing
- ▶ Pre-clinical patient stratification

Generation of patient iPSC cell lines and disease modelling with iPSC-derived neurons will facilitate more focused clinical trials in well-defined patient populations. Moreover, iPSC technology will provide a virtually

unlimited source of human cell types for therapeutic purposes, thereby enabling – amongst other things – the development of novel cell replacement strategies at scale.

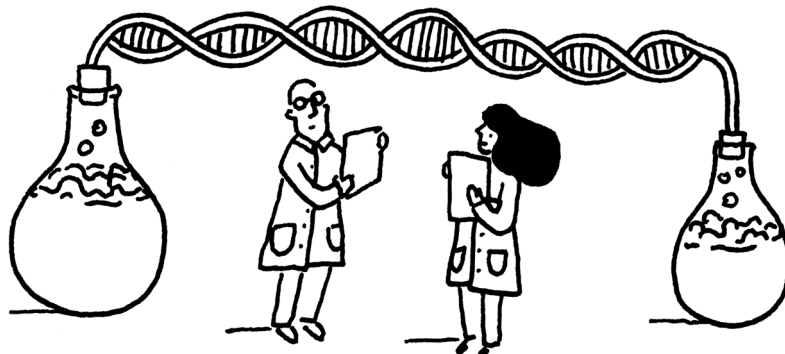
At Evotec, we industrialise the differentiation process of patient-derived iPSC for disease modelling and drug screening through standardisation and scale-up. We are also advancing our stem cell research to clinical application through transition to GMP-grade iPSC lines and development of scalable manufacturing conditions. With this, Evotec's iPSC platform has opened a new path for disease modelling, drug discovery and cell therapy and will ultimately open the door to new treatments in several areas with high unmet medical need.

Transcriptomics-based efficacy and toxicology prediction

Transcriptomics is the study of mRNA (and other RNA) molecules in the cell. It defines cell identity as well as current biological activities within any given cell at any point in time. At the start of the millennium, the

field of transcriptomics advanced significantly through the introduction of RNA-Seq, a method based on Next Generation Sequencing. Using this technique it is possible to deeply sequence the entire transcriptome of a cell efficiently and quantitatively. However, due to the complexity and quantity of the data generated, sophisticated tools and software are required to manage, analyse and interpret these data.

Evotec has developed optimised processes to scale up and industrialise its high throughput RNA-Seq transcriptomics platform and has built a sophisticated data analysis platform (PanHunter). Combining this technology with long-standing expertise in cell biology and *in vitro* toxicology through its wholly owned subsidiary Cyprotex, Evotec can now offer a unique integrated solution which will help to de-risk substances well before formal toxicology studies. To answer these very important questions earlier in the drug discovery value chain will lead to a clearer and earlier understanding of the compound's toxicology profile and will support achieving decision points faster than currently possible. This will open the door to significantly improving success rates in formal pre-clinical toxicology studies and clinical trials and, as a direct consequence, will reduce drug development cost and boost the likelihood of bringing drugs with superior risk-benefit profiles to the market and ultimately to patients.



PanHunter

Through the introduction of many exciting new technologies, the amount and complexity of the generated data has grown to a level where specialised software tools are needed to manage, analyse, and interpret them in a biologically meaningful way. Also, the integrated study of omics data sets, deriving from genomics, transcriptomics, proteomics, and metabolomics, is a major challenge and will be the key to substantially improving success rates in the industry. Over the past years, the bioinformatics team at Evotec has developed PanHunter, a comprehensive and highly integrated toolset for multi-omics data analysis. Once data are uploaded into PanHunter, e.g. generated with RNA-Seq or tandem mass spectrometry, the user can freely interact with them through a web browser. Results are presented on-the-fly and can immediately be interpreted or used as input for subsequent steps. This immediate feedback is a crucial advantage of PanHunter, distinguishing it from other tools. The PanHunter platform allows to derive drug signatures, cell-type profiles, or drug signatures from the data and use them as reference for further investigations. In this way, PanHunter opens the door for sophisticated data mining to a broad range of scientists, who do not necessarily have a bioinformatics background, and also provides the entry-point for advanced machine learning approaches.

Drugging the undruggable

Within the pharmaceutical industry, the term “undruggable” is becoming increasingly less meaningful as it is now believed that no target should be seen as an impossible challenge. Indeed, many seemingly undruggable targets in the past have since been successfully targeted and drugs have now reached the market. Many of these successes have been made possible through major technological advances in

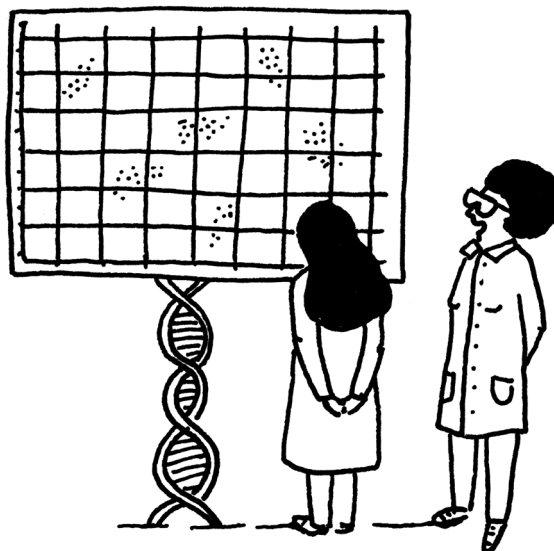
structural biology. Despite this, approximately 80% of potential existing protein targets have remained untouched. This offers huge potential for the pharmaceutical industry to address diseases with unmet need or develop first-in-class therapies with improved efficacy for already treatable diseases. Evotec is taking up the challenge to drug the undruggable and to open doors to treat patients where none or only inadequate treatments exist today. Many of these projects are in collaboration with the pharmaceutical industry or academic institutions where resources, knowledge and expertise can be combined. Neurodegenerative diseases is one area where there is a huge unmet need and currently approved drugs tend to offer short-term management of patient symptoms rather than slowing down or reversing disease progression. A long-standing collaboration with Celgene (now a Bristol-Myers Squibb company) is addressing this need and the research is leveraging several of Evotec’s unique capabilities including patient-derived disease models.

Our means of targeting difficult-to-treat targets are growing as the trend for multimodality increases – equipping the industry with an array of new approaches outside the traditional small molecule arena. The advent of monoclonal antibody therapies in the 1990s is of particular importance, as this technological advance has led to a major breakthrough in cancer treatment as well as further development of important immunotherapies such as CAR-T cells. Another key development in the 1990s was the introduction of RNA-based therapies with the first therapy being approved by the

US FDA in 1998. The last 20 years have also seen advances in our understanding of protein-protein interactions and led to the development of inhibitors of these interactions and, more recently, PROTAC molecules – designed to degrade the target protein. Despite significant advances being made in these areas, there are still many diseases for which there is no cure. Stem cell therapies are holding great promise in this respect as they are anticipated to revolutionise the treatment of a variety of currently untreatable conditions.

All these exciting new modalities offer new hope in the fight against undruggable targets. Adapting and being at the forefront of this research is key to maintaining a position in the ever-changing landscape of drug discovery. In fact, multimodality is just another term for opening new doors, and as our understanding of health and disease continuously improves and becomes more interdisciplinary, many new starting points for drug discovery can be generated. To be able to offer multimodality on our platform means that we can actually access these new development paths. This is why it is so important for us to have – amongst other things – a powerful scalable biologics development and manufacturing technology platform with Just – Evotec Biologics.

To establish major long-term integrated partnerships, a mature technology platform, comprising a broad array of technologies, is needed. This requires keeping equipment up-to-date, developing and introducing new and pioneering technologies, state-of-the-art facilities



and – of course – a highly qualified, experienced and motivated workforce.

In the past, this platform was heavily focused on small molecule drug discovery. With the recent acquisition of Just Biotherapeutics, now Just – Evotec Biologics, Evotec's broad technology platform opens the door even further to multi-modality for truly integrated drug discovery research projects, covering all steps from target ID to IND within one company. Consequently, Evotec has been able to build long-term alliances with nearly all of the TOP 20 pharma companies, many biotech companies, virtual biotechs, start-ups, foundations and public institutions worldwide.

Just – Evotec Biologics and the J.POD® Facility

Companies need flexible manufacturing solutions with the right capacity at the right time, smart, high-yielding processes to increase efficiency by cheaper and faster manufacturing without any sacrifices to quality and safety. At the same time, new trends in drug development and manufacturing have emerged in recent years. Just – Evotec Biologics is using ML (machine learning) and AI (artificial intelligence) tools to predict and improve manufacturability of protein based drugs as well as cutting-edge technologies to optimise manufacturing processes. Properly optimised drug products and manufacturing processes that are easily scalable are key to lower manufacturing costs and increased manufacturing speed and thus make important contributions to providing innovative drugs at affordable prices to patients.

J.DESIGN

Powerful ML algorithms applied to a common data set accelerate learning and is the core backbone of Just – Evotec Biologics' platform, J.DESIGN, that integrates all of the important activities involved in developing a biotherapeutic. It begins with an optimally designed molecule using a suite of *in silico* tools, called Abacus, that helps predict improvements to a native antibody for development into a therapeutic with improved developability, manufacturability, and stability. Learnings from Abacus are currently being used to develop full-length antibody display libraries that will accelerate discovery and development of the best clinical candidates. Optimised molecules fit more efficiently into processing conditions recommended by the Abacus toolset.

J.POD®

This dual benefit accelerates development of highly productive processes that can be executed in relatively small unit operations and still make enough product to meet almost all commercial market needs in a single facility. These highly intensified processes reduce the size of unit operations to fit into relatively small, flexible PODs or cleanrooms and become the core manufacturing space in a J.POD® facility. Since the entire process train uses single-use technology, central and capex intense utilities like CIP (clean in place) and SIP (sterilise in place) systems are eliminated, as well as the miles of stainless steel piping and large stainless steel vessels that must be precisely built and validated. In addition, PODs and the equipment they contain can be built and assembled while the plant is being constructed so that the time and complexity of validation is dramatically reduced. Finally, clinical and commercial processes are operated at the same scale to facilitate seamless transfer, eliminating scale-up risk.

In 2021, Just – Evotec Biologics will open the door to its first North American commercial J.POD® – Evotec Biologics facility, which is currently under construction.

Evotec focus: Fully integrated drug discovery and CMC processes

Through decades of medical research and continuously improving technologies, the understanding of health and disease is increasingly incorporating a molecular understanding of disease mechanisms in conjunction with clinical parameters. The drug discovery and development of the future will bring together different disciplines, targets and approaches to generate treatments which are disease-modifying and ideally have curative potential. Consequently, the discovery and development process is also becoming increasingly tailored to each individual project.

This is why Evotec continues to focus on building highest quality drug discovery and development platforms which integrate all single steps along the value chain from target ID to IND across most major disease areas and across all modalities from small molecules to antibodies to natural products and cell therapy. Additionally, Evotec's partners gain access to fully integrated CMC processes supporting pre-clinical and clinical development as well as marketed products. It is this comprehensive suite of services that makes Evotec the acknowledged partner of choice for pharma and biotech companies, virtual biotechs, start-ups, foundations and public institutions worldwide.

With our scientists and our drug discovery platforms, Evotec has set out to open the doors that will lead us to the medicines of the future. Some of these doors have never been opened so far, others we are not even able to see today – but our new technologies and concepts are the best tools to find and unlock them. Therefore, we will continue to bring brilliant minds, cutting-edge technologies and data together to pursue our ultimate goal: bringing new and better drugs to patients! ●

Opening up new perspectives

Vision and Mission of Evotec's people management

10 MINUTES WITH MONIKA CONRADT, EVP GLOBAL HEAD OF HUMAN RESOURCES AT EVOTEC



P *eople management is a crucial point for successful companies. What is your overall vision and mission for Evotec's people management?*

We understand our global Evotec people management as enabling function to support Evotec in being successful as globally leading company in its field. We believe that the collective know-how, experience and expertise of our people is the greatest asset of the company. Therefore, Evotec's people management works constantly to be the Partner of Choice for the business and to support the vision of our Management Board from the People perspective.

We develop HR solutions that are tailor-made to our company and fit to Evotec as a global leading company in the pole position. We constantly ensure that our global people strategy derives out of our overall company strategy. This will give us the direction for our global HR strategy and all related activities.

Major focus areas of our people strategy are attracting, growing and retaining our talents; developing our leaders to be great leaders; ensuring a competitive reward system; and ultimately supporting to live our ONE Evotec culture.

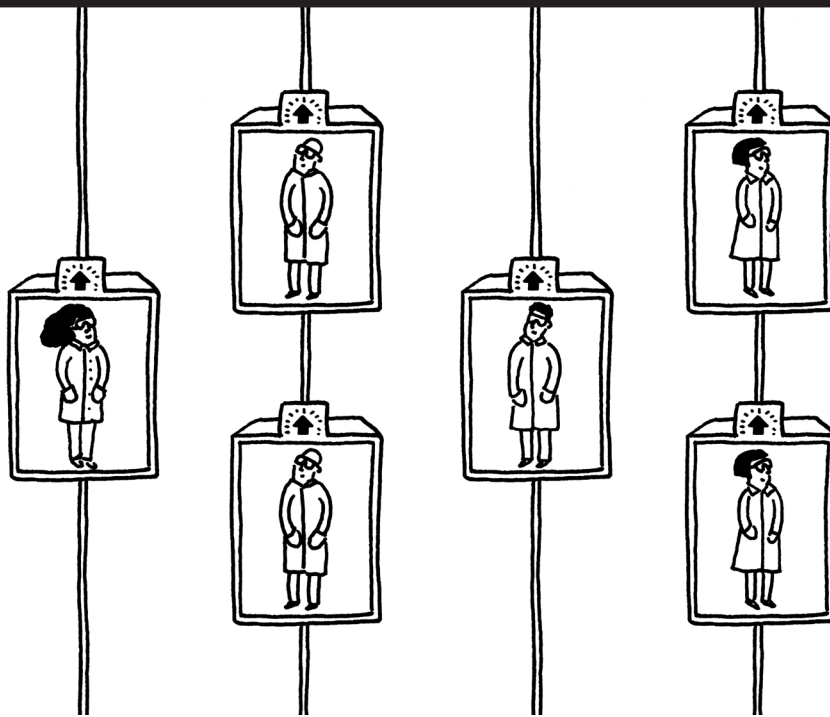
H *ow do you make sure to attract the right people for the company?*

We at Evotec want to be an attractive employer for people, who are curious, strive for innovation; take ownership, and understand the value of working together while carrying an entrepreneurial spirit. Evotec offers the opportunity to work together with top-notch scientists using the latest technologies for market changing drug discovery and drug development projects. In 2019, we started to put further efforts to raise awareness in the market about Evotec as a great place to work and to strengthen our employer brand. To target the best talents, we recruit by using different channels. Our dedicated local recruiting teams do actively use sources like LinkedIn and work with agencies as needed. We actively use employee referrals as a very good source to find the right people who fit to our

company and culture and thus incentivize our employees who refer candidates through our "Evotec Refer-a-Friend" programme.

W *e live in a world that is permanently changing. How do you allow your employees to learn and grow in their roles for keeping up with this constant change?*

We offer employees the opportunity to become part of a fast growing and very successful organization. With this, there is room for personal and professional growth. Our work is demanding and offers our people the chance to grow and to broaden their horizons in their day-to-day jobs through job enrichment and job enlargement. To support their development, we put a clear focus on individual development through dedicated and constant feedback sessions. Our *EVOtalks*, a dialogue between line managers and employees, takes place at least four times per year. *EVOtalks* offer the opportunity for an open and constructive exchange between managers and their employees. By 2020, *EVOtalks* will be the feedback format of choice for all Evotec employees worldwide to exchange about expectations, development goals and individual objectives. To support our feedback and feedforward culture, we have introduced a simple and smart feedback tool with SBI (Situation, Behavior, Impact). This method allows to give and receive regular feedback in an easy, fast and impactful way. All our Human Resources teams are supporting this through dedicated training sessions and are constantly continuing to build a meaningful learning and developing culture within Evotec.



As a highly innovative company with a strong focus on research and development, how do you generate new ideas at Evotec and how can employees contribute to this?

In 2018, we have launched our internal initiative *EVOchallenge*. *EVOchallenge* was the first global initiative ever to respond to ongoing challenges of maintaining the dynamism, flexibility and entrepreneurial spirit that has made Evotec successful. Evotec gave all employees the chance to contribute to this initiative and hand in their ideas to meet current and future business needs, efficient ways of working and communicating, as well as staff's wellbeing. Out of more than 120 ideas, 10 groups of energetic employees from across the globe gathered for the finals at our site in Verona and pitched their ideas in front of a team of senior judges including our CEO and COO as well as a greater audience. Some of the ideas are already implemented, while others are being developed further with the support of a dedicated mentor of the management and budget where needed.

For business success, strong leadership is essential. Do you also support Evotec's leaders to master their specific challenges?

Yes, leadership development is key within our people management activities at Evotec. Successful collaboration, innovation and entrepreneurship do require strong leadership capabilities. Therefore, besides local leadership training that has taken place in 2019, we are currently designing a global leadership development approach with respective

leadership programmes. With this, we will create a globally aligned deeper understanding of both the role and the behaviour of an effective leader in an agile business environment. Our Leaders will be prepared for leading themselves, leading employees, leading leaders, and leading globally, in an effective manner. In 2020, we will roll out this global leadership development programme. The global leadership development journey will be kicked off by our first-ever *Global EVOleaders Forum*, a senior executive meeting with all Board Members and next level leaders to align on our Company Strategy and take the lead to cascade it down in our organisation by making strategy personal.

How do you make sure to retain and motivate employees engaging them in the best possible way for Evotec?

As of 2020, all countries are under *EVOconnect*, our global performance management approach that aims to engage and grow our people through transparency, clarity on expectations, objectives and development goals, as well as through a fair and transparent recognition reward system. It is closely linked with the company strategy. As a growing international organisation, we strive for a competitive reward strategy and offer a mix of local and global benefits that are aligned with local legislation and practices in each country. We are constantly evaluating our existing portfolio of benefits as well as our market competitiveness of salaries. Our reward system allows for a transparent recognition of the individual's as well as team and company

performance. We have our *EVOrecognition* programme in place, which helps leaders with a specifically reserved budget to reward individual employees or entire teams for exceptional performance promptly and without unnecessary bureaucracy.

Another currently important topic is diversity on all levels. How do you approach this at Evotec?

We at Evotec are proud to support diversity of thought and not just gender or different nationality. We act with tolerance, openness and flexibility. People from more than 70 countries are working at Evotec. Whether in recruiting, people development, promotion or pay – Evotec commits itself to equality of opportunity regardless of gender, ethnic origin, sexual orientation or age. We are certain, that by embracing diversity of thought, Evotec can better adjust to changing markets, secure access to a broader pool of highly qualified, talented individuals and benefit from the subsequent high diversity of thoughts.

Regarding gender equality, 55% of our workforce are women. Our highly educated and talented women will always be supported for instance with an easy conversion to full or part-time work and more flexible working hours where possible to help them to adjust to their family situation.



As an international and diverse company, how do you support that everyone belongs to ONE Evotec and works for a common goal?

One very important focus in 2019 was on strengthening the *ONE Evotec culture*. We focus on three core values – *Innovation, Entrepreneurship and Collaboration*. These three values represent the heart of the corporate culture of Evotec and give guidance to develop and achieve commercially relevant best-in-class solutions together. We are proud of our *ONE Evotec culture* bringing together more than 3,000 employees in five countries worldwide. As the company's Value of the Year 2019, our Management Board highlighted "collaboration" as being specifically relevant for Evotec. On the one hand, it is crucial internally for working together, sharing resources, and integrating our newly acquired companies such as Just – Evotec Biologics or our new site in Cologne. On the other hand, collaboration is crucial also externally to retain and expand strong and long-term partnerships. To ensure that everyone lives the *ONE Evotec culture* we have established a global leadership goal set by our Management Board every year. The 2019 goal *Think, Operate and Celebrate as ONE integrated External Innovation Platform* made sure that we at Evotec are aligned by this common goal and live our culture. With our *EVOconnect* performance management approach we connect this to every senior executive as part of their individual objectives with a weight of 50%.

What is your perspective for 2020 and the upcoming years from a people management's point of view?

Our main goal is to ensure that we have *the right people at the right time at the right place*. With this, we have to focus on *further developing our organizational structure, creating the respective work environment, having scalable systems solutions in place* to support the business along its growth. It is crucial for us to attract, grow and retain the right people with an innovative global talent acquisition and talent management approach, having them always aligned with our company's strategy. We aim to strengthen our leadership capabilities and are on the way to establish a strong leadership community. We are excited to introduce new formats, such as our global leadership approach or the first ever *Global EVOleaders Forum* in 2020 to make strategy personal.

Thank you very much Monika for these insights in Evotec's people management!

The Evotec

share

The Evotec share

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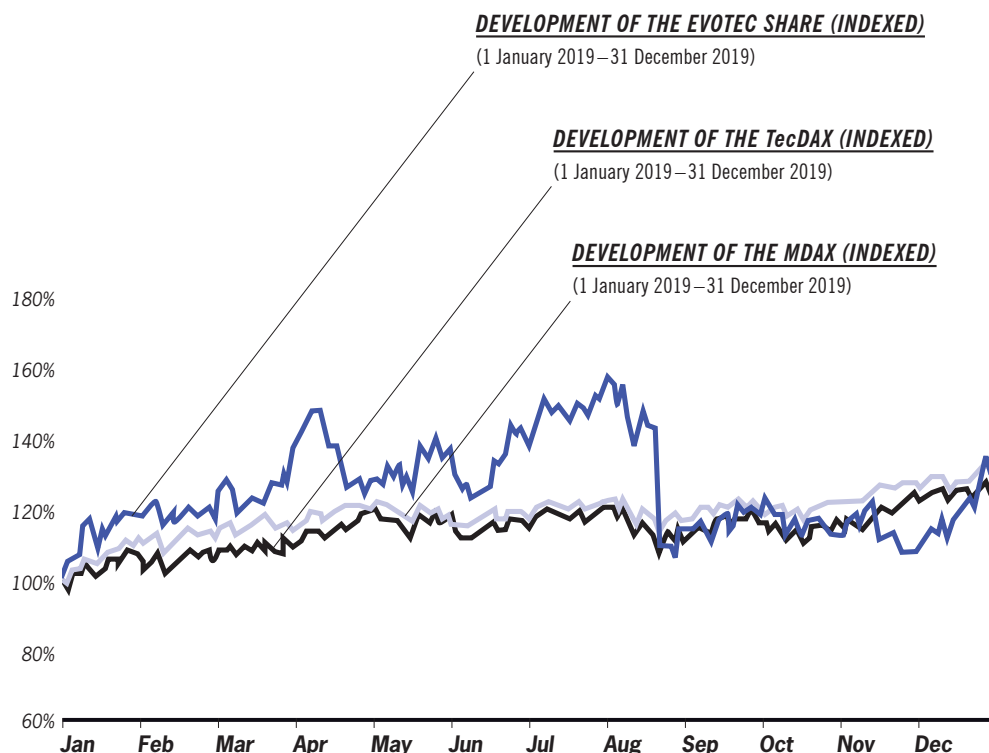
One of the pillars of Evotec's corporate strategy is to maintain a professional and continuous dialogue with the global capital markets. During the financial year 2019, the Company regularly provided focused communications on the progress of its business to the global financial markets. These communications were made through several channels, including participation and presentation at Evotec key national and international investor conferences, non-deal road shows in key financial centres, and additionally, quarterly telephone conferences. At the end of 2019, a total of nine research analysts monitored and assessed the development of the Evotec share on a regular basis.

Performance of the Evotec share in 2019

During the course of 2019, Evotec's share showed a solid upward trend for the third consecutive year. It closed the year at € 23.05, gaining approximately 33% compared to its 2019 opening price of € 17.36, outperforming the annual performance of the DOW, the S&P500, and the Nasdaq Biotechnology Index (NBI). Evotec's average daily trading volume on all German stock exchanges amounted to 1,126,943 shares in 2019, compared to 1,440,924 shares in 2018.

Evotec's very strong operational and financial performance in new and extended alliances in EVT Innovate and EVT Execute, the acceleration of innovation in drug discovery together with its partners, including achievement of several

important milestones, as well as selected equity investments and new company formations. The overall share price performance was positive but volatile, which was also caused by Short-hedge fund activities.



Evotec's share capital

In 2019, no acquisition was conducted in which Evotec used shares as currency. Due to the exercise of 1,839,784 stock options and Share Performance Awards, Evotec's registered share capital increased to € 150,902,578.00 at year-end 2019 (year-end 2018: € 149,062,794.00), meaning a dilution of 1.23%. In 2019, no stock options were serviced out of treasury shares. As of 31 December 2019, a total of 249,915 treasury shares remained from a 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 Finanzdienstleistungsaufsicht). According to notifications the Company received up to 31 December 2019, the following persons and institutions were known to have exceeded the 3% threshold: Morgan Stanley Investment Management Inc. held 12.19% (0.43% attached to shares, 11.75% through instruments), Novo Holdings A/S 10.10% (10.10% attached to shares), ROI Verwaltungsgesellschaft 9.19% (9.16% attached to shares, 0.03% through instruments), Goldman Sachs Group 7.83% (2.21% attached to shares, 5.62% through instruments), T. Rowe Price Group 5.03% (4.0% attached to shares, 1.03% through instruments), DWS Investment GmbH 5.02% (5.02% attached to shares), Allianz Global Investors 4.96% (4.89% attached to shares, 0.07% through instruments) and Blackrock 3.27% (2.35% attached to shares, 0.92% through instruments). Free float according to Deutsche Börse AG, which is used to determine the weighting of the Evotec stock in stock indices, was approximately 45% of the capital stock as of 31 December 2019.

2019 Annual General Meeting in Hamburg

On 19 June 2019, Evotec's Annual General Meeting 2019 took place at its premises in Hamburg and it was well attended by around 350 shareholders, representing 59.52% of Evotec's share capital (2018: 50.85%). At the Company's Annual General Meeting 2019, the Company's shareholders approved all proposals put to vote by the Company's Management with the required majorities.

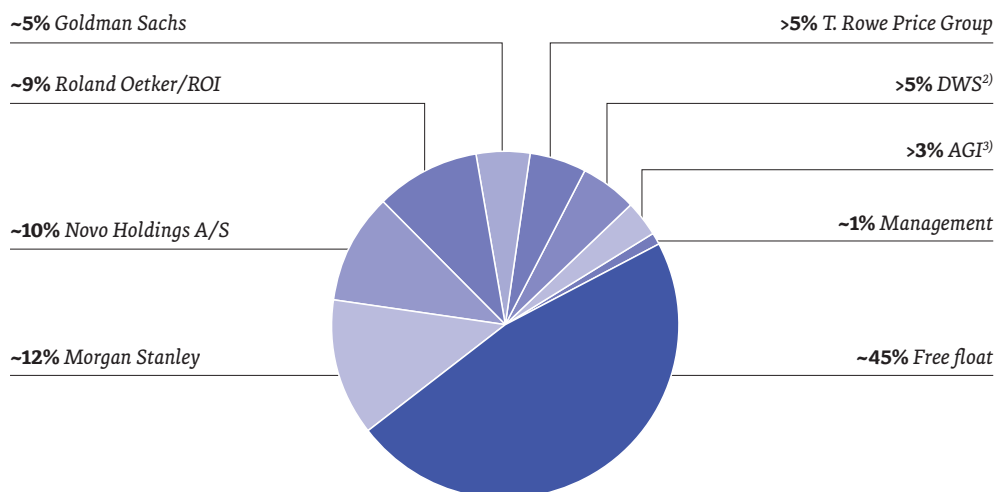
Investor Relations @ Evotec

For further information on Evotec and its Investor Relations activities, please visit the Invest 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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SHAREHOLDER STRUCTURE AS OF 31 DECEMBER 2019¹⁾



¹⁾ All stated shareholdings comprise the total of voting rights attached to shares and instruments

²⁾ DWS Investment GmbH, formerly Deutsche Asset Management Investment GmbH

³⁾ Allianz Global Investors GmbH

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, MDAX, STOXX Europe 600
Designated Sponsor	ODDO SEYDLER BANK AG

KEY FIGURES PER SHARE

	2019	2018
High (date)	€ 26.91 (26 July)	€ 23.36 (4 September)
Low (date)	€ 17.30 (2 January)	€ 12.07 (10 May)
Opening price	€ 17.30	€ 13.55
Closing price	€ 23.05	€ 17.37
Weighted average number of shares outstanding	149,725,607	147,482,051
Total number of shares outstanding as at 31 December	150,902,578	149,062,794
Average daily trading volume (all exchanges)	1,126,943 shares	1,440,924 shares
Market capitalisation as at 31 December	€ 3,474.6 m	€ 2,586.8 m
Earnings per share (diluted/basic)	€ 0.25/€ 0.25	€ 0.57/€ 0.56

FINANCIAL CALENDAR 2020

26 March 2020	Annual Report 2019
14 May 2020	Quarterly Statement Q1 2020
16 June 2020	Annual General Meeting 2020
12 August 2020	Half-year 2020 Interim Report
12 November 2020	Quarterly Statement 9M 2020

Corporate Governance Report

'19

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 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 7 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 2019, Evotec's Management Board and Supervisory Board declared in accordance with Section 161 of the German Stock Corporation Act (AktG):

"Evotec SE has complied in 2019 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 5 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 Invest section.

General information on Evotec's management structure

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

As part of its conversion process from a German Stock Corporation ("AG") to a European Company (Societas Europaea, "SE"), Evotec has decided to maintain its two-tier system with clear separation of management through the Management Board ("Vorstand"), and control through the Supervisory Board ("Aufsichtsrat"). The Management Board is responsible for managing Evotec and representing the Company in its dealings with third parties, while the Supervisory Board appoints and dismisses the members of the Evotec Management Board and oversees the management of the Company. German law prohibits the Supervisory Board from making operational management decisions. The two boards, however, work closely together to secure long-term and sustainable growth for the Company and to increase shareholder value. They agree on the Company's strategy and on business transactions, which are significant. The Annual General Meeting ("AGM"; "Hauptversammlung") is the Company's body representing the interests of the shareholders.

MANAGEMENT BOARD ("VORSTAND")

The Management Board of Evotec SE 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 Chief Executive Officer (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 (CEO) and the Chief Scientific Officer (CSO).

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 133.

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 including M&A, Human Resources, Marketing, Investor Relations and Corporate Communications, the CFO for Finance, Controlling, Risk Management, Information Technology & Business Applications, Legal & Compliance, Procurement & Logistics, Facility Management and Equity, the COO for Evotec's EVT Execute segment, Alliance management, Business Development, global operations plus Quality and Environment, Health and Safety (EHS), and the CSO for Evotec's EVT Innovate segment, Evotec BRIDGES and Intellectual Property.

With regards to diversity within the Management Board, it has to be taken into account that Evotec works in a globalized 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 SE set a target quota of 0% female members on the Management Board in accordance with § 111 section 5 AktG. This target quota was confirmed in 2017 for a further five-year period due to the current term of the contracts of the currently active Management Board members. Currently, two out of four members of the Management Board are non-German.

SUPERVISORY BOARD ("AUF SICHTSRAT")

Following the Articles of Association, the Evotec Supervisory Board consists of six members. The current members of the Evotec Supervisory Board have been (re-)elected at the AGM 2019 with their tenure ending at the end of the AGM 2024. As of 31 December 2019, 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 at least 30% female members of the Supervisory Board. Finally, the Supervisory Board has agreed on two full terms as the regular limit of length of membership to the Supervisory Board. Overall, the Supervisory Board shall be composed in such a way that the majority of its members are independent and that its members as a group possess the knowledge, ability and expert experience required to properly complete its tasks.

Currently, the composition of Evotec's Supervisory Board fulfils all those objectives: Five members are considered as independent, four nationalities are represented and there are two female members. Only Dr Mario Polywka, being Evotec COO until 31 December 2018, who has been elected to the Supervisory Board on the recommendations of a group of shareholders who combined hold more than 25% of the total number of voting rights in the Company, is considered as not independent. The current composition of the Supervisory Board fully represents the competence profile as set out above and lastly confirmed by the Supervisory Board in 2019.

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 up to a total maximum of two full tenures of office.

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:

- ▶ Issues, which by corporate law require the Supervisory Board to decide;
- ▶ 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 € 5 m;
- ▶ Establishing and acquiring companies or material changes to the Group structure (either by +/- 5% of ownership or to the effect that control in such entity is assumed or lost);
- ▶ Business contracts outside the Company's ordinary course of business that have significantly different risk profiles;
- ▶ Out-licensing contracts valued over € 300 m in total deal volume;
- ▶ 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

TENURES AND COMPOSITION OF SUPERVISORY BOARD COMMITTEES*

* Information on the professional affiliations of Supervisory Board members can be found on page 132

	END OF TENURE¹⁾	AUDIT COMMITTEE	REMUNERATION AND NOMINATION COMMITTEE
Prof. Dr Wolfgang Plischke (Chairman)	2024		× (Chair)
Prof. Dr Iris Löw-Friedrich (Vice Chairman)	2024	×	
Dr Mario Polywka	2024		
Roland Sackers	2024	× (Chair)	×
Michael Shalmi	2024		×
Dr Elaine Sullivan	2024	×	

¹⁾ Following the AGM in June 2024

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

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

The Supervisory Board was informed about one potential conflict of interest among one of its members in the course of 2019 in an undisclosed matter and the respective Supervisory Board member was not involved in the respective discussion. No decision was taken.

Information on the professional affiliations of board members and on related party transactions can be found on pages 132 and 128.

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 SE'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 members of 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 Roland Sackers, who succeeded Bernd Hirsch in June 2019, is not only 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 Invest 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 76 of the "Remuneration Report".

More details on the activities of the Supervisory Board can be found in the "Supervisory Board Report" on page 27.

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 60% of the share capital was represented, took place in Hamburg on 19 June 2019.

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 was presented to the AGM in 2019 the last time and approved by a majority of 89%.

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 76.

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 2019 was as follows: see table below:

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 minimis threshold) in 2019 which threshold has been increased to € 20,000.00 from 2020 onwards. In addition, Evotec has established an Insider Trading Policy (see www.evotec.com; Invest section) that sets standards for board members' and employees' trading in Evotec shares and thus ensures transparency.

The Directors' Dealings reported in 2019 are shown in the table on page 24.

DIRECTORS' SHAREHOLDINGS AS OF 31 DECEMBER 2019

	SHARES	STOCK OPTIONS	OUTSTANDING SHARES FROM VESTED SPA'S	GRANTED UNVESTED SPA'S (TOTAL)
Management Board				
Dr Werner Lanthaler	1,111,736	-	245,084	421,594
Enno Spillner	-	-	-	103,356
Dr Cord Dohrmann	145,991	32,594	111,215	124,327
Dr Craig Johnstone	-	-	21,086	40,980
Supervisory Board				
Prof. Dr Wolfgang Plischke	-	-	-	-
Prof. Dr Iris Löw-Friedrich	-	-	-	-
Dr Mario Polywka	-	-	127,155	107,409
Roland Sackers	-	-	-	-
Michael Shalmi	-	-	-	-
Dr Elaine Sullivan	-	-	-	-

<i>Date</i>	<i>Name</i>	<i>Position</i>	<i>Type</i>	<i>No of items</i>	<i>Price</i>	<i>Total</i>
15 Nov 19	Werner Lanthaler	Member of Management	Purchase	10,000	€ 184.725	€ 184,724.80
24 Sep 19	Werner Lanthaler	Member of Management	Exercise against Cash Settlement (Share Performance Plan)	13,950	€ 20.4628	€ 285,456.06
24 Sep 19	Werner Lanthaler	Member of Management	Exercise against Cash Settlement (Share Performance Plan)	54,263	€ 20.4628	€ 1,110,372.9164
24 Sep 19	Cord Dohrmann	Member of Management	Exercise against Cash Settlement (Share Performance Plan)	71,873	€ 20.3379	€ 1,461,745.8867
24 Sep 19	Cord Dohrmann	Member of Management	Exercise against Cash Settlement (Share Performance Plan)	109,863	€ 20.3379	€ 2,234,382.7077
24 Sep 19	Werner Lanthaler	Member of Management	Exercise against Cash Settlement (Share Performance Plan)	57,167	€ 20.4628	€ 1,169,796.8876
23 Sep 19	Cord Dohrmann	Member of Management	Purchase of shares by exercising stock options (Share Performance Plan)	26,900	€ 20.3379	€ 547,089.51
20 Sep 19	Cord Dohrmann	Member of Management	Exercise against Cash Settlement (Share Performance Plan)	27,078	€ 20.0086	€ 541,792.8708
20 Sep 19	Werner Lanthaler	Member of Management	Exercise against Cash Settlement (Share Performance Plan)	14,050	€ 20.0086	€ 281,120.83
3 Sep 19	Werner Lanthaler	Member of Management	Purchase	10,000	€ 19.00	€ 190,000.00
19 Aug 19	Werner Lanthaler	Member of Management	Purchase	10,000	€ 18.866059	€ 188,660.59
15 Aug 19	Cord Dohrmann	Member of Management	Purchase	1,000	€ 19.0375	€ 19,037.50
12 July 2019	Werner Lanthaler	Member of Management	Purchase of shares by exercising stock options (Share Performance Plan)	280	€ 24.40	€ 6,832.00
12 July 2019	Werner Lanthaler	Member of Management	Exercise against Cash Settlement (Share Performance Plan)	290	€ 24.40	€ 7,076.00
4 July 2019	Craig Johnstone	Member of Management	Exercise against Cash Settlement (Stock option programme)	7,126	€ 23.9312	€ 170,533.7312
3 July 2019	Werner Lanthaler	Member of Management	Purchase of shares by exercising stock options (Share Performance Plan)	55,000	€ 24.50	€ 1,347,500.00
3 July 2019	Werner Lanthaler	Member of Management	Exercise against Cash Settlement (Share Performance Plan)	84,630	€ 24.50	€ 2,073,435.00
31 May 2019	Cord Dohrmann	Member of Management	Exercise against Cash Settlement (Stock option programme)	50,000	€ 19.4458	€ 972,290.00
29 May 2019	Craig Johnstone	Member of Management	Exercise against Cash Settlement (Share Performance Plan)	7,000	€ 21.6392	€ 151,474.40
12 Feb 19	Werner Lanthaler	Member of Management	Purchase of shares by exercising stock options (Share Performance Plan)	30,000	€ 19.5429	€ 586,287.00
12 Feb 19	Werner Lanthaler	Member of Management	Exercise against Cash Settlement (Share Performance Plan)	70,000	€ 19.5429	€ 1,368,003.00
11 Feb 19	Werner Lanthaler	Member of Management	Purchase of shares by exercising stock options (Share Performance Plan)	30,000	€ 19.2454	€ 577,362.00
11 Feb 19	Werner Lanthaler	Member of Management	Exercise against Cash Settlement (Share Performance Plan)	70,000	€ 19.2454	€ 1,347,178.00
22 Jan 19	Cord Dohrmann	Member of Management	Exercise against Cash Settlement (Share Performance Plan)	50,000	€ 19.3282	€ 966,410.00
1 Jan 19	Werner Lanthaler	Member of Management	Purchase of shares by exercising stock options (Share Performance Plan)	80,190	€ 19.0599	€ 1,528,413.38
11 Jan 19	Werner Lanthaler	Member of Management	Exercise against Cash Settlement (Share Performance Plan)	69,810	€ 19.0599	€ 1,330,571.62

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;
- ▶ Anti-money laundering principles;
- ▶ 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;
- ▶ Health & safety and environmental aspects;
- ▶ Animal welfare;
- ▶ Non-disclosure and protection of intellectual property and business secrets;
- ▶ Data protection and use of personal data;
- ▶ Global trade; and
- ▶ The duty to report upon the suspicion of an infringement of the Code of Conduct (whistle-blowing).

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

The Code of Conduct has been revised in the course of 2019 and is published on the Evotec website (www.evotec.com) in the Invest 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. This Ad Hoc Committee reports to the Chief Executive Officer.

The Compliance Programme of Evotec SE 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 electronic Compliance Training or face-to-face trainings 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 and business partners 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 (whistleblowing) 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 2019, 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 Invest section under Financial Publications.

SUSTAINABILITY

For Evotec, sustainability plays an essential 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.

Awareness about and reduction of the environment footprint of the Company is a key issue which currently is under further review about how Evotec can even more improve its contribution to secure our all environment and apply preserving consumption of resources (see also EVOChallenge). In its R&D activities, Evotec adheres to the highest scientific and ethical principles.

Further information can be found in Evotec's separate Non-financial Group Report (Corporate Social Responsibility 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 Invest section under Financial Publications.

DIVERSITY

With regard to gender diversity, 55% of Evotec's global workforce are women. On SE level, Evotec has achieved its gender targets set in 2015 on all levels (Supervisory Board, Management Board and the next two management levels), such as target quota of at least 30% for female Supervisory Board members, 0% for the Management Board (due to current set up of management team) and minimum 30% for the next two management levels. The Company has confirmed these objectives in 2017 going forward. Also at global level the targets were nearly fully achieved.

RISK MANAGEMENT

An important element of sound Corporate Governance is dealing responsibly with risks. Evotec has established a 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 SE 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 SE 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 INVESTEEES 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 129 and 118.

INVESTOR RELATIONS/TRANSPARENCY

Evotec SE 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 Invest section.

The Invest 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 telephone conferences when quarterly financial results are published, while ensuring that no stakeholder receives preferential information. In 2019, management presented the Company at thirty 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 SE 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 operational 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"). All members of Evotec's Supervisory Board have been elected at the AGM 2019.

The Supervisory Board appoints a Chairman and one Vice Chairman from among its members. The members of the Supervisory Board are elected for a term of five years and may be re-elected. The term of the new Supervisory Board ends with the close of the Annual General Meeting charged with approving the actions of the members of the Supervisory Board during the 2023 fiscal year.

Dr Mario Polywka, Consultant and former Evotec COO, and Mr Roland Sackers, Chief Financial Officer and Managing Director of QIAGEN N.V. joined the Supervisory Board as new members. Four former members of the Supervisory Board, Prof. Dr Wolfgang Plischke, Prof. Dr Iris Löw-Friedrich, Dr Michael Shalmi, and Dr Elaine Sullivan were re-elected as members of the new Supervisory Board of Evotec. In a subsequent meeting of the Supervisory Board, Prof. Dr Wolfgang Plischke was elected as Chairman of the Supervisory Board and Prof. Dr Iris Löw-Friedrich was elected as his Vice Chairperson.

The Supervisory Board has determined concrete objectives regarding its composition and

competencies, and prepared a profile of skills and expertise reflecting the company-specific situation. These objectives and skills profiles 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 22 of Evotec's Annual Report 2019.

In the course of 2019, the Supervisory Board held five formal meetings and one extraordinary meeting to discuss the operational and strategic

developments of the Evotec Group. The Audit Committee convened separately for four meetings and the Remuneration and Nomination Committee convened for four meetings. At each of such meetings, the Supervisory Board also met in closed session without the Management Board.

The individual participation of the Supervisory Board members as of 31 December 2019 in meetings of the Supervisory Board of Evotec SE and its committees in fiscal year 2019 was as follows:

SUPERVISORY BOARD MEMBER	NUMBER OF SUPERVISORY BOARD AND COMMITTEE MEETINGS	PARTICIPATION	PRESENCE*
Prof. Dr Wolfgang Plischke (Chairman)	6+4	6+4	100%
Prof. Dr Iris Löw-Friedrich (Vice Chairperson)	6+4	5+3	80%
Dr Mario Polywka ¹⁾	3+0	2+0	67%
Roland Sackers ¹⁾	3+4	2+4	86%
Michael Shalmi	6+4	5+4	90%
Dr Elaine Sullivan	6+4	5+3	80%
Bernd Hirsch (Vice Chairman) ²⁾	3+4	3+4	100%
Dr Claus Braestrup ²⁾	3+2	3+2	100%

¹⁾ In the Supervisory Board since AGM in June 2019

²⁾ In the Supervisory Board until AGM in June 2019

* Commercially rounded

The Management Board also provided continuous updates to the Supervisory Board through regular verbal and written reports that included in-depth analyses on the status of operations. The information provided included written monthly management reports with extensive coverage of the Company's financial figures for the previous month, accompanied by detailed comments and explanatory text. In addition, the Chairman of the Supervisory Board and the Chief Executive Officer as well as other members of the Management 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. The Supervisory Board was also updated about Evotec's R&D portfolio and

discussed this in-depth with the Chief Scientific Officer and key R&D leaders within Evotec.

The Supervisory Board was always promptly informed of current developments and significant individual issues. The Supervisory Board was involved at an early stage in decisions of major importance. The Supervisory Board passed resolutions on all of those individual measures taken by the Management Board, which by law or the Statutes required the approval of the Supervisory Board.

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

- ▶ In March 2019, the Supervisory Board discussed and approved the 2018 annual financial statements in the presence of the auditors and approved the achievement of Corporate Objectives for 2018 and the bonus payments for the Management Board members for their performance in 2018. The LTI grants to the Management Board members were approved in a circular resolution in January 2019. The Supervisory Board also reviewed discussed the Company's compliance and risk management system and approved the Corporate Objectives 2019 and the preliminary agenda for the AGM 2019. Furthermore, the Supervisory Board reviewed potential M&A projects and discussed the long-term financing strategy of Evotec SE.
- ▶ In an extraordinary meeting in April 2019, the Supervisory Board approved the acquisition of Just Biotherapeutics and the issue of a promissory note to secure the financing of such acquisition and further financing needs.
- ▶ At the meeting in June 2019, the Supervisory Board focused on the upcoming AGM, the operational business of the Company and on strategic development opportunities, including the approval of new equity investments and academic BRIDGES. The Supervisory Board also approved the acquisition of the key assets and people from Ncardia AG, Cologne.
- ▶ In addition, in a second meeting following immediately after the AGM the newly elected Supervisory Board constituted itself and formed both committees the Audit Committee and the Remuneration Committee.
- ▶ In its September 2019 meeting, the Supervisory Board discussed the operational business of the Company, including the integration of Just – Evotec Biologics. It further discussed strategic development opportunities, including M&A and corporate formation opportunities, and approved certain further equity investments. Furthermore, the Supervisory Board discussed potential strategies and counter-measures against recent short-selling attacks against the Company.

▶ In December 2019, the Supervisory Board reviewed and approved the budget and guidance for the year 2020 as well as regular Corporate Governance matters. It discussed the performance of the Company in 2019 and the objectives for 2020. The Supervisory Board further discussed the Company's mid-range plan and certain strategic opportunities. The Supervisory Board invited James Thomas, former CEO of Just Biotherapeutics and new Head of Evotec's US Operations, to provide an update on the integration and the progress of the new J.POD® facility.

The financial statements and the Management Report for Evotec SE for the fiscal year 2019 as well as the Consolidated Financial Statements together with the consolidated Management Report of the Evotec Group were audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Hamburg. The managing auditor of Ernst & Young for the Evotec Group is Dirk Machner. The auditors issued an unqualified audit opinion.

In preparation for the Supervisory Board meeting on 23 March 2020, the auditors presented the status of the 2019 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 2020 and presented a comprehensive report on the audit and their observations, including the Company's compliance and risk management system. 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 SE and the Consolidated Financial Statements for the year 2019. In compliance with the CSR Directive Implementation Act, Evotec issued a separate Non-financial Group Declaration in accordance with section 315b and section 315c in conjunction with sections 289b to 289e German Commercial Code (HGB) for fiscal year 2019. The principal components of the report relate to the areas of employee concerns, human

rights, and anti-corruption. The Supervisory Board examined this report on the basis of a preliminary review by the Audit Committee and has no objections to the report.

The Supervisory Board was informed about one potential conflict of interest among one of its members in the course of 2019 in an undisclosed matter and the respective Supervisory Board member was not involved in the respective discussion. No decision was taken.

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 2020. ●

Hamburg, 23 March 2020

The Supervisory Board
Prof. Dr Wolfgang Plischke



Group Management Report

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The Evotec Group

ORGANISATIONAL STRUCTURE AND BUSINESS ACTIVITIES

— GROUP STRUCTURE —

Evotec AG, founded in 1993, is a publicly listed stock corporation operating under German law. Evotec AG was converted to Evotec SE on 1 April 2019 based on a decision taken at the Annual General Meeting (“AGM”) 2018. The company is registered under the name Evotec SE under the commercial register number HRB 156381. The headquarters are in Hamburg.

Evotec’s Group structure reflects the strategic international operations of the Company. With affiliates in France, Germany, Italy, UK and the USA, the Group has been successful in integrating acquisitions and achieving both operational and technological synergies between geographies. All consolidated subsidiaries are listed in Note (34 d) of the Notes to Consolidated Financial Statements.

Operating sites are located in Hamburg, Cologne, Göttingen and Munich (Germany), Lyon and Toulouse (France), Verona (Italy), Abingdon and Alderley Park (UK), Branford, Princeton, Seattle and Watertown (USA). Employees in France, Germany, Italy, UK, Japan and the USA drive Evotec’s international business and corporate development activities.

The Evotec site in Basel (Switzerland) was closed in 2019 and operations including customers and ongoing projects were integrated into Evotec’s Toulouse site.

In July 2019, the acquisition of Just Biotherapeutics, Inc. (now Just – Evotec Biologics) based in Seattle was completed. At the end of 2019, Just – Evotec Biologics founded the wholly-owned Seattle-based company J.POD-Evotec Biologics, Inc. J.POD-Evotec Biologics, Inc. currently builds a late-stage clinical and commercial manufacturing facility for biologics. Operation of the manufacturing facility is expected to start in 2021.

MAJOR OPERATING ENTITIES*

as of 31 December 2019

* Indirect and direct holdings

EVOTEC SE, 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%	Evotec ID (Lyon) SAS Marcy l'Étoile, F 100%	Evotec (US), Inc. Princeton, NJ, USA 100%
			Cyprotex US, LLC Watertown, MA, USA 100%						Just – Evotec Biologics, Inc. Seattle, USA 100%

— BUSINESS MODEL —

Evotec is a drug discovery and development solutions provider for a large network of partners in the life science industry, e.g. pharmaceutical and biotechnology companies, academic institutions, foundations and not-for-profit organisations. Evotec creates and connects innovative, proprietary technology platforms to identify and develop best-in-class and first-in-class differentiated new therapeutics for collaborators and for its own internal pipeline.

Evotec has a unique business model that allows the Company to act as a service provider for the life science industry (EVT Execute) while also running its own discovery and development projects in co-owned (i.e. risk-and-reward-sharing) models (EVT Innovate). Both segments operate on the same scientific platforms and share a common workforce.

Further information on Evotec’s dual business model can be found in the section “Corporate objectives and strategy” on page 34 of this Management Report.

— OPERATING SEGMENTS —

EVT Execute

Evotec’s services in EVT Execute comprise stand-alone or integrated drug discovery and development solutions for customer-tailored therapeutics protected by the partners’ intellectual property. Services in this segment are typically provided on a fee-for-service basis.

EVT Innovate

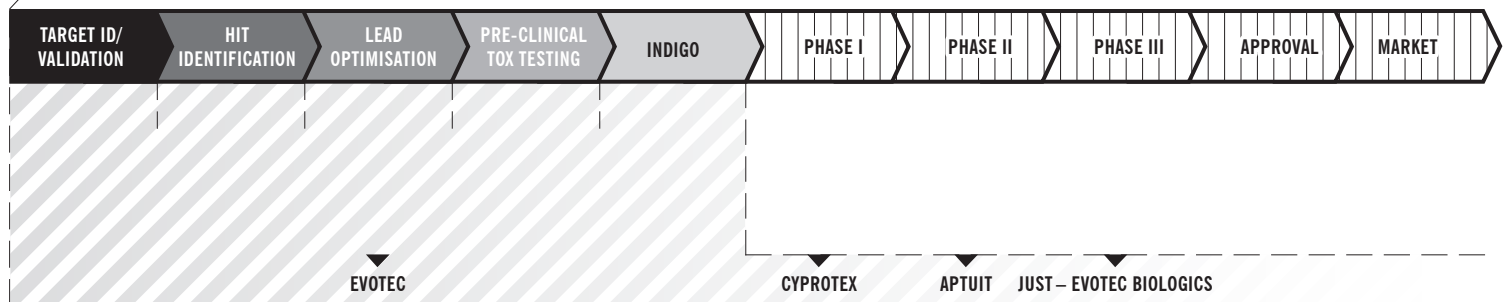
In its other business segment EVT Innovate, Evotec leverages its proprietary technology platforms to develop new drug discovery projects, assets and platforms, both internally or through collaborations to create starting points for strategic partnerships with Pharma and leading biotech companies in return for upfront payments, ongoing research payments, and significant financial upside through milestones and royalties. Evotec does not take clinical development risks on its own but only within alliances.

More information on Evotec’s operating segments can be found in the section “Corporate objectives and strategy” on page 34 and under the section “Research and development” on page 38 of this Management Report.

— EVOTEC’S PRODUCTS AND SERVICES —

Evotec provides complete drug discovery and development solutions on a stand-alone basis or through fully integrated solutions from target identification through to completion of investigational new drug (“IND”) submission and beyond through integrated drug substance and drug product manufacture. Evotec’s drug discovery and development platform provides an industrialised, high quality, cutting-edge, comprehensive and unbiased infrastructure that meets the industry’s need to discover and develop multiple classes of innovative active substances including small molecules, biologics and other modalities such as cell therapy and gene therapies.

EVOTEC’S POSITIONING IN THE DRUG DISCOVERY AND DEVELOPMENT PROCESS



Integrated drug discovery services

Evotec’s capabilities span from drug discovery and development up to and including IND submission and beyond to integrated drug substance, drug product manufacture and commercial product supply. More detailed information on Evotec’s offering can be found in the EVT Execute/Drug Discovery Services section on Evotec’s website (www.evotec.com).

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 34. An overview of Evotec’s portfolio of advanced drug candidates is provided on page 38 of this Management Report.

Pipeline R&D portfolio

Strategically, Evotec is active in several therapeutic areas, such as neuronal diseases, diabetes and diabetic complications, pain and inflammation, oncology, immuno-oncology, infectious diseases, respiratory diseases, fibrosis, rare diseases as well as in Women’s health. The Company has a large portfolio of programmes generating revenues from upfronts, collaborations and milestones as well as a number of product opportunities which are being progressed internally for future partnering. The strategy for the asset portfolio is to partner programmes either during the discovery process or, in some cases, to develop individual projects up to pre-clinical development candidate (“PDC”) and/or IND submission. In both cases, subsequent clinical development and marketing is managed and financed

Alliances and partnerships

Evotec’s partners include all Top 20 pharmaceutical companies, as well as biotechnology and mid-sized pharmaceutical companies, academic institutions, foundations and not-for-profit organisations. In 2019, Evotec continued to deliver on established, long-term partnerships and also entered into a number of significant new collaborations. An overview of Evotec’s Top customers in 2019 is given in the table “Development of Top 10 customers” on page 36 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 35 of this Management Report.



CORPORATE OBJECTIVES AND STRATEGY – RE-DEFINING THE DRUG DISCOVERY PARADIGM

Evotec has established a leading position as a preferred innovation partner in drug discovery and development for biotechnology and pharmaceutical companies, not-for-profit organisations and academic institutions. Revenue-generating partnerships provide near-term growth and profitability, while an ever-growing co-owned pipeline of potential first-in-class products is expected to generate additional substantial financial upside through achievement of success-based development and commercial milestones as well as royalties on product sales. This unique business model aims to continuously increase the value for shareholders.

ACTION PLAN 2022: LEADING EXTERNAL INNOVATION

Evotec's strategy is based on a clear focus on highest quality science, superior platforms, and highly efficient processes that will lead to significant, long-term productivity improvements in the industry. In order to achieve this goal, the Company has been implementing strategic action plans: "Action Plan 2012 – Focus and Grow", "Action Plan 2016 – Leadership in Drug Discovery Solutions", and most recently "Action Plan 2022 – Leading External Innovation", which was launched at the beginning of 2018. Three key cornerstones of these action plans are (i) to build a diverse and financially de-risked portfolio of co-owned, first-in-class clinical drug product opportunities with a broad range of partners in the pharmaceutical and biotech industry, (ii) to develop the next generation of drug discovery platforms that especially support the industry's mega-trend towards more personalised and precision medicine, and (iii) to selectively participate in high-potential ventures through strategic investments and company formations. During 2020 Evotec will start to establish the cornerstones for its next strategic roadmap "Action Plan 2025 – From Patient to Patient". This strategy update is expected to be implemented in 2021.

PATIENT-CENTRIC APPROACHES AND INTEGRATION OF ARTIFICIAL INTELLIGENCE

In order to support patient-centric approaches, Evotec is accessing large patient data sets to re-define patient populations according to molecular profiles and phenotypes. An example, Evotec has focused on, is the building of the world's leading patient-centric initiative in nephrology called National Unified Renal Translational Research Enterprise ("NURTuRE"), which includes a consortium of leading kidney disease companies, academic institutions and Pharma companies with the most cutting-edge disease processes, platforms and networks to advance research in this key therapeutic category. Since its initiation in 2017, NURTuRE has significantly advanced showing the potential to unlock valuable information for patients suffering from kidney diseases. Thus, in 2019 Evotec and its partner Vifor Pharma have founded a Joint Venture for precision medicine in kidney diseases leveraging clinical data provided by NURTuRE to build co-owned clinical assets.

A key component of NURTuRE and all of Evotec's patient-centric approaches is the integration of artificial intelligence ("AI") and machine-learning tools into many of its biology- and chemistry-driven platforms to further accelerate and increase effectiveness in the drug discovery process.

Furthermore, the Company has built an industrialised platform which allows building patient derived assay systems and disease models through induced pluripotent stem cell ("iPSC") technology. Currently, Evotec has established 10 different cell types and the number of patient derived iPSC cell lines amounts to around 240.

Finally, Evotec is integrating "omics" technologies as an essential tool in the drug discovery process to define and profile biological effects in a comprehensive and unbiased fashion, which allows a more thorough evaluation of efficacy and safety profiles of drug candidates, the selection of clinically relevant biomarkers and support of patient stratification strategies during clinical development.

EXPANSION OF THE PRODUCT PORTFOLIO: ENTERING THE FIELD OF BIOLOGICS

With the acquisition of Just Biotherapeutics, Inc. in July 2019 Evotec has entered the field of biologics and thus has extended its offering of integrated solutions opening new significant growth opportunities. The demand for biologics is high and is forecasted to further develop in the upcoming years. Evotec will therefore be well-positioned in this promising market in the near future. The integration of Just – Evotec Biologics is progressing successfully and will be pushed forward in the years to come.

The Company's 2019 specific objectives as well as major achievements in 2019 are summarised in the following table.

	<u>SPECIFIC OBJECTIVES FOR 2019</u>	<u>MAJOR ACHIEVEMENTS IN 2019</u>
EVT EXECUTE	<ul style="list-style-type: none"> ▶ Continued strong growth and new integrated service alliances 	<ul style="list-style-type: none"> ▶ New alliances and strategic collaborations established, e.g. with Astex, Dermira, Sanofi, Takeda and Teva
EVT INNOVATE	<ul style="list-style-type: none"> ▶ New co-owned partnerships from own R&D ▶ New clinical initiations and important progress of co-owned pipeline ▶ Initiation of new BRIDGES ▶ Important milestones from existing alliances 	<ul style="list-style-type: none"> ▶ New licence agreement with Galapagos in fibrosis or foundation of 50:50 Joint venture with Vifor Pharma spun out of Evotec ▶ Successful progress in co-owned pipeline, e.g. Bayer in endometriosis, chronic cough and kidney disease, Carrick, Topas Therapeutics, partnership with Bill & Melinda Gates foundation in Tuberculosis, extension of partnerships with Bristol-Myers Squibb/Celgene in neurodegeneration, ▶ BRIDGE portfolio has been expanded through LAB555 and LAB10x ▶ Multiple important milestones achieved, e.g. in Bayer, Boehringer Ingelheim, Bristol-Myers Squibb/Celgene, Indivumed and in TargetBCD alliance with Sanofi
CORPORATE	<ul style="list-style-type: none"> ▶ Corporate investing initiatives 	<ul style="list-style-type: none"> ▶ Successful placement of € 250 m promissory note in the capital market ▶ Continued investments in promising companies with operational synergies e.g. Aevovian, Eternigen, Facio, Breakpoint Therapeutics, Immunitas or Topas ▶ Acquisition and integration of Just Biotherapeutics, Inc. ▶ Extending leading position in infectious diseases via multiple alliances

The Company's objectives defined for 2020 can be found in the "Business direction and strategy" section of the "Outlook" chapter on page 71 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, sales and order book status, gross margins and adjusted EBITDA against these targets. In addition, the management reviews comprehensive cost data and analysis focused on costs of revenue, 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. Balance sheet structure, equity ratio and net debt leverage are considered to manage the right balance of equity and debt financing tools being applied. Treasury management is undertaken on an ongoing basis with a focus on cash management and availability, foreign exchange ("FX") and interest 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 2015 to 2019 is shown in the table below.



DEVELOPMENT FINANCIAL KEY MEASURES

in T€

	2015	2016	2017 ¹⁾	2018	2019
Group revenues	127,677	164,507	263,765	375,405	446,437
Unpartnered R&D expenses ²⁾	(18,343)	(18,108)	(17,614)	(22,824)	(37,477)
Adjusted Group EBITDA ³⁾	8,690	36,225	57,222	95,457	123,143

¹⁾ 2017 restated for IFRS 15

²⁾ R&D expenses funded by Evotec

³⁾ 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 46 of the Management Report. The Company’s 2019 performance compared to planned figures can be found in the “Comparison of 2019 financial results with forecast” chapter on page 40 of this Management Report.

— NON-FINANCIAL PERFORMANCE INDICATORS —

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

Quality of drug discovery and development solutions and performance in 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 drug discovery and development solutions and its performance within its customer alliances and overall customer satisfaction.

These indicators can be measured by the total number, growth and size of customer alliances, the percentage of repeat business, average contract duration, new customer acquisition and the status of the Company’s sales and order book. Since its inception in 1993, Evotec has continually delivered excellent results in existing programmes and has expanded its customer base and its global network of partnerships. The Company now works with approximately 769 partners across the industry. This growth and progression is summarised in the tables below.

DEVELOPMENT OF EVOTEC’S CUSTOMER ALLIANCES*

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

	2015	2016	2017 ¹⁾	2018	2019
Number of customers	177	270	760	707	769
Number of customers > € 1 m revenues	21	22	38	61	79
Repeat business (in %) ¹⁾	63%	94%	80%	92%	92%
New customers during the year ²⁾	67	158	611	263	283

¹⁾ Percentage of revenues with customers that the Company already had the year before numbers diluted in 2015 due to Sanofi collaboration and 2017 due to Aptuit acquisition

²⁾ 2016: thereof 69 related to Cyprotex acquisition

2017: thereof more than 500 related to Cyprotex and Aptuit acquisition

2019: thereof 8 related to Just Biotherapeutics acquisition

DEVELOPMENT OF TOP 10 CUSTOMERS (SORTED BY REPORTING YEAR)

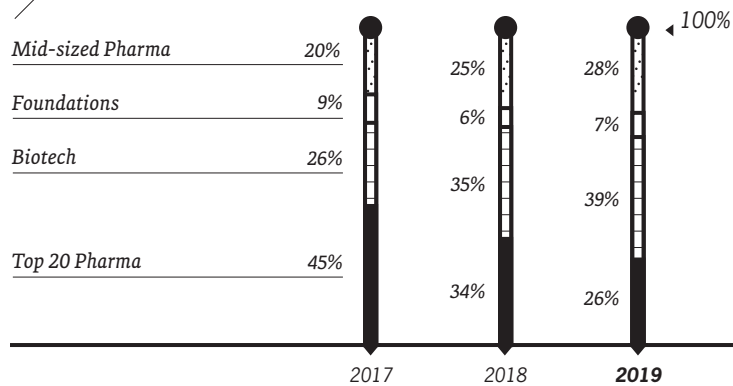
in T€

	2015	2016	2017 ¹⁾	2018	2019
Top 3 (in 2019: Sanofi, Bristol-Myers Squibb/Celgene, Merck)	61,647	83,298	94,016	112,686	134,282
Remaining Top 10	30,072	38,423	53,257	64,953	72,838
Total Top 10 revenues	91,719	121,721	147,273	177,639	207,120
Growth (in %)		33%	21%	21%	17%

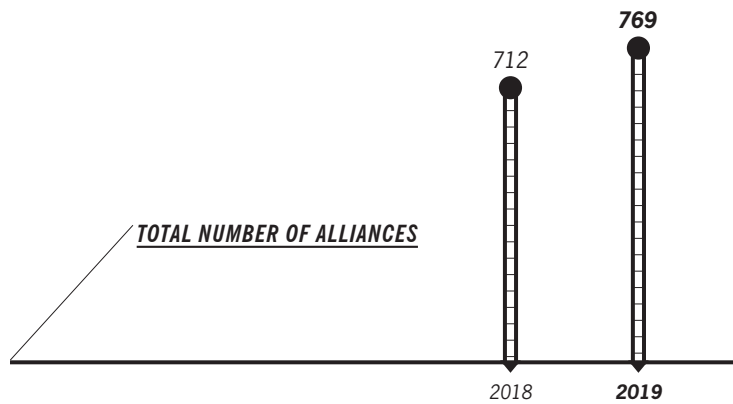
¹⁾ 2017 restated for IFRS 15

THIRD-PARTY REVENUES BY CUSTOMER TYPE 2017-2019 *

in %



Notably, a number of customer alliances have significantly increased in size or broadened regarding indications in recent years, clearly indicating success and customer satisfaction. In addition, the number of customer alliances from which Evotec generates more than € 1 m of revenues per year increased further. Evotec’s two largest customers by revenue, Bristol-Myers Squibb/Celgene and Sanofi, contributed both 13% of total Group revenues in 2019. Except for these two customers, no single customer contributed more than 10% of total Group revenues. Evotec’s repeat business, as defined by the percentage of 2019 revenues coming from customers that the Company already had in 2018, amounted to 91.8%. Evotec’s position as a drug discovery and development company is underscored by the continued upward trend of the total number of alliances shown in the graphic below.



Progression of drug programmes and candidates in development partnerships

Evotec is a company, which discovers and develops novel, innovative pharmaceutical drugs. Therefore, the progression of drug programmes and candidates within Evotec’s drug discovery and development 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.

* This section of the management report is not subject to audit



STATUS OF ADVANCED DRUG CANDIDATES*, **, ***

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

** Starting with pre-clinical development stage

Molecule	Therapeutic Area/Indication	Partner	Discovery	Pre-Clinical	Phase I	Phase II	Phase III
Clinical							
EVT201	CNS – Insomnia	JingXin					
BAY-1817080	Chronic cough	Bayer					
ND ¹⁾	Chronic cough	Bayer					
CT7001	Oncology	Carrick Therapeutics					
CT7001	Oncology	Carrick Therapeutics					
EVT401	Immunology & Inflammation	CONBA GOUP					
VARIOUS	Women's health – Endometriosis	Bayer					
VARIOUS	Women's health – Endometriosis	Bayer					
VARIOUS	Women's health – Endometriosis	Bayer					
VARIOUS	Respiratory	Boehringer Ingelheim					
ND ¹⁾	Oncology	Boehringer Ingelheim, XYNOMIC Pharma					

¹⁾ Not disclosed; Note: Several projects have fallen back to Evotec, where Evotec does not intend to run further clinical trials unpartnered, e.g. EVT302, EVT301, SGM-1019

— 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 potential 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 "Intellectual Property" chapter on page 39 of this Management Report).
- ▶ **Potential business opportunities:** 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 includes all signed contracts as well as potential new business with high probability. It 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 with comparison to budget and prior year are reported and discussed within management to measure and monitor the Company's current performance but also to extrapolate the development of the business in future periods.

▶ **Achievement of milestones in drug discovery alliances and development partnerships:** Milestone achievements are cash flow, key revenue and EBITDA drivers for Evotec. Accordingly, the development of milestone payments in discovery alliances and development partnerships is an indicator of the success of Evotec's programmes. The performance of Evotec in its risk-shared alliances and all collaborations with potential milestone payments are reviewed by management on a regular basis.

RESEARCH AND DEVELOPMENT

All of Evotec's activities are related to Research and development ("R&D"). On the one hand, the Company offers project-driven solutions and services from a comprehensive pre-clinical discovery and development platform and through customised business arrangements with their customers. On the other hand, Evotec invests on its own risk in own R&D projects which include unpartnered as well as partnered R&D.

— UNPARTNERED R&D —

Evotec significantly invests in "unpartnered" internal R&D efforts to create a broad and deep pipeline of first-in-class assets and platforms. Evotec's "unpartnered" R&D projects are carefully selected discovery-stage projects. 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 these projects internally and then to partner these projects at tangible value inflection points, thereby expanding Evotec's proprietary pre-clinical and clinical pipeline. Evotec mainly focuses its research on several areas of core expertise as depicted

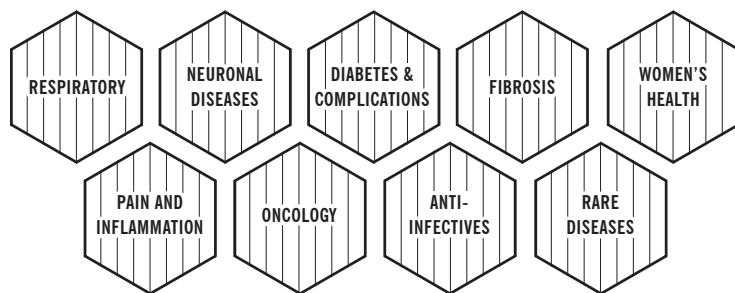
*** This section of the management report is not subject to audit

below. Since 2010, Evotec has initiated more than 200 R&D projects. Evotec continuously enters into new initiatives with the aim of creating further high-value partnerships with significant financial upside potential through participation in the product development and eventual market success of these product opportunities. Evotec's currently pursues unpartnered projects e.g. in oncology, kidney diseases, diseases of the central nervous system, Fragile X syndrome and inflammation.

— PARTNERED R&D —

Partnered (funded) R&D can be described as internal R&D projects which are completely cost-covered by a partner. In this field, Evotec continues to invest in its infectious disease-related efforts, taken over in context of the acquisition of Sanofi's Lyon-based disease unit in 2018, and which are cost-covered by Sanofi.

CORE DISEASE AREAS



— 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 for delivering on its strategy. As of 31 December 2019, besides two patent families jointly filed with third parties, Evotec has more than 65 patent families under its full control. All of these are on file or pending through national and/or foreign applications, such as patent applications filed under the Patent Cooperation Treaty or applications filed with the United States Patent Office, the European Patent Office or the Japanese Patent Office.

Supporting its discovery 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 its EVT Innovate research 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.

By virtue of the integration of Sanofi's infectious disease unit into Evotec's organisation, Evotec was furthermore able to expand its expertise in anti-infectives.

Evotec's iPSC platform has been further broadened through the acquisition of diverse assets from the stem cell specialist Ncardia AG. In particular, the acquired assets include intellectual property relevant for iPSC-based phenotypic drug discovery.

Furthermore, Evotec's acquisition of Just Biotherapeutics, Inc. – a technology company that integrates highly synergistic scientific expertise and machine-learning driven technologies for design, development, and manufacturing of biologics – allowed the Company to jump into the field of biologics

EMPLOYEES

As of 31 December 2019, the Evotec Group employed a total of 3,030 employees worldwide. This is a total increase of 16% compared to prior year's end. Besides continued organic growth, it also reflects the expansion of the Company through the acquisition of Just Biotherapeutics, Inc. in July 2019. Overall, Evotec has grown by 413 (absolute number) employees in 2019.

Across all sites and functions both in Europe and the USA, new employees were hired to further increase the Company's capacity on innovation and to provide best-in-class service to Evotec's partners and clients.

Further information can be found in the Separate non-financial group report 2019 of Evotec SE, which is published on the company website under the section "Financial Reports".*

* This section of the management report is not subject to audit

Report on economic position

COMPARISON OF 2019 FINANCIAL RESULTS WITH FORECAST

—
FINANCIALS REFLECTING CONTINUED
STRONG GROWTH
—

PERFORMANCE AGAINST FORECASTS

	Guidance Annual Report 2018	Guidance August 2019	Guidance November 2019	Guidance January 2020	2018	Actual 2019
Group revenues ¹⁾	Approx. 10% growth	Approx. 15% growth	Approx. 15% growth	Approx. 15% growth	€ 364.0 m	€ 431.9 m (+19%)
Unpartnered R&D expenses	Approx. € 30–40 m	Approx. € 30–40 m	Approx. € 30–40 m	Approx. € 30–40 m	€ 22.8 m	€ 37.5 m
Adjusted Group EBITDA ²⁾	Approx. 10% growth	More than 10% growth	Approx. 15% growth	More than 25% growth	€ 92.0 m	€ 123.1 m (+34%)

¹⁾ Revenues 2018 and 2019 without revenues from recharges (IFRS 15 material recharges)

²⁾ Adjusted EBITDA 2018 without one-off effects (€ 3.5 m)

Evotec's financial guidance for 2019 was updated three times as shown in the table above: First, in August 2019, following the acquisition of Just Biotherapeutics, Inc. from July 2019. Second, in November 2019 due to very positive progress and outlook with better than expected profitability, and third in January 2020 due to a very strong operational performance in the fourth quarter of 2019 as well as high milestone revenues from long-term partnerships such as those with Celgene (now Bristol-Myers Squibb), Bayer and Sanofi in late December 2019.

In 2019, Evotec achieved all its financial goals. The continued increase in Group revenues from € 364.0 m in 2018 (€ 375.4 m including material recharges) to € 431.9 m (€ 446.4 m including material recharges) in the reporting period was driven primarily by three factors: the strong performance in the growing base business, the addition of Just – Evotec Biologics increasing revenues in the field of biologics from July 2019 onwards, and from a growing amount of milestone payments stemming from key alliances. Total R&D expenses for the year increased substantially to € 58.4 m (2018: € 35.6 m). Evotec focused its unpartnered R&D expenses of € 37.5 m (2018: € 22.8 m) primarily on initiatives in the fields of metabolic diseases, oncology, and platform projects. Its partnered R&D expenses of

€ 20.9 m (2018: € 12.8 m) related to its infectious disease portfolio and were reported as R&D expenses while the costs – fully reimbursed by its partner Sanofi – were recognised under other operating income and thus do not negatively affect the operating result or adjusted EBITDA. With regard to Guidance, this split into unpartnered and partnered R&D expenses had only been applied since the beginning of 2019.

The Company also recorded a significant increase in adjusted Group EBITDA from € 95.5 m (€ 92.0 m excluding One-off effects) to € 123.1 m. Main reasons were the higher gross profit, higher milestone achievements, a positive contribution by Just – Evotec Biologics and the impact of the first time application of IFRS 16 in 2019 (€ 15.5 m).

EBITDA is defined as earnings before interest, taxes, depreciation, and amortisation of intangibles as reported in the Consolidated Financial Statements of the Group. Adjusted EBITDA also excludes impairments on goodwill, other intangible and tangible assets, changes in contingent considerations as well as the total non-operating result.

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

In 2019, Evotec continued its growth path.

2019 also was again a strong year for both segments. The EVT Execute segment continued its profitable growth with revenues increasing by 21% to € 420.3 m (2018: € 347.2 m). Revenues in the EVT Innovate segment increased to € 94.3 m (2018: € 68.9 m) and thus by 37%, primarily resulting from signing new partnerships and milestone achievements in existing key alliances.

Adjusted Group EBITDA for 2019 recorded a significant step-up of 29% compared to the previous year and grew to € 123.1 m, resulting in an adjusted EBITDA margin of 27.6%. On segment level, the adjusted EBITDA in EVT Execute showed an impressive increase of 41% to € 122.5 m, an improved adjusted EBITDA margin of 29.1%. The adjusted EBITDA of the EVT Innovate segment with € 0.6 m also was positive in 2019.

Evotec's year-end liquidity more than doubled to € 320.0 m in the financial year 2019. In 2019, Evotec issued a € 250 m promissory note and used part of the proceeds to fully repay the remainder of the bridge loan of € 30 m granted in the context of the Aptuit acquisition in 2017. Further strong cash inflows were recognised due to milestone achievements and received upfront payments such as the \$ 30 m pre-payment by Bristol-Myers Squibb/Celgene, opting in for the extension of the neurodegenerative collaboration.

The equity ratio decreased but remained very solid at 40%, the net debt leverage amounted to 1.2 x adjusted EBITDA. The strong cash position allows the Company to accelerate the implementation of its growth strategy not only through organic growth but also through potential acquisitions. It also enables the continued investment in EVT Innovate R&D projects to generate significant additional long-term upside potential as well as to selectively participate in company formations and equity investments. Furthermore, based on a solid quote, it allows Evotec to maintain, update and expand state-of-the-art equipment, platforms and facilities. In 2020 and beyond, Evotec's management expects continued strong growth in all lines of business and innovation.

MACROECONOMIC CONDITIONS AND BUSINESS ENVIRONMENT

— GLOBAL ECONOMIC DEVELOPMENT —

In 2019, global growth recorded its weakest pace since the global financial crisis a decade ago, which reflects common influences across countries and country-specific factors. According to the most recent World Bank report, the global economy will grow by 2.5% in 2020, slightly better than the 2.4% estimate for 2019, though both yearly estimates are lower than the last forecast released in June 2019 (2.6% and 2.7% for 2020). The World Bank attributes the weak growth to geopolitical tensions and a potential re-escalation of the ongoing trade war between the United States and China. Growth among advanced economies is set to decline to 1.4% in 2020 due to a global slowdown in manufacturing, while growth in emerging markets and

developing economies fuelled by a smaller group of large economies will rise to 4.1%. According to the Congressional Budget Office, the growth in the US-Economy is projected to reach 2.3% in 2019 (2018: 2.9%), reflecting slower growth in consumer spending and government purchases as well as the effect of trade policies on business investment.

In the Eurozone, economic activity has seen a sharp decline and uncertainty concerning BREXIT also weighed heavily on growth. Several economies were on the verge of recession at some point in 2019, with particular weakness in the German industrial sector as it struggled with falling demand from Asia and disruptions to car production. The European Central Bank has provided monetary stimulus by pushing its policy rate deeper into negative territory, restarting quantitative easing, and providing inexpensive credit to banks. The overall fiscal position of the Eurozone is expected to be roughly balanced over the forecast period, providing little additional support to activity despite existing capacity in some economies. Growth is expected to slow to 1.0% in 2020, 0.4 percentage points down from previous projections due to worse-than-expected incoming data, especially industrial production. According to the Federal Statistical Office, the German economy in 2019 grew at a rate of 0.6% of its price adjusted gross domestic product (2018: 1.4%). Main factors for the weaker growth were the weakening exports and a recession in industry.

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

Pharmaceutical companies of all sizes continue to re-evaluate and adjust their business strategies, including investments in emerging trends in healthcare (e.g. cell therapy, gene therapy, personalised medicines and orphan drugs). In recent years, this has resulted in significant restructuring and consolidation in the industry. 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. As a consequence, the pharmaceutical industry continues to search for innovation in drug discovery in a capital-efficient manner at a good pace and increasingly relies on new collaboration structures to access innovation and accelerate the discovery and development of new drugs. Effectively, the trend to outsource discovery and early development continues, resulting in a shared business model between delivery of innovative drug candidates versus advanced development, approval and marketing of such candidates.

Thus, Evotec believes that these market dynamics will continue to lead towards greater partnering, outsourcing opportunities and investment opportunities. In recent years, the number of projects and demand from newly founded US and European companies grew further and accelerated, thus continuing the trend from previous years. 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-in-class and/or best-in-class potential. Newly founded biotech companies have become an important customer group for Evotec. Increasingly, these companies tend to operate virtually rather than with their own operational infrastructure. Evotec can provide the entire drug discovery and development platform required to deliver on their projects and help them accelerate their products to further milestones of value



generation. Evotec also selectively invests in asset-centric start-up companies at a pre-seed and seed stage with the intention to participate in the value creation up to human proof-of-concept or even beyond.

Furthermore, Evotec also in 2019 heavily invested in upgrading its platforms for the development of various types of drugs including small molecules, biologics and cell therapies. In particular, the Company continued the expansion of its iPSC platform and internally developed a number of new patient-centric partnerships. Furthermore in 2019, Evotec stepped into the market of Biologics with the acquisition of Just Biotherapeutics, Inc. to deliver superior quality, high speed and better cost efficiency from discovery through manufacturing for all biologic assets.

— OPERATING AND BUSINESS ENVIRONMENT —

Increase of Productivity Challenge

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, while launched products are not producing the returns experienced in earlier decades: Between 2010 and 2018 research and development expenses in the pharma industry increased by almost 40% from \$ 129 bn to \$ 179 bn. Following the EvaluatePharma 2018 report, overall R&D spending is expected to grow by 3% yearly, reaching about \$ 203.9 bn by 2024. During the same period, overall research and development returns went down from 10.1% in 2010 to 1.8% in 2019 and peak sales for new medicines have halved to \$ 408 m. 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.

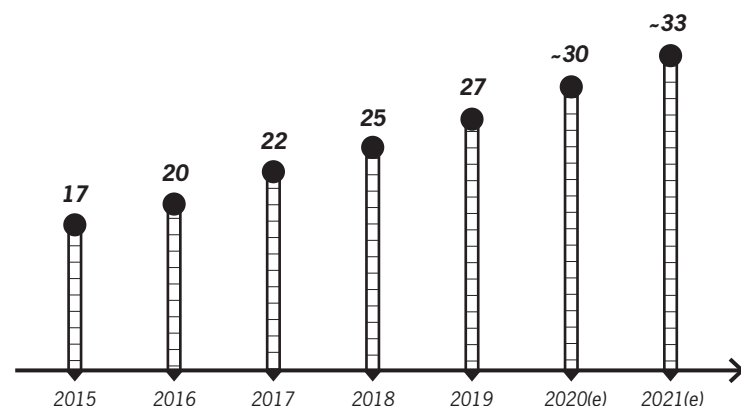
In 2019, this macro trend continued but the unmet medical need for new drugs and associated market opportunities still exists. The bottom line is that the industry collectively needs to improve research and development productivity. Improving research and development productivity imposes the need to increase the probability of success of each individual project at lower unit cost through the use of highest quality platforms and industry leading expertise.

To counter these trends and improve research and development productivity, many efforts have been made to introduce more patient centric approaches into the drug discovery process. According to recent studies, these efforts are starting to bear fruits. For example, projects, which are based on targets, which are supported by human genetics, are twice as likely to succeed as projects without the support of human genetics. Similarly, projects that involve a biomarker-based patient stratification strategy are about three times as likely to lead to positive clinical outcomes.

Evotec has successfully incorporated patient derived cellular models, which are largely based on induced pluripotent stem cells (iPSC) into drug screening and development to test human disease relevance as early as possible within the drug discovery process. Patient derived disease models represent a tremendous opportunity to systematically incorporate human genetics and patient stratification strategies into drug discovery process right from the start and continuously through the drug discovery process. Furthermore, they can be used to conduct clinical trials in a dish and thereby focus and guide clinical development, reducing costs.

MACRO TREND DRUG DISCOVERY OUTSOURCING – MARKET OVERVIEW

Revenues, in \$ bn



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

The markets of Evotec’s strategic research focus areas and Evotec’s competitive position

Evotec has ongoing alliances and partnerships in many disease areas including women’s health, infectious diseases, immunology and inflammation, metabolic diseases and complications such as chronic kidney diseases and retinal disease, neuroscience and neuronal diseases, oncology, fibrosis and respiratory diseases. These disease areas represent markets with huge unmet medical needs and significant revenue and value opportunities. Background information on the therapeutic markets of these disease areas is given below.

Neuroscience and Neuronal diseases

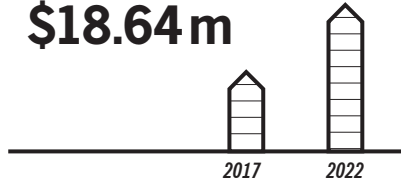
According to the World Health Organization (“WHO”), about 14.1% of the global population will suffer from some form of central nervous system (“CNS”) disorder by 2030. A rapidly increasing geriatric population results in elevated incidence of CNS diseases. Collectively, CNS disease treatments, despite being exclusively palliative, already represent one of the three main therapeutic areas worldwide and are expected to reach \$ 137.7 bn in 2025 according to Global Industry Analysts, putting them close to cardiovascular diseases and oncology.

GLOBAL CNS THERAPEUTICS MARKET 2018 – 2022 GROWTH ANALYSIS, TECHNAVIO

The market will be **ACCELERATING** growing at a CAGR of

>4%

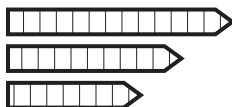
INCREMENTAL GROWTH
\$18.64 m



62%



The APAC REGION has a HIGHER incremental growth than the AMERICAS



One of the KEY TRENDS for this market will be the increasing AWARENESS PROGRAMS



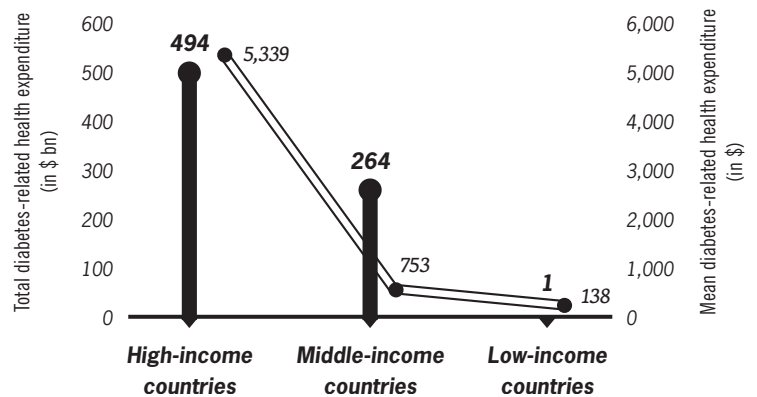
of the market share originated from the APAC REGION in 2017

Evotec has been involved in neuroscience research for over 20 years and through internal and collaborative efforts has built a highly sophisticated and integrated drug discovery platform covering essentially all biological and chemical aspects from target identification to investigational new drug (“IND”). Evotec has a strong track record in neuroscience drug discovery success with numerous pre-clinical and clinical candidates across multiple mechanisms of action as well as expertise in all major neuroscience therapeutic indications including sleep disorders, epilepsy, neurodegeneration, neuroinflammation and pain. The dedicated Evotec neuroscience research team of over 150 FTEs has experience and know-how in pursuing both target-based approaches as well as phenotypic/pathway paradigms to identify, validate and prosecute disease-modifying approaches. An example of this is high-throughput screening in induced pluripotent stem cells (“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. In a research collaboration with Bristol-Myers Squibb/Celgene, Evotec leverages its iPSC platform to identify disease-modifying therapeutics for a broad range of neurodegenerative diseases, such as Amyotrophic lateral sclerosis (“ALS”), Alzheimer’s disease or Parkinson’s disease. In 2019, Bristol Myers Squibb expanded its partnership once again with Evotec to add further cell lines to its collaboration, which resulted in significant payments to Evotec.

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 (IDF), approximately 463 million people worldwide are living with diabetes, which amounts to one out of every eleven adults (IDF Diabetes Atlas 9th edition). IDF estimates that approximately 4.2 million adults will have died as a result of diabetes and its complications in 2019. Diabetes also imposes a significant economic impact on countries, health systems and on people with diabetes and their families. IDF estimates the annual global health expenditure on diabetes is \$ 760 bn. It is projected that these direct costs will reach \$ 825 bn by 2030 and \$ 845 bn by 2045.

DIABETES-RELATED HEALTH EXPENDITURE

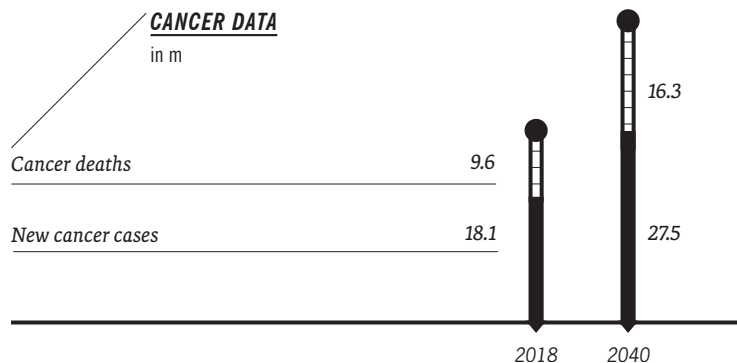


IDF Diabetes Atlas, 9th Edition, 2019

Evotec has more than fifteen 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, protection and replacement. In doing so, Evotec has built a unique portfolio of partnerships and approaches pursuing potentially first-in-class products.

Oncology

According to the International Agency for Research on Cancer, there were 18.1 million new cancer cases and 9.6 million cancer deaths worldwide in 2018. By 2040, the global burden is expected to grow to 27.5 million new cancer cases and 16.3 million cancer deaths simply due to the growth and aging of the population. According to EvaluatePharma, oncology-related drug sales are expected to rise to approximately \$ 233 bn in 2024.

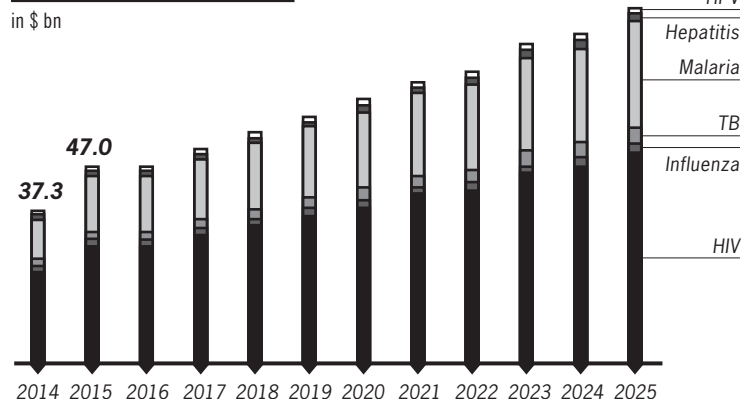


The development of new, targeted cancer drugs for the treatment of specific cancers continues to be of great importance. Furthermore, innovative technologies such as a focus on epigenetic drug therapies or cancer immunotherapies may represent a paradigm shift in the way cancer is treated. Evotec has 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 2019, Evotec formed a spin-off company Breakpoint Therapeutics GmbH, a virtual biotech company focusing on the development of Evotec’s DNA damage response (“DDR”) portfolio. Breakpoint Therapeutics’ mission is to develop first and best-in-class oncology drugs that interfere with DNA repair and replication stress pathways to facilitate the cure of therapy-resistant cancers. The company expects to deliver the first IND-ready drug in 2022.

Infectious diseases

Evotec has one of the largest global footprints in the anti-infectives space, which includes large efforts in the discovery on new antibacterials, antivirals, antifungals and antiparasitics. Through its internal efforts and the takeover of an R&D site from Sanofi in Lyon (France) in 2018, Evotec has greater than 160 scientists with a breadth of experience with multiple compound classes: small molecules, natural products, biologics, peptides, antibodies, combinations, biocides and vaccines, the diversity of which enables the most efficient and optimal drug discovery approaches from phenotypic screening to target-based discovery. According to Grand View Research, the global infectious disease therapeutics market size was valued at \$ 46.9 bn in 2016 and is expected to grow at a compound annual growth rate (“CAGR”) of 6.6% to \$ 86.2 bn until 2025.

INFECTIOUS DISEASE THERAPEUTICS MARKET, BY DISEASE TYPE, 2014 – 2025



Inflammation and pain, fibrosis and respiratory diseases including chronic cough

Evotec also has substantial experience and expertise in inflammation and pain, fibrosis and respiratory diseases. According to Transparency Market Research, the pain management therapeutic market is expected to increase from \$ 62.2 bn in 2016 to \$ 88.3 bn in 2025.

The 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).

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 and chronic cough with Bayer. As a direct result of this partnership, in 2019, Bayer announced positive Proof of Concept (POC) Phase II results for the first program that went into the clinic, a P2X3 antagonist BAY1817080. In addition, Bayer advanced its second small molecule into Phase II clinical development for the same indication.

In February 2019, Evotec and Galapagos NV entered in a global collaboration focused on a novel target for fibrosis. Galapagos NV is a clinical-stage biotechnology company, specialised in the discovery and development of small molecule medicines with novel modes of action. Evotec received an upfront payment and is potentially eligible for further milestone and royalty payments. By 2026, the market potential for one form of fibrosis, idiopathic pulmonary fibrosis, is expected to reach \$ 5.8 bn, while the global market size of cystic fibrosis is expected to reach \$ 9.3 bn.

RECENT TRENDS IN THE PHARMACEUTICAL AND BIOTECHNOLOGY SECTOR

In 2019, the Company observed many trends in the pharmaceutical and biotechnology sectors that affect elements of its business model and that it must be aware of to execute on its goals.

One of the most important trends is the continuing and accelerating trend to individual or personalised medicines, with the ultimate goal of delivering the right drug to the right patient through the understanding of disease biomarkers and the use of targeted therapies (iPS cells). Cutting-edge examples of these types of medicines are cell therapies, gene therapies, immunotherapies, and predictive diagnostic tests with known disease biomarkers.

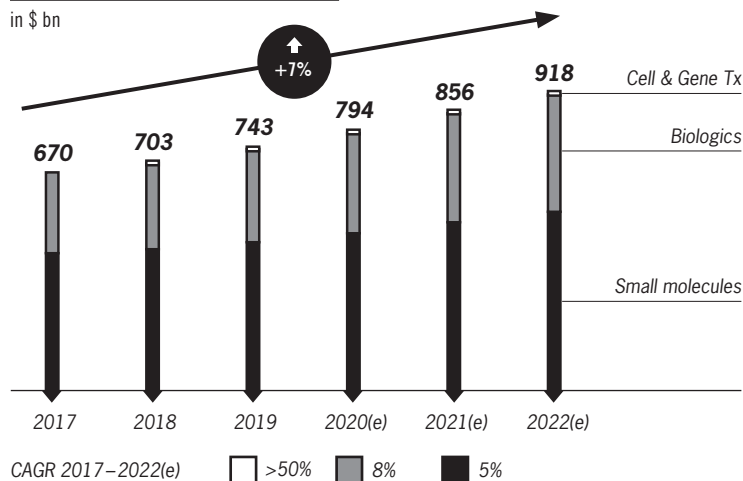
There are several key aspects of innovation influencing the development of more personalised medicines through partnerships and collaborations. All these approaches could pave the way for more effective drug development:

- ▶ AI, machine learning, deep learning techniques
- ▶ Patient-derived disease models (e.g. iPSC)
- ▶ Technology platforms such as CRISPR and ribonucleic acid (“RNA”) therapeutics and mRNA technologies
- ▶ Broader human testing to match patients with effective treatments

In 2019, the U.S. Food and Drug Administration (FDA) approved 48 novel drugs, down from 59 drugs in 2018. Of these, 21 drugs (44%) received

orphan drug designation. The FDA grants Orphan Drug Designation to novel drugs which seek to treat a rare disease or condition and provides seven years of market exclusivity if approved, plus significant development incentives. Orphan drugs are flagship exemplars of the personalised medicine revolution. Drugs being developed for rare disease indications are often cell or gene therapies, biologics or small molecules, and we are seeing a trend where these drugs may be used together to tackle some of the most difficult to drug targets and diseases.

GLOBAL PHARMACEUTICAL MARKET



1) Small molecules forecast from May 2017 and Biologics forecast from Dec 2017
 2) Excluding sales not classified by EvaluatePharma
 Source: EvaluatePharma

The pharmaceutical industry continues to seek more capital-efficient ways to accelerate the discovery and development of new therapeutics, including many types of personalised medicines. These come with expensive development and manufacturing costs that biotechnology companies themselves cannot manage successfully. Instead, companies forge new partnerships and collaborations in drug discovery to deliver these important innovative personalised therapies to the patients. Research partnership companies like Evotec stand to benefit from this trend.

Overall, the global pharmaceutical and biotech sector is in a very strong position, with a worldwide spending on medicines forecasted to reach nearly \$ 1.4 trillion by 2020. The biotechnology market is estimated to be worth \$ 727 bn by 2025, with an annual growth rate of 7.4%.

SIGNIFICANT CORPORATE DEVELOPMENTS 2019

In the course of 2019 there was a number of important corporate developments at Evotec, following the long term strategy “Action Plan 2022”.

Acquisition of Just Biotherapeutics, Inc.

In May 2019, Evotec and Just Biotherapeutics, Inc. signed a definitive agreement for the acquisition of Just Biotherapeutics, Inc. The Acquisition was completed on 2 July 2019. This acquisition accelerates Evotec’s long-term strategy to be the industry partner of choice for external end-to-end innovation, strengthening Evotec’s multimodality approach to R&D, adding biologics to its current offering in small molecules and cell therapy. The purchase price amounted to \$ 62.2 m (€ 55.0 m, €/ \$ rate of 1.13), considering customary net debt and working capital adjustments as well as potential future earn-out payments. Following the agreement, Evotec will pay a total consideration of up to \$ 90 m including up to \$ 30 m potential earn-outs in the next three years. The acquisition of 100% of the issued and outstanding equity interests of the company was paid in cash. Just Biotherapeutics, Inc. was renamed Just – Evotec Biologics.

Equity participations and spin-offs

Together with a strong consortium of renowned funding partners, in July 2019 Evotec founded the spin-off company Breakpoint Therapeutics GmbH focusing on the development of Evotec’s DNA damage response portfolio, comprising discovery-stage assets and drug targets that promise broad therapeutic application in a variety of cancers.

In November 2019, Evotec and Vifor Pharma initiated a 50:50 joint venture, called NephThera. The joint venture will focus on the discovery and development of novel nephrology therapeutics by analysing the clinical data provided by Evotec that is mining a unique UK kidney biobank (NURTuRE) in order to identify new targets for renal therapies, and sharpen existing product profiles of an innovative pipeline. Initial funding of € 25 m for pre-clinical development will be covered by Vifor Pharma so that multiple targets or candidates can be moved forward simultaneously.

2019 was also a year of further equity investments for Evotec. The Company participated in several financing rounds of promising biotech companies and in total invested € 11.7 m in cash in follow-on rounds and new engagements. Some of the most important equity participations in 2019 were Aeovian, Celmatix, Eternygen, Immunitas Therapeutics and Topas Therapeutics.

Successful issuing of promissory note (“Schuldschein”) of € 250 million

In June 2019, Evotec SE successfully issued a promissory note (“Schuldschein”) of € 250 m on the capital market. The promissory note was placed with a fixed and variable interest rate of an average below 1.5% over 3, 5, 7, and 10 years maturity. Following high demand from debt investors, there was significant oversubscription of the order book which led to attractive credit spreads.

Full repayment of the Aptuit acquisition loan

In the first half of the year, Evotec was able to fully repay the remaining € 30 m of its € 140 m debt bridge facility. This loan was initiated in context of the Aptuit acquisition in 2017.

Expansion of iPSC platform

In 2019, Evotec also continued to invest in the further development of its iPSC platform. Evotec acquired assets from the stem cell specialist Ncardia AG. The acquired assets include intellectual property relevant for iPSC-based phenotypic drug discovery, an existing cellular product business around iPSC-derived cells, as well as a strong team of 17 stem cell biology experts. This additional team is operating from laboratories at the BioCampus Cologne.



Achievement of several important milestones and value steps

Evotec received several important milestones, upfront and licence payments in 2019, e.g. from Bayer, Boehringer Ingelheim, Sanofi and Bristol-Myers Squibb/Celgene.

In particular, the successful conclusion of the Bayer clinical phase II study in chronic cough with the P2X3 antagonist BAY1817080 was a significant value creating achievement also for Evotec as the P2X3 antagonist originates from the Evotec/Bayer multi-target alliance, and Evotec expects further development studies in the near future.

Management Board members' contracts extended, new Supervisory Board elected

In the first half of 2019, the Supervisory Board confirmed the extension of the existing contracts with the Management Board members Dr Cord Dohrmann (CSO) for a term of five years and Enno Spillner (CFO) for a term of three years.

Furthermore, Evotec's shareholders at the Annual General Meeting 2019 elected a new Supervisory Board for a term of five years. The existing members Prof. Dr Wolfgang Plischke (Chairman), Prof. Dr Iris Löw-Friedrich (Vice Chairman), Dr Michael Shalmi and Dr Elaine Sullivan were re-elected. Dr Mario Polywka, Evotec's former COO until 31 December 2018, and Roland Sackers, CFO and Managing Director of QIAGEN N.V., were elected as new members of the Supervisory Board. Roland Sackers also took the role as chairperson of the Audit Committee.

RESULTS OF OPERATIONS

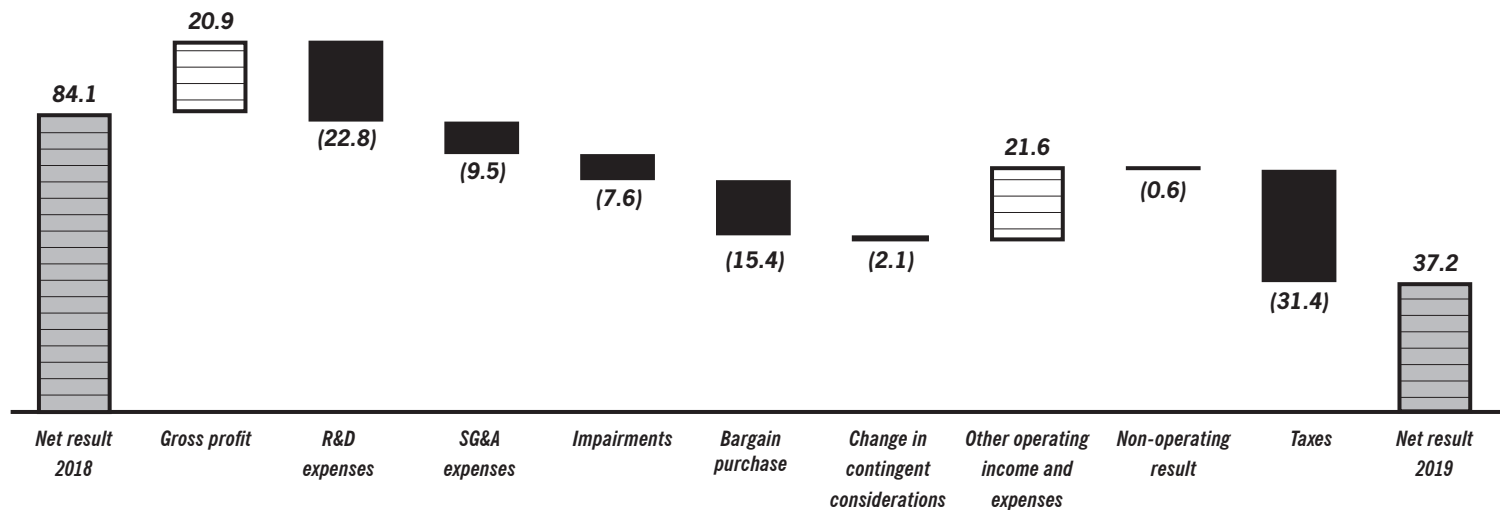
The 2018 and 2019 results are not fully comparable. The difference mainly stems from the acquisition of Just Biotherapeutics, Inc. and Evotec ID Lyon SAS. The results from Just – Evotec Biologics are only included from 2 July 2019 onwards while the results from Evotec ID Lyon SAS are included from 1 July 2018 onwards.

From 1 January 2018 onwards, Evotec applies IFRS 15 and IFRS 9. From 1 January 2019 on, Evotec applies also IFRS 16.

For further details on the acquisitions of Just Biotherapeutics, Inc. and Evotec ID Lyon SAS and selected financial information, see Note 6 of the Notes to the Consolidated Financial Statements.

NET RESULT – CHANGES 2019 VS. 2018

in € m



CONDENSED INCOME STATEMENT

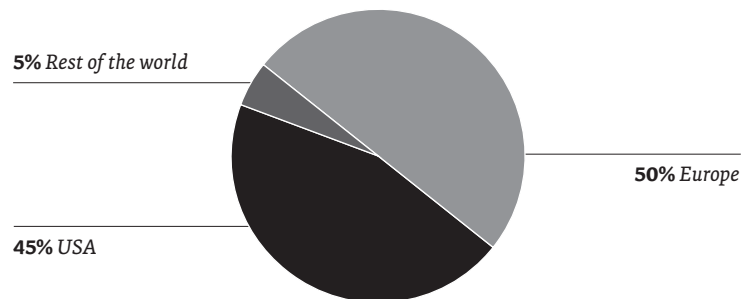
in T€

	2018	2019	Variance
Revenues from contracts with customers	375,405	446,437	71,032
Cost of revenue	(263,389)	(313,546)	(50,157)
Gross profit	112,016	132,891	20,875
Gross margin %	29.8%	29.8%	(0.1) PP
— R&D expenses	(35,619)	(58,432)	(22,813)
— SG&A expenses	(57,012)	(66,546)	(9,534)
— Impairment result (net)	(4,364)	(11,919)	(7,555)
— Income from bargain purchase	15,400	-	(15,400)
— Other operating income (expenses), net	47,042	66,600	(19,558)
Operating income (loss)	77,463	62,594	(14,869)
Net income	84,056	37,223	(46,828)
Adjusted Group EBITDA¹⁾	95,457	123,143	27,686

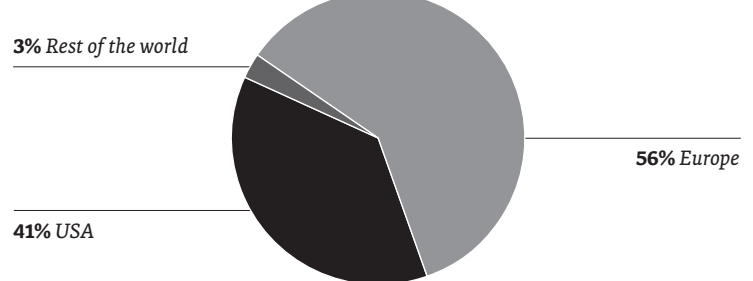
¹⁾ Adjusted for changes in contingent considerations and income from bargain purchase

REVENUES BY REGION

2019



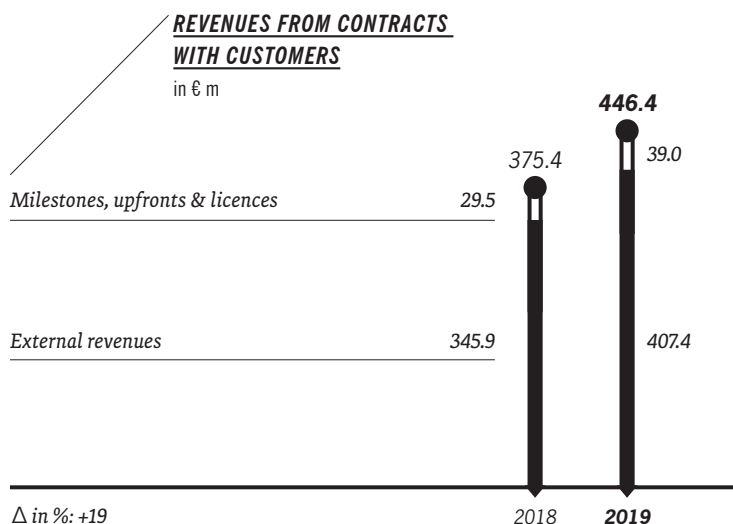
2018



— REVENUES FROM CONTRACTS WITH CUSTOMERS —

Strong revenue growth

Total Evotec Group revenues from contracts with customers amounted to € 446.4 m (€ 431.9 m without material recharges) in 2019, an increase of 19% compared to the previous year (2018: € 375.4 m; € 364.0 m without material recharges). This increase resulted primarily from the strong performance in the base business, increased milestone payments and a positive contribution from the acquired business of Just – Evotec Biologics (€ 16.1 m). At constant 2018 foreign exchange rates, 2019 revenues would have amounted to € 437.1 m.



— COSTS OF REVENUE/GROSS MARGIN —

Strong and stable gross margin despite higher costs of revenue

Costs associated with Group revenues include the cost of personnel directly associated with revenue-generating projects, facilities and overhead used to support those projects as well as materials consumed in the provision of the product or service. In addition, amortisation of intangible assets of € 12.3 m (2018: € 12.0 m) resulting from purchase price allocations (PPA) are also recognised under cost of revenues.

Costs of revenue increased by 19% to € 313.5 m (2018: € 263.4 m) resulting in a gross profit of € 132.9 m (2018: € 112.0 m). The overall gross margin remained stable at 29.8% (2018: 29.8%). Better base margins at the Toulouse site, higher milestone revenues and favourable exchange rate movements compensated for a slightly negative revenue mix, negative impact from material recharges as well as amortisation of purchase price allocation. At constant 2018 exchange rates, the gross margin in 2019 would have been 28.8%.

Gross margins in the future will continue to be volatile especially due to potential milestone or out-licensing payments, each having a strong positive impact on the gross margin and adjusted EBITDA.

— RESEARCH AND DEVELOPMENT EXPENSES —

Higher investments in unpartnered R&D

R&D expenses increase with the growing number of proprietary projects in which research and development is carried out. Evotec continues to invest in building, maintaining and upgrading its in-house discovery platforms and developing assets in key therapeutic areas through its business segment EVT Innovate.

In 2019, overall R&D expenses significantly increased by 64% to € 58.4 m (2018: € 35.6 m). This increase was attributable mainly to higher expenses for proprietary EVT Innovate projects, but also for Platform R&D and overhead expenses. Proprietary Innovate projects accounted for 86% (2018: 87%) of total R&D expenses. Overhead expenses accounted for 11% (2018: 12%) of total R&D expenses and increased by € 2.2 m, mainly due to the full-year impact of the ID Lyon site.

Evotec started to report the split into unpartnered and partnered R&D expenses from 2019. Partnered or funded projects mainly relate to the ID Lyon site, which was acquired in July 2018.

Unpartnered R&D expenses

Unpartnered R&D expenses increased to € 37.5 m (2018: € 22.8 m). In 2019 Evotec increased its unpartnered R&D expenses in particular on initiatives in the fields of metabolic diseases, oncology and platform projects.

Partnered R&D expenses

R&D expenses for partnered or funded projects went up to € 20.9 m (2018: € 12.7 m, second half of 2018 only). Partnered R&D was reported under R&D expenses while the fully reimbursed costs by its partner Sanofi were recognised under other operating income. In total, these two effects were accretive to the adjusted EBITDA.

R&D EXPENSES BY CATEGORIES			
in T€			
	2018	2019	Variance
Proprietary Innovate projects	(30,811)	(50,035)	(19,224)
Platform R&D	(596)	(1,994)	(1,398)
Overhead expenses	(4,212)	(6,403)	(2,191)
Total	(35,619)	(58,432)	(22,813)
<i>thereof:</i>			
Partnered (funded) R&D	(12,795)	(20,955)	(8,160)
Unpartnered R&D	(22,824)	(37,477)	(14,653)

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Impact of overall Company growth

In 2019, the Group's selling, general and administrative ("SG&A") expenses increased by 17% to € 66.5 m (2018: € 57.0 m). This increase resulted primarily from a first time full year SG&A expenses of Evotec ID Lyon, higher personnel expenses and temporary staff costs to support the overall growth of the Company, strengthening of the support functions, new implementation, upgrading and further digitalisation of supporting systems and M&A and financing related expenses. Furthermore, Just – Evotec Biologics contributed € 2.0 m to the Group SG&A expenses for the second half of the year.

— IMPAIRMENTS —

Intangible assets and goodwill impaired in 2019

In 2019, Evotec recorded impairments of intangible assets and goodwill of € 11.9 m in total (2018: € 4.4 m) for the full impairment of the intangible asset for P2X7 (SGM-1019) and the related Goodwill. Evotec was informed by Second Genome that toxicology issues were recognised during the phase II studies in Nonalcoholic steatohepatitis (NASH). Consequently, Second Genome stopped the clinical trial and terminated the partnering agreement with Evotec. This impairment does not affect the adjusted EBITDA but the net result.

Further information can be found in the "Goodwill and intangible assets" section in the "Assets, liabilities and stockholders' equity" chapter on page 55 of this report.

— OTHER OPERATING INCOME AND EXPENSES —

Other operating income and expenses, net amounted to € 66.6 m in 2019 (2018: € 47.0 m). Other operating income in 2019 was mainly composed of other operating income related to Sanofi recharges for ID Lyon of € 40.0 m (2018: € 21.6 m) and increased R&D tax credits of € 28.0 m (2018: 24.3 m).

— OPERATING INCOME —

Evotec's operating result amounted to € 62.6 m in 2019 (2018: € 77.5 m). The main reason for the lower operating result was the fact that the 2018 operating result was positively impacted by the income from a one-time bargain purchase (€ 15.4 m). The higher gross profit of 132.9 m in 2019 was off-set by the significantly increased investments in R&D and the higher impairment.

In 2019 Evotec increased its R&D spend in relation to revenues (R&D cost ratio) from 9.5% to 13.1%, whereas the SG&A cost ratio remained stable around 15%. The operating margin is volatile due to one-off impacts from impairments or income from bargain purchase. The adjusted EBITDA margin improved constantly over the last five years to 27.6% in 2019.

MULTIPLE-YEAR OVERVIEW OF RESULTS OF OPERATIONS

in T€

	2015	2016	2017 ¹⁾	2018	2019
Revenues from contracts with customers	127,677	164,507	263,765	375,405	446,437
Costs of revenue	(92,550)	(105,953)	(181,965)	(263,389)	(313,546)
Gross profit	35,127	58,554	81,800	112,016	132,891
Research and development expenses	(18,343)	(18,108)	(17,614)	(35,619)	(58,432)
Selling, general and administrative expenses	(25,166)	(27,013)	(42,383)	(57,012)	(66,546)
Impairment of goodwill (net)	-	(3,989)	-	-	(1,647)
Impairment of intangible assets (net)	(7,242)	(1,417)	(1,180)	(4,364)	(10,272)
Income from bargain purchase	21,414	-	-	15,400	-
Other operating income and (expenses), net	5,850	23,315	16,104	47,042	66,600
Operating result	11,640	31,342	36,727	77,463	62,594
Non-operating income and (expense), net	851	1,608	(11,162)	(5,464)	(6,032)
Profit (loss) before taxes	12,491	32,950	25,565	71,999	56,562
Tax income (expense)	4,025	(6,111)	(2,347)	12,057	(19,334)
Net result	16,516	26,839	23,218	84,056	37,228

P&L Ratios

Gross margin (= Gross Profit / Revenues)	27.5%	35.6%	31.0%	29.8%	29.8%
Operating margin (= Operating result / Revenues)	9.1%	19.1%	13.9%	20.6%	14.0%
EBITDA adjusted margin (= EBITDA adjusted / Revenues)	6.8%	22.0%	21.7%	25.4%	27.6%
R&D cost ratio (= R&D expenses / Revenues)	14.4%	11.0%	6.7%	9.5%	13.1%
SG&A cost ratio (= SG&A expenses / Revenues)	19.7%	16.4%	16.1%	15.2%	14.9%
Personnel costs to total costs ²⁾	50.4%	55.2%	47.2%	44.7%	50.8%

¹⁾ 2017 restated for IFRS 15

²⁾ Total costs = Costs of revenue, Research and development expenses, Selling, general and administrative expenses, Other operating income and expenses excluding changes in contingent considerations and R&D tax credits

— ADJUSTED EBITDA —

Substantial increase in adjusted Group EBITDA

Adjusted Group EBITDA for 2019 increased significantly to € 123.1 m (2018: € 95.5 m), yielding an adjusted EBITDA margin of 27.6% (2018: 25.4%), mainly due to the significantly improved gross profit and the first time application of the accounting standard IFRS 16 (€ 15.5 m). Excluding the effect of IFRS 16, the adjusted EBITDA would have amounted to € 107.6 m, a 13% improvement compared to last year.

CALCULATION OF ADJUSTED EBITDA

in T€

	2018	2019	Variance
Operating income (loss)	77,463	62,594	(14,869)
+ Depreciation	19,288	36,456	17,168
+ Amortisation	12,005	12,349	344
+ Impairment result (net)	4,364	11,919	7,555
- Income from bargain purchase	(15,400)	-	15,400
+ Change in contingent considerations ¹⁾	(2,263)	(175)	2,088
Adjusted Group EBITDA	95,457	123,143	27,686
EBITDA margin	25.4%	27.6%	2.2%

¹⁾ Included in P&L line Other operating income (expenses)

— NET RESULT —

Strong performance and newly added business

The Company's net result in 2019 amounted to € 37.2 m (2018: € 84.1 m). Compared to 2018, impairment charges increased by € 7.6 m and interest expenses, net by € 3.5 m. In addition, in 2018, the net result included the one-off effect from the bargain purchase of ID Lyon of € 15.4 m and a deferred tax income of € 26.1 m.

In 2019, the total non-operating result amounted to € (6.0) m (2018: € (5.5) m), mainly affected by interest expenses (net € (5.2) m), losses from share in equity investments, net (€ (2.2) m) and foreign currency exchange gains (€ 1.2 m).

Total tax expenses amounted to € 19.3 m in 2019 (2018: tax income of € 12.0 m).

Income tax was at € 12.6 m and related predominantly to the German and French group entities. As of 31 December 2019 deferred tax expenses amounted to € 6.7 m and related mainly to Evotec International and the usage of capitalised tax losses.

In 2018, a deferred tax income of € 26.1 m was partly offset by current tax expenses of € 14.1 m. Current tax expenses in 2019 resulted mainly from France, the UK and Evotec International. The deferred tax income was mainly impacted by the recognition of deferred tax assets in one German entity. The expectations regarding this entity in terms of recording a sustainable profit had increased.

The total net result per share (basic) for Evotec of € 0.25 (2018: € 0.57) was based on a weighted average number of shares of 149,725,607 (2018: 147,482,051).

— SEGMENT REPORTING —

EVT Execute

Revenues from the EVT Execute segment amounted to € 420.3 m in 2019 (2018: € 347.2 m) and included € 82.7 m of intersegment revenues (2018: € 52.1 m). This increase is primarily attributable to a significant growth of the base business and the addition of Just – Evotec Biologics. For the EVT Execute segment, costs of revenue amounted to € 310.9 m in 2019 (2018: € 260.3 m), yielding a gross margin of 26.0% (2018: 25.0%). SG&A expenses in 2019 amounted to € 52.5 m for the EVT Execute segment (2018: € 47.6 m). The reasons for the increase in SG&A expenses in EVT Execute are the same as for the Group. In fiscal year 2019, the adjusted EBITDA of the EVT Execute segment was strongly positive at € 122.5 m (2018: € 87.2 m). Besides the improved gross profit, the increased profitability of EVT Execute also resulted from the impact from application of IFRS 16.

EVT Innovate

The EVT Innovate segment generated revenues of € 94.3 m (2018: € 68.9 m) consisting entirely of third-party revenues. The increase in revenues mainly resulted from signing of new partnerships plus successfully achieving milestones in key alliances. The EVT Innovate segment reported costs of revenue of € 61.7 m (2018: € 38.4 m), yielding a gross margin of 34.6% (2018: 44.3%). The EVT Innovate segment reported R&D expenses in the amount of € 65.5 m (2018: € 40.1 m). The drivers behind this strong increase in R&D expenses are the same drivers affecting the Group R&D expenses described above. SG&A expenses in 2019 amounted to € 14.0 m for the EVT Innovate segment (2018: € 9.4 m), also in response to overall Company growth and a first time full year recognition of Evotec ID (Lyon) expenses. In 2019, impairment charges in intangible assets (€ 11.9 m) were attributed to EVT Innovate (2018: € 4.4 m). Despite the significant increase in R&D investments, the EVT Innovate segment again reported a positive adjusted EBITDA with € 0.6 m (2018: € 8.3 m).

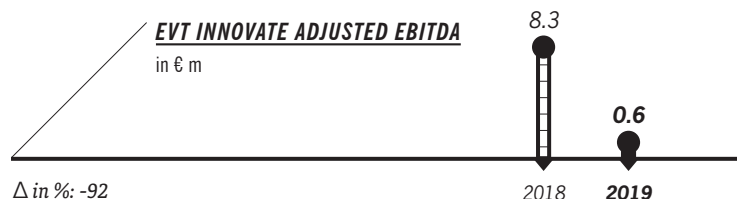
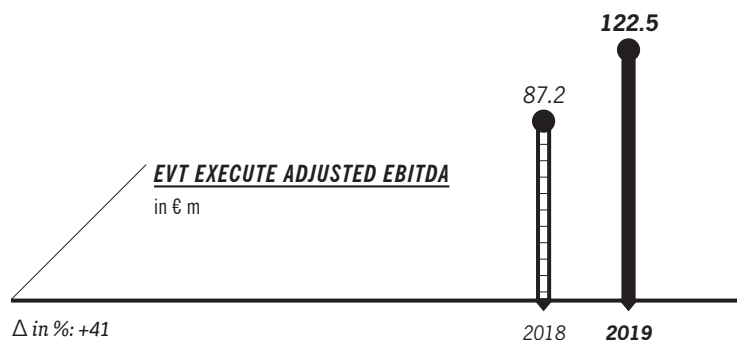
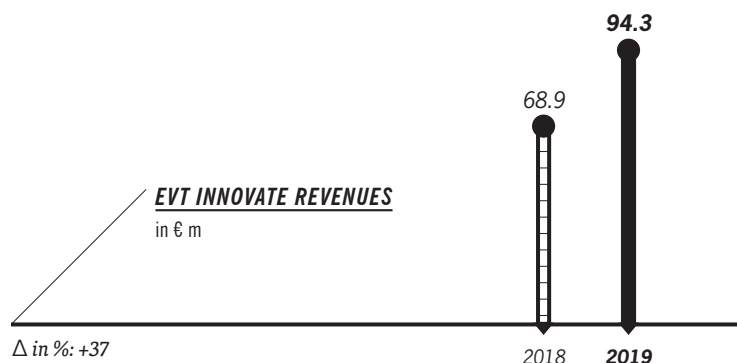
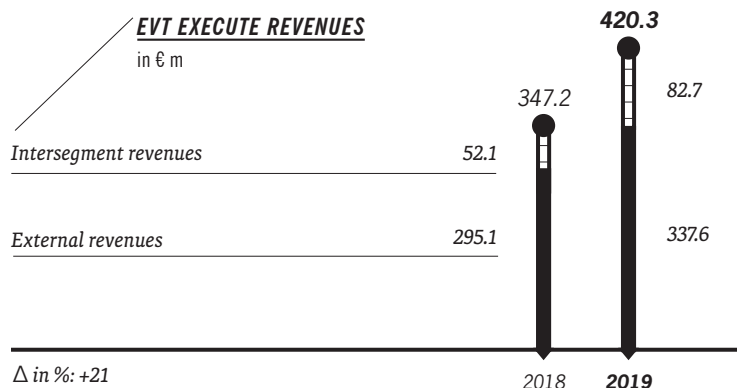
SEGMENT INFORMATION 2019

in T€

	EVT Execute	EVT Innovate	Intersegment eliminations	Not allocated	Evotec Group
External revenues ¹⁾	337,605	94,329	-	14,503	446,437
Intersegment revenues	82,698	-	(82,698)	-	-
- Costs of revenue	(310,855)	(61,676)	73,488	(14,503)	(313,546)
Gross margin %	26.0%	34.6%	-	-	29.8%
- R&D expenses	(2,144)	(65,498)	9,210	-	(58,432)
- SG&A expenses	(52,524)	(14,022)	-	-	(66,546)
- Impairment result (net)	-	(11,919)	-	-	(11,919)
- Other operating income (expenses), net	22,027	44,573	-	-	66,600
Operating income (loss)	76,807	(14,213)	-	-	62,594
Adjusted EBITDA ²⁾	122,507	636	-	-	123,143

¹⁾ Revenues in the segments consist of revenues from contracts with customers without revenues from recharges as those are not of importance for the management to assess the economic situation of the segments.

²⁾ 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. Evotec generates positive operating cash flows and has sufficient financial resources to support its ongoing business and operations. The Company makes use of short and long-term bank debt.

The Company may selectively utilise further debt financing, equity-linked tools or raise capital through the issuance of new shares when appropriate. As of 31 December 2019, the liquidity of the Evotec Group, which consists of cash and cash equivalents and investments, increased to € 320.0 m (2018: € 149.4 m). In June 2019, the Company tapped the promissory note market for the first time and successfully issued a € 250 m promissory note (“Schuldscheindarlehen”) at very attractive financial terms. The strong liquidity position enables the Company to invest in a clinical and commercial manufacturing facility for biologics (J.POD®), in EVT Innovate R&D projects, in maintaining and augmenting its drug discovery and development platform and in considering potential M&A opportunities. In order to accelerate its strategy, Evotec selectively considers equity participations in financing rounds of seed- and 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. In particular larger capital investments are carefully assessed in terms of the expected financial return or savings.

— CASH FLOW —

Promissory note financing and Just – Evotec Biologics acquisition affecting cash flow

Group cash flow provided by operating activities amounted to € 42.2 m in 2019 (2018: € 156.2 m). The prepayment from Bristol-Myers Squibb/Celgene for the extension of the iPSC collaboration received during Q4 2019 of \$ 30 m (€ 27 m) was the main reason for the significantly positive operating cash flow. Furthermore, the positive operating income contributed favourably but was partly off-set by an increase in working capital due to higher trade accounts receivables and R&D tax receivables. During 2018 several prepayments were received for the oncology and iPSC collaborations from Bristol-Myers Squibb/Celgene as well as an upfront from Sanofi for Evotec ID Lyon, totalling to approx. € 115 m.

Group cash flow used in investing activities was € 86.6 m (2018: € 39.1 m). The level of investments >3 months remained on a similar level. Capital expenditure in property plant and equipment increased to € 31.3 m (2018: € 27.9 m) and included € 3.2 m for Just – Evotec Biologics. Purchase of investments in affiliated companies netted by Cash acquired amounted to € 40.3 m and related to Just – Evotec Biologics. Purchase of investments in associated companies and other long-term investments amounted to € 11.7 m and related to follow-up financing rounds in Carrick, Eternigen, Facio and Topas Therapeutics, the spin-off Breakpoint Therapeutics as well as new investments in Aeovian, Celmatix and Immunitas.

Group cash flow provided by financing activities amounted to € 211.3 m (2018: Cash flow used in financing activities of € 77.8 m) and related mainly to the new promissory note (“Schuldschein”) which was raised in June (€ 249.1 m net). Further tranches of the EIB loan were drawn during 2019 (€ 23.9 m). Existing bank loans including the remaining bridge loan were reduced by € 51.4 m since the successful placement of the promissory note. Repayments of lease obligations (mainly rent of buildings) amounted to € 12.9 m. Proceeds from option exercises amounted to € 1.9 m.

The impact of exchange rate movements on the net increase in cash and cash equivalents in 2019 was € 1.1 m (2018: € 2.7 m).

CONDENSED STATEMENT OF CASH FLOWS

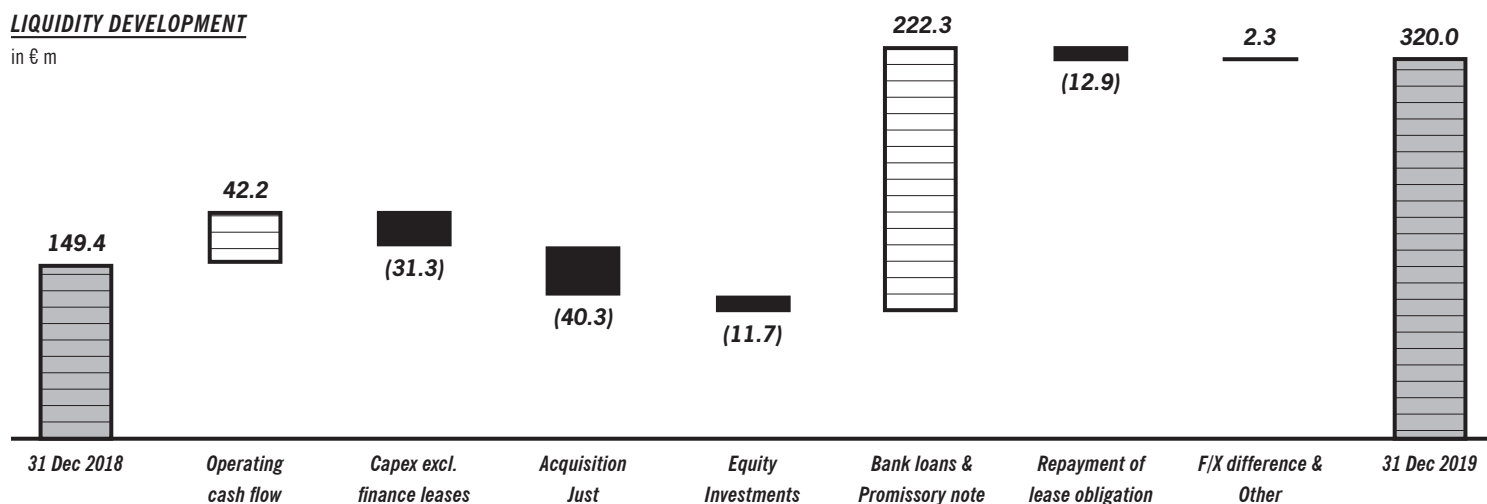
in T€

	2018	2019	Variance
Net cash provided by (used in)			
- Operating activities	156,240	42,216	(114,024)
- Investing activities	(39,130)	(86,634)	(47,504)
- Financing activities	(77,764)	211,263	289,027
Net increase/decrease in cash and cash equivalents	39,346	166,845	127,499
Exchange rate difference	2,692	1,134	(1,558)
Cash and cash equivalents			
- At beginning of year	67,017	109,055	42,038
- At end of year	109,055	277,034	167,979
- Investments	40,394	42,988	2,594
Liquidity at end of year	149,449	320,022	170,573

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

LIQUIDITY DEVELOPMENT

in € m



— MULTIPLE-YEAR OVERVIEW FINANCIAL POSITION —

The multiple-year overview of the financial position underlines the strong liquidity position of the Company leveraging the balance sheet and shows the continuous positive cash inflows from operating activities which enable internal financing of significant parts of capital expenditures and equity investments.

The Capital expenditures exceeded the depreciation over the last five years and reflect the continuous investment and growth. The group liquidity increased significantly compared to previous years and enables the Company to invest further in its platforms, services, proprietary R&D projects as well as potential M&A opportunities, whilst shifting financing maturities more long-term and keeping a low net debt leverage.

MULTIPLE-YEAR OVERVIEW FINANCIAL POSITION

in T€

	31 Dec 2015	31 Dec 2016	31 Dec 2017 ¹⁾	31 Dec 2018	31 Dec 2019
Liquidity ²⁾	133,940	126,270	91,156	149,449	320,022
Debt ³⁾	22,943	28,827	189,928	114,465	463,099
Net liquidity	110,997	97,443	(98,772)	34,984	(143,077)
Current liabilities	56,400	73,390	242,945	196,275	178,955
Non-current liabilities	45,044	66,781	91,615	150,728	524,928
Total stockholders' equity	187,094	213,936	331,915	424,880	477,029
Total liabilities and stockholders' equity	288,538	354,107	666,475	771,883	1,180,912
Cash flow from operating activities	15,651	67,360	10,828	156,240	42,216
Cash flow from investing activities	(23,422)	(5,973)	(269,033)	(39,130)	(86,634)
Cash flow from financing activities	2,486	(19,671)	240,724	(77,764)	211,263
Movements in investments and fx differences	50,403	(49,386)	(17,633)	18,947	3,728
Net increase/decrease in liquidity	45,118	(7,670)	(35,114)	58,293	170,573
Capital expenditures	11,164	10,003	17,565	27,867	31,322
Investment rate ⁴⁾	29.1%	23.0%	23.1%	30.8%	27.9%
Capex to write-downs ⁵⁾	122.9%	100.2%	128.0%	144.5%	139.3%
Net Debt Leverage (= Net liquidity / Adj. EBITDA)	(12.77)	(2.69)	1.73	(0.37)	1.16

¹⁾ 2017 restated for IFRS 15 and modified by the effect of the finalisation of Aptuit's purchase price allocation in 2018 in accordance with IFRS 3

²⁾ Cash and cash equivalents and investments; ³⁾ Loan liabilities and lease obligations; ⁴⁾ Ratio Capex / Property, plant and equipment excl. ROU (IFRS 16)

⁵⁾ Write-down (Depreciation) excl. IFRS 16

— LIQUIDITY —

Evotec ended 2019 with a liquidity of € 320.0 m (2018: € 149.4 m), which was composed of cash and cash equivalents (€ 277.0 m) and investments (€ 43.0 m). Cash and cash equivalents as well as current investments can

be accessed within a period of less than three months. The increase in liquidity in 2019 resulted mainly from the issuance of the promissory note ("Schuldscheindarlehen") in the amount of € 249.1 m net.

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

LIQUIDITY AS OF 31 DECEMBER

in T€

	2015	2016	2017	2018	2019
Cash and cash equivalents	44,497	83,940	67,017	109,055	277,034
Current investments	89,443	42,330	24,139	40,394	42,988
Total liquidity	133,940	126,270	91,156	149,449	320,022

Evotec actively manages its funds to optimise returns while seeking to maintain principal flexibility, 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. As per 31 December 2019, the majority of the liquidity was invested short-term (€ 277.0 m) to finance the ongoing research activities and platforms, the continuous growth, the construction of Evotec's first J.POD® facility in North America, for further equity investments and to remain flexible for strategic growth opportunities. Current investments (€ 43.0 m) include Commercial papers and fixed deposits with a maturity up to three years.

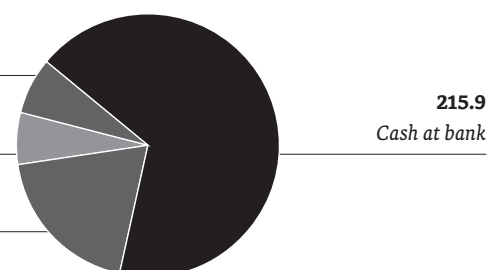
LIQUIDITY BY INVESTMENT TYPE

in € m

23.0
Commercial papers

20.0
Fixed deposits

61.2
Short-term deposits



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 while increase in prices of laboratory materials may increase R&D costs and FTE rates.

— FX/HEDGING —

The Euro (€) to US dollar (\$) exchange rate fluctuated between \$ 1.09 and \$ 1.15 to the Euro. On average, the US dollar strengthened against the Euro from \$ 1.18 per Euro in 2018 to \$ 1.12 per Euro in 2019. The Euro weakened almost steadily from January through September 2019 to \$ 1.09 and then slightly recovered for the rest of the year, closing at \$ 1.12 at the end of 2019 (end of 2018: \$ 1.15).

The Pound Sterling (£) to Euro (€) exchange rate fluctuated between € 1.09 and € 1.18 in 2019. The average exchange rate in 2019 was € 1.14 per Pound Sterling compared to € 1.13 in 2018. From March to August 2019, the Pound Sterling depreciated from € 1.17 to € 1.09. The Pound Sterling exchange rate then recovered significantly towards the end of the year and ended the year with € 1.18 per Pound Sterling.

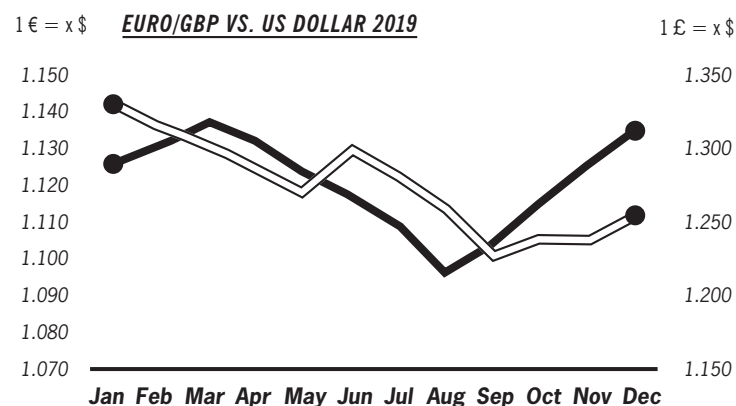
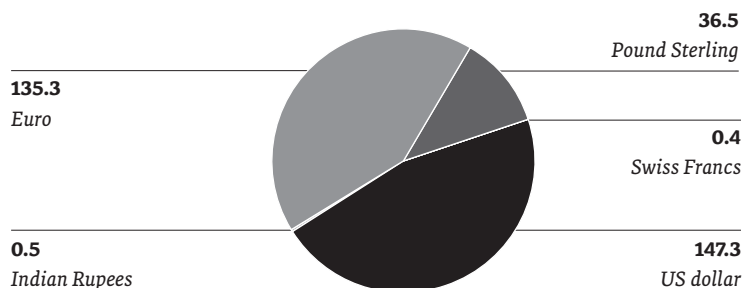
The Evotec Group is exposed to both translational and transactional foreign currency risks. The Company mainly uses forward contracts to hedge its transaction exposures.

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 2019, approximately 40% of the Company's revenues were in US dollars and approximately 25% 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 and cover Pound Sterling related costs.

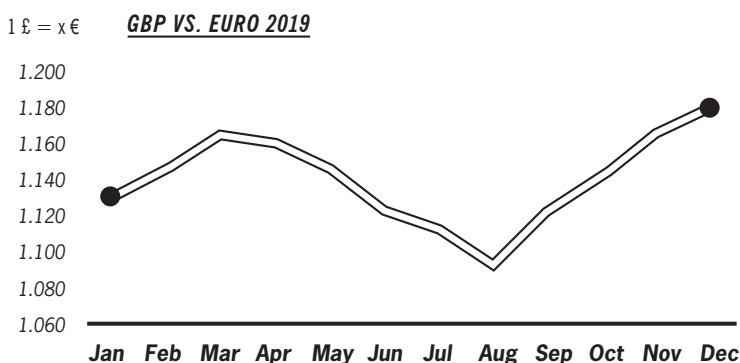
The currency holdings in US dollars increased from € 54.2 m at the end of 2018 to € 147.3 m at the end of 2019 due to the planned investments into a new J.POD® facility in North America and due to Bristol-Myers Squibb/Celgene upfront and milestone payments received in US dollars. The currency holding in Pound Sterling at 31 December 2019 was € 36.5 m (31 December 2018: € 12.3 m) and was kept at a higher level due to the growth of the UK sites and the Brexit uncertainty.

FUNCTIONAL CURRENCY HOLDINGS

in € m



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



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

The US dollar exchange rate had a positive impact of € 8.8 m on 2019 revenues and of € 7.4 m on 2019 gross profit compared to prior year. The volatility of Pound Sterling against the Euro, mainly due to BREXIT uncertainty, had an impact on revenues and costs of Evotec's UK sites after conversion into Euro. Revenues were impacted positively by € 0.6 m and the costs negatively by € 0.8 m. Overall, Group gross profit was positively impacted by currency movements by € 7.2 m, which translated into a gross margin improvement of 1.0 percentage points compared to prior year.

The liquidity position increased by € 2.8 m at the end of 2019 (€/\$ 1.12) compared to prior year-end's closing rates (€/\$ 1.15) due to the appreciation of the 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 loss of € 1.5 m and an unrealised gain of € 1.0 m in 2019 (2018: foreign exchange loss of € 1.3 m).

As of 31 December 2019, the Company held derivative financial instruments in the amount of \$ 30.0 m (31 December 2018: \$ 27.8 m), thereof \$ 18 m forward contracts selling US dollars for Pound Sterling and \$ 12 m US dollars for Euro. These forward contracts all have a maturity of less than 12 months.

Interest rates

In Europe, the European Central Bank's ("ECB") continued its policy of extended Quantitative Easing ("QE") under its new president Christine Lagarde and relaunched its bond-buying programme in November 2019. The ECB inter-bank interest rate (3-month Euribor) remained negative in 2019 and even decreased further from (0.31)% to (0.38)% during the year.

The main impact of low or negative 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.

— DEBT/NET DEBT —**Evotec SE places first Promissory note ("Schuldschein") worth € 250 million**

The Company makes use of bank loans as a tool to manage its short- to long-term liquidity. Compared to 31 December 2018, the level of debt financing increased significantly by € 221.5 m to € 331.2 m at 31 December 2019 (2018: € 109.7 m), better utilising its balance sheet capabilities; thereof € 250 m gross (€ 249.1 m net after deduction of acquisition costs) related to the new issued promissory note and € 82.1 m to bank loans. All bank debt was denominated in Euro. The remaining € 30 m of the € 140 m bridge loan taken on to support the financing of the Aptuit acquisition in August 2017 was completely paid back in early 2019. To support the financing of Evotec's EVT Innovate strategy, the Company made further use of the EIB loan and increased the utilisation of this long-term facility from € 32.8 m to € 56.7 m.

The Net debt leverage ratio increased to 1.2x adjusted EBITDA as a result of the increased net debt as well as the introduction of IFRS 16. Excluding IFRS 16 the ratio remained on a very low level of 0.1x adjusted EBITDA (2018: (0.4) x adjusted EBITDA).

— CAPITAL EXPENDITURE TO DEPRECIATION —**Increased investments in upgrading and expanding Evotec's platforms**

Capital expenditure amounted to € 31.3 m in 2019 (2018: € 27.9 m). The continued growth of Evotec, while maintaining the highest standards of technologies and infrastructure, requires continued investment. For example, facility expansions such as in Goettingen and Princeton and capacity increases across the business such as in Alderley Park and Toulouse invoked investments in equipment and supporting infrastructure. In addition, and of particular note, major technology enhancements were deployed in a number of high value and strategically important areas such as translational biology, high content imaging and proteomics. Investments were also made to enhance the overall efficiency and quality of scientific operations, for example by addition of additional capacity within state-of-the-art technologies in sample management. Last but not least expanding, upgrading and digitising supporting administrative tools and systems requires capex to further secure growth and scalability of the Company.

Depreciation amounted to € 36.5 m (2018: € 19.3 m). With the introduction of IFRS 16, operating leases are capitalised as fixed assets as of 1 January 2019 and resulted in additional depreciation of € 14.7 m. 2018 numbers were not restated according to IFRS 16. Regular depreciation increased by € 3.2 m to € 22.5 m mainly due to the addition of Just Biotherapeutics, Inc. and the increased capital expenditures.

**ASSETS, LIABILITIES
AND STOCKHOLDERS' EQUITY****— CAPITAL STRUCTURE —****Adjusted financing structure: € 250 million promissory note raised; Equity ratio still solid at 40%**

In 2019, Evotec's share capital increased by 1.2% to € 150.9 m (31 December 2018: € 149.1 m) and additional paid-in capital by 0.5% to € 786.9 m (31 December 2018: € 783.2 m) due to exercised stock options.

Total stockholders' equity increased by € 52.1 m to € 477.0 m as of the end of 2019 (31 December 2018: € 424.9 m) mainly due to the net income of the year (€ 37.2 m).

Furthermore, in 2019, a total of 50,000 stock options (2018: 29,220 options) were exercised. As of 31 December 2019, the total number of options available for future exercise amounted to 32,594 (approximately 0.02% 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 2019, a total of 1,789,784 Share Performance Awards ("SPA") were exercised. During the first quarter of 2019, a total of 230,231 SPAs (2018: 230,390 awards) were granted to the Management Board and key employees. These awards could result in a maximum of 460,462 bearer shares (2018: 460,780) being issued at maturity after four years. As of 31 December 2019, the total number of awards granted for future exercise amounted to 2,149,562 (2018: 2,869,248) (approximately 1.4% and 1.9% of issued shares in 2019 and 2018, respectively).

Evotec's equity ratio decreased to 40.4% but remained strong by the end of 2019 (2018: 55.0%) due to the increase in long-term debt with the successful issuance of a promissory note ("Schuldschein").

— ASSETS AND LIABILITIES —

CONDENSED BALANCE SHEET

in T€

	2018	2019	Variance
Cash, cash equivalents and investments	149,449	320,022	170,573
Accounts receivables from associated companies and other long-term investments	48,030	83,616	35,586
Inventories	5,660	10,749	5,089
Other current assets	46,630	55,143	8,513
Deferred tax assets	43,329	34,330	(8,999)
Property, plant and equipment	90,519	239,229	148,710
Intangible assets, excluding goodwill	122,989	116,994	(5,995)
Goodwill	220,791	255,919	35,128
Equity investments and other long-term investments	28,963	41,229	12,266
Other non-current assets	15,523	23,681	8,158
Total assets	771,883	1,180,912	409,029
Current maturities of loans and finance leases	56,919	20,731	(36,188)
Trade accounts payable	31,137	31,319	182
Current provisions	27,979	33,150	5,171
Current contract liabilities	61,187	71,067	9,880
Other current liabilities	19,053	22,688	3,635
Long-term loans and finance leases	57,546	442,368	384,822
Non-current provisions	19,986	22,538	2,552
Non-current contract liabilities	51,041	33,785	(17,256)
Other non-current liabilities	22,155	26,237	4,082
Total stockholders' equity	424,880	477,029	52,149
Total liabilities and stockholders' equity	771,883	1,180,912	409,029

— CURRENT AND NON-CURRENT ASSETS —

The Company's total assets increased by € 409.0 m to € 1,180.9 m as of 31 December 2019 (31 December 2018: € 771.9 m) mainly due to the acquisition of Just Biotherapeutics, Inc. (see chapter "Significant corporate developments" on page 45 of this Management Report), the issuance of a € 250 m promissory note and the application of IFRS 16.

Liquidity, which consists of cash and cash equivalents and investments, increased by € 170.6 m to € 320.0 m (31 December 2018: € 149.4 m). The increase in liquidity resulted mainly from the issuance of the promissory note (see chapter "Financing and financial position" on page 51 of this Management Report).

Trade accounts receivables and accounts receivables from related parties increased from € 48.0 m as of 31 December 2018 to € 83.6 m at the end of December 2019 due to general business growth, outstanding milestone and upfront payments and the acquisition of Just Biotherapeutics, Inc. Other current assets increased by € 8.5 m to € 55.1 m (31 December 2018: € 13.8 m) and related mainly to receivables from R&D tax credits from Evotec's entities in France, Italy and UK.

Investments accounted for using the equity method and other long-term investments increased due to several follow-up financing rounds and new investments from € 29.0 m to € 41.2 m at 31 December 2019. New investments included Aeovian, Breakpoint Therapeutics, Celmatix and Immunitas.

Property, plant and equipment increased significantly by € 148.7 m to € 239.2 m in 2019 (31 December 2018: € 90.5 m). The application of IFRS 16 resulted in a capitalisation of € 112.1 m operating leases as fixed assets as of 1 January 2019. Furthermore, a new rent agreement for ID Lyon and the acquisition of Just Biotherapeutics, Inc. caused the increase.

Intangible assets decreased by € 6.0 m to € 117.0 m mainly due to the full impairment of the SGM-1019 (P2X7) programme as the project was discontinued by Evotec's partner Second Genome. Goodwill increased by € 35.1 m to € 255.9 m mainly due to the goodwill assigned to Just – Evotec Biologics based on the purchase price allocation of Just Biotherapeutics, Inc.

Deferred tax assets decreased to € 34.3 m (31 December 2018: € 43.3 m) mainly due to the usage of tax loss carry forwards in Evotec International. Other non-current assets amounted to € 23.7 m (31 December 2018: € 15.5 m) and related mainly to R&D tax credits in France.

— CURRENT AND NON-CURRENT LIABILITIES —

The current portion of loans decreased significantly from € 55.1 m as of 31 December 2018 to € 6.3 m as the remaining part of the bridge loan facility for the Aptuit acquisition and several working capital facilities were repaid. Current lease obligations amounted to € 14.4 m and were caused by the introduction of IFRS 16. Current contract liabilities increased to € 71.1 m (31 December 2018: € 49.7 m) and resulted mainly from the Bristol-Myers Squibb/Celgene collaborations.

The long-term portion of loans increased by € 270.2 m to € 324.9 m as of 31 December 2019 (31 December 2018: € 54.7 m) mainly due to the issuance of a promissory note (net € 249.1 m) and an increase in the unsecured loan facility provided by the EIB to support Evotec's EVT Innovate strategy. Long-term lease obligations increased from € 2.9 m to € 117.5 m and were caused by the introduction of IFRS 16 as of 1 January 2019. In 2019, non-current contract liabilities decreased to € 33.8 m (31 December 2018: € 44.0 m) and consisted mainly of prepayments from Bayer and Bristol-Myers Squibb/Celgene.

— 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 Evotec “Separate Non-financial Group Report”, which is available on the company website under the following link: <https://www.evotec.com/en/invest/financial-publications>)

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 to 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.

— WORKING CAPITAL —

The Company’s working capital remained negative but improved significantly during 2019 from € (39.0) m as per 31 December 2018 to € (8.7) m as per 31 December 2019. Besides the acquisition of Just Biotherapeutics, Inc., the increase in trade accounts receivables and in R&D tax receivables impacted the working capital.

WORKING CAPITAL CALCULATION

in T€

= Current assets excl. cash, cash equivalents and investments
- current liabilities excl. bank loans

	2018	2019	Variance
Accounts receivables from associated companies and other long-term investments	48,030	83,616	35,586
Inventories	5,660	10,749	5,089
Other current assets	46,630	55,143	8,513
Current assets	100,320	149,508	49,188
Trade accounts payable	31,137	31,319	182
Current provisions	27,979	33,150	5,171
Current contract liabilities	61,187	71,067	9,880
Other current liabilities	19,053	22,688	3,635
Current liabilities	139,356	158,224	18,868
Working capital	(39,036)	(8,716)	30,320

—
**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 2018, the Company had operating lease obligations in the amount of € 93.6 m. The majority of the operating lease obligations related to rent expenses for facilities and only to a smaller extent to laboratory and office equipment. 2019 operating lease obligations were accounted for under IFRS 16 and capitalised.

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 € 23.8 m (31 December 2018: € 27.5 m) (see note 31 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 2015	31 Dec 2016	31 Dec 2017 ¹⁾	31 Dec 2018	31 Dec 2019
Cash, cash equivalents and investments	133,940	126,270	91,156	149,449	320,022
Accounts receivables from associated companies and other long-term investments	21,069	28,300	46,113	48,030	83,616
Inventories	3,133	4,305	5,568	5,660	10,749
Deferred tax assets	8,812	10,462	19,233	43,329	34,330
Property, plant and equipment	38,334	43,018	76,069	90,519	239,229
Intangible assets, excluding goodwill	25,154	33,267	135,033	122,989	116,994
Goodwill	45,648	85,688	220,447	220,791	255,919
Other assets ²⁾	12,448	22,797	72,856	91,116	120,053
Total assets	288,538	354,107	666,475	771,883	1,180,912
Loans and finance leases	22,943	28,827	189,928	114,465	463,099
Trade accounts payable	12,171	11,997	26,078	31,137	31,319
Provisions	44,036	30,340	39,132	47,965	55,688
Contract liabilities	15,272	56,484	44,844	112,228	104,852
Other liabilities ³⁾	7,022	12,523	34,578	41,208	48,925
Total stockholders' equity	187,094	213,936	331,915	424,880	477,029
Total liabilities and stockholders' equity	288,538	354,107	666,475	771,883	1,180,912
Working capital ⁴⁾	(9,187)	(8,822)	12,150	(39,036)	(8,716)
Current ratio ⁵⁾	2.96	2.31	0.73	1.27	2.62
Receivables turnover ⁶⁾	6.06	5.81	5.72	7.82	5.34
Intangibles and goodwill to total assets	24.5%	33.6%	53.3%	44.5%	31.6%
Provisions to total liabilities and stockholders' equity	15.3%	8.6%	5.9%	6.2%	4.7%
Equity ratio	64.8%	60.4%	49.7%	54.9%	40.4%

¹⁾ 2017 restated for IFRS 15 and modified by the effect of the finalisation of Aptuit's purchase price allocation in 2018 in accordance with IFRS 3

²⁾ Consist of tax receivables, deferred tax assets, contract assets, prepaid expenses, equity investments, other long-term investments and other financial assets

³⁾ Consist of current and deferred tax, deferred income and other financial and non-financial liabilities

⁴⁾ Working Capital = Current assets excl. cash, cash equivalents and investments minus current liabilities excl. bank loans

⁵⁾ Current ratio = Total current assets / Total current liabilities

⁶⁾ Receivables turnover = Revenues / Trade account receivables including affiliated companies

**SUSTAINABLE BUSINESS
DEVELOPMENT***

Sustainability and the compliance with environmental, social and governance (ESG) criteria is of vital importance to the Evotec Group and is an essential basis for all the company's business processes. For Evotec, sustainability means effectively combining economic success with ecologically and socially responsible activities while complying with respective regulations, codes and laws. In this way, Evotec assumes responsibility for current and future generations and at the same time secures the basis for its long-term commercial success.

To get a detailed overview about Evotec's sustainability activities and the Company's ESG performance, please see our "Separate non-financial Group Report 2019" which is available on the Evotec website under the following link:

<https://www.evotec.com/en/invest/financial-publications>

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

Evotec SE 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 "Invest" section under Financial Publications.

Post-balance sheet events

There are no material events to be reported.

* This section of the management report is not subject to audit



Risk and opportunities management

RISK MANAGEMENT OVERVIEW

Understanding and ensuring transparency in risk-taking are key elements of the Evotec business strategy. The Company's ambition is to exceed its high standards and to expand its position in the industry. Deliberately taking and managing risks is therefore an essential part of the business.

Comprehensive risk management is a continuous process, building on the active participation and awareness of the Management Board, Senior Management and all levels of employees. Evotec applies a forward-looking risk identification strategy in which various scenarios are taken into account and the possible magnitude of identified risks are evaluated.

Like all global companies, Evotec is exposed not only to many permanent risks, but also to a growing number of ever-changing internal and external risks. The Company aims to continually strengthen its risk management framework, risk identification, stakeholder reporting and mitigation efforts for risk prevention.

The Company is currently in the process of optimising its internal rating system, reviewing and expanding its risk register and educating employees on forward-looking risk awareness as well as risk identification and mitigation on their own initiative and reporting. The Management Board continues to invest in risk identification and mitigation capabilities, particularly regarding cyber and data security.

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 or events 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 sees the management of risks and opportunities as the permanent task of determining, analysing and evaluating the range of potential and actual developments within the company and in its operating 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 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 takes on additional risks only when certain conditions are fulfilled. For example, when such activities are in line with the Company's strategy, when they have a risk profile consistent with industry norms, 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 thorough 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 which 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. 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 reviewed its insurance cover in the reporting year. 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. As in previous years, a declaration according to section 161 of the German Stock Corporation Act (Aktiengesetz, "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 "Invest" section on Evotec's website.

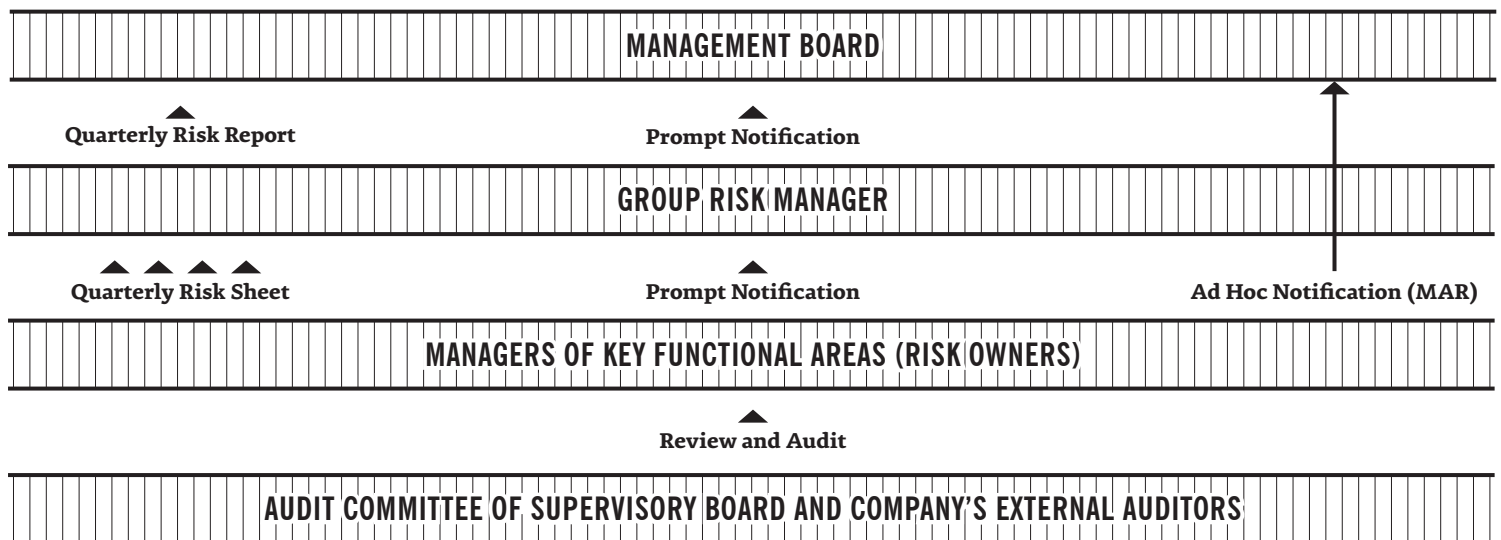
Evotec's risk and opportunities management system is regularly reviewed by the Group's Risk Manager, the Management Board and the Supervisory Board's Audit Committee in order to be able to adjust it to changing environments and legislation, changes within the organisation and changing risk profiles and 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, to assign them to Risk Owners, draw up risk management strategies and to report them immediately to the responsible manager so that they can respond 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 potential 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 proposed management activities 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 relevant 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 regularly once a week to ensure that all communication relevant circumstances are evaluated properly.



(ii) A **risk prevention system** to monitor the risks incurred, minimise their impact and prevent their re-occurrence and/or to develop 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.

(iii) In addition to the existing framework and procedures, Evotec's Risk Management has initiated forward-looking **scenario risk reporting** to better capture emerging risks such as political, regulatory and emerging risks, e.g. cyber-risks.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Section 91 paragraph 2 of the German Stock Corporation Act (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 with the requirements of the German Commercial Code (HGB).

According to the German Commercial Code, Evotec’s Management Board is required to assess the effectiveness of internal controls over financial reporting annually. These controls are checked on an ongoing basis and are subject to annual testing by an independent third party. These assessments identified no material weaknesses in 2019, and all detected deficiencies were addressed and remediated immediately where possible. For all remaining detected deficiencies, remediation processes were initiated. 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; and
- ▶ 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 Board 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.

RISKS

Evotec is exposed to a wide range of risks entirely consistent with its business undertaking and the industry in which it operates. The business, financial condition and results of Evotec could be materially adversely affected by any of these risks.

Evotec has summarised the most important risks into the following categories: business environment and industry, performance-related, commercial, strategic, financial, legal, compliance, intellectual property (“IP”), human resources (“HR”), IT/Technology, processes and operational. The new category “processes” is added due to the increasing growth of the Company.

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**MANAGEMENT BOARD’S ASSESSMENT
OF THE RISK SITUATION**
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The Management Board provides an overview of the probability of occurrence and the potential financial impact of key individual risks in the following tables. 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 regularly monitors the effectiveness of Evotec’s risk management in order to be able to swiftly identify and assess potential risks, to implement appropriate countermeasures, and to enhance its system and procedures.

The Company’s risk profile keeps changing for various reasons such as its commercial success, the complexity of its multi-jurisdictional international operations, general industry trends, regulatory and political uncertainty and industry trends with regard to M&A activities.

However, the Company has not made changes into its risk exposure and risk classification rating (amounts) during 2019 with regard to financial impact to follow a conservative approach.

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

Based on the described principles for estimating risk factors, the Management Board believes that at present no risks have been identified that either individually or in foreseeable combination could endanger the continued existence of the Company.

An overview of the corporate risks is shown in the table below.

RISK AND OPPORTUNITIES MANAGEMENT

CORPORATE RISK OVERVIEW

	Probability of occurrence	Prior year Probability of occurrence	Potential financial impact	Prior year Potential financial impact	Comparison to prior year
1. Business environment and industry					
a. Risk inherent to drug discovery alliances					
- Pricing pressure	Medium/High	Medium/High	Medium	Medium	Unchanged
b. Risk inherent to proprietary drug discovery and development					
- Risk of failure	High	High	Medium/High	Medium/High	Unchanged
- Product liability claims	Low/Medium	Low/Medium	Low	High	Changed
- Risk of extensive regulation	Medium	Medium	Medium	Medium	Unchanged
- Risks involving quality control in R&D	Low/Medium	Low/Medium	Medium	Medium	Unchanged
2. Performance-related risks					
- Fluctuating capacity and resource allocation	Medium/High	Medium/High	Medium	Medium	Unchanged
- Dependence on individual larger customer	Medium/High	Medium/High	High	High	Unchanged
- Scientific or technical delivery risks	Medium	Medium	Medium	Medium	Unchanged
- Maintenance of customer recognition and branding	Low	Low	Medium	Medium	Unchanged
3. Commercial risks					
- Changing market environment	Low/Medium	Low/Medium	Medium	Medium	Unchanged
- Dependence on individual out-licensing events	Medium	Medium	Medium	Medium	Unchanged
- Outperformance by competitors	Low	Low	Medium	Medium	Unchanged
4. Strategic risks					
- Implementation and achievement of strategic goals	Medium	Medium	High	High	Unchanged
- Risks from M&A	Medium	Medium	High	High	Unchanged
- Political risks	High	High	Medium	Medium	Unchanged
- Risk from investment strategy	Medium	Medium	Medium	Medium	Unchanged
5. Financial risks					
- Liquidity	Low/Medium	Low/Medium	Medium	Medium	Unchanged
- Default risks	Low	Low	Medium/High	Medium/High	Unchanged
- Currency risks	Medium	Medium	High	High	Unchanged
- Loss of R&D tax credits	High	-	High	-	New
6. Legal risks					
- Litigation	Low/Medium	Low/Medium	Low/Medium	Low/Medium	Unchanged
- Contractual	Low	Low	Low/Medium	Low/Medium	Unchanged
7. Compliance risks					
- Regulatory	Medium	Medium	Low/Medium	Low/Medium	Unchanged
- General Legal & Compliance (Fraud, Corporate Governance)	Low	Low	Medium	Medium	Unchanged
8. IP risks					
- Dependence on technology patents & proprietary technology	Medium	Medium	Medium/High	Medium/High	Unchanged
- Dependence on licenses granted for partnered assets	Low	Low	Medium/High	Medium/High	Unchanged
9. HR risks					
- Industrial action/labor dispute	Low	Low	Low	Low	Unchanged
- Dependence on key personnel	Medium	Medium	Medium	Medium	Unchanged
10. IT/Technology risks					
- Loss of data	Medium	Medium	Medium/High	Medium/High	Unchanged
- Data integrity and protection	Medium	Medium	Medium	Medium	Unchanged
- Cyber-attacks	High	High	High	High	Unchanged
- GDPR-risks	Medium	-	High	-	New
11. Process risks					
- Knowledge monopolies	Medium	-	Medium	-	New
- Knowledge management due to Companys growth	Medium	-	Medium	-	New
12. Operational risks					
- Environmental, Health and Safety	Medium	Medium	Low	Low	Unchanged
- Risks involving production	Low	Low	Low	Low	Unchanged
- Major disasters on sites	Low	Low	High	High	Unchanged



1. Business environment and industry risks

a. Risks inherent to drug discovery alliances

The Company's business strategy remains focused on drug discovery and innovation. Evotec has established a comprehensive technology platform and skills that integrate its biology and chemistry capabilities. Furthermore, specialised staff collaborate closely with partners from Academia, biotech start-ups and Big Pharma to ensure success every step of the way.

Pricing pressure

However, there are significant and increasing challenges for the industry. These include pricing pressure, productivity, complexity and cost of research and development, innovative developments, changing relationships and partner focus due to further consolidation in the industry, continued patent expiration and regulatory hurdles on a global scale. Pharmaceutical companies of all sizes are re-evaluating their business strategies and M&A activities to remain competitive in the business environment. On one hand, this dynamic competitive pressure in the industry poses a variety of risks but also creates opportunities through demand for high quality, flexibly accessible services. Regardless, judicious cost management, continuous enhancement of capabilities and technologies, careful market positioning, revenue diversification and sales from high-value results-based contracts continue to be critical for Evotec's success.

The probability of occurrence of risks due to pricing pressure are still Medium/High, as the continued consolidation in the industry results in a potentially smaller customer base for Evotec while remaining in a competitive environment.

b. Risks inherent to proprietary drug discovery and development

Risk of failure

Evotec has a clear strategic focus on drug discovery and development alliances and engages in limited proprietary discovery activities, generally in order to initiate new strategic higher value 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 with market approval, and there is no assurance that Evotec or its strategic partners will successfully develop and commercialise potential drugs. At present, 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 which in turn may impact Evotec's financial position.

Product liability claims

It is possible that the Company will be responsible for potential product liability stemming from product research, development or manufacturing. Evotec is covered by liability insurance, but in the event that claims exceeding the limits of this insurance coverage occur, there could be an impact on the Company's financial position or results.

The Company's risk profile has changed with respect to the potential financial impact regarding potential product liability claims. This change is due to the current risk assessment.

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

Evotec acts prudently 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 terminated due to negative results. Typically, the earlier the stage of a programme, the higher 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.

Risk of extensive regulation

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 in other regions. The approval of the relevant authorities is required before a product can be tested in humans and later sold within a given market. The regulatory approval process is intensive, costly 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 affect product revenues. Evotec seeks early discussions with the regulatory bodies at all stages of development to ensure that research and development activities conform with relevant legal and ethical requirements.

Risks involving quality control in R&D

Evotec mitigates the risks in quality of its R&D activities based on its quality management system under the supervision of the quality management council ("QMC") as outlined in its global quality policy ("GQP"). The QMC prepares and submits periodic reports to the Management Board and defines quality requirements. Furthermore, it is responsible to monitor, assess and report on compliance as well as perform quality improvement activities.

2. Performance-related risks

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

Fluctuating capacity and resource allocation

Even with a stable revenue stream, fluctuating capacity utilisation and demand as well as resource allocation among multiple sites can significantly affect Evotec's profitability. Therefore, these factors need to be continually monitored, managed and calibrated. The risk still has a probability of occurrence of Medium/High due to the additional research sites acquired and increased complexity.

Dependence on individual larger customer

Dependence on individual large customers attracts special attention due to the possible short- and long-term impact of any change. In the current fiscal year, Evotec's Top 3 largest customers accounted for 29% of total revenues (see the "Development of Top 10 customers" table on page 36 of this Management Report), compared to 30% in 2018.

Scientific or technical delivery risks

Some of the service contracts contain scientific or technical delivery risks, which can be mitigated only in part by high-quality project work. It is the objective of Evotec to further grow and diversify in order to reduce the potential impact of such risks.

Maintenance of customer recognition and branding

Evotec's past success is built in part on customer recognition and its brand. It is therefore of utmost importance to maintain this good reputation and avoid any negative impact on its brand, as this could lead to a loss of customers and reduced employer attractiveness for the most highly skilled employees. Evotec has protected its trade name in all countries, which host business operations, and has increased its brand awareness and value to strengthen and protect its global market position.

3. Commercial risks

Commercial risks include the following:

Changing market environment

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, but where Evotec may not be able to achieve this goal. Furthermore, the continuation of such established collaborations and partnerships during the further development along the value chain contains commercial risk. In addition, a significant portion of Evotec's service business depends on the Company's partners and customers continuing to develop programmes, which were developed with Evotec's support during earlier stages of development.

However, the market environment and competitive landscape for licensing and licensed projects or individual drug candidates might change during the lifetime of individual projects. The actual timing and commercial values of individual projects or the financial proceeds from partnering individual projects could therefore deviate significantly from earlier projections.

Dependence of individual out-licensing events

Evotec's ongoing efforts to serve as an innovative source of drug candidates to the pharmaceutical industry make it dependent on individual 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 partners 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 mitigate this risk to the

extent possible, detailed project reporting is established within Evotec and stipulated in any collaboration agreement.

Outperformance by competitors

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.

4. Strategic risks

Decisions made by management or unforeseen external factors may cause substantial loss to the Company's economic value. Factors generally associated with implementation of strategic goals include business continuity, the market and regulatory environment, political risk, competitors, investments, succession and technological innovation.

Implementation and achievement of strategic goals

The implementation of a company strategy bears the risk of misjudgement concerning potential 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/or technologies or sub-optimal acquisitions. In addition, commercialisation strategies might be unsuccessful, or a lack of market acceptance for newly discovered products could influence Evotec's market position, which could lead to significant negative impact on its business objectives, financial goals and future upside potential.

Risks from M&A

Evotec pursues ambitious growth targets both organically and through acquisitions of complementary service capacities and research capabilities. In order to address the risk that the integration of those transactions poses to the Company, dedicated staff will handle the harmonisation of business critical processes and systems.

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

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

To avoid incomplete or failed integration of new companies (culture, system, processes) is an important topic for Evotec.

**Political risks**

The Company monitors political uncertainty and actively works with stakeholders to evaluate and mitigate a potential negative impact on the Company where possible. Scenario planning is used to make the necessary decisions for events such as a “BREXIT”, or the impact of potential trade wars.

The Company evaluated several risk fields, which might exert significant influence on Evotec:

Supply chain and production: Delays in customs clearance followed by delays in delivery and transit of goods needed for the processing of customer orders may occur due to the absence of regulations to date. In particular cases, this may result in delays in the provision of services to execute customer orders. To mitigate the risk, Evotec temporarily increased its stock at its UK sites with the essential components, but revenues could be decreased.

Distribution and logistics: Evotec regularly ships test compounds between its UK sites, its international customers, and other European Evotec sites in order to fulfil its customer orders. Following the uncertainties regarding customs clearance for goods being shipped into and from the UK, delays in customer projects are possible, which potentially may lead to loss of sales or even termination of contracts. However, Evotec may use its other European or US sites to cover the majority of its range of services in the UK. Deployment of Evotec’s other sites enables the Company to compensate for any interruptions in the UK and thus to mitigate this risk.

Personnel: BREXIT may limit the free movement of persons between the UK and the EU member states and their return and their stay could be State regulated. This may lead to some positions not being staffed temporarily. Evotec employs UK citizens in the EU and vice versa. However, the majority of the affected activities could be executed from other sites. Furthermore, the discontinuation of EU-wide social security provisions could negatively impact certain individuals, who work outside of the EU or the UK. Evotec currently evaluates any potential effects on those individuals in order to be able to provide consulting and list possible individual alternatives. Most personnel BREXIT-risks are limited and well known. Even in a no-deal-BREXIT, both sides (EU and UK) will have an interest of free and uncomplicated journeys of business people, even if those travellers need more time and have more effort.

Data protection and free movement of data: Due to the absence of regulations, the UK could be declared a third country without an adequate level of data protection and the exchange of personal data between the UK and other countries could be limited according to GDPR. However, Evotec included standard contractual clauses regarding any processing activities (so-called SCCs) in a contract between all affiliated companies to mitigate this risk. GDPR-Topic is generally part of IT risks.

Patent rights: Due to the European Patent Convention (EPC), patent rights will remain largely untouched following the exit of the UK from the EU, since the UK will continue to be a member of the European Patent Convention.

Payment transactions and exchange rates: Due to some provisions regarding the exchange of payment-transaction data between banks in the UK and the rest of Europe becoming invalid, there may be delays in payment transactions. To prevent liquidity shortfalls at its UK subsidiaries, Evotec intends to increase their cash balance temporarily.

Distribution of profit and tax-related issues: Dividends from the UK affiliates to the Group are only distributed when needed or at an economically attractive point in time. Currently, Evotec does not plan any distribution of dividends. Furthermore, it is not possible to predict any tax effects on Evotec following the BREXIT.

Political risk can also negatively impact employee mobility, the Company’s ability to hire the best qualified candidates for all its sites, free movements of funds or goods and logistics within the Group or between Evotec and its customers, e.g. compounds to be tested or manufacturing materials. However, due to the uncertain overall situation it is hard to predict those effects and safeguard the Company via preventive countermeasures.

Risks from investment strategy

The Company has a strict investment policy. The Company’s Audit Committee of the Supervisory Board (the “Audit Committee”) must approve changes.

In 2019, Evotec continued to expand its EVT Innovate business strategy through equity participation and funding rounds in selected companies. These investments enable Evotec to accelerate its business model as they provide a beneficial risk-reward profile potentially through to clinical stage in selected fields of high strategic medical relevance. Typically, Evotec’s equity stake after the financing round lies between 4% and 50%. Based on its shareholdings, Evotec has only limited control regarding the development of such investments and is exposed to the risks inherent in drug discovery and development (see “Business environment and industry risks” paragraph in this chapter), influencing the valuation and further development of these companies.

5. 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, expenditures, external events and changes in the business environment 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 impact of all relevant risks. Evotec is currently well-financed; however, the Company regularly reviews all options for refinancing, such as potential capital increases and for the use of debt-related tools. 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 can be secured.

The Company has successfully enhanced its funding ability due to its market position, growth and commercial record of accomplishment.

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 2019, Evotec has reserved € 0.3 m for doubtful receivables in few cases.

The general risk of losing a significant amount of cash in cash investments is mitigated by spreading investments across several different banks in high-quality credit instruments in full compliance with the Company's investment policy, approved by the Audit Committee. 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 mainly between the US dollar, Pound Sterling and the Euro. The Company manages 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 transaction that can be reliably anticipated. The purpose of this strategy is to manage the Company's current and upcoming currency requirements and it 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.

Loss of R&D tax credits

R&D tax credits derived in various countries such as Italy, France and the UK, where the Company runs parts of its operations, build a substantial part of Evotec's other operating income and contribute positively to the financial performance of Evotec.

Overall, it depends on the political framework in the respective countries whether, how and to what extent a company is allowed to claim R&D tax credits. So far, all the stated countries have been very stable or even expanding in the recent years with regard to their R&D tax credit policy. Evotec keeps monitoring the political and legislative landscape on a regular basis in this regard. However, only very recently there have been short-term moves within Italy's legislation to reduce the allowance, which may impact Evotec's ability to claim R&D tax credits in a similar or higher amount like in 2019 for 2020 and beyond.

A full or partial expiration of these programs or a change in approval criteria may affect the Company's financial performance negatively. Due to the actual political decisions in Italy, the Company included the risk of loss of R&D tax credits in the corporate risk overview.

6. Legal risks

Litigation/Contractual

Evotec operates in a competitive market, in which legal compliance, solid agreements and intellectual property rights are of significant importance. To mitigate that risk Evotec involves also outside counsel expertise in large and/or complex transactions.

Evotec does not expect any material warranty or future liability claims from its existing agreements.

In 2019, Evotec did not encounter any additional or significant legal risks. Evotec constantly monitors the legislative changes with direct impact for the Company, trying to prevent any kind of potential critical situations with third parties and to promote a positive relationship with the clients.

7. Compliance risks

Regulatory

In the research and development space and the countries in which the Company operates, there is a trend towards expanded and stricter regulations. In the event that these regulations are further tightened, there is a possibility that the use of certain technologies can be limited and additional expenses could arise, which could have an adverse influence on the Company's financial position or results. Regulatory compliance is of utmost importance within the Group. In 2019, like the years before, the Company allocated additional resources to ensure full compliance with all relevant regulations.

General Legal & Compliance (Fraud, Corporate Governance)

Internal compliance with company policies is paramount to the Company's success and ensures a safe work environment for its employees and early detection of potential risks. It is essential for Evotec to ensure that the Company in general and its employees individually conduct business in a legal, ethical and responsible manner.

Employees are obliged to immediately report any incidents they suspect of having breached the ethical guidelines laid out in the Companies Code of Conduct to their manager or to the Company's Compliance Officer.

8. IP risks

Dependence on technology patents & proprietary technology as well as dependence on licences granted for partnered assets

If Evotec's business activities conflict with patents or other intellectual property rights of other parties, it is possible that activities could be suspended or that there could be a legal dispute. Also, in the event that Evotec believes that its patents or other intellectual property rights have been infringed upon by another party, the Company might file lawsuits. As a result of these actions, there could be an influence on Evotec's financial position or results.

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 or freedom to operate. However, Evotec strives to maintain long-term and trusting relationships with its partners and is therefore confident that such licence agreements will remain unaffected.

9. HR risks

Industrial action/labour dispute

HR risks concerning industrial action/labour disputes exist, especially in Germany and France. However, maintaining a constructive, close dialogue and relationship between management and employee representatives remains the best mitigation strategy.

Dependence on key personnel

Evotec, like many biotechnology companies, is highly dependent on the key members of its management and highly specialised scientific staff. The loss, talent acquisition, talent management and replacement of any of Evotec's key employees or key consultants could impede the achievement of Evotec's business objectives. Evotec offers an intellectually challenging work place for scientists to perform at their best in world-class quality drug discovery and development and provides attractive working conditions. However, Evotec has set up its organisation such that the Company's knowledge is shared amongst key employees as a key risk mitigation and business strategy. Furthermore, recruiting and retaining qualified scientific personnel to perform research and development work in the future is critical to Evotec's success and its top scientific staff is in great demand. 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.

Successful integration of the new staff in cultural, operating and administrative terms is a central strategic human resources challenge for the Group. Evotec therefore aims to ensure the right fit and smooth integration in terms of culture, systems, and processes of new companies to operate as ONE Evotec.

10. IT and technology risks

Loss of Data

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 or liabilities, loss of client trust as well as reputational damage.

Evotec invests in resilient systems, makes upgrades to security systems, backs up data to different geographical locations, enhances IT policies and consolidates user awareness. These measures mitigate the effect of hazards such as natural disasters, power failures, system upgrade failures, theft and data corruption as much as reasonably possible.

Data integrity and protection

Compliance 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, an IT Security Committee meets weekly to analyse threats, investigate

reported incidences and make recommendations to management. Where weaknesses are identified, remediation measures are initiated immediately.

Cyber-attacks

Cyber-attacks are increasing in the industry as a whole. With cyber-attacks becoming more advanced, there is greater need for all sensitive data to be encrypted at rest, as well as in transit. More system controls (like digital Certificates, PGP, digital signing and encryption) will greatly reduce damage in event of a breach.

The related risks are: loss, blackmail, destruction, unauthorised encryption or corruption of data arising from captured passwords, virus attacks, and 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 (e.g. "fake president"). Evotec has increased resources and investments in order to further secure its IT and data on all its sites.

Despite the Company's efforts and in light of rapid technology changes and the evolving sophistication of attack methods used to infiltrate systems globally, there is a possibility that a cyber-attack event could occur that would adversely affect the Company's business, financial performance and reputation.

GDPR-risks

Considering the significantly expanded regulations for GDPR, Evotec is permanently reviewing the handling of relevant internal and external data and its respective flow, storage and access. In this regard, the Company has intensified its efforts on trainings for employees to increase awareness, reviewing and adjusting internal procedures on data protection, improving restricted access applications. In addition, the Company has defined routines and internal as well as external contact persons in place in case of an identified potential data breach. However, in case of a confirmed and reported breach Evotec could face sensitive fines, which would impact Evotec's financial performance and reputation.

11. Process risks

Knowledge monopolies

The advantage of employing highly qualified and very experienced employees building up significant and important knowledge about specific assets and projects also brings the risk of creating dependencies from these colleagues and the risk of loss of knowledge, data and projects in case they discontinue work. To reduce this risk, Evotec established defined documentation processes, shared knowledge platforms, lab journals, clearly defined job functions and project meetings to secure share of

relevant knowledge, findings and data, while at the same time tying in senior employees long-term through awarding LTI awards as a retention measure.

Knowledge management due to company growth

Evotec knows the importance of balanced knowledge management, for example in the context of external reporting deadlines or adequate runtimes of processes. Due to Evotec’s continued growth, the Company has an ongoing need to adjust the organizational and functional guidance as well as standards, business processes and structures in accordance with its current and future scale. Therefore, the Company included process risks in the corporate risk overview. For example, Evotec’s global finance function has started organizational improvement activities and additional change management measures in order to avoid knowledge monopolies and make the finance organization more robust and flexible, also making sure to prevent against inefficiencies to secure precise and high quality financial data.

12. Operational risk management

Evotec continuously enhances its operational risk management and refines the risk management accountability and performance assessment mechanism of all departments and functions. The Company actively gathers data on operational risk to enable proactive mitigation efforts and opportunities. The long-term objective is to monitor the level of operational risk across the Group on a monthly basis to have preventive insight, to help minimise the Company’s operational exposure to risks, and to contribute to long-term cost savings.

Environmental, Health and Safety

Evotec has strengthened its global team responsible for Environmental, Health and Safety (“EHS”) and works closely with local employee representatives to ensure relevant compliance and best performance for both its employees and clients.

Feedback and suggestions from a recent Healthy Workplace survey are being used to improve further and measure success.

As a globally operating company Evotec’s production and supply chains, its logistics as well as regular exchanges with business partners and clients can be negatively affected by external global or local events such as Force majeure, natural disasters, governmental decisions, pandemics (e.g. COVID-19) leading to a loss in revenues or decrease in margins and EBITDA.

Evotec has various business continuity plans in place which are adapted to local needs and will be adjusted in case of changing conditions. In addition, task forces are set up locally at all sites to initiate further measures and to ensure adequate communication to all employees and key stakeholders. With this, Evotec is prepared to react to any external disruption with a direct or indirect impact for the Company as rapidly as possible. Further measures like switching to alternative supplies and suppliers, exchanging materials internally, providing clear guidelines for employees and visitors, and remote working procedures where feasible have been prepared.

With regard to the current COVID-19 pandemic outbreak Evotec has not yet recognized imminent significant impacts and is presently maintaining

business continuity across all sites but remains cautious, very closely monitoring the further development of the overall situation. Many of the above mentioned business continuity measures have been put into action, e.g. personnel and physical separation of employees (activating two shift operations at the sites as well as remote work solutions), daily task force meetings, selected increase of critical supply, continuous monitoring of political and economic options to help overcome the crisis, and increased communication with all stakeholders, in particular employees and customers.

Risks involving production

Production risks are not considered to be significant and remained stable in relation to the previous year.

With the acquisition of Aptuit, certain operations are carried out under GMP (“Good Manufacturing Practice”), GLC (“Good Laboratory Conduct”) and GLP (“Good Laboratory Practice”) 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 this risk, Evotec has established a Quality Assurance System that monitors compliance with these regulations. There have been no audit findings leading to a loss of any of the Company’s certifications during recent years.

Major disasters on sites

In the event of a major or secondary disaster that results in stoppages of the Group’s activities on one or multiple sites, or in damages and/or interruptions to the operations of key material suppliers, Evotec may be forced to suspend or incur significant delays in parts or all of its activities. In each case, the potential exists for the Company’s financial position and operating results to be substantially affected. In addition, the conduct of research and development plans may be impacted by damages to Evotec’s research facilities as well as medical and other institutions at which testing is conducted.

In case of major disasters such as extreme weather events, earthquakes or plane crash, Evotec may suffer loss of business due to inability to execute contracts and fulfil client deliverables. Evotec has created business continuity plans as well as disaster recovery plans and has insurances for these rare events.

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 patent expiries, higher burden of approval, reimbursement and cost



pressure that many Pharma companies are currently experiencing. This has led to a decreasing number of research-based pharmaceutical companies taking the full financial risk of drug R&D. New strategies are being developed leading to an increase in the appetite to outsource 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, suboptimally utilised capabilities and infrastructure. Evotec's position enables it to leverage 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 broad customer base that Evotec can use as an opportunity to generate additional business.

— STRATEGIC OPPORTUNITIES —

A 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 various 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 academic or internal R&D projects. These 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 offer superior service and quality, thereby generating new business possibilities in the future.

— COMMERCIAL OPPORTUNITIES —

The total number, growth and size of alliances, the high 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 720 partners across the industry on a global basis. The excellent record of accomplishment and the Company's extensive network is a core building block for sourcing additional business opportunities that may have a significant impact on the performance and results of the Company.

Furthermore, the Company continues to operate 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 royalty's payments, any successful product commercialisation would provide a significant upside to Evotec's business planning and profitability.

Evotec co-owns a strong pipeline of more than 100 partnered programs and more than 20 unpartnered projects. Assuming industry standard attrition rates and with respect to the broad product portfolio, the probability increases that one or more product opportunities will reach the market and generate significant royalty streams which will contribute to the economic success of Evotec. Evotec's commercial success is increasing.

— HR OPPORTUNITIES —

Human resources are the most 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. Approximately 39% 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 amount to 2.5% in 2020. U.S. growth is forecast to slow to 1.8% in 2020, down from an estimated 2.3% in 2019 reflecting the impact of earlier tariff increases and elevated uncertainty. Eurozone growth is projected to slip to a downwardly revised 1.0% in 2020 amid weak industrial activity (2019: 1.1%). Re-escalation of trade tensions and trade policy uncertainty, a sharper-than-expected downturn in major economies, and financial turmoil in emerging markets and developing economies are all expected to influence global economic development in 2020. Evotec is confident that these factors will not have a major impact on the Company's expected corporate development or performance since discovery and early stage development projects normally are not directly coupled with the overall economic cycles.

— THE MARKET FOR DRUG DISCOVERY AND TRENDS —

The global drug discovery and development market is expected to experience continued growth. A report from Visiongain forecasts an annual growth rate of about 10% through 2028. This growth is being driven by a variety of industry trends, most notably the need for increased innovation and flexibility. This demand for efficient external innovation will be met increasingly by companies such as Evotec. Details of the global drug discovery and development market can be found in the chapter "Macroeconomic conditions and business environment" on page 41 of this Management Report.

In 2019, the number of novel drug approvals by the FDA amounted to 48. Of the 48 approved new drugs, approximately 40% originate from biotech companies, demonstrating their importance as a key innovation driver. Pharma companies continue to need access to new innovative medicines and approaches in order to ensure their sustainable growth. This is underlined by the fact that three out of the TOP 15 pharma companies had no FDA approvals in 2019. As a result, pharmaceutical companies are expected to continue to make significant investments into the development of innovative and promising drug candidates and are turning to external

innovation sources and partners to enrich and replenish their pipelines. Therefore, the pharmaceutical industry will increasingly favour larger strategic research contracts which are easy to manage and carry low perceived commercial risks. Innovative alliances will shift the drug discovery paradigm. Today, the average costs of bringing new drugs to the market have increased by 67% since 2010. Revenues per product tend to decline and average peak sales have more than halved, while success rates remain approximately unchanged. This presents a challenge for both the pharmaceutical industry and the highly fragmented drug discovery and development outsourcing industry. At the same time, new treatment modalities and an increasing understanding of precision medicine have led to the need for new R&D models and will lead to a future where medicine is more participatory, preventive and personalised. Furthermore, according to a Deloitte report, antibody therapies are now the most valuable drug modality, overtaking small molecules. While there will continue to be a need for small molecule therapies in the future, companies that do not shift their operating models to also include emerging modalities risk becoming less competitive. Evotec's platform comprises a broad offering from idea to IND and beyond (one-stop-shop), including highly innovative technologies like iPSC, PanOmics, Transcriptomics, artificial intelligence (AI) and machine learning throughout all modalities. Combined with Evotec's partnered approach to drug discovery and development and its track record of partnerships with Pharma companies, the Company is ideally positioned to take full advantage of these market developments.

BUSINESS DIRECTION AND STRATEGY

Following its strategic framework, Action Plan 2022 – "Leading External Innovation", Evotec's management focuses on growing the Company and increasing its value by expanding its leadership position in high-quality drug discovery and development solutions and becoming the most innovative Company across all therapeutic modalities. Evotec's strategy is to design and apply innovative technologies and processes across all modalities in order to expand access to more precise and effective medicines. Together with its partners, the Company strives to become the external innovation partner of choice in drug discovery and development for the industry. Through its hybrid business model, consisting of its two operating business segments EVT Execute and EVT Innovate, Evotec is able to engage in profitable fee-for-service alliances under the Execute segments, while simultaneously entering innovative, tailor-made risk-based Innovate collaborations. Additionally, the Company builds translational (BRIDGE) partnerships with Academia and selectively participates in high-potential ventures through strategic investments and company formations.

EVT Execute represents collaborations in which the customer brings the underlying intellectual property to the collaboration. EVT Innovate comprises collaborations derived from Evotec's developed assets and technology platforms (developed either internally or through academic

collaborations) as well as Evotec's equity participation in certain companies and BRIDGE initiatives. Evotec has stepped into biologics with the acquisition of Just Biotherapeutics, Inc. a US-based technology company that integrates highly synergistic scientific expertise and technologies for design, development, and manufacturing of biologics. With this acquisition, Evotec enters a new market with huge potential and strong growth momentum, resulting in a more diverse set of options for partners

to choose from. Further information on Evotec's two business segments can be found in the "Corporate objectives and strategy" chapter on page 34 of this Management Report.

The following specific objectives for the segments EVT Execute and EVT Innovate as well as Corporate goals for 2020 were defined at the end of 2019.

<i><u>EVT EXECUTE</u></i>	<i><u>EVT INNOVATE</u></i>	<i><u>CORPORATE</u></i>
<ul style="list-style-type: none"> ▶ Continued strong growth and multiple new integrated service alliances ▶ Roll-out of Just – Evotec Biologics, extended offering across all modalities ▶ Build-up of J.POD® 	<ul style="list-style-type: none"> ▶ New co-owned partnerships from own R&D and platforms ▶ New clinical initiations and progress of co-owned pipeline 	<ul style="list-style-type: none"> ▶ Corporate equity initiatives and initiation of new BRIDGES

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 high expectations of its partners in drug discovery and development. Advancing medical progress is delivering a steady stream of new and more detailed insights, which are gradually creating a more holistic understanding of health and disease. This paradigm change will allow for more precise and personalised treatment approaches in the near future.

Evotec 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 internal initiatives, whereby Evotec accesses and accelerates early academic or research initiatives in innovative areas of disease biology and develops and positions such assets and platforms for commercial partnering or spin-offs. In 2020, Evotec will continue its endeavour of re-defining the drug discovery & development paradigm by further developing platforms with game-changing potential to improve the translation of approaches. In this respect, it will focus on developing its PanOmics, iPSC and Nurture platforms and further innovating on patient-centric and holistic approaches in drug discovery. In addition, Evotec sees a significant opportunity to extend the offering across all modalities with Just – Evotec Biologics and with the build-up of J.POD® – the facility of the future for biologics manufacturing. An additional focus will be placed on growing the Company's infectious disease efforts with sustainable progress in the segments anti-virals, anti-microbials and global health.

FINANCIAL OUTLOOK FOR 2020

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

— EXPECTED OPERATING RESULTS —

Given current global insecurities surrounding the COVID-19 pandemic, and possible future disruption of business within Evotec and our partners, guidance for 2020 has been critically assessed. However, due to the drastic and very dynamic developments in the overall economic environment since the end of February 2020 and the unforeseeable special situation triggered by the COVID-19 pandemic and its associated unknown time lines, it is not possible to precisely predict or quantify the potential impact on revenue and financial performance at this early stage. This uncertainty also explains the broader than usual ranges. Evotec will continue to very closely monitor the further development of this exceptional situation and update on guidance in case the situation changes materially.

In 2020, total Group revenues are expected in a range of € 440–480 m. This anticipated revenue growth is based on the visibility of the current order book, expected new contracts, contract extensions and milestone opportunities. Projections are based on constant 2019 exchange rates.

Evotec's adjusted Group EBITDA is expected to be in the range of € 100–120 m despite increased R&D investments, expected loss of the Sanofi subsidy for the Toulouse site after Q1 2020 and significantly ramping up the Just – Evotec Biologics business by investing in and building highly innovative J.POD® capacities in the USA.

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.

All activities from Evotec are related to research and development. Next to our “partnered” and funded R&D, Evotec will also continue to significantly invest in its own “unpartnered” research and development (R&D) to create a long-term pipeline of first-in-class assets and platforms. Evotec expects these expenses to be at approx. € 40 m. These expenses are independent of the “partnered” R&D spending in infectious diseases, which is fully covered under the Sanofi partnership.

— EXPECTED FINANCING AND STRATEGIC MEASURES —

The Company’s organic mid-term operational financial plan does not require any additional external financing. However, all strategic 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. Evotec has initiated the construction of the first J.POD® in North America, which is an integral part of Just – Evotec Biologics’ J.DESIGN platform. This facility of the future answers all state-of-the-art manufacturing requirements for the coming years and strengthens Evotec’s leading position as the preferred drug discovery and development partner with pioneering technologies. The new facility is expected to be completed by late 2020 and operational in the first quarter of 2021 and it is expected that Evotec will be investing around € 60 – 90 m in this facility, mainly in capex, over 2019 to 2021.

DIVIDENDS

Payment of dividends is dependent upon Evotec 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 to even better leverage long-term growth and sustainability.

OPPORTUNITIES

The most important opportunities for the Company are summarised in the “Opportunities” section of the “Risk and opportunities management” chapter on page 69 of this Management Report.

**GENERAL STATEMENT
OF EXPECTED DEVELOPMENT
BY THE MANAGEMENT BOARD**

Evotec continues to strengthen and expand its business as the leading innovative global provider in the provision of drug discovery and development solutions across all therapeutic modalities. 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 continuing trends and challenges in the pharmaceutical industry. On this basis, the Management Board expects Evotec to show strong Group revenue growth and adjusted Group EBITDA on the same level as in 2019, despite the most significant R&D investments in Company history. The Company’s strong cash position will provide a firm foundation to further strengthen its strategic role in the drug discovery and development market including the build-up of the facility of the future to 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 2019, the share capital of Evotec SE amounted to € 150,902,578.00 and was divided into 150,902,578 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 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 5 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 2019, the remaining conditional capital of the Company amounted to € 38,774,479.00. Conditional capital in the amount of € 8,815,190.00 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 7 June 1999, 18 June 2001, 16 June 2011, 14 June 2012, 9 June 2015 and 14 June 2017, exercise their rights to subscribe for new shares in the Company. In 2019, conditional capital in the total amount of € 1,839,784.00 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 € 29,959,289.00 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 19 June 2019. 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.

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

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**SHAREHOLDINGS EXCEEDING
 10% OF VOTING RIGHTS**
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On 27 February 2017, Evotec was last notified that the direct shareholdings of Novo Holdings A/S, Hellerup (Denmark) amounted to 10.10%. Since 11 December 2019, also Morgan Stanley held more than 10% on Evotec. As of 31 December 2019 they held 12.19%.

— **BOARD STRUCTURE** —

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

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**AUTHORISATION OF MANAGEMENT
 TO REPURCHASE STOCK**
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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 8 June 2020. As of 31 December 2019, Evotec has not used its authorisation to acquire own shares.

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**AMENDMENT TO THE COMPANY’S ARTICLES OF ASSOCIATION/
 APPOINTMENT OF THE MANAGEMENT BOARD**
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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 17 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).

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CHANGE-OF-CONTROL PROVISIONS
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The Management Board of the Company 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 34 e 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 “Invest” section on Evotec’s website at www.evotec.com/en/invest/corporate-governance

* This section of the management report is not subject to audit



Remuneration report

The remuneration report describes the Company's remuneration system 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 SYSTEM OF THE MANAGEMENT BOARD

The remuneration system of the Management Board is fixed by the Supervisory Board and is composed of performance-unrelated and performance-related components.

As a principle, Management Board 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 of the Company, 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 Management Board compensation relative to that of senior management as well as the staff overall, particularly in terms of its development over time.

Following the Code, the remuneration system specifies a target compensation and monetary caps for both the total compensation and the respective compensation components for each Board member. Deviating from that, the Share Performance Plans 2012 and 2015 as approved by the AGMs in 2012 and 2015 include a maximum regarding the number of share-based awards (Share Performance Awards, "SPA") upon allocation. The monetary value of the allocated shares is determined by the share price after the expiration of the vesting period. The Share Performance Plan 2017 has a monetary cap for the Management Board with a maximum level of 350% of the contractual SPA issue value and therefore complies with the Code in all respects.

Benchmarking against other national and international biotech companies and members of the TecDAX and MDAX index as well as a comparison with Corporate Governance best practices is conducted on a periodic basis and prior to each renewal of the management contracts with the support of renowned external compensation and benefits experts. This benchmarking includes monetary aspects and current corporate governance best practices. Based on this benchmarking exercise, the Supervisory Board considers the current remuneration system and its fixed and variable compensation levels

with regard to the duties and responsibilities of the Management Board members and decides on adjustments of the management contracts. As an example of the consequence of this practice, a clawback clause has been added to those Management contracts which have been recently renewed.

In accordance with good corporate practice, the Supervisory Board of Evotec SE proposed the system of remunerating members of the Management Board for approval to the AGMs in 2017 and again in 2019 ("say on pay"). At both AGMs, the majority of the shareholders and shareholder representatives voted in favour of this agenda item.

Performance-unrelated remuneration

Performance-unrelated remuneration includes base salaries as fixed compensation paid in twelve monthly instalments at the end of each month and fringe benefits such as pension allowances, contribution to commuting expenses, contributions to certain premiums for insurance policies as well as the benefit derived from the private use of a company car or a car allowance. In addition to the aforementioned remuneration, business-related private payments, expenditures and expenses are reimbursed.

Performance-related remuneration

The performance-related remuneration components consist of a one-year variable compensation (Short Term Incentive or "STI") determined by a bonus scheme and a long-term Share Performance Plan, which was approved by the AGMs 2012, 2015 and 2017. The one-year variable remuneration is determined by a bonus scheme based on the achievement of certain targets specified by the Remuneration and Nomination Committee of the Supervisory Board and subsequently approved by the Supervisory Board for each financial year. The Share Performance Plans are based on a forward-looking, multi-year assessment period.

The STI bonus scheme for the Management Board is based on the achievement of clearly measurable corporate objectives equally set for each Management member by the Supervisory Board rather than individual objectives. Such corporate objectives are geared to support the mid- and long-term growth strategy of the Company and generally relate to financial objectives, such as growth in total revenues, adjusted EBITDA and R&D expenses as set in accordance with the relevant guidance for that specific financial year, plus operational, strategic and cultural objectives. In its March meeting, the Supervisory Board reviews the achievement of these corporate objectives of the previous year and approves the respective bonus pay-out.

The target bonuses for the one-year variable compensation amount to 100% of the fixed remuneration for the Chief Executive Officer (2018: 100%) and to 70% of the fixed remuneration for all other members of the Management

Board (2018: 75% for the Chief Operating Officer, 70% for the Chief Scientific Officer and 55% for the Chief Financial Officer).

In addition to the one-year variable compensation, the members of the Management Board are eligible for an annual grant of Share Performance Awards (SPAs) under Evotec's current Share Performance Plan 2017, building the basis for the Long Term Incentive or "LTI". The Evotec Share Performance Plan is an important step in supporting the interests of the Company's shareholders and in establishing a state-of-the-art long-term compensation that is in line with remuneration and corporate governance standards as well as the German Corporate Governance Code.

The number of granted SPAs is determined by dividing a defined percentage of the Board member's total direct compensation (base salary, target annual bonus (STI) and target long-term incentives (LTI)) by the applicable fair market value of an SPA. The percentage amounts to 50% of total direct compensation for the Chief Executive Officer (2018: 50%) and to 35% of total direct compensation for all other members of the Management Board (2018: 30%).

For each annual award of SPAs, a Performance Measurement Period of four consecutive calendar years applies. Two equally weighted external Key Performance Indicators (KPIs) have been set forth by the Annual General Meeting 2017 oriented on long-term value creation, consisting of "Share Price" and "Relative Total Shareholder Return" (yield on shares). Relative Total Shareholder Return is a measure to determine the performance of an investment in the shares of the Company compared to the TecDAX. Relative Total Shareholder Return measures the return on a share investment over a period of time, including dividends as well as share price performance (positive and negative) and adjusted for any equity issues or share-splits. The KPIs are measured for each year of the Performance Measurement Period. The achieved performance for a respective year is locked-in for the remaining Vesting Period.

Within each of the two KPIs there is a "Minimum Target" that has to be reached for Share Performance Awards to be exercised (partially), as well as a "Maximum Target" that, once it is reached, allows for all Share Performance Awards for the respective KPI (100%) to be exercised to the full amount, after the Vesting Period has expired (one Share Performance Award entitles the holder to subscribe in the maximum for no more than two whole shares in Evotec SE).

100% of the KPI "Share Price" (the "Target Share Price") is achieved for a calendar year if the average share price of the Company stock in the closing auction of XETRA trading (or a corresponding successor system) on the last 30 trading days of the Frankfurt stock exchange in the respective performance period, i.e. a calendar year (the "Closing Price") exceeds by 8% the average share price of the Company stock in the closing auction of XETRA trading (or a corresponding successor system) on the last 30 trading days of the Frankfurt stock exchange before the start of the respective performance period (the "Opening Price"). The Minimum Target for the KPI "Share Price" is reached if the Closing Price is higher than the Opening Price. The Maximum Target for the KPI "Share Price", which entitles all Share Performance Awards for this KPI to be exercised for the respective performance period, is reached if the Closing Price is 16% or more above the Opening Price.

100% of the KPI "Relative Total Shareholder Return" is achieved for a calendar year (the "Target Relative Total Shareholder Return"), when the Total Shareholder Return for the shares of the Company (average share price of the Company at the closing auction of XETRA trading on the 30 trading days at Frankfurt Stock exchange prior to the relevant date plus dividends, and adjusted for any equity issuance or share-splits, matches the Total Shareholder Return of the German TecDAX index during the same period. The Minimum Target for the KPI "Relative Total Shareholder Return" is achieved when the annual average Total Shareholder Return for the shares of the Company is 10 percentage points below the Total Shareholder Return of the TecDAX during the respective performance period (i.e. each calendar year). The Maximum Target, at which all the Share Performance Awards for the KPI "Relative Total Shareholder Return" can be exercised, is achieved when the annual average Total Shareholder Return for the shares of the Company is at least 10 percentage points above the average Total Shareholder Return of the TecDAX during the respective performance period. Relevant values of the Total Shareholder Return of the Company and of the Total Shareholder Return of the TecDAX will be calculated annually and based on the average TecDAX (Total Return Index) during the 30 trading days at Frankfurt Stock exchange prior to the relevant date.

The right to exercise awards from the Share Performance Plan arises only on expiry of the Vesting Period after four years of the respective SPA tranche. Depending on the achievement of the Key Performance Indicators (KPIs) for each of the four years, each Share Performance Award entitles the participant to the subscription of up to a maximum of two Company shares (200% cap). After each of the four performance periods (i.e. each calendar year) for a tranche of Share Performance Awards has ended, the target achievement for the two KPIs is determined for the respective calendar year and the corresponding number of subscription rights are calculated and provisionally set. At the end of all the four performance periods, i.e. the four calendar years of one tranche, the subscription rights determined for each year are added and represent the total number of exercisable subscription rights.

Each participant is required to make a payment of the nominal amount of € 1 (one Euro) per share to Evotec upon exercising, independent from the trading price of the Evotec share at that point in time. The new shares received are not subject to any specific lock-up; they are freely tradable immediately subject to insider trading rules which are the sole responsibility of each participant.

The Supervisory Board reserves the right at its sole discretion to replace the shares to be allocated to the participants with a cash payment and/or Evotec shares kept in treasury by the Company. The value of the shares to be used in calculating the cash payment shall be the average share price during the 30 day trading period immediately before the Vesting date.



**REMUNERATION REPORT
OF THE MANAGEMENT BOARD**

The Management Board compensation for 2019 was carried out in full compliance with the Company’s remuneration system as approved by the Annual General Meeting (AGM) and the monetary cap for both the total compensation and the respective compensation components.

The 2019 corporate objectives related to financial objectives, such as growth in total revenues, adjusted EBITDA and R&D expenses as set in accordance with the relevant guidance for that specific financial year 2019. Further targets included the execution of at least two significant asset transactions in EVT Innovate and at least one new alliance more than € 20 m in transaction value, the building at least two new academic BRIDGES and preparing the Company for sustainable growth. The individual Corporate Objectives for 2019 are set out in the following table:

CORPORATE GOALS 2019

	<i>When</i>	<i>End product</i>	<i>Weighting</i>
1. Continue growth path with optimal cross-selling			
Grow total revenues > € 400 m (>10%)	Q4	€ 446 m	20%
Grow adjusted EBITDA > € 100 m	Q4	€ 123 m	20%
2. Expansion of co-ownership strategy			
Commercialisation of at least 2 EVT Innovate assets with significant value	Q4	BMS/Celgene, Bayer	10%
One significant new alliance or company formation (> € 20 m tech value)	Q4	Breakpoint, NephThera	10%
Implement ID strategic business plan for long term value beyond 2023	Q4	Delivered in Q3	10%
Expand with at least two new BRIDGES, and expand into new modalities (e.g. biologics)	Q4	Just – Evotec Biologics, LAB10X, LAB555	10%
3. Foster ONE Evotec Growth Culture			
Implement strategic systems and organisational alignment for ONE company, optimise segments, and expand to deliver Action Plan 2022	Q4	Significant 2nd line upgrade, IDD strategy	10%
Leadership Goal: Think, operate and celebrate as ONE “next generation” team	Q4	Significantly better integration, Reduced fluctuation	10%

The bonus for the achievement of the targets set for the financial year 2019 will be paid out to the Management Board members in March 2020. Based on the 100% achievement of the Corporate Objectives 2019 this will be total of T€ 1,222 for the variable portion of the remuneration to be paid to the members of the Management Board.

In addition to their one-year variable compensation, the members of the Management Board received a total of 86,283 SPAs in January 2019 (2018: 103,861) under the Company’s Share Performance Plan, thereof 45,161 SPAs for Dr Werner Lanthaler, 13,318 SPAs for Dr Cord Dohrmann, 16,733 SPAs for Dr Craig Johnstone and 11,071 SPAs for Enno Spillner. The fair value of all SPAs granted as multi-year variable compensation amounted to T€ 1,605 (2018: T€ 1,529) on the day of calculation on 1 January 2019. The reduced amount of SPAs in 2019 compared to 2018 is due to the increased share price in 2019 and the resulting increase in fair market value recognised per SPA. The SPAs that were granted in January 2019 vest and become exercisable after four years in January 2023.

Remuneration tables

For 2019, the performance-unrelated and one-year variable compensation of the active members of the Management Board totalled T€ 2,607, of which the variable part amounted to T€ 903.

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, fringe benefits, short-term variable compensation and long-term variable compensation for the year under review, broken down into the relevant reference years

REMUNERATION REPORT

Benefits granted (in T€)		I		II		III		IV									
		Dr Werner Lanthaler				Enno Spillner				Dr Cord Dohrmann				Dr Craig Johnstone			
		CEO				CFO				CSO				COO			
d		2018	2019	2019 (min)	2019 (max)	2018	2019	2019 (min)	2019 (max)	2018	2019	2019 (min)	2019 (max)	2018	2019	2019 (min)	2019 (max)
1	Fixed compensation	420	470	470	470	310	315	315	315	340	360	360	360	/	340	340	340
2	Fringe benefits	99	107	75	125	25	54	33	60	15	16	16	47	/	42	40	42
3	Total	519	577	545	595	335	369	348	375	355	376	376	407	/	382	380	382
4	One-year variable compensation	420	420	-	420	171	171	-	171	235	238	-	238	/	74	-	74
5	Multi-year variable compensation	840	840	-	2,940	206	206	-	721	248	248	-	867	/	311	-	1,089
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	/	311	-	1,089
6	Total	1,779	1,837	545	3,955	712	746	348	1,266	838	862	376	1,512	/	767	380	1,545
7	Service cost	-	-	-	-	-	-	-	-	-	-	-	-	/	-	-	-
8	Total	1,779	1,837	545	3,955	712	746	348	1,266	838	862	376	1,512	/	767	380	1,545

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)



REMUNERATION REPORT

Allocation (in T€)

	Dr Werner Lanthaler		Enno Spillner		Dr Cord Dohrmann		Dr Craig Johnstone	
	CEO		CFO		CSO		COO	
	2018	2019	2018	2019	2018	2019	2018	2019
1 Fixed compensation	420	470	310	315	340	360	/	340
2 Fringe benefits	99	107	25	54	15	16	/	42
3 Total	519	577	335	369	355	376	/	382
4 One-year variable compensation	420	420	171	171	235	238	/	74
5 Multi-year variable compensation	-	12,980	-	-	515	6,699	/	320
5a Share Performance Programme 2012 (term until 2019)	-	12,980	-	-	-	5,732	/	320
5b Stock Option Programme 1999 (term until 2021)	-	-	-	-	515	-	/	-
5c Stock Option Programme 2000 (term until 2016)	-	-	-	-	-	-	/	-
5d Stock Option Programme 2001 (term until 2021)	-	-	-	-	-	-	/	-
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)	-	-	-	-	-	967	/	-
6 Other	-	-	-	-	-	-	/	-
7 Total	939	13,977	506	540	1,105	7,313	/	776
8 Service cost	-	-	-	-	-	-	/	-
9 Total	939	13,977	506	540	1,105	7,313	/	776

Notes:

- a Name of the Management Board member
- b Function of the Management Board member, e.g. CEO, CFO
- c Date on which the member joined/left the Management Board, if in the financial year under consideration n (year under review) or n-1
- d Financial year under consideration n (year under review) or n-1
- 1 Non-performance-related components, e.g. fixed salary, fixed annual pay-off payments (amounts correspond to amounts in "Benefits granted" table)
- 2 Non-performance-related components, e.g. benefits in kind and fringe benefits (amounts correspond to amounts in "Benefits granted" table)
- 3 Total of non-performance-related components (1+2) (amounts correspond to amounts in "Benefits granted" table)
- 4 One-year variable compensation, e.g. bonus, short-term incentive (STI), share in profits, without deferred components

- 5 Multi-year variable compensation (total of rows 5a - ...), e.g. multi-year bonus, deferral, long-term incentive (LTI)
- 5a-h Multi-year variable compensation, broken down into plans and stating the period of time
- 6 Other, e.g. clawbacks, which are entered as a negative amount with reference to previous disbursements
- 7 Total of non-performance-related components and variable components (1+2+4+5+6)
- 8 Service cost in accordance with IAS 19 from pension schemes and other benefits (amounts correspond to amounts from row 4 of the "Benefits granted" table and row 7 of the "Allocation table"); this is not an allocation in the financial year
- 9 Total of non-performance-related components and variable components and service cost (1+2+4+5+6+8)

Term of contract and early termination clauses

In accordance with the Code, new members of the Management Board are appointed for three years. Prolongations of existing contracts might be up to five years as has been agreed with the Chief Executive Officer for his current contract and with the Chief Scientific Officer for his current contract as renewed in 2019.

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; and for Dr Cord Dohrmann, Dr Craig Johnstone and Enno Spillner, the payment shall be equal to 18 months of their base salary plus target bonuses for this time period. 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.

REMUNERATION REPORT

In accordance with 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.

REMUNERATION PAID TO MANAGEMENT BOARD FOR OTHER BOARD MANDATES

Members of the Management Board do not receive any remuneration for intra-group director or board roles. If Supervisory Board mandates are assumed at non-group entities, the Supervisory Board decided that such remuneration received for non-group supervisory board or board of director mandates shall not be offset from the management remuneration.

PENSION PROVISIONS FOR FORMER MANAGEMENT BOARD MEMBERS

The Company has made a provision for a pension for one former Management Board member amounting to T€ 205 (2018: T€ 189). 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 prescribed 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 personal requirements of Supervisory Board members, especially of the Chairman of the Supervisory Board, regarding qualification and the amount of time have increased significantly in recent years. Evotec expects this trend to continue in the future, which is accompanied by an increasing risk exposure and higher liability risks of Supervisory Board members. In order to be well-positioned for attracting top-class Supervisory Board candidates within a competitive international environment, who meet Evotec's competence profile, the AGM 2019 has approved an increase of the compensation of Supervisory Board members from fiscal year 2019 onwards.

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 amended following the approval of the AGM 2019, the fixed compensation is T€ 50 per Supervisory Board member. The Chairman of the Supervisory Board is paid T€ 125, and the Vice Chairman is paid T€ 60. Supervisory Board members serving on its

committees shall be paid T€ 10 per committee membership; the Chairman of a committee shall be paid T€ 25.

For their contributions in 2019, the individual members of the Evotec Supervisory Board received the following compensation in 2019:

REMUNERATION OF THE SUPERVISORY BOARD 2019

* Tenure ends at AGM 2019
** Tenure starts at AGM 2019

	Total remuneration in T€ ¹⁾
Prof. Dr Wolfgang Plischke	150
Bernd Hirsch*	44
Dr Claus Braestrup*	28
Prof. Dr Iris Löw-Friedrich	65
Dr Mario Polywka**	27
Roland Sackers**	46
Michael Shalmi	60
Dr Elaine Sullivan	60
Total	480

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 2019, 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€ 132 (2018: T€ 82). 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, 23 March 2020

Dr Werner Lanthaler

Dr Cord Dohrmann

Dr Craig Johnstone

Enno Spillner

* This section of the management report is not subject to audit



Consolidated Financial Statements (IFRS)

2019

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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION****EVOTEC SE AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2019**

in T€ except share data	Note reference	as of 31 Dec 2019	as of 31 Dec 2018
ASSETS			
Current assets:			
Cash and cash equivalents	7	277,034	109,055
Investments	7	42,988	40,394
Trade accounts receivables	8	82,251	45,938
Accounts receivables from associated companies and other long-term investments		1,365	2,092
Inventories	9	10,749	5,660
Current tax receivables		22,777	13,829
Contract assets	10	11,451	12,913
Other current financial assets		1,640	430
Prepaid expenses and other current assets	11	19,275	19,458
Total current assets		469,530	249,769
Non-current assets:			
Investments accounted for using the equity method and other long-term investments	12	41,229	28,963
Property, plant and equipment	13	239,229	90,519
Intangible assets, excluding goodwill	15	116,994	122,989
Goodwill	16	255,919	220,791
Deferred tax asset	21	34,330	43,329
Non-current tax receivables	17	22,718	14,601
Other non-current financial assets		23	27
Other non-current assets		940	895
Total non-current assets		711,382	522,114
Total assets		1,180,912	771,883

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in T€ except share data

Note reference

as of 31 Dec 2019

as of 31 Dec 2018

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Current loan liabilities	18	6,343	55,069
Current portion of lease obligations	14	14,388	1,850
Trade accounts payable		31,319	31,137
Provisions	19	33,150	27,979
Contract liabilities	20	71,067	49,676
Deferred income		2,338	11,511
Current income tax payables	21	7,305	4,232
Other current financial liabilities		190	42
Other current liabilities		12,855	14,779
Total current liabilities		178,955	196,275

Non-current liabilities:

Non-current loan liabilities	18	324,886	54,680
Long-term lease obligations	14	117,482	2,866
Deferred tax liabilities	21	21,199	21,517
Provisions	19	22,538	19,986
Contract liabilities	20	33,785	44,041
Deferred income		5,038	7,000
Other non-current financial liabilities		-	638
Total non-current liabilities		524,928	150,728

Stockholders' equity:

Share capital ¹⁾	23	150,903	149,063
Additional paid-in capital		786,865	783,154
Accumulated other comprehensive income		(19,562)	(27,200)
Accumulated deficit		(441,177)	(481,013)
Equity attributable to shareholders of Evotec SE		477,029	424,004
Non-controlling interest		-	876
Total stockholders' equity		477,029	424,880
Total liabilities and stockholders' equity		1,180,912	771,883

¹⁾ 150,902,578 and 149,062,794 shares issued and outstanding in 2019 and 2018, respectively

See accompanying notes to consolidated financial statements.



CONSOLIDATED INCOME STATEMENT

EVOTEC SE AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2019

in T€ except share and per share data	Note reference	Year ended 31 Dec 2019	Year ended 31 Dec 2018
Revenues from contracts with customers	5	446,437	375,405
Costs of revenue		(313,546)	(263,389)
Gross profit		132,891	112,016
Operating income and (expenses)			
Research and development expenses	24	(58,432)	(35,619)
Selling, general and administrative expenses	25	(66,546)	(57,012)
Impairment of intangible assets	15	(10,272)	(4,364)
Impairment of goodwill	16	(1,647)	-
Income from bargain purchase	6	-	15,400
Other operating income	26	76,498	55,889
Other operating expenses		(9,898)	(8,847)
Total operating income and (expenses)		(70,297)	(34,553)
Operating income		62,594	77,463
Non-operating income (expense)			
Interest income		2,232	898
Interest expense		(7,456)	(2,591)
Other income from long-term investments		80	190
Share of the result of associates accounted for using the equity method	12	(2,210)	(4,099)
Other income from financial assets		32	7
Other expense from financial assets		-	(119)
Foreign currency exchange gain (loss), net		1,220	(7)
Other non-operating income		234	257
Other non-operating expense		(164)	-
Total non-operating income (expense)		(6,032)	(5,464)
Income before taxes		56,562	71,999
Current tax expense	21	(12,628)	(14,060)
Deferred tax income (expense)	21	(6,706)	26,117
Total taxes		(19,334)	12,057
Net income		37,228	84,056
thereof attributable to:			
Shareholders of Evotec SE		38,072	84,172
Non-controlling interest		(844)	(116)
Weighted average shares outstanding		149,725,607	147,482,051
Net income per share (basic)		0.25	0.57
Net income per share (diluted)		0.25	0.56

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EVOTEC SE AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2019

in T€	Note reference	Year ended 31 Dec 2019	Year ended 31 Dec 2018
Net income		37,228	84,056
Accumulated other comprehensive income			
Items which are not re-classified to the income statement			
Remeasurement of defined benefit obligation	30	(1,047)	(589)
Taxes	21	(525)	154
Items which have to be re-classified to the income statement at a later date			
Foreign currency translation		9,075	2,085
Revaluation and disposal of investments		135	53
Other comprehensive income		7,638	1,703
Total comprehensive income		44,866	85,759
Thereof:			
Shareholders of Evotec SE		45,710	85,875
Non-controlling interest		(844)	(116)

See accompanying notes to consolidated financial statements.



CONSOLIDATED STATEMENT OF CASH FLOWS

EVOTEC SE AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2019

in T€	Note reference	Year ended 31 Dec 2019	Year ended 31 Dec 2018
Cash flows from operating activities:			
Net income		37,228	84,056
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation of property, plant and equipment	13	36,456	19,288
Amortisation of intangible assets	15	12,349	12,005
Depreciation of current assets		1,254	152
Impairment of intangible assets	15	10,272	4,364
Impairment of goodwill		1,647	-
Stock compensation expense	22	3,649	4,247
Non-cash foreign exchange loss		59	1,098
Interest income/expense		5,224	1,811
Loss on sale of financial assets		-	119
Gain on sale of financial assets		(32)	(7)
Share of the result of associates accounted for using the equity method	12	2,210	4,099
Fair value adjustments on long-term investments		(80)	(190)
Income from bargain purchase	6	-	(15,400)
Loss on sale of property, plant and equipment		139	113
Gain on sale of property, plant and equipment		-	(42)
Deferred tax expense (benefit)	21	6,706	(26,117)
Decrease (increase) in:			
Accounts receivables		(32,475)	(1,851)
Inventories		(1,364)	(283)
Other assets		(5,059)	(12,229)
Other tax assets		(16,856)	(3,458)
Increase (decrease) in:			
Accounts payable		(2,029)	5,014
Contract liabilities and deferred income	20	(14,684)	67,402
Provisions		3,955	4,281
Current income taxes payable		12,349	6,444
Other liabilities		(12,622)	6,607
Cash received during the year for:			
Interest		827	592
Taxes		6,911	640
Cash paid during the year for:			
Interest		(4,490)	(2,279)
Taxes		(9,328)	(4,236)
Net cash provided by operating activities		42,216	156,240

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

in T€	Note reference	Year ended 31 Dec 2019	Year ended 31 Dec 2018
Cash flows from investing activities:			
Purchase of current investments		(25,010)	(24,790)
Purchase of investments in affiliated companies net of cash acquired	6	(40,297)	18,065
Purchase of investments in associated companies and other long-term investments	12	(11,699)	(10,760)
Purchase of property, plant and equipment	13	(31,322)	(27,867)
Purchase of intangible assets	15	(583)	-
Payment of subsequent contingent considerations	19	(149)	(2,140)
Proceeds from sale of current investments		22,426	8,362
Net cash used in investing activities		(86,634)	(39,130)
Cash flows from financing activities:			
Proceeds from option exercise	22	1,901	1,578
Proceeds from loans	18	292,305	59,462
Repayment of lease obligation		(12,904)	(1,142)
Repayment of loans	18	(70,039)	(137,662)
Net cash provided by (used in) financing activities		211,263	(77,764)
Net increase (decrease) in cash and cash equivalents		166,845	39,346
Exchange rate difference		1,134	2,692
Cash and cash equivalents at beginning of year		109,055	67,017
Cash and cash equivalents at end of the period		277,034	109,055
Supplemental schedule of non-cash activities			
Additions to leases		7,545	4,000

See accompanying notes to consolidated financial statements.



CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

EVOTEC SE AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2019

		Share capital	
in T€ except share data	Note reference	Shares	Amount
Balance at 1 Jan 2018		147,532,681	147,533
IFRS 9 adjustment		-	-
Exercised stock options	23	1,530,113	1,530
Stock option plan	22	-	-
Deferred and current tax on future deductible expenses		-	-
Other comprehensive income			
Net income for the period			
Total comprehensive income (loss)			
Balance at 31 Dec 2018		149,062,794	149,063
Exercised stock options	23	1,839,784	1,840
Stock option plan	22	-	-
Disposal of subsidiary with non-controlling interest		-	-
Deferred and current tax on future deductible expenses		-	-
Other comprehensive income			
Net income for the period			
Total comprehensive income (loss)			
Balance at 31 Dec 2019		150,902,578	150,903

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

*Income and expense recognised in
other comprehensive income*

<i>Additional paid-in capital</i>	<i>Foreign currency translation</i>	<i>Revaluation reserve</i>	<i>Accumulated deficit</i>	<i>Stockholders' equity attributable to shareholders of Evotec SE</i>	<i>Non-controlling interest</i>	<i>Total stockholders' equity</i>
778,858	(35,287)	6,384	(566,565)	330,923	992	331,915
-	-	-	(10)	(10)	-	(10)
48	-	-	-	1,578	-	1,578
4,248	-	-	-	4,248	-	4,248
-	-	-	1,390	1,390	-	1,390
	2,085	(382)	-	1,703	-	1,703
	-	-	84,172	84,172	(116)	84,056
	2,085	(382)	84,172	85,875	(116)	85,759
783,154	(33,202)	6,002	(481,013)	424,004	876	424,880
61	-	-	-	1,901	-	1,901
3,650	-	-	-	3,650	-	3,650
-	-	-	-	-	(32)	(32)
-	-	-	1,764	1,764	-	1,764
	9,075	(1,437)	-	7,638	-	7,638
	-	-	38,072	38,072	(844)	37,228
	9,075	(1,437)	38,072	45,710	(844)	44,866
786,865	(24,127)	4,565	(441,177)	477,029	-	477,029



Notes to consolidated financial statements for the financial year 2019

(1) BUSINESS DESCRIPTION AND BASIS OF PRESENTATION

Evotec SE (formerly 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 discovery alliances and development partnerships with leading pharma and biotechnology companies as well as academic institutions, patient advocacy groups and venture capital partners. Evotec is a worldwide operation, offering high-quality, independent and integrated solutions in drug discovery and development to its customers. Thereby, Evotec covers all activities from target to clinical development. 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 8 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.

The Company is registered under the company name Evotec SE with place of business in Hamburg in the Commercial Registry of Hamburg with HRB 156381. On 1 April 2019, Evotec AG was renamed Evotec SE.

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 23 March 2020, the Management Board authorised the consolidated financial statements for the financial year 2019 for issue.

(2) SIGNIFICANT CHANGES IN THE CURRENT REPORTING PERIOD

Evotec’s financial position and performance was particularly affected by the following events:

- ▶ Acquisition of Just Biotherapeutics, Inc., Seattle, USA on 2 July 2019 (see Note 6),
- ▶ Issuance of promissory notes in the amount of T€ 250,000 in the first half year 2019 (see Note 18),
- ▶ Initial application of IFRS 16 whereby all leases except short-term leases and leases of low-value assets are recognised in the lessee’s balance sheet (see Note 3).

(3) 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 Notes “Recent accounting pronouncements, not yet adopted” as well as “Changes in accounting policies and restatements” which address 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 (see Note 6),
- ▶ Revenues from contracts with customers (see Note 5),
- ▶ Impairment testing (see Note 15 and 16),
- ▶ Provisions (see Note 19 and 30),
- ▶ Measurement of the share option plans and the Share Performance Awards (see Note 22),
- ▶ Valuation of deferred tax assets (see Note 21) and
- ▶ Assessment of lease terms (see Note 14).

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 SE 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 Evotec's 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.

—
CHANGES IN ACCOUNTING
POLICIES AND RESTATEMENTS
—

Of the new accounting standards applicable from 2019 onwards, only the requirements of IFRS 16 „Leases“ have a material impact on the Company. Evotec as a lessee has adopted IFRS 16 modified retrospectively from 1 January 2019, i.e. Evotec abstained from restating comparatives. Evotec has elected to apply the exemption option, whereby short-term leases and leases with a total lease liability of T€ 5 or less are expensed to profit and loss. The Company thus made extensive use of the practical expedients permitted. When adopting IFRS 16, assets of T€ 119,961 concerning the right of use of the leased items and lease liabilities of T€ 118,831 were recognised initially at 1 January 2019. T€ 13,764 of these lease liabilities were due within one year.

The following schedule reconciles the operating lease obligations as of 31 December 2018 to the initial balance of the lease liability as of 1 January 2019:

in T€	1 Jan 2019
Operating lease obligations as of 31 Dec 2018 ¹⁾	129,548
–Discounted using the incremental borrowing rate as of 1 Jan 2019	(15,433)
Finance leases obligations as of 31 Dec 2018	4,716
Lease liability as of 1 Jan 2019	118,831

¹⁾ excluding short-term leases and low-value assets as a practical expedient

The lease liabilities were discounted using the incremental borrowing rates as of 1 January 2019. The weighted average discount rate was between 0.43% and 7.0%. When determining the incremental borrowing rate, reference interest rates with a term up to 20 years were used based on the yield of government bonds of major countries. A lease risk premium was added to these reference interest rates.

The lease liabilities led to the recognition of the lease right-of-use assets shown below:

in T€	1 Jan 2019
Discounted operating lease obligations as of 1 Jan 2019	114,115
Accrued lease expenses	(2,002)
Leased assets as of 31 Dec 2018	7,848
Lease right-of-use assets as of 1 Jan 2019	119,961

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**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** —

A financial instrument is a contract that gives rise to a financial asset of one contract partner and a financial liability or equity instrument to the other contract partner.

Recognition of financial instruments

Initial recognition of financial instruments takes place upon conclusion of contract, with receivables, payables, cash and loans being initially recognised when originated.

Derecognition of financial instruments

Financial assets are derecognised if either the payment rights arising from the instrument have expired or substantially all risks and rewards attributable to the instrument have been transferred. Financial liabilities are derecognised if the obligations have expired or have been discharged or cancelled.

Measurement of financial instruments

At initial recognition, non-derivative financial instruments are measured at fair value. The subsequent measurement depends on the classification of the categories as defined in IFRS 9. Classification is based on two criteria: the Group's business model for managing assets and whether the instruments' contractual cash flows represent solely payments of principal and interest on the principal amount outstanding.

Non-derivative financial assets

For subsequent measurement, financial assets are categorised into either measured at amortised cost, measured at fair value through OCI or measured at fair value through P&L.

Debt instruments (see Note 7 for more details) are held by Evotec with the intention to collect contractual cash flows (interest and principal) and to sell these debt instruments. Consequently, they are measured at fair value through OCI.

Equity instruments are measured at fair value through profit and loss. At Evotec this primarily relates to the not consolidated long-term investments. For equity instruments exist a right to choose per financial instrument to classify them as at fair value through other comprehensive income. A subsequent reclassification of the cumulative amounts of the other comprehensive income to profit and loss is not possible. Evotec has decided not to exercise this right at this time.

All other non-derivative financial assets are measured at amortised cost.

Non-derivative financial liabilities

For subsequent measurement, non-derivative financial liabilities are measured at amortised cost.

Impairment of financial assets

Impairment is recognised for all financial assets not held at fair value through profit or loss and contract assets using the forward-looking expected credit loss model. See Notes 7, 8 and 10 for details.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of 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.

Derivative financial instruments and hedge accounting

Evotec uses foreign currency derivative financial instruments as well as interest swaps to hedge its exposure to foreign exchange risks and interest rate fluctuations. Derivative financial instruments are measured at fair value through P&L. For these economic hedge relationships Evotec does not apply hedge accounting under IFRS 9. 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. In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading purposes.

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 is determined by reference to the quoted bid price at the reporting date. The fair value of unquoted equity instruments or of financial assets without an active market is 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 equaled 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.

— CONTRACT ASSETS —

A contract asset is the right to a consideration in exchange for goods or services transferred to the customer. If Evotec fulfils its contractual obligations by transferring goods or services to a customer before the customer pays the consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

— 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 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	5–15 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 change of the useful lives of plant, machinery and equipment is due to new additions to property, plant and equipment and not to changes in estimates. 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.

— LEASES —

Evotec as a lessee

Evotec recognises and measures all leases (excluding short-term leases and leases of low-value assets) using a single model. The Company recognises liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right-of-use assets

Evotec recognises right-of-use assets at the commencement date (i.e. the point in time the underlying leased asset is available for use). Right-of-use assets are measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets include the amount of lease liabilities recognised, initial direct costs incurred and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets as follows:

Right-of-use assets relating to buildings	1–20 years
Right-of-use assets relating to plant and machinery	3–15 years
Right-of-use assets relating to motor vehicles	3–5 years

If legal ownership of the leased asset transfers to Evotec at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the leased asset.

ii) Lease liabilities

At the commencement date of the lease, Evotec recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price

of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, Evotec uses an incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification to the lease, a change in the lease term, a change in the lease payments (e.g. changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

iii) Short-term leases and leases of low-value assets

Evotec applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Evotec also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low-value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

— ASSOCIATES —

Associates are entities in which Evotec has significant influence over the financial and operating policies. This influence is usually exercised through a direct or indirect share of voting power of 20% to 50%. Associates are accounted for in the consolidated financial statements using the at-equity method and initially measured at cost. Subsequent to acquisition, Evotec's share in the associate's profit or loss is included in the consolidated income statement and the share in changes in equity without impacting the income statement is included directly in consolidated equity. The cumulative changes after the date of acquisition increase or decrease the carrying amount of the interest in the associate. If the associate's losses attributable to Evotec equal or exceed the value of the interest in this associate, no further losses are recognised.

— INTANGIBLE ASSETS, EXCLUDING GOODWILL —

Intangible assets, excluding goodwill, consist of separately identified intangible assets such as developed technologies, customer related intangibles 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. Depreciation of favourable contracts is calculated using the straight-line method over the term of the respective contracts. The useful lives are as follows:

Trademarks	2–10 years
Developed technologies	6.25–18 years
Customer related intangibles	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 change in useful lives of developed technologies is due to the acquisition of Just.

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.

— CONTRACT LIABILITIES —

A contract liability is the obligation of Evotec to transfer goods or services to a customer for which Evotec has received a consideration (or an amount of consideration is due) from the customer. If a customer pays the consideration before Evotec transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when Evotec fulfils its contractual obligation.

— 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 OPTIONS AND
SHARE PERFORMANCE AWARDS
—

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.

— REVENUES FROM CONTRACTS WITH CUSTOMERS —

Revenue is recognised when the control over separable services or research services is transferred to the customer and the customer therefore has the ability to direct the use and obtain substantially all of the remaining benefits from these services, provided that a contract with enforceable rights and obligations exists and that collectability of consideration is probable. 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. When allocating the transaction price to individual performance components, Evotec uses in particular FTE-rates as indicator of the fair value of these components. Payment terms typically stipulate payments in 30 to 45 days after invoice receipt.

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, FTE-based research payments as well as deliverable kind of services

Revenues generated from service contracts or FTE-based research contracts or deliverable kind of services are recognised as the services are rendered. Evotec applies an input-based method to measure the progress of completion of its performance obligations. In rare cases and only for specific contracts, output-based methods are applied whenever the contract warrant such measurement. Payments for those services are generally paid in full or in parts in advance and recorded as contract liability. Contract assets are recognised in case Evotec's progress of completion of its performance obligations exceeds the amount of the payments received. Those contracts may also contain variable compensation, which Evotec only includes in the transaction price when it becomes highly probable that such payments will be received. This is rarely the case upon contract inception or in early stages of contracts, owing to the nature of the services.

Recharges

Revenues from recharges of costs are recognised over the period in which the costs occur. Payments are received thereafter.

Compound access fees

Revenue from compound access fees is recognised pro rata over the related forecasted service period. Payments for compound access fees are generally paid in full or in parts in advance and recorded as contract liability until earned.

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. Under IFRS 15, earlier recognition carries an increased risk of revenue corrections required and hence Evotec refrains from an earlier recognition. Payments of milestone fees are received after the milestone is successfully achieved.



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. Payments from the sale of licences are received on the day of the sale or thereafter.

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. Payments are received either on the same day as the royalty report or thereafter. Royalties are typically contract components with a variable consideration which will as mentioned above only be realised as revenues when it is highly probable that the consideration will be 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 capitalisation of development expenses is generally not fulfilled. Evotec did not capitalise any development costs in 2019 and 2018, 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 has received grants and fundings in the amount of T€ 88 (2018: T€ 293) 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 2019 and 2018, see Note 15 and 16.

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 assets 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.

— OTHER OPERATING INCOME —

Evotec receives tax refunds from tax development programmes in the context of qualifying research and development expenses in different jurisdictions. Such tax refunds regularly result in amounts which can be offset against taxable income, so as to provide a partial or full relief from tax or other payments to fiscal authorities. Evotec determined that under its significant tax development programmes, the feature of the credit is provided in a way which allows either offsetting against taxable income or instead, when insufficient taxable profits are available, direct reimbursement and payment in cash. In addition, the tax development programmes are provided for specific activities, often limited to specific research and development expenses. As such, Evotec accounts for such tax development programmes as other operating income and does not account for such income as tax income or offsets tax refunds from income tax expense. In 2019, the amount of R&D tax credits accounted for as other operating income was T€ 28,227 (2018: T€ 24,282).

In certain cases Evotec recharges costs to third parties. The income from those recharges are recognised in other operating income when it is a direct reimbursement of costs. This is the case for the reimbursements of Sanofi in the context of the take-over of current expenses of the sites in Toulouse and Lyon. There is no underlying direct exchange of services for this income and therefore a recognition as revenues is not suitable. The relating expenses are recognised in other operating expenses as well as research and development expenses.

— 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	2019	2018
Issued ordinary shares 1 Jan	149,063	147,533
Treasury shares 1 Jan	(250)	(250)
Effect of weighted average share options exercised	913	199
Weighted average number of ordinary shares 31 Dec	149,726	147,482

Diluted net income per share is computed by dividing the net income attributable to shareholders of Evotec SE, 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 2019, the number of potentially dilutive shares to be issued from stock options and Share Performance Awards amounted to 1,799,458 (2018: 2,416,958). 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 2019.

The IASB issued pronouncements, amongst them amendments regarding IFRS 3 “Business Combinations” and regarding the Conceptual Framework, which have been ratified by the EU. Further pronouncements, eg IFRS 17 “Insurance Contracts”, “Amendments to IAS 1 and IAS 8 regarding the definition of material” and the “Interest Rate Benchmark Reform and the impact on financial reporting (IFRS 9, IAS 39 and IFRS 7)”, have been issued, but not yet endorsed by the EU. None of the pronouncements will have a material impact on Evotec’s consolidated financial statements.

(4) 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 Craig Johnstone, 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. Revenues in the segments consist of revenues from contracts with customers without revenues from recharges as those are not of importance for the management to assess the economic situation of the segments. 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 2019 is as follows:

in T€	<i>EVT Execute</i>	<i>EVT Innovate</i>	<i>Intersegment elimination</i>	<i>Transition</i>	<i>Evotec Group</i>
Revenues	337,605	94,329	-	14,503	446,437
Intersegment revenues	82,698	-	(82,698)	-	-
Costs of revenue	(310,855)	(61,676)	73,488	(14,503)	(313,546)
Gross profit	109,448	32,653	(9,210)	-	132,891
Operating income and (expenses)					
Research and development expenses	(2,144)	(65,498)	9,210	-	(58,432)
Selling, general and administrative expenses	(52,524)	(14,022)	-	-	(66,546)
Impairment of intangible assets	-	(10,272)	-	-	(10,272)
Impairment of goodwill	-	(1,647)	-	-	(1,647)
Other operating income	30,845	45,653	-	-	76,498
Other operating expenses	(8,818)	(1,080)	-	-	(9,898)
Total operating income and (expenses)	(32,641)	(46,866)	9,210	-	(70,297)
Operating income (loss)	76,807	(14,213)	-	-	62,594
Interest result					(5,224)
Other income from long-term investments					80
Share of the loss of associates accounted for using the equity method					(2,210)
Other income (expense) from financial assets, net					32
Foreign currency exchange gain (loss), net					1,220
Other non-operating income					70
Income before taxes					56,562
EBITDA adjusted	122,507	636			123,143

NOTES

The adjusted EBITDA for the financial year 2019 is derived from operating income (loss) as follows:

in T€	<i>EVT Execute</i>	<i>EVT Innovate</i>	Evotec Group
Operating income	76,807	(14,213)	62,594
plus depreciation of tangible assets	33,589	2,867	36,456
plus amortisation of intangible assets	12,111	238	12,349
plus impairment of intangible assets	-	10,272	10,272
plus impairment of goodwill	-	1,647	1,647
plus change in contingent consideration (earn-out)	-	(175)	(175)
EBITDA adjusted	122,507	636	123,143

The increase in adjusted EBITDA is mainly due to the significantly improved gross profit and the first-time application of IFRS 16.

The segment information for the financial year 2018 is as follows:

in T€	<i>EVT Execute</i>	<i>EVT Innovate</i>	<i>Intersegment eliminations</i>	<i>Not allocated</i>	<i>Transition</i>	<i>Evotec Group</i>
Revenues	295,087	68,893	-	-	11,425	375,405
Intersegment revenues	52,090	-	(52,090)	-	-	-
Costs of revenue	(260,290)	(38,373)	46,699	-	(11,425)	(263,389)
Gross profit	86,887	30,520	(5,391)	-	-	112,016
Operating income and (expenses)						
Research and development expenses	(862)	(40,148)	5,391	-	-	(35,619)
Selling, general and administrative expenses	(47,578)	(9,434)	-	-	-	(57,012)
Impairment of intangible assets	-	(4,364)	-	-	-	(4,364)
Income from bargain purchase	-	-	-	15,400	-	15,400
Other operating income	37,345	29,969	-	-	(11,425)	55,889
Other operating expenses	(18,573)	(1,699)	-	-	11,425	(8,847)
Total operating income and (expenses)	(29,668)	(25,676)	5,391	15,400	-	(34,553)
Operating income	57,219	4,844	-	15,400	-	77,463
Interest result						(1,693)
Other income from long-term investments						190
Share of the loss of associates accounted for using the equity method						(4,099)
Other income (expense) from financial assets, net						(112)
Foreign currency gain (loss), net						(7)
Other non-operating income						257
Income before taxes						71,999
EBITDA adjusted	87,186	8,271				95,457

**NOTES**

The adjusted EBITDA for the financial year 2018 is derived from operating income (loss) as follows:

in T€	<i>EVT Execute</i>	<i>EVT Innovate</i>	<i>Not allocated</i>	<i>Evotec Group</i>
Operating income	57,219	4,844	15,400	77,463
plus depreciation of tangible assets	18,201	1,087	-	19,288
plus amortisation of intangible assets	11,766	239	-	12,005
plus impairment of intangible assets	-	4,364	-	4,364
minus Income from bargain purchase	-	-	(15,400)	(15,400)
plus change in contingent consideration (earn-out)	-	(2,263)	-	(2,263)
EBITDA adjusted	87,186	8,271	-	95,457

Non-current assets as of 31 December can be analysed under IFRS 8 as follows:

in T€	2019	<i>2018</i>
Germany	104,128	67,194
Italy	193,231	199,787
United Kingdom	173,484	134,554
France	88,011	33,628
USA	91,594	21,793
Switzerland	15,119	15,433
	665,567	472,389

(5) REVENUE FROM CONTRACTS WITH CUSTOMERS

The following schedule analyses the revenue Evotec recognised from contracts with customers in the financial year 2019:

in T€	<i>EVT Execute</i>	<i>EVT Innovate</i>	<i>Transition</i>	<i>Evotec Group</i>
Revenues from contracts with customers				
Service fees and FTE-based research payments	329,500	69,081	-	404,204
Recharges	-	-	14,503	14,503
Compound access fees	1,019	-	-	-
Milestone fees	5,234	25,202	-	27,684
Royalties	-	-	-	-
Licences	1,852	46	-	46
Total	337,605	94,329	14,503	446,437
Timing of revenue recognition				
At a certain time	7,086	25,202	-	27,730
Over a period of time	330,519	69,127	14,503	418,707
Total	337,605	94,329	14,503	446,437
Revenues by region				
USA	148,329	38,200	8,513	195,042
Germany	17,493	9,633	858	27,984
France	45,019	17,266	549	62,834
United Kingdom	66,386	8,735	2,781	77,902
Others	60,378	20,495	1,802	82,675
Total	337,605	94,329	14,503	446,437

The following schedule shows the revenue from contracts with customers in the financial year 2018:

in T€	<i>EVT Execute</i>	<i>EVT Innovate</i>	<i>Transition</i>	<i>Evotec Group</i>
Revenues from contracts with customers				
Service fees and FTE-based research payments	289,087	49,362	-	338,449
Recharges	-	-	11,425	11,425
Compound access fees	-	1,857	-	1,857
Milestone fees	6,000	17,630	-	23,630
Royalties	-	-	-	-
Licences	-	44	-	44
Total	295,087	68,893	11,425	375,405
Timing of revenue recognition				
At a certain time	6,000	17,674	0	23,674
Over a period of time	289,087	51,219	11,425	351,731
Total	295,087	68,893	11,425	375,405
Revenues by region				
USA	117,753	27,505	6,912	152,170
Germany	22,733	7,948	377	31,058
France	43,674	16,680	321	60,675
United Kingdom	50,549	2,805	1,849	55,203
Others	60,378	13,955	1,966	76,299
Total	295,087	68,893	11,425	375,405

The revenues are allocated to regions according to the head office of the external customers. In the transition column, the revenues from recharges are allocated.

The transaction price allocated to the remaining performance obligation (unsatisfied or partially unsatisfied) are as follows:

in T€	31 Dec 2019	31 Dec 2018
In the course of one year	171,047	224,646
after one year	61,468	85,519

Revenue that was included in the contract liabilities as of 1 January 2019 in the amount of T€ 49,676 (2018: T€ 16,164) was recognised during the year 2019.

In the financial year 2019, Celgene is Evotec's largest customer and contributed as well as Sanofi at least 10% to the Group revenues from contracts with customers. In 2019, these two customers, allocated to the segments EVT Execute and EVT Innovate, accounted for more than 25% of the Group revenues from contracts with customers equalling to T€ 112,854. Contributing a share of 14%, representing T€ 53,879, to Group revenues from contracts with customers, Sanofi was the only customer in the financial year 2018 with a share of at least 10% of the Group revenues from contracts with customers.

Main estimates and assumptions

► Identifying performance obligations, allocating the transaction price and determining the stage of completion of contracts with service fees, FTE-based research payments as well as deliverable kind of services

Evotec performs services for a variety of customers under different contractual arrangements. When performance obligations are individually capable of being distinct and distinct in the context of the contract, Evotec allocates the transaction price to distinct performance obligations on the basis of relative stand-alone selling prices of the obligations.

Primarily, contracts for research and development services often contain a large amount of individual services, trigger upfront payments to partially or fully cover the entire transaction price and are concluded for the overall purpose of identifying new research results. The Group has determined that services under such contracts are integrated and qualify as one performance obligation. As far as other distinct services are included in those type of contracts, Evotec allocates the transaction price on the basis of relative stand-alone selling prices of the obligations.

Evotec regularly measures the stage of completion of its performance obligations by reference to input-based methods, such as hours delivered under a contract in relation to expected total hours needed for a full completion of the performance obligation. Revisions made to the estimated stage of completion can result in an adjustment to revenues in the current or future financial period.

► Determining method to estimate variable compensation and assessing the constraint

Customer contracts often contain success-based variable compensation for research services and other contingent payments. The contingency often relates to few and specific research services, which is why Evotec determines the most likely amount payable under the contract. In addition Evotec assesses whether a constraint exists in reference to revenue recognition for such variable compensation. Based on Evotec's historical experience and due to the inherent risk of research, success-based variable compensation are regularly not included in the transaction price upon contract inception, but are only included when the contingent events occur or become highly probable.

(6) ACQUISITIONS

Effective 2 July 2019, Evotec acquired 100% of the shares in Just Biotherapeutics, Inc., Seattle, USA (Just). With this acquisition, Evotec is able to extend the offer of cutting-edge „machine learning“-technologies and flexible approaches for the design and manufacture of biologics.

The purchase price amounted to T€ 51,123 in cash, increased by a possible performance-based component (earn-out) as contingent consideration in the additional amount of T€ 3,882. At the date of the acquisition, the earn-out was determined on the basis of the discounted expected future cash flows. At the acquisition date, the maximum potential earn-out payment (before discounting and success rates) amounts to T€ 31,192. The customer list was recognised at the fair value of T€ 5,326, which was determined on the basis of discounted cash flow models. For the developed technologies, an adjustment to the fair value in the amount of T€ 9,465, also determined on the basis of discounted cash flow models, was recognised at the acquisition date. This acquisition results in a goodwill of T€ 30,911 allocated to the Execute segment.

The fair value of the remaining assets and liabilities acquired was determined on the basis of the net book values at the date of acquisition.

The net income of Evotec for the financial year 2019 includes a net loss of T€ 1,186 and revenues from contracts with customers of T€ 16,104 from the acquisition of Just. If this acquisition had taken place on 1 January 2019, Evotec would have shown revenues from contracts with customers of T€ 459,331 and a net income of T€ 31,121. Transaction costs incurred in the amount of T€ 787 were recognised through profit or loss as selling, general and administrative expenses in 2019. This acquisition has been allocated to the Execute segment.

NOTES

Below is a breakdown of the fair values of Just at the date of acquisition:

in T€	2 Jul 2019 Fair value
Cash and cash equivalents	10,826
Trade accounts receivables	3,795
Inventories	3,694
Prepaid expenses and other current assets	1,047
Property, plant and equipment	32,186
Developed technologies	9,465
Customer list	5,326
Lease liabilities	(17,112)
Trade accounts payable	(1,961)
Contract liabilities	(5,736)
Deferred income	(5,984)
Other current liabilities	(9,118)
Deferred tax liabilities	(2,334)
Net assets acquired	24,094
Goodwill	30,911
Cost of acquisition	55,005
Less contingent consideration	(3,882)
Less cash and cash equivalents acquired	(10,826)
Cash outflow from acquisition	40,297

During 2019, a further, but immaterial business combination took place.

Effective 1 July 2018, Evotec acquired 100% of the shares in Evotec ID (Lyon) SAS, Marcy l'Étoile, France. The purchase price amounted to € 1.00 in cash.

The income from bargain purchase resulting from the acquisition amounted to T€ 15,400 and was recognised as other operating income. The income from bargain purchase was not allocated to segments. The accounting for the acquisition was finalised in 2018.

Below is a breakdown of the fair values of Evotec ID (Lyon) at the date of acquisition:

in T€	1 Jul 2018 Fair value
Cash and cash equivalents	18,065
Prepaid expenses and other current assets	110
Property, plant and equipment	2,691
Deferred tax asset	986
Provisions	(6,452)
Net assets acquired	15,400
Income from bargain purchase	15,400
Cost of acquisition	-
Less cash and cash equivalents acquired	(18,065)
Cash outflow from acquisition	18,065

Main estimates and assumptions

► Methods and input parameters used in determining fair value

Assets and liabilities acquired in a business combination are initially accounted for at fair value on the acquisition date. Fair values are determined using a discounted cash flow model. The model relies on input parameters which are derived from observable market data. However, such parameters do involve management judgment whenever no comparable market data is available.

Significant input parameters used in determining the fair values are the estimated useful life of the assets identified, the long-term business plan as the basis for determining the expected income from these assets and the discount rate used to discount the future cash flows of individual assets. In the financial year 2019, period-specific post-tax discount rates between 9.89% and 10.67% were used in the acquisition of Just Biotherapeutics. In the financial year 2018, a post-tax discount rate of 7.90% was used in the finalisation of the purchase price allocation for the acquisition of Aptuit.

► Allocating goodwill to cash-generating units

Goodwill from business combinations is allocated to cash-generating units based on how the units will benefit from the synergies of the combination. Determining if and to which extent the units will benefit from the combination is subject to estimates, such as the long-term budget. The allocated goodwill will be subject to impairment testing on the level of the cash-generating unit or group of cash-generating units to which it was allocated as further disclosed in Note 15 "Goodwill". Because input parameters for impairment testing may vary between different cash-generating units or group of cash-generating units, the allocation of goodwill also impacts subsequent measurements.

(7) 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 measured at fair value through OCI. As of 31 December 2019, unrealised losses in the amount of T€ 76 (31 December 2018: gains of T€ 53) were recognised in other comprehensive income relating to those assets.

Based on the expected credit loss an allowance of T€ 41 has been recognised as of 31 December 2019 (31 December 2018: T€ 41). The allowance has been calculated as follows:

in T€	Book value 31 Dec 2019	estimated, expected	valuation
		failure rate	reserve
Rating A or better	16,987	0.100%	17
Rating BBB or better	6,001	0.400%	24
Bonds in investments	22,988		41

in T€	Book value 31 Dec 2018	estimated, expected failure rate	valuation reserve
Rating A or better	7,195	0.010%	7
Rating BBB or better	8,360	0.400%	33
Bonds in investments	15,555		41

(8) TRADE ACCOUNTS RECEIVABLES

The Company has assessed the non-payment risk of all trade accounts receivables. The resulting allowance as of 31 December 2019 and 2018 amounts to T€ 672 and T€ 534, 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:

in T€	31 Dec 2019	31 Dec 2018
Not past due	60,673	33,867
Bad debt not past due	(6)	(4)
Past due 0 – 30 days	7,906	6,188
Bad debt 0 – 30 days	(15)	(26)
Past due 31 – 120 days	7,676	5,107
Bad debt 31 – 120 days	(64)	(244)
More than 120 days	6,668	1,310
Bad debt more than 120 days	(587)	(260)
Total trade accounts receivables	82,251	45,938

As of 31 December 2019 an allowance of T€ 13 (31 December 2018: T€ 9) has been recognised due to expected bad debt losses. The allowance has been determined with estimated, expected failure rates between 0.01% and 0.048% (31 December 2018: 0.01% to 0.086%).

(9) INVENTORIES

Inventories consist of the following:

in T€	31 Dec 2019	31 Dec 2018
Raw materials	9,804	4,757
Work-in-progress	945	903
Total inventories	10,749	5,660

The year-on-year increase in raw materials is mainly due to the acquisition of Just. The main materials in the raw materials are consumables, cell culture medias and purification resins.

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

in T€	31 Dec 2019	31 Dec 2018
Raw materials	431	2,012
Work-in-progress	-	-
Total inventories	431	2,012

(10) CONTRACT ASSETS

As of 31 December 2019 and 2018 an allowance of T€ 1 has been recognised due to expected losses. The allowance has been calculated with an estimated, expected failure rate of 0.01%.

Contract assets completely consist of assets resulting from customer contracts.

(11) PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses as of 31 December 2019 mainly relate to payments for licences and other IT-related prepayments in the amount of T€ 3,459 (31 December 2018: T€ 2,235), maintenance in the amount of T€ 1,633 (31 December 2018: T€ 1,240) as well as prepayments for insurance premiums in the amount of T€ 1,072 (31 December 2018: T€ 778). The other current assets mainly comprise VAT-related receivables of T€ 6,287 (31 December 2018: T€ 6,639).

in T€	31 Dec 2019	31 Dec 2018
Prepaid expenses	9,166	8,451
Other	10,109	11,007
Total prepaid expenses and other current assets	19,275	19,458

**(12) INVESTMENTS ACCOUNTED FOR USING
THE EQUITY METHOD AND OTHER LONG-TERM
INVESTMENTS (STAKE UNDER 20%)**

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

in T€	31 Dec 2019	31 Dec 2018
Investments accounted for using the equity method		
Exscientia Ltd., Dundee, UK	16,236	18,399
Breakpoint Therapeutics GmbH, Hamburg, Germany	5,900	-
Celmatix Inc., Delaware, USA	2,525	-
FSHD Unlimited Coop, Leiden, Netherlands	1,832	2,125
Autobahn Labs, Palo Alto, CA, USA	1,637	-
Eternygen GmbH, Berlin, Germany	1,191	944
Topas Therapeutics GmbH, Hamburg, Germany	446	1,099
Other long-term investments (under 20%)		
Carrick Therapeutics Ltd., Dublin, Irland	3,901	3,009
Forge Therapeutics, Inc., San Diego, CA, USA	3,197	3,197
Immunitas, Therapeutics, Inc., Cambridge, MA, USA	2,449	-
Aeovian Pharamceuticals Inc., San Francisco, USA	1,645	-
Fibrocor LLP, Toronto, Kanada	190	190
Blacksmith Medicines, Inc., San Diego, CA, USA	80	-
	41,229	28,963

The following table shows the breakdown of the loss of financial assets accounted for using the equity method in the financial years 2019 and 2018:

in T€	31 Dec 2019	31 Dec 2018
Results of investments accounted for using the equity method		
Exscientia Ltd., Dundee, UK	(2,162)	(1,430)
Breakpoint Therapeutics GmbH, Hamburg, Germany	4,000	-
Celmatix Inc., Delaware, USA	(165)	-
FSHD Unlimited Coop, Leiden, Netherlands	(784)	(681)
Autobahn Labs, Palo Alto, CA, USA	(144)	-
Eternygen GmbH, Berlin, Germany	(732)	(319)
Topas Therapeutics GmbH, Hamburg, Germany	(2,223)	(1,669)
Share of the loss of associated companies accounted for using the equity method	(2,210)	(4,099)

In the reporting year 2019, Evotec's share in the following investments accounted for using the equity method has changed mainly because of financing rounds: Topas Therapeutics GmbH, changing from 30% to 28.44% and Eternygen GmbH from 23.70% to 24.97%. Additionally, Evotec acquired in 2019 shares in Celmatix, Autobahn Labs and Breakpoint Therapeutics.

By participating in a financing round in December 2018, Evotec held 19.91% shares of FSHD Unlimited Coop (FSHD) as of 31 December 2018. As Evotec still has had significant influence, Evotec continued to account for FSHD using the at-equity method under IAS 28. In the course of a financing round in July 2019 the share increased again to 21.12%.

The movements in the investments with a share below 20% are shown below:

in T€	
Balance at 1 Jan 2019	6,396
Acquisition	4,986
Adjustments at fair value, affecting net income	80
Net book value 31 Dec 2019	11,462

in T€	
Balance at 1 Jan 2018	4,282
Acquisition	1,924
Adjustments at fair value, affecting net income	190
Net book value 31 Dec 2018	6,396



NOTES

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

in T€	Total assets 31 Dec 2019	<i>Loss share not attributable to Evotec 31 Dec 2019</i>	<i>Net assets 31 Dec 2018</i>	<i>Loss share not attributable to Evotec 31 Dec 2018</i>
Exscientia Ltd., Dundee, UK	48,649	7,153	29,955	4,419
Breakpoint Therapeutics GmbH, Hamburg, Germany	23,296	1,631	-	-
Topas Therapeutics GmbH, Hamburg, Germany	8,765	5,594	10,081	3,853
FSHD Unlimited Coop, Leiden, Netherlands	4,774	3,089	6,663	2,502
Autobahn Labs, Palo Alto, CA, USA	3,138	288	-	-
Celmatix Inc., Delaware, USA	2,479	494	-	-
Eternygen GmbH, Berlin, Germany	847	2,259	907	1,077

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

in T€	
Balance at 1 Jan 2019	18,399
Acquisition	-
Net income from 1 Jan to 31 Dec	(2,163)
Other changes recorded in equity	-
Net book value 31 December 2019	16,236

in T€	
Balance at 1 Jan 2018	14,845
Acquisition	4,983
Net income from 1 Jan to 31 Dec	(1,429)
Other changes recorded in equity	-
Net book value 31 Dec 2018	18,399

The following table shows further financial information of the significant investment in Exscientia:

in T€	31 Dec 2019	31 Dec 2018
Current assets	41,415	28,981
Non-current assets	7,234	974
Current liabilities	77	77
Non-current liabilities	-	-
Revenues from 1 Jan to 31 Dec	10,139	344
Net result from 1 Jan to 31 Dec	(9,315)	(5,848)
Other comprehensive income	-	-
Total comprehensive income	(9,315)	(5,848)

(13) PROPERTY, PLANT AND EQUIPMENT

The development of property, plant and equipment in 2019 and 2018 is shown in the following tables:

2019

in T€	<i>Buildings and leasehold improvements</i>	<i>Plant, machinery and equipment</i>	<i>Furniture and fixtures</i>	<i>Purchased software</i>	<i>Assets under construction</i>	<i>Total</i>
Acquisition and manufacturing costs						
Amount beginning of the year	138,650	115,467	12,077	3,764	6,241	276,199
Foreign currency translation	3,275	2,786	511	52	304	6,928
Additions	9,738	16,129	5,019	652	6,869	38,407
Business combination	21,532	9,040	139	160	1,315	32,186
Disposals	1,070	2,036	120	9	70	3,305
Reclass	134	1,822	108	18	(2,082)	-
Amount end of the year	172,259	143,208	17,734	4,637	12,577	350,415
Depreciation, amortisation and write-downs						
Amount beginning of the year	10,996	53,571	6,502	2,555	-	73,624
Foreign currency translation	997	1,758	363	39	-	3,157
Additions	16,588	15,701	3,348	819	-	36,456
Disposals	55	1,890	100	6	-	2,051
Amount end of the year	28,526	69,140	10,113	3,407	-	111,186
Net book value						
Amount beginning of the year	127,654	61,896	5,575	1,209	6,241	202,575
Amount end of the year	143,733	74,068	7,621	1,230	12,577	239,229

2018

in T€	<i>Buildings and leasehold improvements¹⁾</i>	<i>Plant, machinery and equipment</i>	<i>Furniture and fixtures</i>	<i>Purchased software</i>	<i>Finance leases</i>	<i>Assets under construction</i>	<i>Total</i>
Acquisition and manufacturing costs							
Amount beginning of the year	23,927	88,692	8,565	3,008	3,081	4,409	131,682
Foreign currency translation	(139)	(238)	(107)	30	(125)	(121)	(700)
Additions	1,960	16,290	3,254	310	4,509	5,544	31,867
Business combination	-	2,627	64	-	-	-	2,691
Disposals	-	1,296	101	-	-	-	1,397
Reclass	1,397	1,609	169	416	-	(3,591)	-
Amount end of the year	27,145	107,684	11,844	3,764	7,465	6,241	164,143
Depreciation, amortisation and write-downs							
Amount beginning of the year	9,183	40,405	3,882	1,771	372	-	55,613
Foreign currency translation	(82)	78	(22)	33	(6)	-	1
Additions	1,895	12,911	2,737	751	994	-	19,288
Disposals	-	1,183	95	-	-	-	1,278
Amount end of the year	10,996	52,211	6,502	2,555	1,360	-	73,624
Net book value							
Amount beginning of the year	14,744	48,287	4,683	1,237	2,709	4,409	76,069
Amount end of the year	16,149	55,473	5,342	1,209	6,105	6,241	90,519

¹⁾ The carry forward was adjusted due to the finalisation of the purchase price allocation of the business combination with Aptuit.

NOTES

The increase in property, plant and equipment is predominantly due the initial application of IFRS 16. Further details of which can be found in Notes 2 and in the below table. The continuing growth of the Company and

expansions in Goettingen and Princeton led to capital expenditure mainly in plant, machinery and equipment. Further material additions in 2019 result from the acquisition of Just.

2019

in T€	<i>Right of use Buildings and leasehold improvements</i>	<i>Right of use Plant, machinery and equipment</i>	<i>Right of use Furniture and fixtures</i>	<i>Total</i>
Acquisition and manufacturing costs				
Amount beginning of the year	111,505	9,783	233	121,521
Foreign currency translation	2,277	106	6	2,389
Additions	7,107	213	226	7,546
Business combination	16,276	373	-	16,649
Disposals	1,007	-	-	1,007
Reclass	-	-	-	-
Amount end of the year	136,158	10,475	465	147,098
Depreciation, amortisation and write-downs				
Amount beginning of the year	-	1,560	-	1,560
Foreign currency translation	345	89	3	437
Additions	13,356	1,265	107	14,728
Disposals	(1)	-	-	(1)
Amount end of the year	13,702	2,914	110	16,726
Net book value				
Amount beginning of the year	111,505	8,223	233	119,961
Amount end of the year	122,456	7,561	355	130,372

The additions in 2018 mainly relate to upgrades as well as instruments and equipment to support the state-of-the-art platform offering. In particular, capital expenditure was made in high-quality mass spectrometry instruments in a number of disciplines, software upgrades and improvements of the infrastructure in order to even better serve the collaborations with Celgene regarding iPSC and oncology. In addition, capital expenditure relates to the expansion of the capacities of the Company's integrated pre-clinical development offering (INDiGO). The capital expenditure regarding facilities focused on laboratory and office expansions, in particular in Hamburg and Goettingen (Germany) as well as on substance management in Branford (USA) and the laboratories in Princeton (USA). Upon completion of the assets under construction, costs are transferred into their respective fixed assets classification.

(14) LEASES

The following items relating to leases are recognised in the statement of financial position within property, plant and equipment:

in T€	31 Dec 2019	1 Jan 2019
Right-of-use assets		
Buildings and leasehold improvements	122,456	111,505
Plant, machinery and equipment	7,561	8,223
Furniture and fixtures	355	233
Lease liabilities		
Short-term	14,388	13,764
Long-term	117,482	105,067

In the reporting period, the following amounts were recognised as expenses:

in T€	2019
Depreciation expense of right-of-use assets	14,728
Interest expense on lease liabilities	2,641
Expense relating to short-term leases	106
Expense relating to leases of low-value assets	185
Variable lease payments	-
Total amount recognised in profit or loss	17,660

NOTES

Evotec's total cash outflow for leases amounts to T€ 15,545 in 2019 (2018: T€ 1,142). Furthermore, Evotec recognised non-cash additions to right-of-use assets and lease liabilities of T€ 7,545 (2018: T€ 4,000). The future cash outflows relating leases that have not yet commenced are disclosed in Note 31 a).

**(15) INTANGIBLE ASSETS,
EXCLUDING GOODWILL**

The development of intangible assets in 2019 and 2018 is shown in the following tables:

2019

in T€	<i>Patents and licences</i>	<i>Developed technology</i>	<i>Customer related</i>	<i>Trademarks</i>	<i>Favourable contracts</i>	<i>Total</i>
Acquisition and manufacturing costs						
Amount beginning of the year	9,981	88,680	61,967	6,539	62,033	229,200
Foreign currency translation	-	1,446	1,297	-	-	2,743
Additions	583	-	-	-	-	583
Business combination	220	9,465	5,326	-	-	15,011
Disposals	-	-	-	-	-	-
Amount end of the year	10,784	99,591	68,590	6,539	62,033	247,537
Depreciation, amortisation and write-downs						
Amount beginning of the year	6,309	76,121	19,316	2,388	2,077	106,211
Foreign currency translation	-	1,234	476	-	-	1,710
Additions	250	871	8,491	1,240	1,498	12,350
Disposals	-	-	-	-	-	-
Impairment	-	10,272	-	-	-	10,272
Amount end of the year	6,559	88,498	28,283	3,628	3,575	130,543
Net book value						
Amount beginning of the year	3,672	12,559	42,651	4,151	59,956	122,989
Amount end of the year	4,225	11,093	40,307	2,911	58,458	116,994

2018

in T€	<i>Patents and licences</i>	<i>Developed technology</i>	<i>Customer related</i>	<i>Trademarks</i>	<i>Favourable contracts</i>	<i>Total</i>
Acquisition and manufacturing costs						
Amount beginning of the year	6,281	88,419	61,891	6,539	62,033	225,163
Foreign currency translation	-	261	76	-	-	337
Additions	3,700	-	-	-	-	3,700
Business combination	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Amount end of the year	9,981	88,680	61,967	6,539	62,033	229,200
Depreciation, amortisation and write-downs						
Amount beginning of the year	6,171	71,224	11,452	704	579	90,130
Foreign currency translation	-	(203)	(85)	-	-	(288)
Additions	138	736	7,949	1,684	1,498	12,005
Disposals	-	-	-	-	-	-
Impairment	-	4,364	-	-	-	4,364
Amount end of the year	6,309	76,121	19,316	2,388	2,077	106,211
Net book value						
Amount beginning of the year	110	17,195	50,439	-	-	67,744
Amount end of the year	3,672	12,559	42,651	4,151	59,956	122,989

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

The main additions to intangible assets in 2019 relate to developed technologies and customer related intangibles from the acquisition of Just. Developed technologies are amortised over the period of 7 years and 3 months and the customer related intangibles over a period of 5 years. Their historic acquisition cost amount to T€ 9,275 and T€ 5,326 respectively and their carrying value as at 31 December 2019 to T€ 9,009 and T€ 4,823 respectively.

The additions to intangible assets in 2018 relate to rights to potential future revenues of Haplogen GmbH, Vienna.

The developed technologies acquired in a business combination are amortised as soon as the intangible assets start to generate sustainable benefits.

The developed technologies which were not yet amortised were tested for impairment on the annual designated test date in the fourth quarter 2019.

These annual impairment tests resulted in 2019 in no impairments.

During the financial year 2019, an impairment of developed technologies from the acquisition of Renovis Inc., San Francisco was identified. The program was terminated in the second quarter of 2019 and the relating technologies in the amount of T€ 10,272 fully written down. This was allocated to the Innovate segment.

No further impairments were recognised in 2019.

(16) GOODWILL

The Company has tested the cash-generating units for impairment on the annual designated test date in the fourth quarter 2019 based on the net book values as of 30 September 2019. The impairment tests are based on discounted cash flow models.

With respect to the development of goodwill please refer to the following detailed schedules.

2019

in T€	OAI/Evotec International Execute	OAI/Evotec International Innovate	Aptuit Execute	Evotec (München) Execute	Evotec (US) Execute	Evotec (US) Innovate	Just Execute	Total
1 Jan 2019	71,615	9,158	126,259	7,983	4,152	1,624	-	220,791
Business combination	-	-	-	-	-	-	30,911	30,911
Disposal	-	-	-	-	-	1,647	-	1,647
Foreign currency translation	3,483	36	2,058	-	80	23	184	5,864
31 Dec 2019	75,098	9,194	128,317	7,983	4,232	-	31,095	255,919

2018

in T€	OAI/Evotec International Execute	OAI/Evotec International Innovate	Not allocated	Aptuit Execute	Evotec (München) Execute	Evotec (US) Execute	Evotec (US) Innovate	Total
1 Jan 2018	60,230	9,164	137,555	-	7,983	3,964	1,551	220,447
Reclass	11,869	-	(137,555)	125,686	-	-	-	-
Foreign currency translation	(484)	(6)	-	573	-	188	73	344
31 Dec 2018	71,615	9,158	-	126,259	7,983	4,152	1,624	220,791

The addition to goodwill results from the acquisition of Just. This goodwill was allocated to a separate cash-generating unit because the operating activities of designing and manufacturing biologics must be considered separately. The disposal in the financial year 2019 relates to the goodwill of Evotec (US) Innovate, following an impairment test in the second quarter of 2019.

In the financial year 2018, the goodwill stemming from the acquisition of Aptuit was allocated with T€ 11,869 to the cash-generating unit of OAI/Evotec International Execute and with T€ 125,686 to a group of cash-generating units (Aptuit Execute), which comprises Aptuit (Verona), Aptuit (Oxford) and Aptuit (Potters Bar). The allocation was based on how the cash-generating

unit or group of cash-generating units would benefit from the synergies of the business combination. The relative shares were determined on the basis of expected profits as derived from the budgets of the individual entities. In addition, the allocation corresponds with how management monitors and tests goodwill for impairment.

In the tables below, the assumptions for the discounted cash flow models used in the annual impairment tests in the fourth quarter 2019 and 2018, 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 and groups of cash-generating units 2019

	OAI/Evotec International Execute	OAI/Evotec International Innovate	Evotec (München) Execute	Evotec (US) Execute	Aptuit Execute	Just Execute
Denominated in	GBP/EUR	GBP/EUR	EUR	USD	GBP/USD/EUR	USD
Basis for cash flow model	LRP	LRP/PP of 25 years	MRP	MRP	MRP	MRP
Post-tax discount rate	7.86%	9.49%	6.15%	8.33%	8.67%	10.44%
Growth rate for terminal value	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%

LRP = Long-range Plan 2020 – 2029

MRP = Mid-range Plan 2020 – 2025

PP = Project planning

Cash-generating units and groups of cash-generating units 2018

	OAI/Evotec International Execute	OAI/Evotec International Innovate	Evotec (München) Execute	Evotec (US) Execute	Evotec (US) Innovate	Aptuit Execute
Denominated in	GBP/EUR	GBP/EUR	EUR	USD	USD	GBP/USD/EUR
Basis for cash flow model	LRP	LRP/PP 17 – 21 years	LRP	MRP	PP 14 years	MRP
Post-tax discount rate	7.06% – 8.97%	9.18% – 11.38%	7.01%	8.97%	11.38%	8.99%
Growth rate for terminal value	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

LRP = Long-range Plan 2019 – 2028

MRP = Mid-range Plan 2019 – 2023

PP = Project planning

In 2019 and 2018, the Company recorded no impairment as a result of these annual impairment tests.

The estimated cash flows for the impairment test in 2018 of the goodwill in Evotec (US) Innovate were based on the key assumptions of the underlying developed technologies.

The impairment tests of the goodwill in Evotec (US) Execute, OAI/Evotec International Execute, Evotec (München) Execute, Aptuit Execute, Just Execute and OAI/Evotec International Innovate and the relating estimated cash flows are based on past experience and expectations for the future. The estimated cash flows used in the impairment test of the goodwill in OAI/Evotec International Innovate are additionally based on the key assumptions of the underlying developed technologies.

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 2020, respectively 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.

Based on current inflation expectations in the regions relevant to Evotec's business, the sustainable terminal value growth rate was increased to 1.5% for all cash-generating units.

Management has identified the discount rate as well as the growth rate in the terminal value as key assumptions that have 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 2019 and 2018 if possible changes in the key assumptions occur. Those changes in the material assumptions are shown, which result in the estimated recoverable amount to be equal to the carrying amount in 2019 and 2018.

2019

	Recoverable amount exceeding net book value	Applied post-tax discount rate	Increase of post-tax discount rate	Applied terminal value	Decrease terminal value
	in T€	in %-points	in %-points	in %-points	in %-points
Aptuit Execute	10,588	8.67	0.28	1.50	0.46

2018

	Recoverable amount exceeding net book value	Applied post-tax discount rate	Increase of post-tax discount rate
	in T€	in %-points	in %-points
Aptuit Execute	6,701	8.99	0.21
Evotec (US) Execute	2,061	8.97	2.15

In the second quarter of 2019, an impairment of developed technologies from the acquisition of Renovis Inc. led to a triggering event to impairment test the goodwill in the cash-generating unit of Evotec (US) Innovate. As a result of this test, the goodwill concerning Evotec (US) Innovate of T€ 1,647 was fully written-down. This impairment loss has been allocated to the EVT Innovate segment.

In the fourth quarter of 2019, a triggering event was identified for testing the goodwill of the cash generating unit Aptuit Execute due to a change in tax regulations in Italy. As a result of this review, no impairment loss was recognized.

(17) NON-CURRENT TAX RECEIVABLES

Non-current tax receivables as of 31 December 2019 and 2018 relate to tax refunds from tax development programmes in the context of qualifying research and development expenses within France (crédit d'impôt recherche).

(18) LOAN LIABILITIES

Throughout the years 2019 and 2018, Evotec met all covenants under the various loan agreements shown below. All loans are unsecured. In 2019 and 2018, Evotec always had to maintain a minimum liquidity of T€ 35,000.

Country of lender	Currency	Nominal interest rate	Maturity until	31 Dec		31 Dec	
				2019 Fair value	2019 Carrying amount	2018 Fair value	2018 Carrying amount
				in T€	in T€	in T€	in T€
Germany	EUR	variable 6M Euribor +0.7% to 1.1% but minimum 0% and fixed interest rate of 0.7% to 2%	2022–2029	252,047	249,206	-	-
Germany	EUR	1.60%	2024–2025	59,832	56,703	34,050	32,809
Germany	EUR	1.20%	2021–2025	13,463	13,409	10,032	10,000
Germany	EUR	1.23%	2020	5,000	5,000	4,987	5,000
Germany	EUR	1.28%	2021	4,991	5,000	5,007	5,000
Germany	EUR	1.25%	2021	902	892	1,607	1,605
Italy	EUR	Euribor +1.7%	2021	720	720	1,217	1,217
Italy	EUR	1.80%	2020	299	299	701	699
Germany	EUR	Euribor +1.15%	2019	-	-	10,000	10,000
Germany	EUR	Euribor +1.8%	2019	-	-	30,000	30,000
Germany	EUR	Euribor +1.25%	2019	-	-	6,500	6,500
Germany	EUR	Euribor +1.25%	2019	-	-	6,500	6,500
United Kingdom	GBP	Libor +1.5%	2019	-	-	279	279
Italy	EUR	1.50%	2019	-	-	140	140
				337,254	331,229	111,020	109,749

Current loan liabilities consisted of unsecured bank loans in the amount of T€ 6,343 as of 31 December 2019 (31 December 2018: T€ 55,069).

As of 31 December 2019, the Company maintained unutilised lines of credit totalling T€ 55,492 (31 December 2018: T€ 53,143).

(19) PROVISIONS

The current provisions consist of the following:

in T€	31 Dec 2019	31 Dec 2018
Bonus accruals	19,230	17,302
Accrued vacation	9,944	8,368
Other provisions for personnel	1,548	301
Contingent consideration	411	149
Other pension provisions	180	88
Accrued lease expenses	-	225
Other provisions	1,838	1,546
Total current provisions	33,151	27,979

The non-current provisions consist of the following:

in T€	31 Dec 2019	31 Dec 2018
Pension	14,086	12,218
Contingent consideration	3,854	497
Bonus accruals	2,092	3,022
Dilapidation	2,030	1,902
Accrued lease expenses	-	1,777
Other provisions for personnel	-	504
Other provisions	475	66
Total non-current provisions	22,537	19,986

The following table summarises the development of total provisions recorded during 2019:

in T€	1 Jan 2019	Business combination	Consumption	Release	Foreign exchange	Additions	31 Dec 2019
Personnel expenses	29,497	-	22,929	794	233	26,807	32,814
Pensions	12,306	-	8	-	-	1,968	14,266
Contingent consideration	646	3,882	152	175	24	40	4,265
Dilapidation	1,902	-	-	-	98	30	2,030
Accrued lease expenses	2,002	-	2,022 ¹⁾	-	20	-	-
Other provisions	1,612	-	675	105	3	1,478	2,313
Total	47,965	3,882	25,786	1,074	378	30,323	55,688

¹⁾ The consumption results from the first time application of IFRS 16.

The provision for personnel expenses mainly consists of bonus accruals and accrued vacation. The provision for pensions relate mainly to pensions in France (see Note 30).

The provision for contingent consideration (earn-out) as of 31. December 2019 is mainly set up for the earn-out in the amount of T€ 3,906 from the acquisition of Just in 2019. The respective release includes an adjustment of expected future net cash outflows of T€ (175) (31 December 2018: T€ (2,263)) concerning the contingent consideration from the acquisition of DeveloGen.

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.

(20) CONTRACT LIABILITIES

As of 31 December 2019 and 2018, contract liabilities mainly originate from the upfront payments relating to the customer contracts with Celgene Corporation and Celgene RIVOT LLC in the amount of T€ 73,197 (31 December 2018: T€ 78,398) of which T€ 39,682 (31 December 2018: T€ 36,892) is classified as current contract liabilities. Contract liabilities consist entirely of contract liabilities from customer contracts.

(21) INCOME TAXES

—
**a) AMOUNTS RECOGNISED IN
CONSOLIDATED INCOME STATEMENT**
—

Income tax benefit and expense for the years 2019 and 2018 comprise the following:

in T€	2019	2018
Current taxes:		
— Current tax expense	(13,013)	(13,803)
— Adjustment for prior years	385	(257)
Total current taxes	(12,628)	(14,060)
Deferred taxes:		
— Tax loss carry forwards	(10,570)	20,475
— Temporary differences	3,864	5,642
Total deferred taxes	(6,706)	26,117
Total income tax income (expense)	(19,334)	12,057

— 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€	2019	2018
Income (loss) before taxes	56,562	71,999
Expected German income tax rate	32.28%	32.28%
Expected income tax benefit (expense)	(18,258)	(23,241)
Non-deductible expenses and income	(3,272)	(3,410)
Tax free income from R&D tax credits	7,077	4,948
Tax free income	3,558	5,427
Permanent difference from GILTI	2,436	1,961
Deviation tax rates to expected tax rate	(19)	56
Change in tax rates	2,436	1,961
Change in recognition of deferred tax assets	(4,391)	26,576
Non-periodic taxes	385	(257)
Other	(821)	(3)
Effective income tax income (expense)	(19,334)	12,057
Effective income tax rate	34.18%	(16.75)%

Deferred income tax assets and liabilities calculated with the anticipated tax rates of each entity as of 31 December 2019 and 2018 relate to the following:

in T€	1 Jan 2019					31 Dec 2019		
	Net balance	Recognised in profit or loss	Recognised in equity	Foreign currency translation	Business combination	Net	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment	1,011	(1,657)	-	-	(2,301)	(2,947)	1,387	(4,334)
Intangible assets	(31,582)	5,293	51	92	(3,348)	(29,494)	899	(30,393)
Right of use assets	(29,615)	1,304	-	-	(3,418)	(31,729)	-	(31,729)
Financial assets	10	(1,022)	-	-	-	(1,012)	116	(1,128)
Provisions and deferred income	4,276	885	265	-	(176)	5,250	6,575	(1,325)
Lease obligations	30,234	(2,648)	-	-	3,594	31,180	31,573	(393)
Other	257	1,440	-	-	144	1,841	2,094	(253)
Tax credits	2,224	269	-	-	-	2,493	2,493	-
Loss carryforward	44,997	(10,570)	-	(33)	3,155	37,549	37,549	-
Total	21,812	(6,706)	316	59	(2,350)	13,131	82,686	(69,555)
Set off of tax							(48,356)	48,356
Net	21,812	(6,706)	316	59	(2,350)	13,131	34,330	(21,199)

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in T€	1 Jan 2018	Recognised in profit or loss	Recognised in equity	Foreign currency translation	Business combination	31 Dec 2018		
	Net balance					Net	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment	(478)	1,489	-	-	-	1,011	1,866	(855)
Intangible assets	(35,040)	4,344	-	(886)	-	(31,582)	749	(32,331)
Financial assets	268	(258)	-	-	-	10	1,163	(1,153)
Provisions and deferred income	3,660	194	154	(99)	986	4,895	5,487	(592)
Other	(279)	537	-	(1)	-	257	373	(116)
Tax credits	2,888	(664)	-	-	-	2,224	2,224	-
Loss carryforward	24,522	20,475	-	-	-	44,997	44,997	-
Total	(4,459)	26,117	154	(986)	986	21,812	56,859	(35,047)
Set off of tax							(13,530)	13,530
Net	(4,459)	26,117	154	(986)	986	21,812	43,329	(21,517)

— c) UNRECOGNISED DEFERRED TAX LIABILITIES —

**(22) STOCK-BASED
COMPENSATION**

Concerning undistributed foreign subsidiaries earnings, temporary differences in the amount of T€ 8,942 were not recognised according to IAS 12.39 (2018: T€ 7,296).

— a) SHARE PERFORMANCE AWARDS —

— 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 2019, 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. 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.

To further incentivise executives via variable long-term incentive compensation, the Annual General Meeting in June 2017, June 2015 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 (SPP 2015) as well as 4,000,000 bearer shares (SPP 2012) of the Company being issued at maturity to members of the Management Board and other key employees. Each SPA grants up to two subscription rights to Company shares, each of which in turn, entitle the holder to the subscription of one Company share. SPAs under SPP 2017 are exercised automatically within ten trading days after the four-years holding period, whereas SPAs under SPP 2015 and SPP 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.

in T€	2019	2018
Tax loss carryforwards (not expiring)	221,772	211,900
Time-limited tax losses		
– expiring until 2024 (2018: 2023)	22,444	17,619
– expiring from 2025 – 2029 (2018: 2024 – 2028)	88,218	5,498
– expiring from 2030 (2018: 2029)	55,754	111,986
Interest carryforward	-	-
Tax credits	1,140	1,140
Total	376,505	348,143

SPAs under SPP 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.

A net asset position for temporary differences amounting to T€ 3,360 was not recorded as of 31 December 2019 (31 December 2018: T€ 1,056).

SPAs under SPP 2015 and SPP 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

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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 2019 and 2018 and the changes during the year then ended is presented as follows:

31 Dec

	2019	2019	2018	2018
	Share Performance Awards (SPAs)	Weighted average exercise price	Share Performance Awards (SPAs)	Weighted average exercise price
		€ per share		€ per share
Outstanding at beginning of the year	2,869,248	1.00	3,464,688	1.00
SPAs granted	230,231	1.00	230,390	1.00
SPAs exercised	(924,917)	1.00	(808,809)	1.00
SPAs forfeited	(25,000)	1.00	(17,021)	1.00
Outstanding at end of the year	2,149,562	1.00	2,869,248	1.00
Thereof exercisable	504,234	1.00	727,513	1.00

In the financial year 2019, 86,283 SPAs (2018: 103,681 SPAs) from the total granted 230,231 SPAs were given to the members of the Management Board. The SPAs exercised in 2019 correspond to 1,789,784 shares (2018: 1,500,893 shares).

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

	15 Jan 2019	15 Jan 2018	25 Aug 2017	20 Sep 2016
Risk-free interest rate in %	(0.46)	(0.25)	(0.50)	(0.61)
Volatility of Evotec share in %	54.0	51.0	34.0	33.0
Volatility of TecDAX index in %	22.0	13.0	12.0	n/a
Fluctuation in %	0.0 – 5.0	0.0 – 5.0	0.0 – 5.0	0.0 – 5.0
Exercise price in Euro	1.00	1.00	1.00	1.00
Share price at grant date in Euro	18.83	14.35	16.24	4.66
Market value of TecDAX index at grant date in Euro	2,478.06	2,663.91	2,266.43	n/a
Fair value according to IFRS 2 at grant date per SPA of the Management Board in Euro	15.33	12.19	14.57	3.87
Fair value according to IFRS 2 at grant date per SPA of employees in Euro	20.84	15.94	19.68	3.87

The performance measurement period for this vesting in 2019 and 2018 started on 1 January of the corresponding year. The expected dividend yield is zero, the expected life is four years.

adjustment of T€ 352 of the total amount to be recognised as compensation expense in the financial year 2018.

In the financial year 2018, the assumption relating to the SPAs granted in 2016 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

— 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 2019 and 2018 and the changes during the years then ended is presented as follows:

31 Dec

	2019	2019	2018	2018
	Options	Weighted average exercise price	Options	Weighted average exercise price
		€ per share		€ per share
Outstanding at beginning of the year	82,594	2.45	111,814	2.50
Options exercised	(50,000)	2.23	(29,220)	2.65
Options expired	-	-	-	-
Options forfeited	-	-	-	-
Outstanding at end of the year	32,594	2.79	82,594	2.45
Thereof exercisable	32,594	2.79	82,594	2.45

A summary of the stock options outstanding as of 31 December 2019 is as follows:

Range of exercise prices	Weighted average remaining contractual life
€ per share	
2.79	1.2 years

The Company recognised current service costs for all SPAs totalling to T€ 3,649 in 2019 and to T€ 4,247 in 2018, which were recognised as operating expenses in the consolidated income statement. Thereof, T€ 1,465 are related to SPAs of the Management Board in 2019 (2018: T€ 1,548). In 2019 and 2018, no current service costs related to stock options were recognised. The expenses relating to accelerated vesting as well as the adjustment of current service costs due to changes in assumptions in the financial year 2018 are included in the amount above.

(23) STOCKHOLDERS' EQUITY

The share capital is made up of:

Shares in thousands	31 Dec 2019	31 Dec 2018
Issued as of 1 Jan	149,063	147,533
Exercise of share purchase rights	1,840	1,530
Issued as of 31 Dec	150,903	149,063

On 31 December 2019, there are 150,902,578 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 2019 show an average exercise price amounting to € 1.03 (2018: € 1.06) per share.

The conditional capital (bedingtes Kapital) as of 31 December 2019 consists of 8,815,190 shares available with respect to the SPAs and the stock option plans and 29,959,289 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 19 June 2019. Consequently, the remaining conditional capital (bedingtes Kapital) as of 31 December 2019 amounted in total to 38,774,479 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.

Evotec owns 249,915 of Evotec's shares as of 31 December 2019 (2018: 249,915), representing 0.2% (2018: 0.2%) of Evotec's share capital as of 31 December 2019.

(24) RESEARCH AND DEVELOPMENT

In 2019, research and development expenses mainly relate to company-owned Innovate projects amounting to T€ 49,673 (2018: T€ 30,811) as well as overhead expenses in the amount of T€ 6,766 (2018: T€ 4,212). The overhead expenses consist mainly of patent costs and overhead personnel expenses. The increase in research and development expenses compared to the financial year 2018 is mainly due to initiatives in the areas of metabolic diseases and oncology.

(25) SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Included in selling, general and administrative expenses in 2019 are expenses for sales and marketing in the amount of T€ 9,094 (2018: T€ 9,045). Other administrative expenses in 2019 amount to T€ 57,452 (2018: T€ 47,967). The increase in general and administrative expenses is in particular due to the first full year inclusion of Evotec ID (Lyon), the consideration of Just – Evotec Biologics since July 2019 and associated transaction-related expenses as well as increased personnel expenses and consulting fees due to the significant company growth.

(26) OTHER OPERATING INCOME AND EXPENSE

In 2019 and 2018, other operating income mainly relates to T€ 32,822 (2018: T€ 20,494) refunds from Sanofi relating to the development of portfolios in Lyon and Toulouse. Further included are refunds from French CIR (crédit d'impôt recherche) in the amount of T€ 17,618 (2018: T€ 12,488) and Italy in the amount of T€ 6,735 (2018: T€ 6,363) as well as similar refunds in UK from the „Research and Development Expenditure Credit“ (RDEC) in the amount of T€ 3,874 (2018: T€ 5,431). These tax refunds from tax development programmes are akin to a government grant and as a result shown as other operating income.

(27) 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 28)
- ▶ capital management (see Note 28)
- ▶ credit risks (see Note 28)
- ▶ market risks (see Note 28)

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 of the Supervisory Board 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 2019 and 2018 each against the Euro:

in T€	Average rate		31 Dec	
	2019	2018	2019	2018
	1 Jan–31 Dec	1 Jan–31 Dec		
USD	0.89328	0.84677	0.8902	0.8734
GBP	1.13917	1.13032	1.1754	1.1179
CHF	0.89900	0.86583	0.9213	0.8874

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.

in T€	Variance 2019		Variance 2018	
	Equity	Profit and loss	Equity	Profit and loss
USD (10% strengthening)	10,861	10,861	7,000	7,000
USD (10% weakening)	(10,861)	(10,861)	(7,000)	(7,000)
GBP (10% strengthening)	2,803	2,803	659	659
GBP (10% weakening)	(2,803)	(2,803)	(659)	(659)
EUR (10% strengthening)	332	332	442	442
EUR (10% weakening)	(332)	(332)	(442)	(442)
CHF (10% strengthening)	25	25	33	33
CHF (10% weakening)	(25)	(25)	(33)	(33)

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. Foreign currency forward contracts amounting to a fair value of T€ 1,042 were held by the Company as of 31 December 2019 (31 December 2018: T€ (274)). 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€ 1,042 in the financial year 2019 (2018: net loss of T€ 287).

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 and USD/EUR forward contracts are determined. As of 31 December 2019, cash flows of TUSD 18,000 (31 December 2018: TUSD 27,759), were hedged against TGBP 14,396 (31 December 2018: TGBP 21,755). Additionally, TUSD 12,000 were hedged against T€ 10,780 as of 31 December 2019.

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 2019 and 2018 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 2019, the effect on net income without considering any potential tax effects would have been T€ 320 higher (lower) (31 December 2018: net income T€ 265 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 loans and current investments with variable interest rates as of 31 December 2019 and 2018 would vary by the following amounts:

in T€	31 Dec 2019	31 Dec 2018
Variable interest rate +1% point	491	178
Variable interest rate (1)% point	(491)	(178)

Evotec regularly uses interest rate swaps to hedge the interest rate risks from its borrowings. In November 2018, two new three-year interest rate swaps with a notional of T€ 4,000 each were agreed with two German banks to swap Euribor against a fixed rate of 0.2% and 0.22%, respectively. In addition, a 0% floor covering the variable side was entered into. Currently, this results in a fixed interest rate of 1.45% and 1.47% respectively for an amount of T€ 8,000 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 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.

(28) RISKS

Liquidity risks

Revenue fluctuations, external events and changes in the business environment 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 has successfully increased liquidity through market positioning and growth. Given the current business environment with economic and political uncertainties, Evotec assesses the associated liquidity risks to be unchanged from the previous year to be low to medium. The potential impact is assumed to be medium.

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.

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. This risk has increased due to extensive political uncertainty and a potentially strong market reaction in the forthcoming months.

The contractual maturities of financial liabilities, including estimated interest payments as of 31 December 2019 and 2018 are included in the following tables:

31 Dec 2019

in T€	Carrying amount	Contractual cash flow	Due in 1 year	Due in 2–5 years	More than 5 years
Non-derivative financial liabilities					
Loans	(331,229)	(358,708)	(10,628)	(190,614)	(157,466)
Contingent consideration	(4,265)	(5,850)	(453)	(4,707)	(690)
Trade accounts payable	(31,319)	(31,319)	(31,319)	-	-
Other current financial liabilities	(190)	(190)	(190)	-	-
Total non-derivative financial liabilities	(367,003)	(396,067)	(42,590)	(195,321)	(158,156)
Derivative financial liabilities					
FX forward contracts USD/GBP	-	-	-	-	-
Interest rate swap	(611)	(611)	-	(285)	(326)
Total derivative financial liabilities	(611)	(611)	-	(285)	(326)

31 Dec 2018

in T€	Carrying amount	Contractual cash flow	Due in 1 year	Due in 2–5 years	More than 5 years
Non-derivative financial liabilities					
Loans	(109,749)	(114,009)	(56,053)	(24,362)	(33,594)
Finance lease obligations	(4,716)	(4,882)	(1,977)	(2,905)	-
Contingent consideration	(646)	1,057	(240)	(71)	(746)
Trade accounts payable	(31,137)	(31,137)	(31,137)	-	-
Other current financial liabilities	(42)	(42)	(42)	-	-
Total non-derivative financial liabilities	(146,290)	(151,127)	(89,449)	(27,338)	(34,340)
Derivative financial liabilities					
FX forward contracts USD/GBP	(274)	(274)	(274)	-	-
Interest rate swap	(25)	(25)	-	(25)	-
Total derivative financial liabilities	(299)	(299)	(274)	(25)	-

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):

in T€	31 Dec 2019	31 Dec 2018
Total assets	1,181,702	771,883
Equity attributable to the shareholders of Evotec SE	477,029	424,004
Equity ratio (in %)	40.4%	54.9%
Net cash	(186,065)	(5,410)

Evotec remains well financed with an equity ratio relating to equity attributable to Evotec's shareholders of 40.4% as of 31 December 2019 (31 December 2018: 54.9%) 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 Awards (see Note 22).

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, contract assets and investment securities. The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

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in T€	31 Dec 2019	31 Dec 2018
United States	31,681	17,941
France	14,027	5,866
Rest of Europe	10,305	9,466
United Kingdom	7,726	7,544
Germany	13,593	4,327
Rest of the world	4,919	794
	82,251	45,938

The maximum exposure to credit risk for contract assets at 31 December 2019 equals the net book value in the amount of T€ 11,451 (31 December 2018: T€ 12,913).

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 2019, one customer accounted for 14% of trade receivables (31 December 2018: 9%). 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.

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

in T€	<i>Loan liabilities</i>	<i>Lease obligation</i>	<i>Loan notes</i>
As of 1 Jan 2019	109,749	118,831	3
Proceeds from issuance of loans	292,305	-	-
Repayment of finance lease obligation	-	(12,904)	-
Repayment of loans	(70,039)	-	-
Cash flow from financing activities	222,266	(12,904)	-
Transaction costs	(794)	-	-
Business combination	-	17,112	-
Foreign currency translation	8	2,292	-
Changes in fair value	-	(1,006)	-
Issue of finance lease obligation	-	7,545	-
As of 31 Dec 2019	331,229	131,870	3

in T€	<i>Loan liabilities</i>	<i>Lease obligation</i>	<i>Loan notes</i>
As of 1 Jan 2018	188,058	1,870	3
Proceeds from issuance of loans	59,462	-	-
Repayment of finance lease obligation	-	(1,142)	-
Repayment of loans	(137,662)	-	-
Payment of subsequent contingent considerations	-	-	-
Cash flow from financing activities	(78,200)	(1,142)	-
Business combination	-	-	-
Foreign currency translation	(109)	(10)	-
Changes in fair value	-	-	-
Issue of finance lease obligation	-	3,998	-
Other changes	-	-	-
unwind of discount	-	-	-
As of 31 Dec 2018	109,749	4,716	3

(29) FAIR VALUES

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

in T€	Classification according to IFRS 9	31 Dec 2019		31 Dec 2018	
		Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	Amortised cost	277,034	277,034	109,055	109,055
Investments	Fair value through other comprehensive income	42,988	42,988	40,394	40,394
Long-term investments	Fair value through profit and loss	11,462	11,462	6,396	6,396
Trade accounts receivable	Amortised cost	82,251	82,251	45,938	45,938
Contract assets	Amortised cost	11,451	11,451	12,913	12,913
Other non-current financial assets	Amortised cost	1,640	1,640	430	430
Current loan liabilities	Amortised cost	(6,343)	(6,343)	(55,069)	(55,069)
Non-current loan liabilities	Amortised cost	(324,886)	(330,911)	(54,680)	(55,944)
Trade accounts payable	Amortised cost	(31,319)	(31,319)	(31,137)	(31,137)
Current contract liabilities	Amortised cost	(71,067)	(71,067)	(49,676)	(49,676)
Non-current contract liabilities	Amortised cost	(33,785)	(33,785)	(44,041)	(44,041)
Other current financial liabilities	Amortised cost	(190)	(190)	(42)	(42)
Derivative financial instruments	Fair value through profit and loss	431	431	(299)	(299)
Contingent consideration	Fair value through profit and loss	(4,265)	(4,265)	(646)	(646)
		(44,598)	(50,623)	(20,464)	(21,728)
Unrecognised (gain)/loss			6,025		1,264

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 of 30% (2018: 30%).

Financial instruments not measured at fair value

For cash and cash equivalents, trade accounts receivables, contract assets, 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:

NOTES

in T€	31 Dec 2019				Total	in T€	31 Dec 2018				Total
	Level 1	Level 2	Level 3				Level 1	Level 2	Level 3		
Assets at fair value through other comprehensive income	42,988	-	-		42,988	40,394	-	-		40,394	
Assets at fair value through profit and loss	-	-	11,462		11,462	-	-	6,396		6,396	
Liabilities at fair value through other comprehensive income	-	431	-		431	-	(299)	-		(299)	
Liabilities at fair value through profit and loss	-	-	(4,265)		(4,265)	-	-	(646)		(646)	

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 2019 and 2018, respectively:

in T€	Note	Other investments	Contingent consideration
Balance at 1 Jan 2019		6,396	(646)
Exchange rate differences		-	(24)
Addition	(12); (6)	4,986	(3,882)
Consumption		-	152
Included in other operating expense			
Changes in fair value, unrealised		-	-
Included in other operating income			
Changes in fair value, unrealised		-	175
Included in income from long-term investments			
Changes in fair value, unrealised		80	-
Included in interest expense			
Interest change in net present value, unrealised		-	(40)
Balance at 31 Dec 2019		11,462	(4,265)

in T€	Note	Other investments	Contingent consideration
Balance at 1 Jan 2018 before IFRS 9 application		4,282	(4,830)
Effect of first time application of IFRS 9		-	-
Balance at 1 Jan 2018 after first time application of IFRS 9		4,282	(4,830)
Exchange rate differences		-	(95)
Addition		1,924	-
Consumption	(19)	-	2,140
Included in other operating expense			
Changes in fair value, unrealised		-	-
Included in other operating income			
Changes in fair value, unrealised	(19)	-	2,263
Included in income from long-term investments			
Changes in fair value, unrealised		190	-
Included in interest expense			
Interest change in net present value, unrealised		-	(124)
Balance at 31 Dec 2018		6,396	(646)

For the fair value of the level 3 hierarchy, possible alternative assumptions of significant unobservable inputs would have ceteris paribus the following effects as of 31 December 2019 and 2018:

in T€	2019 Profit and loss		2018 Profit and loss	
	Increase	Decrease	Increase	Decrease
Contingent consideration				
Discount rate (movement of 0.15 %-points)	(2,358)	1,625	5	(10)
Commercialisation success rate (movement of 10 %-points)	201	(201)	132	(132)
Long-term investments				
Discount rate (movement of 1.5 %-points)	21	(17)	21	(17)

In the financial years 2019 and 2018, no reclasses were made among the individual levels.

(30) PENSION PLAN

In UK Evotec 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 2019 to T€ 3,261 (2018: T€ 2,393). Contributions amounting to T€ 396 (2018: T€ 250) were payable to the fund at the year-end 2019 and 2018 respectively and are included in provisions. The Company's contribution rate is employee-specific and is determined by the level of an employee's contribution and the relevant legislation.

Further, the Company operates defined contribution 401K plans in the USA with the contribution to these plans amounting to T€ 364 during 2019 (2018: T€ 465).

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 2019 and 2018, a calculation for this obligation was done which includes the following assumptions.

	31 Dec 2019	31 Dec 2018
Actuarial interest rate	0.56 %	1.62 %
Salary increase	1.80 %	1.80 %
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 2011–2013 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.

in T€	31 Dec 2019
Actuarial interest rate +0.50 %-points	(737)
Actuarial interest rate -0.50 %-points	802

in T€	31 Dec 2018
Actuarial interest rate +0.50 %-points	(490)
Actuarial interest rate -0.50 %-points	522

The Company operates a defined benefit pension plan for one former member of the Management Board of Evotec SE. The provision for this pension is calculated using the projected unit credit method in accordance with IAS 19. An actuarial report was prepared in 2019 and 2018 for this obligation. The calculations are based on assumed pension increases of 1.5% and a discount rate of 1.04% in 2019 and 1.5% and 1.91% in 2018. The discount rate reflects market conditions. The provision amounted to T€ 205 and T€ 189 as of 31 December 2019 and 2018, respectively.

The pension provisions developed as follows:

in T€	Year ended 31 Dec	
	2019	2018
Pension provision at beginning of the year	12,306	8,414
Addition at acquisition date	-	3,759
Benefit payments from the employer	(8)	(15)
Included in other comprehensive income:		
Actuarial gains/losses from:		
– Changes in financial assumptions	1,511	15
– Experience adjustments	(391)	(609)
– Impact of changes in demographic assumptions	(73)	3
Included in net income:		
– Current service costs	718	593
– Interest cost	203	146
Pension provision at year-end	14,266	12,306

The expenses for the statutory retirement obligations are explained in Note 33.

(31) COMMITMENTS AND CONTINGENCIES

— a) OPERATING LEASE OBLIGATIONS —

The future minimum lease payments under non-cancellable lease agreements, signed in 2019, but not yet to be recognised according to IFRS 16, are as follows:

in T€	31 Dec 2019
Less than one year	658
Between one and five years	5,533
More than five years	17,408
Total	23,599

In addition, the Company maintains leases which were not recognised in accordance with the exemptions in IFRS 16. These amounts are not material and therefore not presented here.

— b) OTHER COMMITMENTS AND CONTINGENCIES —

The future minimum payments associated with miscellaneous long-term commitments total approximately T€ 23,778 and T€ 16,451 at 31 December 2019 and 2018, respectively. The significant portion thereof related to long-term commitments in connection with facility expenses.

As of 31 December 2019, the Company has entered into purchase commitments in the amount of T€ 10,200 (31 December 2018: T€ 11,017).

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.

Evotec has signed a loan agreement with the European Investment Bank (EIB). In addition to fixed interest payments, the EIB will participate in potential future earnings from co-financed projects in ten-year period from 1 January 2024 to 31 December 2033. The liability for performance-based remuneration had not yet arisen on reporting date. As of 31 December 2019, there was no value to it.

The Company is not aware of any material actual or threatened litigation as of 31 December 2019. Ongoing tax audits in Evotec might result in contingent liabilities.

(32) 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).

With related parties, Evotec SE recorded revenues from contracts in the normal course of business in the amount of T€ 1,260 and T€ 8,819 in 2019 and 2018, respectively. Subsidiaries of Evotec SE recorded corresponding revenues with related parties in the amount of T€ 19,439 and T€ 26,822 in 2019 and 2018, respectively. There have 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 2019 in the amount of T€ 21,136 (2018: T€ 9,215).

In 2019 and 2018, a conflict of interest in the Supervisory Board existed. The related fact has not been disclosed. The Supervisory Board Member concerned did not attend the corresponding discussion. No decision was made.

(33) PERSONNEL EXPENSES AND COST OF MATERIAL

The personnel expenses of the Company in 2019 amounted to T€ 199,496 of which T€ 147,129 relate to personnel expenses outside Germany, in the UK, Italy, Switzerland, France and USA (2018: T€ 160,183 and T€ 117,135, respectively). Thereof expenses for the statutory retirement insurance amounted to T€ 8,594 of which T€ 5,580 relate to expenses outside Germany in the UK, Italy, Switzerland, France and USA (2018: T€ 9,543 and T€ 7,152, respectively).

Cost of materials in 2019 amounted to T€ 70,887, thereof T€ 54,037 were cost of materials outside Germany in the UK, Italy, Switzerland, France and USA (2018: T€ 54,445 and T€ 41,366, respectively).

(34) 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 2019 was 2,847 (2018: 2,442). 353 (2018: 331) employees thereof are allocated to sales and administration. The increase is mainly due to the business combination with Just – Evotec Biologics, Inc.

— b) REMUNERATION OF THE AUDITOR —

In 2019, remunerations, shown as expenses, to Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft and other Ernst & Young companies totalled T€ 708 (2018: T€ 661), which is broken down into auditing of financial statements (T€ 680; 2018: T€ 585), other assurance services (T€ 28; 2018: T€ 39) as well as other services (T€ 0; 2018: T€ 37). The remunerations relating to Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft alone amounted to T€ 425 and completely related to auditing of financial statements. Included in the amount of auditing of financial statements was an amount of T€ 14 relating to the prior-year financial statements.

— c) CORPORATE GOVERNANCE CODE —

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

—
**d) CONSOLIDATED SUBSIDIARIES
AND EQUITY INVESTEES**
—

Information below shows Evotec'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.

in %	2019 Company's voting rights
Subsidiaries	
Aptuit Global LLC, Princeton, NJ, USA	100.00
Aptuit (Verona) SRL, Verona, Italy	100.00
Aptuit (Oxford) Ltd., Abingdon, UK	100.00
Aptuit (Switzerland) AG, Basel, Switzerland	100.00
Aptuit (Potters Bar) Ltd, Abingdon, UK	100.00
Cyprotex Discovery Ltd., Manchester, UK	100.00
Cyprotex PLC, Manchester, UK	100.00
Cyprotex US, LLC., Watertown, MA, USA	100.00
Evotec (France) SAS, Toulouse, France	100.00
Evotec ID (Lyon) SAS, Marcy l'Étoile, France	100.00
Evotec (Hamburg) GmbH, Hamburg, Germany	100.00
Evotec (India) Private Limited, Thane, India ¹⁾	100.00
Evotec International GmbH, Hamburg, Germany	100.00
Evotec (München) GmbH, Martinsried, Germany	100.00
Evotec (UK) Ltd., Abingdon, UK	100.00
Evotec (US), Inc., Princeton, NJ, USA	100.00
Just – Evotec Biologics, Inc., Seattle, USA	100.00
Associates	
Autobahn Labs, Palo Alto, CA, USA	33.33
Breakpoint Therapeutics GmbH, Hamburg, Germany	48.60
Celmatix Inc., Delaware, USA	25.02
Eternigen GmbH, Berlin, Germany	24.97
Exscientia Ltd., Dundee, UK	23.21
FSHD Unlimited Coop, Leiden, Netherlands	21.12
Topas Therapeutics GmbH, Hamburg, Germany	28.44
Other Investments	
Aeovian Pharmaceuticals Inc., San Francisco, USA	5.83
Blacksmith Medicines, Inc., San Diego, CA, USA	15.09
Carrick Therapeutics Ltd., Dublin, Ireland	4.29
Fibrocor LLP, Toronto, Canada	16.00
Forge Therapeutics, Inc., San Diego, CA, USA	15.09
Immunitas, Therapeutics, Inc., Cambridge, MA, USA	6.44

¹⁾ in voluntary liquidation

The subsidiaries listed in this table are included in the consolidated financial statements. Associates are accounted for at-equity. Panion Ltd. was liquidated in December 2019.

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 Craig Johnstone, *Chemist, Castillon-Savès, F (COO) and*
Enno Spillner, *Business Executive, Hamburg, DE (CFO)*.

The remuneration paid to the members of the Management Board in the financial year 2019 totalled T€ 2,607 (2018: T€ 2,881) of which T€ 903 (2018: T€ 1,301) was variable remuneration. The Management Board received also Share Performance Awards in 2019 as a component with long-term incentive effect with a fair value in 2019 of T€ 1,323 (2018: T€ 1,266). Current service costs in the amount of T€ 1,465 (2018: T€ 1,548) were recorded in 2019 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. Furthermore, the Management Board receives Share Performance Awards as a component with long-term incentive effect.

For the financial year 2019, the variable pay in 2020 is based on the achievement of eight corporate milestones (strategic targets). As of 31 December 2019, the Company has accrued T€ 1,222 for this purpose, which is composed of T€ 480 for Dr Werner Lanthaler, T€ 280 for Dr Cord Dohrmann, T€ 238 for Dr Craig Johnstone and T€ 224 for Enno Spillner.

These corporate targets split as follows into the achievement of defined corporate milestones and financial corporate goals:

in %	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

The variable pay in 2019 for the financial year 2018, was based on the achievement of seven corporate milestones (strategic targets). As of 31 December 2018, the Company had accrued T€ 829 for this purpose, which was composed of T€ 420 for Dr Werner Lanthaler, T€ 238 for

Dr Cord Dohrmann and T€ 171 for Enno Spillner. The bonus for Dr Mario Polywka was paid in 2018 as part of his retirement as of 31 December 2018.

The achievement of targets for the year 2018 splits as follows:

in %	Achievement of defined corporate targets	Achievement of corporate financial targets
Dr Werner Lanthaler	30	70
Dr Cord Dohrmann	30	70
Dr Craig Johnstone	30	70
Enno Spillner	30	70

In addition to their fixed and variable remuneration, the members of the Management Board received 86,283 (2018: 103,861) Share Performance Awards in 2019 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 (2018: four-year) performance measurement period. The fair values of all Share Performance Awards granted as of the grant date amounted to a total of T€ 1,323 (2018: T€ 1,266). Further information concerning SPAs is available in Note 22.

	2019 Fixed remuneration	2019 Variable remuneration	2019 Share Performance Awards	2019 Fair values of SPAs granted	2019 Total remuneration
	in T€	in T€	in pcs	in T€	in T€
Dr Werner Lanthaler	577	420	45,161	692	1,689
Dr Cord Dohrmann	376	238	13,318	204	818
Dr Craig Johnstone	382	74	16,733	257	713
Enno Spillner	369	171	11,071	170	710
Total	1,704	903	86,283	1,323	3,930

	2018 Fixed remuneration	2018 Variable remuneration	2018 Share Performance Awards	2018 Fair values of SPAs granted	2018 Total remuneration
	in T€	in T€	in pcs	in T€	in T€
Dr Werner Lanthaler	519	420	57,065	696	1,635
Dr Cord Dohrmann	355	235	16,828	205	795
Dr Mario Polywka	371	475	15,978	195	1,041
Enno Spillner	335	171	13,990	170	676
Total	1,580	1,301	103,861	1,266	4,147

The individual 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 Craig Johnstone, 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€ 132 in total in 2019 (2018: T€ 82) 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.

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, independent consultant, former Member of the Management Board of Bayer AG (Chairman of the Supervisory Board);*

Prof. Dr Iris Löw-Friedrich, *Ratingen, DE, Member of the Management Board (Chief Medical Officer der UCB S.A.)*

(Vice Chairman of the Supervisory Board since June 2019);

Michael Shalmi, *Hellerup, DK, independent consultant;*

Dr Elaine Sullivan, *London, UK, independent consultant;*

Dr Mario Polywka, *Oxfordshire, UK, independent consultant, (since June 2019);*

Roland Sackers, *Köln, DE, CFO and Management Director of QIAGEN N.V.;*

(since June 2019);

Bernd Hirsch, *Neuler, DE, CFO of Bertelsmann SE & Co. KGaA*

(Vice Chairman of the Supervisory Board until June 2019);

Dr Claus Braestrup, *Copenhagen, DK, former President and Chairman of the Management Board of Lundbeck A/S; (until June 2019).*

The remuneration accrued for the members of the Supervisory Board in the financial year 2019 was as follows:

in T€	2019 Remuneration
Prof. Dr Wolfgang Plischke	150
Bernd Hirsch	44
Dr Claus Braestrup	28
Prof. Dr Iris Löw-Friedrich	65
Michael Shalmi	60
Dr Elaine Sullivan	60
Roland Sackers	46
Mario Polywka	27
Total	480

The remuneration accrued for the members of the Supervisory Board in the financial year 2018 was as follows:

in T€	2018 Remuneration
Prof. Dr Wolfgang Plischke	95
Bernd Hirsch	70
Dr Claus Braestrup	35
Prof. Dr Iris Löw-Friedrich	35
Michael Shalmi	35
Dr Elaine Sullivan	35
Total	305

In the financial year 2019, the remuneration of each Supervisory Board member amounted to T€ 50 per year. The Chairman receives T€ 125 and his Vice Chairman T€ 60. Members of Supervisory Board committees additionally receive T€ 10 per committee, with the chairperson receiving T€ 25.

In the financial year 2018, the remuneration of each Supervisory Board member amounted to T€ 30 per year. The Chairman received T€ 75 and his Vice Chairman T€ 45. Members of Supervisory Board committees additionally received T€ 5 per committee, with the chairperson receiving T€ 20.

In the financial years 2019 and 2018, there was no share-based remuneration.

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€ 132 in total in 2019 (2018: T€ 82) 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 sentence 5 of the AktG are listed at the end of this report.

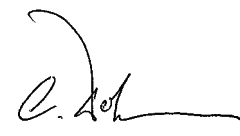
(35) SUBSEQUENT EVENTS

For more details on the impact of COVID-19 on Evotec, please refer to the “Risk and Opportunity Management” section of the Management Report on page 69 and the “Outlook” section on page 72.

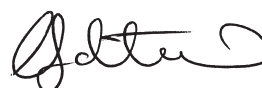
Hamburg, 23 March 2020



Dr Werner Lanthaler



Dr Cord Dohrmann



Dr Craig Johnstone



Enno Spillner



Supervisory Board and Management Board

SUPERVISORY BOARD

<p>Prof Dr Wolfgang Plischke Chairman of the Supervisory Board Aschau im Chiemgau/DE Independent consultant Former Member of the Management Board of Bayer AG</p>	<p>Member of the Supervisory Board: Bayer AG, Leverkusen/DE</p>
<p>Prof Dr Iris Löw-Friedrich Member of the Supervisory Board Vice Chairman of the Supervisory Board (since June 2019) Ratingen/DE Member of the Management Board (Chief Medical Officer) of UCB S.A.</p>	<p>Member of the Supervisory Board: Fresenius SE & Co. KGaA, Bad Homburg/DE TransCelerate BioPharma Inc., King of Prussia/USA</p> <p>Member des Board of Directors: PhRMA Foundation, Washington DC/USA (since April 2019)</p>
<p>Dr Mario Polywka Member of the Supervisory Board (since June 2019) Oxfordshire/UK Independent consultant Former Member of the Management Board Evotec SE</p>	<p>Member des Board of Directors: Member of the Board, Forge Therapeutics, Blacksmith Medicines, Inc., San Diego/USA Member of the Board, Exscientia Ltd.; Oxford/UK Member of the Board, Orb it Discovery Limited; Oxford/UK (since September 2019)</p>
<p>Roland Sackers Member of the Supervisory Board (since June 2019) Köln/DE Chief Financial Officer and Managing Director of QIAGEN N.V.</p>	<p>Member of the Board of Directors: Bio Deutschland e.V.; Berlin/DE</p>
<p>Michael Shalmi Member of the Supervisory Board Hellerup/DK Independent consultant Member of the Management Board (Head of Principal Investments) of Novo Holdings A/S (until February 2019)</p>	<p>Member des Board of Directors: Synlab Ltd., Marylebone/UK (until February 2019) Momentum Gruppen A/S, Roskilde/DK ERT HoldCo A/S, Hellerup/DK (until February 2019) Xellia HoldCo A/S, Copenhagen/DK (until February 2019) ENV HoldCo A/S, Hellerup/DK (until February 2019) Novo Invest 1 A/S, Hellerup/DK (until February 2019) Sonion HoldCo A/S, Roskilde/DK (until February 2019) Active Biotech AB, Malmö/SE (since May 2019)</p>
<p>Dr Elaine Sullivan Member of the Supervisory Board London/UK Independent consultant CEO of Carrick Therapeutics Ltd. (until June 2019)</p>	<p>Member of the Supervisory Board: IP Group plc, London/UK</p>
<p>Dr Claus Braestrup Member of the Supervisory Board (until June 2019) Copenhagen/DK Former President and Chairman of the Management Board of Lundbeck A/S</p>	<p>Non-Executive Member des Board of Directors: Kastan ApS, Frederiksberg/DK Saniona AB, Malmö/Ballerup/SE</p>
<p>Bernd Hirsch Vice Chairman of the Supervisory Board (until June 2019) Neuler/DE CFO of Bertelsmann SE & Co. KGaA</p>	<p>Director: Bertelsmann Inc., New York/USA RTL Group S.A., Luxemburg/LU Penguin Random House LLC, New York/USA</p> <p>Member of the Supervisory Board: Symrise AG, Holzminden/DE</p>

SUPERVISORY BOARD AND MANAGEMENT BOARD

MANAGEMENT BOARD

<p>Dr Werner Lanthaler CEO Hamburg/DE Business Executive</p>	<p>Non-Executive Member of the Board of Directors & Chairman of the Audit Committee: arGEN-X, Breda/NL</p> <p>Non-Executive Member of the Board of Directors: AC Immune SA, Lausanne/CH</p> <p>Member of the Supervisory Board: Topas Therapeutics GmbH, Hamburg/DE</p>
<p>Dr Cord Dohrmann CSO Göttingen/DE Biologist</p>	<p>Member of the Supervisory Board: Eternygen GmbH, Berlin/DE</p> <p>Non-Executive Member des Board of Directors: FSDH Unlimited, Leiden/NL</p>
<p>Dr Craig Johnstone COO (since January 2019) Castillon-Savès/F Business Executive</p>	
<p>Enno Spillner CFO Hamburg/DE Business Executive</p>	<p>Non-Executive Member of the Board of Directors & Chairman of the Audit Committee: Nanobiotix SA, Paris/F</p> <p>Mitglied des Aufsichtsrats: Leon Nanodrugs GmbH, München/DE (since December 2019)</p>



Independent Auditor's Report

The translation of the audit opinion reads as follows:

To Evotec SE (formerly: 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 SE (formerly: Evotec AG), Hamburg, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the fiscal year from 1 January to 31 December 2019, and notes to the consolidated financial statements for the year 2019, including a summary of significant accounting policies. In addition, we have audited the group management report of Evotec SE (formerly: Evotec AG) for the fiscal year from 1 January to 31 December 2019. In accordance with the German legal requirements, we have not audited the content of those parts of the management report listed in the appendix to the auditor's 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 2019, and of its financial performance for the fiscal year from 1 January to 31 December 2019, 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 parts of the management report listed in the appendix to the auditor's 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 2019. 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 goodwill**Reasons why the matter was determined to be a key audit matter**

Evotec Group's management accounts for material goodwill from acquisitions. An impairment assessment is 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 goodwill to be a key audit matter.

Auditor's response

We discussed the determination of the cash generating units and the allocation of goodwill to cash generating units or to a group of cash-generating units with the management board and assessed whether these comply with the internal reporting structure. We involved our valuation specialists to assist in evaluating the valuation models and management's key assumptions used in the impairment calculations. We evaluated the main assumptions included in the forecast with regard to growth and business development by discussing these with the management board and executives of the company and by comparing the underlying outlook with developments in the current period. Additionally, we compared previous forecasts to actual results to assess the accuracy of forecasts. We assessed the method used to determine the weighted average capital cost (WACC), evaluated the applied beta factor by reviewing the selected peer group and compared the debt and equity interest rates with market data. To assess the risk for impairment from a reasonably possible change in a key assumption, we also performed our own sensitivity analyses. We also verified that the disclosures made in the consolidated financial statements comply with the requirements of IAS 36.

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

Reference to related disclosures

With regard to the accounting and measurement policies applied in accounting for the impairment of goodwill, refer to note "(16) Goodwill" within the notes to consolidated financial statements for the financial year 2019.

Revenue recognition from long-term customer contracts**Reasons why the matter was determined to be a key audit matter**

The Evotec Group generates a substantial part of its revenue from long-term customer contracts, in which all or parts of the transaction price is paid upfront.

This requires identification of performance obligations and allocating the total transaction price on the basis of relative fair values to such performance obligations. Revenue is recognized over time in such long-term customer contracts. Evotec measures its progress in satisfying performance

obligations by applying input-based methods, which involves determining the number of actual FTE delivered in relation to total planned FTE.

Significant judgment is exercised by management in identifying performance obligations, determining and allocating the transaction price to multiple performance obligations and in estimating the number of total FTE. We therefore consider revenue recognition from long-term customer contracts to qualify as a key audit matter.

Auditor's response

We have assessed how performance obligations were identified and how the transaction price was determined and allocated to the identified performance obligations against the contractual arrangements. Especially when recognizing revenue from consideration contingent upon a milestone event, we have ascertained that the uncertainty constraining revenue recognition no longer exists by auditing the respective cash receipt and seeking a confirmation from the customer. We have furthermore verified whether conditions for recognizing revenue over time were met. We have also investigated how the progress in satisfying performance obligations was determined by discussing the planned number of FTE with management and other executives by comparing the plan with developments in the current fiscal year. We have also compared the FTE plans from previous periods with the number of FTE delivered in the current year in order to test accuracy of the planning process.

Our audit procedures did not lead to any reservations relating to revenue recognition from long-term customer contracts.

Reference to related disclosures

With regard to the accounting and measurement policies applied in accounting for revenue recognition, refer to "(3) Summary of significant accounting policies" and "(5) Revenues from contracts with customers" within the notes to consolidated financial statements for the financial year 2019.

Purchase price allocation in conjunction with a business combination**Reasons why the matter was determined to be a key audit matter**

On 2 July 2019, Evotec acquired 100 % of the shares of Just Biotherapeutics Inc., Seattle, USA, a research and development specialized company for biologics. For the acquisition, 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 identified assets such as developed technologies and customer lists often cannot be derived from a quoted market price in an active market. The measurement of the fair values is 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, the complexity of the valuation models and since management applied significant judgment in forecasting future cash flows and in determining discount rates we consider the purchase price allocation in conjunction with business combinations a key audit matter.



Auditor's response

We have corroborated the identification of acquired assets and liabilities assumed by the Group's management 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. For the evaluation of the appropriateness of management's assumptions used we utilized the work of valuation experts who 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 have verified whether the fair values were determined applying commonly used valuation models. We challenged discount rates by comparison to third party information, the Group's cost of capital and relevant risk factors. We further assessed the adequacy of management's disclosures on this business combination.

Our audit procedures did not lead to any reservations relating to the purchase price allocation in conjunction with this business combination.

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 "(6) Acquisitions" within the notes to consolidated financial statements for the financial year 2019.

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 comprises the parts of the annual report listed in the appendix to the auditor's report. The other information in the Annual Report comprises "Letter to shareholders", "Evotec at a glance", "Opening pathways for innovation", "Opening up new perspectives: Vision and Mission of Evotec's people management", "The Evotec share", "Corporate Governance report 2019", "Supervisory Board report" and "Responsibility statement".

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 it has 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. It also has the responsibility for disclosing, as applicable, matters related to going concern. In addition, it is 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 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 it has 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 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 19 June 2019. We were engaged by the supervisory board on 16 September 2019. We have been the group auditor of Evotec SE 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:

- ▶ Review of the condensed interim group financial statements of Evotec SE as of 31 March 2019, 30 June 2019 and 30 September 2019.
- ▶ Support services in connection with the enforcement procedure performed by the Deutsche Prüfstelle für Rechnungslegung (DPR) of Evotec SE.
- ▶ Audit of the research and development expenses of Aptuit (Verona) SRL for the year 2018 as evidence to the local tax authorities.



German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Dirk Machner.

Appendix to the auditor's report:

Parts of the group management report, whose contents are unaudited

We have not audited the content of the following parts of the group management report:

▶ the non-financial statement in section "Reporting pursuant to section 289c and section 315c of the German Commercial Code" of the group management report, and

▶ the statement on corporate governance published on the website indicated in the group management report, which forms part of the group management report.

Furthermore, we have not audited the content of the following listed disclosures extraneous to group management reports. Disclosures extraneous to group management reports are such disclosures that are neither required pursuant to §§ 315, 315a or § 315b through § 315d HGB.

▶ Section "Third-party revenues by customer type 2017–2019 (in %)" in chapter "I. The Evotec Group"

▶ Section "Status of advanced drug candidates" in chapter "I. The Evotec Group"

▶ Section "Intellectual Property" in chapter "I. The Evotec Group"

▶ Section "Sustainable Business Development" in chapter "II. Report on economic position"

▶ Section "Directors' and Officers' Liability Insurance (D&O Insurance)" in chapter "IX. Remuneration report".

Hamburg, 23 March 2020

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Machner
Wirtschaftsprüfer
German Public Auditor

Middelhoff
Wirtschaftsprüferin
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.



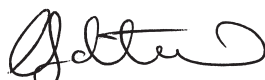
Dr Werner Lanthaler
Chief Executive Officer

Evotec SE
The Management Board

Hamburg, 23 March 2020



Dr Cord Dohrmann
Chief Scientific Officer



Dr Craig Johnstone
Chief Operating Officer



Enno Spillner
Chief Financial Officer



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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.