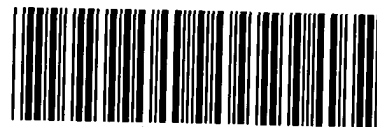


## **Evotec (UK) Limited**

### **Strategic report, Directors' report and financial statements**

For the year ended 31 December 2018  
Registered number 2674265

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## **Strategic report, Directors' report and financial statements**

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## **Company information**

<b>Company Registration Number</b>	2674265
<b>Registered Office</b>	114 Innovation Drive Milton Park Abingdon Oxon OX14 4RZ
<b>Directors</b>	Enno Spillner Werner Lanthaler Christophe Muller
<b>Secretary</b>	Kamran Bashir
<b>Auditor</b>	Ernst and Young LLP Apex Plaza Forbury Road Reading RG1 1YE

## **Strategic report**

The Directors present their strategic report for the year ended 31 December 2018.

### **Principal activity**

The Company is a contract research organisation (CRO) focussed primarily on providing outsourced early stage drug discovery services to a global customer base of pharmaceutical and biotech companies. The Company is a limited company incorporated and domiciled within the UK.

### **Business Review**

In 2018 the Company achieved revenue of £35.7m (2017: £32.4m) and gross profitability of £4.9m (2017: £5.1m). The Company reported profit before tax of £2.3m (2017: £1.9m). The Company also continued to generate cash securing £6.1m (2017: £3.5m) from operations. The Company's robust liquidity position has been achieved with zero debt.

The overall growth in revenues of 8% compared with the prior year was entirely a result of a growth in core underlying service revenues of £2m. Excluding the impact of milestones and recharges, gross margin was 14% for 2018, which compares with 13% in the prior year.

The Company has certain significant contracts denominated in US Dollars and Euros. The value of the British pound relative to both the US Dollar and the Euro is therefore a major consideration for the Company. During 2018, the company benefited from a more favourable movement on exchange rate, particularly on US Dollars, compared with 2017 and this has contributed to the increase in profit before tax.

2018 was therefore a strong year for the Company as it continues to focus on the integration of its research offerings with those of the other Evotec companies, thereby providing customers with a unified drug discovery research solution.

The Company is part of a larger Evotec group and the group's drug discovery and development platform comprises an industrialised, cutting-edge, comprehensive and unbiased infrastructure to meet the industry's need for innovation and efficiency in drug discovery.

For more than a decade, the global pharmaceutical industry has suffered from decreasing efficiency in new product launches. Research and development costs have escalated over the years, yet product pipelines are not producing the returns experienced in earlier decades. This trend has led to restructuring of research and development with significant downsizing of the relevant departments within many large Pharma companies an increased need and willingness to outsource activities traditionally performed in-house. In 2018 this macro trend continued, Through access to flexible external innovation fixed costs can be converted into variable external costs. This outsourcing model also provides expertise in selected areas without the client needing to maintain or build internal capabilities and infrastructure, thereby reducing their development risk. This outsourcing model also provides expertise in selected areas without clients having to maintain or build internal capabilities, expertise and infrastructure, thereby reducing their timeline to entry as well as development risk.

The Company is well positioned to exploit the expected increase in strategic outsourcing opportunities.

**Strategic report (continued)**

The Directors have a strong understanding of the current performance of the Company and are confident of the outlook going forward. Details of the results of the year are set out in the statement of income on page 10.

**Principal risks and uncertainties**

In common with all businesses, the Company faces certain risks and uncertainties. Apart from general economic risks that are discussed in more detail in note 20 (Financial instruments), the business is subject to risks more specific to the pharmaceutical industry.

The last few years have seen increased interest by big pharmaceutical companies in finding ways to reduce the costs inherent in drug discovery. This provides both opportunity for the Company as an established contract research organisation (CRO) with a strong track record and competitive cost base but also risk in that the developing strength of CROs in low cost countries and regions such as south east Asia, India and South America provide an increasingly realistic option for outsourcing of early stage research.

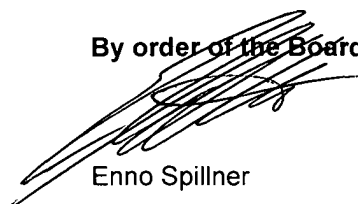
The Company continues to be well positioned to manage this competition risk, being recognised as a respected brand representing the highest quality of early drug discovery research available to the market. The Company has built a strong reputation through a history of achieving technically challenging results for its customers. Furthermore the Company is increasingly being seen as a critical component of the customers internal drug discovery program with a significant influence in the direction of many of their early stage pipeline candidates.

The Company is also subject to a degree of customer risk. The risk exists that the Company can be exposed to a significant reduction in revenues, should a customer terminate its contract. This risk is managed by the Company through the gradual build-up of new business so that when a major contract is completed there is current customer demand to increase outsourcing contracted levels.

**Analysis of financial key performance indicators**

The Company measures its performance on a number of key performance indicators, including revenue, gross margin, profit before tax and cash generation as well as the strength of the sales order book going forward. Across the year the Company has seen growth in its underlying revenues and made a significant operating profit for the reasons outlined above. The Company continues to have confidence in the future and anticipates stability in both of these key indicators in 2018 at the underlying operations level. The Company continues to be cash generative and the 2018 sales order book is showing a strong position against budget.

**By order of the Board on 17 September 2019 and signed on its behalf by**



Enno Spillner  
Chief Financial Officer

**Registered Address**

114 Innovation Drive  
Milton Park  
Abingdon  
Oxon  
OX14 4RZ

## **Directors' report**

The Directors present their annual report and the audited financial statements of Evotec (UK) Limited (the Company), company registration number 2674265, for the year ended 31 December 2018. These financial statements have been prepared under International Financial Reporting Standards as adopted by the EU ('Adopted IFRS').

### **Research and development**

The Company carries out research and development in connection with the principal activity of providing services to customers. The majority of the activities pursued by the Company are part of customers' research and development programs. In addition, internal research expenditure is incurred in order to develop technologies, processes and drug discovery programs and generally maintain and enhance the Company's services offering. Some research is also undertaken to investigate internal discovery programs with the intention of partnering these at a very early stage.

### **Financial instruments**

The Company periodically enters into derivative contracts including foreign currency forward contracts. The objective of these transactions is to reduce the risk of exchange rate fluctuations of its foreign-currency-denominated cash flows. The Company does not enter into derivative contracts for trading or speculative purposes. No such contracts were in existence at 31 December 2018 or 31 December 2017.

### **Dividends paid**

There was a dividend paid out from profit reserves during the year £4,918k (2017: £3,187k).

### **Market value of land and buildings**

The Company owns no land or buildings. In the opinion of the Directors, the value in use of the leasehold improvements put in place by the Company exceeds the book values of these assets at 31 December 2018.

### **Political and charitable donations**

The Company made charitable donations of £3k during the year (2017: £200). There were no political donations in the year (2017: £nil).

### **Procedure and practice on payment of creditors**

The Company does not follow any code or statement on payment practice but values its relationships with its many suppliers and the Company's policy is to pay amounts due for settlement in accordance with the negotiated terms of trade.

### **Employment policies**

The Directors are committed to maintaining and developing communication and consultation processes with employees. Employees are encouraged to be involved directly in the performance of the Company through a performance-related bonus scheme, long term incentive schemes, performance reviews and training and development opportunities. It is the policy of the Company that there should be no unfair discrimination in recruiting and promoting staff, including applicants who are disabled.

## **Directors' report (continued)**

### **Directors and Directors' interests**

The directors set out below have held office during the whole of the period from 1 January 2018 to the date of this report.

Werner Lanthaler

Christophe Muller (appointed 1 January 2019)

Enno Spillner

Mario Polywka (resigned 1 January 2019)

None of the Directors who held office at the end of the financial year had any notifiable interest in the shares of the Company. The interests of the Directors who are remunerated by the Company in shares, share options or long term incentive schemes of the parent company have these interests disclosed in the notes to these accounts. Those Directors who receive no remuneration from the Company, but are remunerated directly by the parent company Evotec AG, have their interests in shares or share options disclosed in the financial statements of that company.

### **Directors' liabilities**

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

### **Disclosure of information to auditor**

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor are unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### **Auditor**

During the year Ernst and Young LLP were appointed as auditors. Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Ernst and Young LLP will therefore continue in office.

**By order of the Board on 17 September 2019 and signed on its behalf by**



Enno Spillner

Chief Financial Officer

### **Registered Address**

114 Innovation Drive

Milton Park

Abingdon

Oxon

OX14 4RZ

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



# **Independent auditor's report to the members of Evotec (UK) Limited**

## **Opinion**

We have audited the financial statements of Evotec (UK) Limited for the year ended 31 December 2018 which comprise the Statement of Income, Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows, and the related notes 1 to 27, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## **Independent auditor's report to the members of Evotec (UK) Limited (continued)**

### **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

## **Independent auditor's report to the members of Evotec (UK) Limited (continued)**

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. 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 financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### **Use of our report**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

*Ernst & Young LLP*

**Michael Philp (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
Reading, United Kingdom  
Date: 24 September 2019**

## **Statement of income**

*For the year ended 31 December 2018*

	Note	2018	2017
		£000	£000
Revenue	2	35,667	32,379
Cost of sales		(30,806)	(27,280)
<b>Gross profit</b>		<u>4,861</u>	<u>5,099</u>
Research and development expense	4	(389)	(298)
Marketing and sales expense		(984)	(780)
Administrative expense		(6,208)	(4,954)
Other operating income	6	6,832	4,881
Other operating expense	7	(2,283)	(2,423)
<b>Operating profit</b>		<u>1,829</u>	<u>1,525</u>
Finance income	8	475	368
<b>Profit before taxation</b>		<u>2,304</u>	<u>1,893</u>
Taxation	9	(570)	(261)
<b>Profit after taxation</b>		<u><u>1,734</u></u>	<u><u>1,632</u></u>

## Statement of comprehensive income

For the year ended 31 December 2018

	2018	2017
	£000	£000
<b>Profit after taxation</b>	1,734	1,632
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax)</i>		
Net unrealised gain on available-for-sale financial assets	7	3
<b>Other comprehensive income</b>	7	3
<b>Total comprehensive income for the year, net of tax</b>	1,741	1,635

## Statement of financial position

As at 31 December 2018

	Note	2018	2017
<b>Assets</b>		£000	£000
Property, plant and equipment	10	4,467	4,485
Intangible assets	12	1,487	1,668
Investments	11	-	-
Trade and other receivables	14	5,258	22,074
Deferred tax asset	20	2,825	2,242
<b>Total non-current assets</b>		<u>14,037</u>	<u>30,469</u>
Inventories	13	247	396
Trade and other receivables	14	24,739	6,506
Financial assets	16	1,582	1,472
Cash and cash equivalents	15	8,453	6,511
<b>Total current assets</b>		<u>35,021</u>	<u>14,885</u>
<b>Total assets</b>		<u>49,058</u>	<u>45,354</u>
<b>Equity and liabilities</b>			
Share capital	22	4,361	4,361
Reserves	23	33,276	34,078
<b>Total equity</b>		<u>37,637</u>	<u>38,439</u>
<b>Non-current liabilities</b>			
Trade and other payables	17	179	226
Provisions	21	932	950
<b>Total non-current liabilities</b>		<u>1,111</u>	<u>1,176</u>
<b>Current liabilities</b>			
Trade and other payables	17	9,463	4,603
Provisions	21	847	1,136
<b>Total current liabilities</b>		<u>10,310</u>	<u>5,739</u>
<b>Total liabilities</b>		<u>11,421</u>	<u>6,915</u>
<b>Total equity and liabilities</b>		<u>49,058</u>	<u>45,354</u>

These financial statements were approved by the Board of Directors on 17 September 2019 and were signed on its behalf by:

  
**Enno Spillner**  
Chief Financial Officer

**Statement of changes in equity**  
For the year ended 31 December 2018

	Share capital £000	Additional paid in capital on share options £000	Unearned compensation on share options £000	Retained earnings £000	Total equity attributable to equity holder of the parent company £000
Balance at 1 January 2017	4,361	4,466	(490)	29,571	37,908
Profit for the year	-	-	-	1,632	1,632
Other comprehensive income	-	-	-	3	3
Equity effect of incentive scheme awards	-	1,194	(1,194)	-	-
Equity effect of incentive scheme earned	-	-	442	-	442
Share options – excess tax deduction	-	-	-	1,546	1,546
Additional paid-in capital on share options	-	95	-	-	95
Dividend paid	-	-	-	(3,187)	(3,187)
Balance at 31 December 2017	<u>4,361</u>	<u>5,755</u>	<u>(1,242)</u>	<u>29,565</u>	<u>38,439</u>
Balance at 1 January 2018	4,361	5,755	(1,242)	29,565	38,439
Profit for the year	-	-	-	1,734	1,734
Other comprehensive income	-	-	-	7	7
Equity effect of incentive scheme awards	-	1,065	(1,065)	-	-
Equity effect of incentive scheme earned	-	-	1,117	-	1,117
Share options – excess tax deduction	-	-	-	1,258	1,258
Additional paid-in capital on share options	-	-	-	-	-
Dividend paid	-	-	-	(4,918)	(4,918)
Balance at 31 December 2018	<u>4,361</u>	<u>6,820</u>	<u>(1,190)</u>	<u>27,646</u>	<u>37,637</u>

## Statement of cash flows

For the year ended 31 December 2018

	Note	2018	2017
		£000	£000
<b>Cash flows from operating activities</b>			
Profit before taxation		2,304	1,893
Adjustments for:			
Depreciation and amortisation	11,13	1,946	1,868
Finance income	8	(475)	(368)
Foreign exchange losses/(gains)		(329)	-
Share option compensation expense		1,116	541
Operating profit before changes in working capital and provisions		4,562	3,934
Decrease in inventories		148	57
(Increase) in trade and other receivables		(1,833)	(273)
(Decrease)/Increase in trade and other payables		4,770	(578)
(Decrease) in non-current payables		(72)	(22)
(Decrease)/Increase in provisions		(192)	817
		7,383	3,935
Interest received		44	69
Tax paid		(1,353)	(520)
<b>Net cash flows from operating activities</b>		6,074	3,484
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment	11	(1,747)	(1,569)
Acquisition of financial assets		(1,520)	-
Proceeds from sale or maturity of financial assets		1,497	2,804
Intercompany loan issuance		-	(7,243)
Intercompany loan repayment		2,556	6,500
<b>Net cash flows from/(used) investing activities</b>		786	492
<b>Cash flows from financing activities</b>			
Dividend paid to parent company		(4,918)	(3,187)
<b>Net cash flows from financing activities</b>		(4,918)	(3,187)
Net (decrease) in cash and cash equivalents		1,942	789
Cash and cash equivalents at 1 January 2018		6,511	5,722
<b>Cash and cash equivalents at 31 December 2018</b>	16	8,453	6,511



## **Notes**

*(forming part of the financial statements)*

### **1) Summary of significant accounting policies**

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

#### **a) Basis of preparation**

The financial statements have been prepared in accordance with the historical cost convention, except for contingent consideration and available for sale financial assets that have been measured at fair value, and comply with International Financial Reporting Standards (IFRSs) and its interpretations as issued by the International Accounting Standards Board (IASB) as adopted by the European Union (EU).

The Company, as a wholly owned subsidiary of Evotec AG, is exempt by virtue of IAS 27 paragraph 8 and section 400 of the Companies Act 2006 from the requirement to prepare consolidated accounts. These financial statements present information about the Company as an individual undertaking and not about its group. The consolidated financial statements of Evotec AG, within which the Company is included, can be obtained from the address given in note 28.

The preparation of financial statements requires the Directors to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from those estimates.

The financial statements are presented in Great British pounds sterling, the Company's functional currency, with the primary statements and tables within the notes being presented in Great British pounds sterling to the nearest thousand.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

#### **Determination of fair values:**

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes as noted in the accounting policies below.

In 2018, the Company has adopted a range of new accounting standards.

Evotec applies IFRS 15 retrospectively from 1 January 2017, i.e. the comparative period is presented according to IFRS 15. The effect of initial application of IFRS 15 on the current period has not been disclosed as the standard provides an optional practical expedient. The Group did not apply any of the other available optional practical expedients, with the exception of not restating any completed contract and not disclosing for the comparative period the transaction price allocated to the remaining performance obligations.

Presented in the table below, the effects of IFRS 15 result from a different accounting for deliverable kind of contract services. Previously, for this type of contracts revenue was recognised upon full completion of the contract. Under IFRS 15, these contracts are accounted for similar to service contracts and FTE-based research contracts and have been combined into one category of contracts. Revenue is recognised over time, depending on hours incurred so far as a percentage of expected total hours. Consequently, some of the revenue from services provided had to be recognised in earlier periods. Furthermore, revenues from recharges whereas the underlying costs are in the same amount, are recognised in revenues from contracts with customers in case they fall under the regulations of IFRS 15. Previously, revenues from recharges were recognised in other operating income.

## Notes

(forming part of the financial statements)

### 1) Summary of significant accounting policies (continued)

	31 December 2017 as originally reported £000	IFRS 15 adjustment £000	31 December 2017 adjusted £000
<b>Statement of income</b>			
Revenue	31,859	520	32,379
Cost of sales	(26,793)	(487)	(27,280)
Other operating income	4,856	25	4,881
Other operating expense	(2,398)	(25)	(2,423)
Profit after taxation	1,599	33	1,632
	<hr/>	<hr/>	<hr/>
<b>Statement of financial position</b>			
Inventories	515	(119)	396
Trade and other receivables	6,329	177	6,506
Trade and other payables	(4,578)	(25)	(4,603)
Reserves	(34,045)	(33)	(34,078)
	<hr/>	<hr/>	<hr/>

IFRS 9 replaces IAS 39 for annual periods beginning on or after 1 January 2018, determining the following three aspects of the accounting for financial instruments: classification and measurement, impairment, and hedge accounting.

There is no effect from the initial application of IFRS 9 on Company's financial position, its assets and liabilities and its profit.

The reclassifications from the previous IAS 39 categories into the new categories of IFRS 9 is presented in the table below:

	Classification according to IFRS 9	Classification according to IAS 39
Cash and cash equivalents	Cash and cash equivalents	Cash and cash equivalents
Trade and other receivables	Amortised cost	Other loans and receivables
Financial assets available for sale	Fair value through other comprehensive income	Available-for-sale financial assets
Financial assets held to maturity	Fair value through profit and loss	Held to maturity financial assets
Trade and other payables	Amortised cost	Financial liabilities

## Notes

(forming part of the financial statements)

### 1) Summary of significant accounting policies (continued)

#### Recent IFRS pronouncements:

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 2018.

NEW OR CHANGED STANDARDS	SUMMARY OF THE STANDARD	POSSIBLE IMPACT ON THE COMPANY
IFRS 16	According to IFRS 16 lessees have to recognise all leases and the respective contractual rights and liabilities in the balance sheet. In addition, the standard offers guidance on the presentation in the financial statements, notes disclosures as well as to sale-and-lease-back transactions. Effective date is the annual period beginning on or after 1 January 2019.	The company expects impacts on the financial statements as listed below.
IFRIC 23	This interpretation clarifies the recognition and measurement requirements of uncertain tax positions. When assessing uncertainty, an entity determines, whether it is probable that tax authorities will accept an uncertain tax treatment. The effective date of IFRIC 23 is the annual period beginning on or after 1 January 2019; early adoption is permitted.	The company does not expect any material effects on the financial statements.

The IASB issued various other pronouncements, amongst them "Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)", "Annual Improvements to IFRS Standards 2015–2017 Cycle" and "Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)". These pronouncements, not yet endorsed by the EU, do not have a material impact on the company's financial statements.

The effective date of IFRS 16 is the annual period beginning on or after 01 January 2019. The new standard aims to ensure that generally all leases and related contractual rights, in particular right-of-use, and obligations are recognised in the lessee's statement of financial position. The previously mandatory distinction between finance lease and operating lease is no longer required from the lessee. Simplified reporting methods are in place for short-term leases and leased assets with low value. In 2018, the company conducted a detailed analysis of the impacts of IFRS 16. The actual impact will depend on, amongst others, company's borrowing rate in 2019, the portfolio of lease contracts at that date and the then latest assessment of exercising renewal options. Currently, the largest impact stems from building lease contracts. This will be accompanied by increased financing liabilities as an improved adjusted EBITDA.

Evotec plans to apply this standard initially on 1 January 2019, using the modified retrospective approach and hence with no restatement of comparative information. It is intended to make

## Notes

*(forming part of the financial statements)*

### **1) Summary of significant accounting policies (continued)**

extensive use of the practical expedients provided under IFRS 16. The expected lease liability from the initial adoption of IFRS 16 is summarized as follows:

	1 January 2019 £'000
Minimum operating lease obligation per note 26 (b)	13,994
Expected obligation from non-exercise of break clauses	1,956
Discounted with the borrowing rate on 1 January 2019	(2,504)
Expected lease liability as of 1 January 2019	<u>13,446</u>

### **b) Revenue**

Revenue represents the amounts (excluding value added tax) derived from the provision of goods and services to customers during the year.

### **c) Revenue recognition**

Revenue is recognised when the relevant risks and rewards of ownership associated with services sold are transferred to the customer and it is probable that the economic benefits associated with the transaction will flow to the Company based upon the performance requirements of the respective agreements and that the revenue can be reliably measured regardless of when the payment is being made and collectability is reasonably assured. The company assesses collectability based on a number of factors, including past transaction history with the customer and the customer's credit-worthiness. Evotec's revenues include service fees, FTE-based research payment and revenues for deliverable kind of services and milestone fees.

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

Deliverable kind of contracted services are recorded as revenue upon delivery. Payments for deliverable kind of contracted services in advance are recorded as deferred revenue until delivery.

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

### **d) Research and development expenditure**

Expenditure on research and development is capitalised or expensed depending on whether the expenditure incurred falls under the classifications of research or development expenditure given by IAS 38.

Where there is inherent uncertainty that research and development work completed will generate probable future economic benefits, and therefore the work does not meet all the requirements laid down in IAS 38 to capitalise the costs incurred as development costs, the costs are expensed as incurred.

Where the work completed is development work and can be shown to generate probable future economic benefits where supported by the resources available to the Company as outlined in paragraphs 57 to 64 of IAS 38 then the development expenditure associated is capitalised as an intangible asset and is amortised as appropriate. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

## **Notes**

*(forming part of the financial statements)*

### **1) Summary of significant accounting policies (continued)**

The Company elects to claim the Research and Development Expenditure Credit (RDEC) and records the credit to other operating income.

#### **e) Taxation**

Current taxation is the expected taxation credit or payable on the taxable income or loss for the year, using taxation rates enacted or substantially enacted at the balance sheet date, and any adjustments to the taxation payable or credit in respect of previous years.

Deferred taxation is provided, without discounting, using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred taxation asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred taxation assets are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

Current and deferred taxation movements are recognised directly in the statement of comprehensive income as part of the net profit or loss for the period, except where the tax arises from a transaction that is accounted for directly in equity and is therefore likewise recognised directly in the equity of the Company.

#### **f) Property, plant and equipment**

Items of property, plant and equipment are stated at cost, as the cost of acquisition or development cost, less accumulated depreciation and impairment losses. The cost assigned to the asset includes, where relevant, the cost of the asset, direct labour and other costs involved in bringing the asset into working condition, and the initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located.

Where parts of an item of property, plant and equipment have materially different useful economic lives, they are accounted for as separate items of property, plant and equipment.

The Company recognises in the carrying value of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the item can be reliably measured. All other costs are recognised in the statement of comprehensive income as expenses as incurred.

Depreciation is provided by the Company to write off the cost less the estimated residual value of tangible assets on a straight line basis over their estimated useful economic lives as follows:

Short leasehold improvements	-	Shorter of related lease term and estimated useful life
Plant and machinery	-	5 years
Fixtures, fittings, tools and equipment	-	3 years

#### **g) Impairment of property, plant and equipment and intangible assets**

The Company reviews property, plant and equipment and intangible assets (including goodwill) for impairment, to determine the recoverable amount in accordance with IAS 36. An impairment review is performed at least annually for intangible assets with indefinite useful lives or in the case of assets with definite useful lives, whenever events or changes in circumstances indicate that the carrying amount of an asset or a group of assets may not be recoverable.

An impairment loss is recognised if the carrying amount of an asset (or a group of assets when considering a cash generating unit) exceeds its recoverable amount which is the higher of its fair value less costs to sell or value in use. The value in use for an asset or cash generating unit is

## **Notes**

*(forming part of the financial statements)*

### **1) Summary of significant accounting policies (continued)**

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 midrange or where applicable long range forecast. Management judgement is necessary to estimate discounted future cash flows.

Any impairment loss is reported as a separate component of operating expenses in the statement of comprehensive income. An impairment of property, plant and equipment and intangible assets excluding goodwill is reversed if there has been a change in the estimates used to determine the value in use leading to an increase in value for a previously impaired asset or group of assets as one cash generating unit. It is reversed only to the extent that the asset's or the group of assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been previously recognised. Impairments of goodwill are not reversed.

### **h) Investments**

Investments in subsidiary and associate companies are disclosed at cost.

Other unquoted investments are disclosed at their fair value, or, where this cannot reasonably be established, at cost less impairment (see note i).

### **i) Impairment of investments**

Where management identify uncertainty over the carrying value of an investment, the investment is impaired to a prudent estimate of its net realisable value. Where this cannot be reliably ascertained and there is doubt over the value of the investment it is impaired down to zero. The carrying value of investments is reviewed annually at each balance sheet date.

Where material to the accounts impairments of investments are disclosed separately in the statement of comprehensive income under the statutory heading to which they relate.

### **j) Other intangible assets**

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. Goodwill also includes contingent consideration, which is included at fair value and used in calculating the residual goodwill. Acquisition costs are expensed.

Other intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and less accumulated impairment losses (see note g).

Amortisation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Other intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. Customer lists are amortised over 3 years. Developed technology is amortised over 7 years.

### **k) Leased assets**

Operating lease rentals are charged to the statement of comprehensive income on a straight-line basis over the period of the lease. Where benefits have been received as an incentive to sign a lease these are spread on a straight-line basis over the lease term.

### **l) Foreign currencies**

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates - GBP ('the functional currency'). Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction.

## **Notes**

*(forming part of the financial statements)*

### **1) Summary of significant accounting policies (continued)**

Monetary assets and liabilities denominated in foreign currencies are re-translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the statement of comprehensive income.

Non-monetary assets and liabilities measured at fair value and denominated in foreign currencies are translated using the rate of exchange ruling at the dates on which fair value is determined and the gains or losses on translation are included in the statement of comprehensive income (see notes 6 and 7).

#### **m) Employee benefits**

i) Defined contribution pension plan: The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amount charged in the statement of comprehensive income represents the employer contributions payable to the scheme in respect of the accounting period.

ii) Share-based payment transactions: Evotec AG, the parent of the Company, runs a stock option programme and a share performance plan that allows certain employees of the Company to acquire shares of the parent company. The cost of the equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model. When the grant is made, the cost of the grant for all years is initially booked to unearned compensation on share options in equity, with a corresponding entry on additional paid in capital on share options in equity.

The costs are recognised in the statement of comprehensive income, together with a corresponding increase in unearned compensation on share options in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefits expense. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vested irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied. When the terms of an equity-settled award are modified, the minimum expense recognised is the expense had the terms not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

#### **n) Inventories**

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Work in progress and finished goods costs are taken as production costs, which include an appropriate proportion of attributable overheads.

In the balance sheet inventories are valued at standard cost, which approximates to historical cost determined on a first in, first out basis, and this value is used for the costs of goods sold in the statement of comprehensive income.

#### **o) Long-term contracts**

Once the outcome of a long-term collaboration or service contract can be estimated reliably, contract revenue and expenses are recognised in the statement of comprehensive income in proportion to the stage of completion of the contract. The stage of completion is derived from the proportion of fixed revenue that has been earned.

The amount of profit attributable to the stage of completion of a long-term contract is recognised only when the outcome of the contract can be foreseen with reasonable certainty.

## **Notes**

*(forming part of the financial statements)*

### **1) Summary of significant accounting policies (continued)**

Provision is made for losses anticipated on a contract as soon as they are foreseen.

Contract work in progress is stated at costs incurred, less those transferred to the statement of comprehensive income, after deducting foreseeable losses.

Amounts recoverable on contracts are included in receivables and represent revenue recognised in excess of payments on account.

Deferred revenue on contracts is included in liabilities and represents payments on account in excess of revenue recognised to date.

#### **p) Trade and other receivables**

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material. Doubtful receivable provisions are established based upon the difference between the receivable value and the estimated net collectible amount. Trade and other receivables held in foreign currencies are treated under the policy laid down in accounting policy l.

#### **q) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and short-term deposits. The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand.

#### **r) Trade and other payables**

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material. Amounts held in foreign currencies are treated under the policy laid down in accounting policy l.

#### **s) Provisions**

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, the provision is determined by discounting the expected future cash flow that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

#### **t) Financial assets and liabilities**

Financial assets and liabilities held for purposes of short-term profit are classified as held for trading and recognised at fair value; subsequent to initial recognition they are re-valued to their fair value at each balance sheet date. Any difference between carrying value and the fair value is immediately recognised in the statement of comprehensive income. Financial assets and liabilities are recognised/de-recognised within the financial statements at their settlement date.

Available-for-sale financial assets are measured at fair value at the balance sheet date or, if this value cannot be determined, at cost. Unrealised gains and losses resulting from changes in fair value are reported in other comprehensive income in equity, net of any tax effect. Changes in fair value are not recognised in the statement of comprehensive income until the asset is sold or until an impairment loss is recorded. Investments that qualify as equity instruments are measured at cost if their fair value cannot be determined based on quoted prices or by reference to the current fair



## **Notes**

*(forming part of the financial statements)*

### **1) Summary of significant accounting policies (continued)**

value of comparable instruments, or by using appropriate pricing models (in cases where cash flows are volatile or cannot be reliably determined).

Originated loans and long-term debt liabilities are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing assets and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the statement of comprehensive income over the period of the instrument on an effective interest basis. Fair value, which after initial recognition is determined for disclosure purposes only, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

#### **u) Derivative financial instruments**

Derivative financial instruments are recognised on their trade date at cost and subsequently re-measured to their fair value.

The derivatives employed by the Company, while providing effective economic hedges under the Company's policies, do not qualify for hedge accounting. Changes in the fair value of any of these derivative instruments are recognised immediately in the statement of comprehensive income.

A derivative embedded in a non-derivative host contract by way of holding a trading or non-trading contract in a currency that is not the functional currency of any of the parties to the contract and is also not a currency routinely presented for commercial transactions of this nature around the world and is also not a currency commonly used in contracts to purchase and sell non-financial items in the economic environment in which the transaction takes place is separated out, where material, and disclosed separately at its fair value at the balance sheet date.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

#### **v) Use of estimates**

The preparation of the accompanying 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.

Estimates and assumptions affect the following subjects:

- Acquisitions (Note 12)
- Impairment testing (Note 13)
- Share options (Note 25)
- Provisions (Note 22)

Actual results could differ from estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are made prospectively in the period in which the estimates are revised.

## **Notes**

*(forming part of the financial statements)*

### **1) Summary of significant accounting policies (continued)**

#### **w) Pooling of interests acquisition method**

The Company acquired 100% of the shares in Euprotec Limited effective on 27 May 2014. On 1 August 2014, the net assets and trade of Euprotec Limited were hived up into the Company (note 12).

Following the consideration of IFRS 3, the Directors concluded that the 1 August 2014 transaction met the definition of a business combination between entities under common control, for the purposes of the company only financial statements, and thus, the combination was accounted for using the pooling of interests method.

Consequently, the following accounting policy has been applied:

- The assets and liabilities of the combining businesses are reflected at their original carrying amounts, at the date of the transaction;

- No new goodwill was recognised as a result of the combination. Goodwill arising on the 27 May 2014 transaction, on consolidation, along with the other net assets and trade, were transferred to the Company in return for intercompany consideration.

- The Company has recorded the results of the acquiree combination under common control, from 1 August 2014 onwards, in its statement of comprehensive income. Prior period results were not adjusted.

## Notes

(forming part of the financial statements)

### 2) Revenues

Revenues recognised during the year analysed by significant category were as follows:

	2018 £000	2017 £000
Contracted research fees for goods and services	34,561	31,132
Milestone receipts	-	879
	<u>34,561</u>	<u>32,011</u>

### 3) Staff numbers and costs

The number of persons employed by the Company (including Directors) at the year end, analysed by category was as follows:

	Number of employees 2018	2017
Directors	1	1
Administration	36	30
Production, research and development	280	256
Marketing	4	4
	<u>321</u>	<u>291</u>

The aggregate payroll costs of the employees outlined above were as follows:

	2018 £000	2017 £000
Wages and salaries	14,138	12,705
Social security costs	2,692	1,867
Contribution to defined contribution pension plans	653	620
Share-based compensation	1,125	576
	<u>18,608</u>	<u>15,768</u>

The Directors as at 31 December 2018 were employed by either the Company or Evotec AG, the direct and ultimate parent undertaking of the Company. Details of Directors remuneration are given in note 27.

## Notes

*(forming part of the financial statements)*

### 4) Research and development costs

All costs incurred in relation to research and development have been recognised in the statement of income in the year as research and development expense. No costs have been capitalised as development costs as the criteria for recognition laid down by IAS 38 and referred to in note 1d above are not met.

	2018 £000	2017 £000
Internal research costs expensed	389	298

### 5) Auditor's remuneration

Auditor's remuneration in the year

	2018 £000	2017 £000
Audit of financial statements pursuant to legislation	49	58

The auditor has provided no other services to the Company in the year (2017: £nil).

### 6) Other operating income

	2018 £000	2017 £000
Cost recharges to group companies	4,009	2,944
Grant income	83	119
Foreign exchange gains	774	182
Research and Development expenditure credit	1,966	1,636
	<u>6,832</u>	<u>4,881</u>

The Company elected to claim the Research and Development Expenditure Credit (RDEC). This credit is recorded in other operating income and amounts to £1,966k (2017: £1,636k) which represents the Research and Development expenditure credit claimed.

## Notes

(forming part of the financial statements)

### 7) Other operating expense

	2018 £000	2017 £000
Costs incurred on behalf of group companies	1,947	1,450
Foreign exchange losses	155	758
Amortisation in relation to intangible assets	181	215
	<u>2,283</u>	<u>2,423</u>

### 8) Finance income

	2018 £000	2017 £000
Bank interest income	62	52
Intercompany interest received on loan	413	316
	<u>475</u>	<u>368</u>

## Notes

(forming part of the financial statements)

### 9) Taxation

#### *Recognised in the statement of comprehensive income*

	2018 £000	2017 £000
UK corporation taxation		
Current taxation on income for the period	1,845	783
Adjustments in respect of previous periods	(104)	(72)
Total current taxation charge	<u>1,741</u>	<u>711</u>
Deferred taxation		
Origination/reversal of timing differences	(1,171)	(450)
Total deferred taxation charge	<u>(1,171)</u>	<u>(450)</u>
Total taxation charge in statement of comprehensive income	<u><u>570</u></u>	<u><u>261</u></u>

	2018 £000	2017 £000
<i>Reconciliation of effective taxation rate</i>		
Profit on ordinary activities before taxation	2,304	1,860
Tax calculated using the UK corporation taxation rate 19% (2017: 19.25%)	<u>438</u>	<u>358</u>
<i>Effects of:</i>		
Non-deductible expenses	38	46
Provisions deductible on realisation	24	11
Capital items expensed	15	8
Release of deferred tax on intangible assets	(38)	(45)
Capital allowances for period in excess of depreciation	41	(62)
Adjustments in respect of prior periods	(104)	(72)
Adjustments in respect of tax rate	139	-
Adjustments in respect of Share options	17	17
Total taxation in statement of comprehensive income	<u><u>570</u></u>	<u><u>261</u></u>

#### *Factors that may affect future taxation charges*

In his budget of 8 July 2015, the Chancellor announced reductions in the UK corporation tax rate to 19% with effect from 1 April 2017 and to 18% from 1 April 2020, both of which were substantively enacted at the balance sheet date. Tax balances have been calculated at the rate they are expected to unwind at using rates substantively enacted at the balance sheet date. A further reduced rate of 17% was announced in the 2016 Budget with effect from 1 April 2020 which was enacted at the balance sheet date.

## Notes

(forming part of the financial statements)

### 10) Property, plant and equipment

	Short leasehold improvements	Plant and machinery	Fixtures, fittings, tools and equipment	Assets under construction	Total
	£000	£000	£000	£000	£000
<b>Cost</b>					
At 1 January 2017	9,526	12,553	5,345	32	27,456
Additions/(transfers)	607	631	363	(32)	1,569
Disposals	-	(4)	(957)	-	(961)
At 31 December 2017	10,133	13,180	4,751	-	28,064
At 1 January 2018	10,133	13,180	4,751	-	28,064
Additions	186	1,111	262	188	1,747
Disposals	-	-	(6)	-	(6)
At 31 December 2018	10,319	14,291	5,007	188	29,805
<b>Depreciation</b>					
At 1 January 2017	8,013	9,949	4,923	-	22,885
Charge for year	372	1,009	272	-	1,653
Disposals	-	(4)	(955)	-	(959)
At 31 December 2017	8,385	10,954	4,240	-	23,579
At 1 January 2018	8,385	10,954	4,240	-	23,579
Charge for year	427	1,029	309	-	1,765
Disposals	-	-	(6)	-	(6)
At 31 December 2018	8,812	11,983	4,543	-	25,338
<b>Net book value</b>					
At 31 December 2018	1,507	2,308	464	188	4,467
At 1 January 2018	1,748	2,226	511	-	4,485

## Notes

(forming part of the financial statements)

### 10) Property, plant and equipment (continued)

Included in the category fixtures, fittings, tools and equipment is software with a net book value of £96k (2017: £116k).

### 11) Investments

	Subsidiary and other investments
	£000
<b>Shares</b>	
<b>Cost</b>	
At 1 January 2017	736
Additions	-
Disposals	-
	<hr/>
At 31 December 2017	736
	<hr/>
At 1 January 2018	736
Additions	-
Disposals	-
	<hr/>
At 31 December 2018	736
	<hr/>
<b>Impairments</b>	
At 1 January 2017	(736)
Disposals	-
Impairment	-
	<hr/>
At 31 December 2017	(736)
	<hr/>
At 1 January 2018	(736)
Disposals	-
Impairment	-
	<hr/>
At 31 December 2018	(736)
	<hr/>
<b>Net book value</b>	
At 31 December 2018	-
	<hr/>
At 31 December 2017	-
	<hr/>



## Notes

*(forming part of the financial statements)*

### 11) Investments (continued)

The companies in which the Company has interests at the end of the year are as follows:

Investments in subsidiaries and associates and other investments	Country of registration or incorporation	Principal activity	Class and percentage of shares held	
			2018	2017
			Ordinary shares	
Euprotec Limited	England and Wales	Dormant	100%	100%

## Notes

(forming part of the financial statements)

### 12) Intangible assets

	Goodwill	Customer lists	Developed technology	Total
	£000	£000	£000	£000
<b>Cost</b>				
At 1 January 2017	1,049	244	1,270	2,563
Additions	-	-	-	-
Disposals	-	-	-	-
At 31 December 2017	<u>1,049</u>	<u>244</u>	<u>1,270</u>	<u>2,563</u>
At 1 January 2018	1,049	244	1,270	2,563
Additions	-	-	-	-
Disposals	-	-	-	-
At 31 December 2018	<u>1,049</u>	<u>244</u>	<u>1,270</u>	<u>2,563</u>
<b>Amortisation</b>				
At 1 January 2017	-	211	468	679
Charge for the year	-	33	183	216
Disposals	-	-	-	-
At 31 December 2017	<u>-</u>	<u>244</u>	<u>651</u>	<u>895</u>
At 1 January 2018	-	244	651	895
Charge for year	-	-	181	181
Disposals	-	-	-	-
At 31 December 2018	<u>-</u>	<u>244</u>	<u>832</u>	<u>1,076</u>
<b>Net book value</b>				
At 31 December 2018	<u>1,049</u>	<u>-</u>	<u>438</u>	<u>1,487</u>
At 31 December 2017	<u>1,049</u>	<u>-</u>	<u>619</u>	<u>1,668</u>

## Notes

(forming part of the financial statements)

### 12) Intangible assets (continued)

The Company acquired 100% of the shares in Euprotec Ltd effective on 27 May 2014. On 1 August 2014, the net assets and trade of Euprotec Ltd were hived up into the Company. The purchase price of £2,994k in cash included a potential earn-out as contingent consideration. The earn-out in the amount of £548k as contingent consideration was calculated based on estimated future revenues as well as estimated achievement of defined future milestones in the next 31 months as of the date of acquisition with a discount rate of 2.03%. The discount rate was based on usual market interest rate on debt. The maximum potential earn-out payment amounted to £1,250k as of the date of the acquisition.

The initial accounting for the acquisition of Euprotec was closed in accordance with IFRS 3 in May 2015. Consequently, a further fair value adjustment to record a separate intangible asset for developed technology in the amount of £1,270k has been recorded, which was estimated based on net present value modelling. Related deferred tax liabilities of £267k were also recorded. The goodwill resulting from the acquisition amounts to £1,049k.

The company has tested the goodwill for impairment based on the net book values as of 31 December 2019. The impairment test is based on a discounted cash flow model. In the table below, the assumptions for the discounted cash flow model used in the impairment test in the fourth quarter of 2019, 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:

	Euprotec
Denominated in	GBP
Basis for cash flow model	MRP
Post-tax discount rate	7.77%
Growth rate for terminal value	0.0%

MRP = Mid Range Plan 2017-2021

In 2019 the Company recorded no goodwill impairment as a result of the impairment test. The impairment tests and the relating estimated cash flows are based on past experience and expectations for the future. In addition, the following key assumptions were used in the models:

- The estimates of revenues were based on knowledge of overall market conditions combined with specific expectations of customer growth and product performance.
- Cost estimates were developed using the 2019 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.

## Notes

*(forming part of the financial statements)*

### 13) Inventories

	2018 £000	2017 £000
Raw materials and consumables	219	190
Work in progress	28	206
	<hr/> 247	<hr/> 396
	<hr/> <hr/>	<hr/> <hr/>

### 14) Trade and other receivables

	2018 £000	2017 £000
Trade receivables from customers	517	413
Trade receivables from group undertakings	3,847	2,932
Other receivables and accrued income	3,837	1,731
Prepayments	1,595	1,430
Loan receivable from group undertakings due less than 1 year	14,943	-
	<hr/> 24,739	<hr/> 6,506
	<hr/> <hr/>	<hr/> <hr/>
All receivables above are due within one year		
Loan receivable from group undertakings due more than 1 year	5,258	22,074
	<hr/>	<hr/>
Total receivables	29,997	28,580
	<hr/> <hr/>	<hr/> <hr/>

Included within the trade receivables from customers figure is a provision against doubtful debts of £nil (2017: £nil).

£14,943k of the intercompany loan receivable is denominated in GBP and is due for payment by 14 December 2019. The loan earns interest at 1.2% plus 3 months GBP LIBOR. £5,258k of the intercompany loan receivable is denominated in USD and is due for payment by 4 August 2020. The loan earns interest at 1.5% plus 3 months USD LIBOR.

## **Notes**

*(forming part of the financial statements)*

### **15) Cash and cash equivalents**

	2018 £000	2017 £000
Cash and cash equivalents	8,453	6,511

### **16) Financial assets**

	2018 £000	2017 £000
Fair value through other comprehensive income	-	1,472
Fair value through profit and loss	1,582	-
	1,582	1,472

During the year the Company sold a corporate bond which it held with a highly rated corporation. The investment was classified as an available-for-sale financial asset.

During the year, the Company invested USD 2,000k in a 6 month treasury deposit with a highly rated financial institution. This was classified as held to maturity.

## Notes

(forming part of the financial statements)

### 17) Trade and other payables

	2018 £000	2017 £000
Trade payables due to suppliers	2,398	1,842
Trade payables due to group undertakings	612	159
Other taxes and social security	4,435	350
Other payables	259	140
Accrued expenses and deferred income	<u>1,759</u>	<u>2,112</u>
	9,463	4,603
All of the trade and other payables above are payable within one year.		
Trade and other payables due greater than one year	<u>179</u>	<u>226</u>
Total trade and other payables	<u>9,642</u>	<u>4,829</u>

The non-current trade payables and accrued expenses payable after one year include an accrual for the element of lease incentives incurred on properties leased by the Company where the benefit received will be reflected in the statement of comprehensive income after the next financial year.

### 18) Corporation taxation

At 31st December 2018 corporation taxation of £3,170k (2017: £1,363k) is receivable and the amount is included within Other receivables and accrued revenue (note 15).

## Notes

(forming part of the financial statements)

### 19) Financial instruments

#### Fair values

The carrying values for each class of financial assets and financial liabilities in the balance sheet, which are given below, are not considered to be materially different to their fair values, due to their short term nature except for the loan receivable from group undertaking due in December 2019, entered into during 2016 for which the market interest rate was not considered to have changed by 31 December 2018. The basis for calculating fair values, where applicable, is set out in the accounting policy notes:

	Carrying amount	Carrying amount
	2018	2017
	£000	£000
Loans and trade receivables (note 15)	29,997	28,403
Cash and cash equivalents (note 16)	8,453	6,511
Financial asset available-for-sale (note 17)	-	1,472
Financial asset held to maturity (note 17)	1,582	-
Trade and other payables (note 18)	(9,642)	(4,829)
	<hr/>	<hr/>
Total financial instruments	30,390	31,557
	<hr/>	<hr/>

#### IFRS 9 categories of financial instruments:

Cash and cash equivalents (note 16)	8,453	6,511
Financial asset - fair value through OCI (note 17)	-	1,472
Financial asset - fair value through profit and loss (note 17)	1,582	-
Other loans and receivables at amortised cost (note 15)	29,997	28,403
	<hr/>	<hr/>
Total financial assets	40,032	36,386
	<hr/>	<hr/>
Trade and other payables at amortised cost (note 18)	(9,642)	(4,829)
	<hr/>	<hr/>
Total financial liabilities	(9,642)	(4,829)
	<hr/>	<hr/>
Total financial instruments	30,390	31,557
	<hr/>	<hr/>

## **Notes**

*(forming part of the financial statements)*

### **19) Financial instruments (continued)**

The Company analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Level 1: assets and liabilities quoted in active markets where a fair value is readily available
- Level 2: derivatives where the fair value is determined based on techniques for which all significant inputs are observable, either directly or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market data, for example financial guarantee contracts.

The fair value of financial assets and financial liabilities (not carried at fair value) equates to the carrying amount as reflected in the statement of financial position and notes thereto.

Exposure to credit, liquidity and market risk arises in the normal course of the Company's business.

#### **Credit risk:**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities.

Financial instruments that may subject the Company to concentrations of credit and liquidity risk consist primarily of cash, cash equivalents and accounts receivable. The Company continually monitors its position with, and the credit quality of, the financial institutions which are counterparts to its financial instruments, and does not anticipate non-performance. There is considered to be minimal credit risk in relation to cash and cash equivalents of £8,453k (2017: £6,511k) and of financial assets available-for-sale £nil (2017: £1,472k) and financial assets held to maturity £1,582k (2017: £nil). These assets are all invested with strongly rated institutions. There is also considered to be minimal risk with the amounts owed by the ultimate parent company of £20,201k (2017: £22,074k) due to the financial strength and liquidity of the ultimate parent company.

It is the Company's policy to monitor accounts receivable balances and chase late payments. The carrying amount of financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the balance sheet date was £40,022k (2017: £36,386k) being the total of the carrying amount of financial assets shown in the table above.



## Notes

(forming part of the financial statements)

### 19) Financial instruments (continued)

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

	2018 £000	2017 £000
North America	517	413
UK group undertakings	719	76
US group undertakings	12	15
European group undertakings	<u>3,116</u>	<u>2,664</u>
	<u>4,364</u>	<u>3,168</u>

The maximum exposure to credit risk for trade receivables at the year-end by type of customer was:

	2018 £000	2017 £000
Third party customers	517	413
Group undertakings	<u>3,847</u>	<u>2,755</u>
	<u>4,364</u>	<u>3,168</u>

The ageing of trade receivables at the year end was:

	2018 £000	2017 £000
Not past due	4,364	3,168
Past due 0-30 days	-	-
Past due 31-120 days	-	-
Past 120 days	<u>-</u>	<u>-</u>
	<u>4,364</u>	<u>3,168</u>

The above table shows the net trade receivables balances including provisions against bad or doubtful debts. At year end there were group company trade receivables aged more than 120 days totalling £nil (2017: £nil) against which no provisions were in place. All of the trade receivable balances are held with customers with good credit history. As such no impairment of these balances is considered necessary.

At the balance sheet date 2018 there were £20,201k (2017: £22,074k) other receivables from group undertakings (note 15).

#### Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

## Notes

(forming part of the financial statements)

### 19) Financial instruments (continued)

The Company has cash balances at year end totalling £8,453k (2017: £6,511k) in addition to a financial asset available-for-sale of £1,582k (2017: £1,472k) and therefore liquidity is not seen as a significant risk for the business. The Company is cash generative and has no debt at year end (2017: £nil). As such it is in a strong liquid position able to meet supplier payment terms without the need to identify new sources of financing.

#### Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments

#### Market risk – interest rate risk:

At the balance sheet date the interest rate profile of the Company's interest-bearing financial instruments was:

	2018 £000	2017 £000
<b>Fixed-rate instruments</b>		
Financial asset - fair value through profit and loss	1,582	-
<b>Variable-rate instruments</b>		
Financial asset - fair value through other comprehensive income	-	3,899
Loan receivable from group undertaking	20,201	22,074
	<u>21,783</u>	<u>25,973</u>

#### Sensitivity analysis

A 1% increase/decrease in interest rates if these instruments were maintained at the level as shown at the balance sheet date would increase/decrease equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date. For cash balances held at variable interest rates the balance outstanding at the balance sheet date is assumed to remain unchanged over the focus period of one year.

This analysis assumes that all other variables, in particular foreign currency rates, remain constant and considers the effect on financial instruments with variable interest rates and financial instruments at fair value through profit. The analysis is performed on the same basis for 2017.

	2018 £000	2017 £000
<b>Equity</b>		
Increase	224	225
Decrease	154	152
<b>Profit or loss</b>		
Increase	224	225
Decrease	154	152

**Notes** (continued)  
(forming part of the financial statements)

**19) Financial instruments (continued)**

*Market risk – foreign currency risk:*

The Company has significant US dollar and euro revenues necessitating the need to manage its total currency exposure. The risk attached to adverse currency movements is managed through the forecasting of all foreign currency revenues and using currency hedging instruments, where appropriate, to hedge against exposures up to 12 months ahead.

The Company periodically makes use of foreign exchange contracts to manage the perceived foreign currency risk. These derivative instruments all have maturity dates of less than one year after the balance sheet date and are initially recognised in the balance sheet at cost and subsequently re-measured to their fair value through the statement of comprehensive income.

The derivative contracts do not qualify for hedge accounting as they are not taken out against specific future transactions and therefore do not meet the requirements laid down in IAS 39 for this accounting treatment to be adopted. No such contracts were in existence at the balance sheet date for 2018 and 2017.

The Company's exposure to foreign currency risk is as follows. This is based on the carrying amount for monetary financial instruments except derivatives.

31 December 2018

	Euro £000	US Dollar £000	Total £000
Cash and cash equivalents	857	1,624	2,481
Financial assets	-	1,582	1,582
Trade receivables	760	859	1,619
Trade payables	(1,216)	(278)	(1,494)
Intercompany loan receivables	-	5,258	5,258
	<hr/>	<hr/>	<hr/>
Net exposure	401	9,045	9,446
	<hr/>	<hr/>	<hr/>

31 December 2017

	Euro £000	US Dollar £000	Total £000
Cash and cash equivalents	1,588	977	2,565
Financial assets	-	1,472	1,472
Trade receivables	624	676	1,300
Trade payables	(221)	(275)	(496)
Intercompany loan receivables	2,559	4,825	7,384
	<hr/>	<hr/>	<hr/>
Net exposure	4,550	7,675	12,225
	<hr/>	<hr/>	<hr/>

**Notes** (continued)  
(forming part of the financial statements)

**19) Financial instruments (continued)**

*Sensitivity analysis*

A 10 percent weakening of the following currencies against pound sterling at 31 December 2017 would have increased/(decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant. The analysis is performed on the same basis for 31 December 2017.

	Equity		Profit or loss	
	2018 £000	2017 £000	2018 £000	2017 £000
Euro	(40)	(455)	(40)	(455)
USD	(904)	(767)	(904)	(767)

A 10 percent strengthening of these same currencies against the pound sterling at 31 December 2017 would have had the following effect on the above currencies, on the basis that all other variables remain constant:

	Equity		Profit or loss	
	2018 £000	2017 £000	2018 £000	2017 £000
Euro	40	455	40	455
USD	904	767	904	767

*Capital management*

The group actively manages its funds to primarily ensure liquidity and principal preservation while seeking to maximise returns. Evotec's cash, available-for-sale and held to maturity investments are made in liquid and low risk categories.

*Contractual maturities of financial liabilities*

Trade and other payables of £9,463k (2017: £4,578k) are due in a period of less than three months from the balance sheet date. Trade and other payables of £179k (2017: £226k) are due in 2 - 5 years.

**Notes** *(continued)*  
*(forming part of the financial statements)*

**20) Deferred taxation**

Deferred taxation assets and liabilities are attributable to the following:

	2018 £000	2017 £000
Difference between accumulated depreciation and capital allowances	(573)	(585)
Timing Differences		
Deferred tax on losses	1,177	-
Intangible assets on acquisition of Euprotec	(92)	(130)
Deferred tax on share options	1,989	2,563
Provisions	<u>324</u>	<u>394</u>
Deferred taxation asset	<u>2,825</u>	<u>2,242</u>

Reconciliation of deferred tax assets and liabilities

	2018 £000	2017 £000
As of 1 January 2018	2,242	511
Tax income during the period recognised in the statement of income	1,171	450
Tax asset on share options recognised directly in equity	<u>(588)</u>	<u>1,281</u>
As at 31 December 2018	<u>2,825</u>	<u>2,242</u>

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period 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, this being 17% or 19% at 31 December 2018 (2017: 17 or 19%).

**Notes** (continued)  
(forming part of the financial statements)

**21) Provisions for liabilities and charges**

	Social security contributions on share options £000	Decommission costs £000	Total £000
<b>Provisions</b>			
Balance at 1 January 2018	1,906	180	2,086
Provision released upon payment in year	1,165	-	1,165
Provision made during the year	(1,472)	-	(1,472)
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2018	1,599	180	1,779
	<hr/>	<hr/>	<hr/>
Current	847	-	847
Non-current	752	180	932
	<hr/>	<hr/>	<hr/>
Total	1,599	180	1,779
	<hr/>	<hr/>	<hr/>

**Decommissioning**

The decommission costs provision relates to estimated costs for the restoring of the research buildings at the end of their lease term. A provision has been made against these costs based on the future obligation to restore the area of the research buildings at the end of the lease, in 2028.

**Social security contributions on share options**

This provision for social security contributions on share options is calculated based on the number of options outstanding at the reporting date that are expected to be exercised. The provision is based on the market price of the shares at the reporting date which is the best estimate of the market price at the date of exercise.

**22) Called-up share capital**

	2018 £000	2017 £000
<b>Authorised share capital</b>		
60,000,000 ordinary shares of 10p each	6,000	6,000
	<hr/>	<hr/>
<b>Allotted, called up and fully paid</b>		
43,612,042 ordinary shares of 10p each	4,361	4,361
	<hr/>	<hr/>

**Notes** (continued)  
(forming part of the financial statements)

**23) Reserves**

	Additional paid in capital £000	Unearned compensation £000	Retained earnings £000	Total reserves £000
Balance at 1 January 2017	4,466	(490)	29,571	33,547
Total recognised income and expense	1,289	(752)	1,632	2,169
Unrealised losses on available for sale financial asset	-	-	3	3
Dividend	-	-	(3,187)	(3,187)
Corporation tax – excess tax on share option expense	-	-	265	265
Deferred tax asset – excess tax on cumulative share option expense	-	-	1,281	1,281
Balance at 31 December 2017	<u>5,755</u>	<u>(1,242)</u>	<u>29,565</u>	<u>34,078</u>
Balance at 1 January 2018	5,755	(1,242)	29,565	34,078
Total recognised income and expense	1,065	52	1,734	2,851
Unrealised losses on available for sale financial asset	-	-	7	7
Dividend	-	-	(4,918)	(4,918)
Corporation tax – excess tax on share option expense	-	-	-	-
Deferred tax asset – excess tax on cumulative share option expense	-	-	1,258	1,258
Balance at 31 December 2018	<u>6,820</u>	<u>(1,190)</u>	<u>27,646</u>	<u>33,276</u>

The additional paid-in capital reflects the fair value of share options and share performance plan awards held at the balance sheet date and issued during the year. The Company employees are awarded options to purchase shares or share performance plan awards entitling them to shares in Evotec AG, the parent of the Company, under the terms disclosed in note 25. The unearned compensation relates to that portion of the share options or share performance plan awards that have been awarded to employees but have yet to be earned by them under the terms of the related agreements as outlined in note 25.

## **Notes**

*(forming part of the financial statements)*

### **24) Employee benefits**

#### **Pension scheme**

The Company operates a defined contribution Group Personal Pension Plan (GPPP) and makes contributions to employees' own schemes. The pension charge for the year represents contributions payable by the Company to the fund (and to employees' own pension schemes) and amounted to £653k (2017: £620k).

Contributions amounting to £161k (2017: £103k) were payable to the fund managers at the year end and are included in trade and other payables (note 17).

#### **Share-based payment transactions**

The Company is a beneficiary of the Evotec AG group share option plan, through which options to purchase shares in Evotec AG are awarded to employees of the Company. Options were awarded regularly from the time the Company was purchased by Evotec AG in 2000 up until 2011 when the decision was taken to end the issuing of new options. Share options awarded prior to 2002 did not have the recognition and measurement principles in IFRS 2 applied to them, in accordance with the transitional provisions in IFRS 1 and IFRS 2.

The share options granted by Evotec AG were part of the share option policy created during the Evotec AG shareholders' meeting on 7 June 1999 in which a stock option plan was established. This authorised the granting of stock options for up to 1,466,600 shares. The plan was subject to certain restrictions regarding the number of stock awards that may be granted in a year and the allocation of the grants to members of the management board, other key management personnel and all other employees. The annual shareholders' meetings in 2000 and 2001 provided for the authorisation of additional 949,000 and 1,129,600 stock options respectively.

Under the terms of the plan, each option entitles the holder to purchase one share of Evotec AG's stock within ten years of the grant date at a set strike price. Options granted in 2000 and thereafter can be exercised at a strike price equal to the closing price of the shares or at a strike price equal to the closing price of the shares plus 5% on the trading day before the option was granted. Options have a graded vesting: a maximum of one third of them can be exercised at the earliest after two years, a maximum of two thirds after three years and all remaining awarded options after four years. Options can only be exercised within certain specified two-week periods starting on the third day after one of the following events: (i) release of the quarterly results, (ii) annual press conference on the financial statements, and (iii) annual shareholders' meeting of the Company. The options can only be exercised if the stock price exceeds the strike price by at least 5%.

The terms of the stock option plan further provided that a grant of options was allowed if the average closing price of the Evotec AG's stock has increased by at least 30% when compared to the last quarter of the last business year. The Supervisory Board of Evotec AG, however, had the authority to override this restriction and to authorise the granting of options to employees if such a decision was considered necessary for the interests of the group as headed by Evotec AG.

The Evotec AG shareholders' meeting on 7 June 2005 established a new stock option plan ("Option Plan 2005") and authorised the granting of stock options for up to 1,741,481 shares. The plan was subject to certain restrictions regarding the number of stock awards that may be granted in a year and the allocation of the grants to members of the Evotec AG Management Board, other key management personnel and all other employees. Within any one calendar year, no more than 40% of these options could be granted.



## Notes

(forming part of the financial statements)

### 24) Employee benefits (continued)

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

Options under the Option Plan 2005 can only be exercised within the specific two-week period relevant to the other option programmes.

Options granted to the Company's employees are covered by an Approved UK Share Option Plan which was approved by HM Revenue & Customs on 21 November 2002. The granting, vesting and exercise of stock options by UK employees are subject to the rules of the Approved UK Share Option Plan so that employees may benefit from certain personal taxation advantages.

During the year no stock options in shares of the parent company were issued to employees of the Company (2017: nil).

The numbers and weighted average exercise price of share options in the parent company held by employees of the Company are as follows:

	Weighted average exercise price (€ per share)	Number of options
Brought forward at 1 January 2018	-	-
Forfeited during the year	-	-
Exercised during the year	-	-
Granted during the year	-	-
Lapsed during the year	-	-
Carried forward at 31 December 2018	-	-

## Notes

*(forming part of the financial statements)*

### **24) Employee benefits (continued)**

	Weighted average exercise price (€ per share)	Number of options
Brought forward at 1 January 2017	2.52	436,186
Forfeited during the year	-	-
Exercised during the year	3.56	(15,000)
Granted during the year	-	-
Lapsed during the year	2.79	(421,186)
Carried forward at 31 December 2017	-	-

Of these share options nil (2017: nil) options are available for exercise at the balance sheet date with a weighted average exercise price of €nil (2017: €nil) per share.

### **Long term incentive scheme**

To further incentivise executives via variable long-term incentive compensation, the Annual General Meeting in June 2017, June 2016 and June 2012 approved the respective contingent capital necessary to support the Share Performance Plan 2017 ("SPP 2017"), 2015 ("SPP 2015") and 2012 ("SPP 2012"). Under these plans, Share Performance Awards ("SPA") may be granted to a level that may result in up to 6,000,000 bearer shares (SPP 2017), 6,000,000 bearer shares (SPP 2015) as well as 4,000,000 bearer shares (SPP 2012) of Evotec AG being issued at maturity to members of the Management Board and other key employees. Each SPA grants up to two subscription rights to Evotec AG's shares, each of which in turn, entitle the holder to the subscription of one share of Evotec AG. SPAs under SPP 2017 can be exercised at the earliest after a vesting period of four years within one month after the date of their grant, 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 exercise of SPAs under SPP 2017 happens automatically without own acting. The holder has to contribute € 1.00 per share at the date of issue.

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 AG's share price and total shareholder return. The Supervisory Board determines annually key performance indicators for each individual tranche of awards at grant date. The Share Performance Plan SPP 2017 is subject to certain restrictions regarding issuing periods and the allocation of the grants to members of the Management Board and other key employees.

SPAs under 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 Evotec AG as well as certain share-based measurements (e.g. Evotec AG'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

## Notes

(forming part of the financial statements)

### 24) Employee benefits (continued)

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 2018 and 2017 and the changes during the year then ended is presented as follows:

	Weighted average exercise price (€ per share)	Number of Share Performance awards (SPAs)
Brought forward at 1 January 2018	1.00	905,065
Forfeited during the year	-	-
Exercised during the year	1.00	(422,049)
Granted during the year	1.00	51,268
Lapsed during the year	-	-
Carried forward at 31 December 2018	1.00	534,284
	Weighted average exercise price (€ per share)	Number of Share Performance awards (SPAs)
Brought forward at 1 January 2017	1.00	971,432
Forfeited during the year	-	-
Exercised during the year	1.00	(155,308)
Granted during the year	1.00	88,941
Lapsed during the year	-	-
Carried forward at 31 December 2017	1.00	905,065

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

Date of grant:	15 January 2018	25 August 2017	20 September 2016	28 September 2015
Risk-free interest rate in %	(0.25)	(0.50)	(0.61)	(0.09)
Volatility of Evotec share in %	51.0	34	33.0	37.0
Volatility of TecDax index in %	13.0	12.0	n/a	n/a
Fluctuation in %	0.0 – 5.0	0.0 – 5.0	0.0 – 5.0	0.0 – 5.0
Price in Euros	1.00	1.00	1.00	1.00
Share price at grant date in Euros	14.35	16.24	4.66	4.04
Market value of TecDax index at grant date in Euro	2,663.91	2,266.43	n/a	n/a
Fair value of SPA	15.94	19.68	3.87	2.69

## Notes

(forming part of the financial statements)

### 24) Employee benefits (continued)

The expected dividend yield is zero, the expected remaining life is 4 years.

Evotec AG's stock option plans result in compensation expense in the financial accounts of the Company of £nil for the year ending 31 December 2018 (2017: £nil) for the Share option plan and £1,125k (2017: £576k) for the long-term incentive scheme. These amounts were initially reflected in unearned compensation, a component of stockholders' equity.

### 25) Commitments

- a. Capital and other contracted commitments at the end of the financial year for which no provision has been made are as follows:

	2018 £000	2017 £000
Contracted	4,295	3,921

- b. The Company leases land and buildings and plant and machinery under long-term non-cancellable operating leases.

	2018 Plant and machinery £000	2018 Land and buildings £000	2017 Plant and machinery £000	2017 Land and buildings £000
<b>Future lease payments:</b>				
Within one year	2	1,096	9	1,485
Between two and five years	-	5,855	2	6,118
Over five years	-	7,043	-	8,779
	<u>2</u>	<u>13,994</u>	<u>11</u>	<u>16,382</u>
	2018 Plant and machinery £000	2018 Land and buildings £000	2017 Plant and machinery £000	2017 Land and buildings £000
Amount expensed in the year in respect of operating leases	<u>9</u>	<u>1,501</u>	<u>9</u>	<u>1,403</u>

## Notes

(forming part of the financial statements)

### 25) Commitments (continued)

The operating leases in respect of land and buildings are for those buildings occupied by the Company. The buildings are on leases that terminate as outlined below:

Leased property	Lease break clauses	Lease end date
Building 112 Milton Park	-	28 September 2028
Building 114 Milton Park	-	28 September 2028
Part of Block 19D, Alderley Park	11 October 2022	11 October 2027
Part of Block 23, Alderley Park	11 October 2022	11 October 2027

### 26) Related party transactions

All related party transactions are made on an arm's-length basis.

The Company has related party transactions with its Directors and with Directors of its ultimate parent company, Evotec AG. The Company provides no remuneration or compensation in any form to those Directors employed by its parent company. The management of the Company receives compensation consisting of both fixed and variable components. Total compensation for the Company's management was £500k (2017: £875k).

#### Remuneration of Directors.

	2018 £000	2017 £000
Remuneration as executives	490	865
Amounts paid to defined contribution schemes	10	10
	<u>500</u>	<u>875</u>

The aggregate of emoluments and amounts receivable under long-term incentive schemes of the highest paid Director was £500k (2017: £865k). Contributions of £10k (2017: £10k) were made for the Director's personal pension scheme during the year.

	Number of directors	
	2018	2017
Retirement benefits are accruing to the following number of Directors under money purchase schemes at the year end.	<u>1</u>	<u>1</u>

## **Notes**

*(forming part of the financial statements)*

### **26) Related party transactions (continued)**

The remaining Directors are remunerated by the parent company, Evotec AG.

The highest paid Director received 15,978 share performance awards (2017: 29,415), the details of which are disclosed in the accounts of the parent company.

#### ***Related party transactions with the parent company:***

Evotec AG is the ultimate and direct parent of the Company.

The Company invoiced services in the amount of £6,551k (2017: £8,673k) to Evotec AG in the year. Additionally costs of £438k (2017: £356k) were recharged to Evotec AG in the year. The corresponding receivables at the balance sheet date amounted to £750k (2017: £642k).

The Company received invoices for costs and services in the amount of £2,149k (2017: £2,695k) from Evotec AG in the year. The corresponding payables at the balance sheet date amounted to £154k (2017: £150k).

The company paid a dividend of £4,918k (2017: £3,187k) to the parent company.

#### ***Related party transactions with other companies within the Evotec AG group:***

The Company invoiced services in the amount of £22,823k (2017: £17,984k) to Evotec International GmbH in the year. Additionally costs of £1,694k (2017: £1,819k) were recharged to Evotec International GmbH in the year. Evotec International GmbH is a wholly owned subsidiary of Evotec AG, the parent company of the Company, and is therefore consolidated into the group accounts. The corresponding receivables at the balance sheet date amounted to £1,651k (2017: £1,686k).

The Company received invoices for costs and services in the amount of £335k (2017: £398k) from Evotec International GmbH in the year. The corresponding payables at the balance sheet date amounted to £124k (2017: £299k).

The Company invoiced services in the amount of £nil (2017: £4k) to Evotec France in the year. The Company recharged costs of £736k (2017: £510k) to Evotec France in the year. Evotec France is a wholly owned subsidiary of Evotec AG. The corresponding receivables at the balance sheet date amounted to £103k (2017: £35k).

The Company received invoices for costs and services in the amount of £555k (2017: £47k). The corresponding payables at the balance sheet date amounted to £328k (2017: £10k).

The Company invoiced services in the amount of £nil (2017: £1k) to Evotec (Munich) GmbH in the year. The Company recharged costs of £11k (2017: £16k) to Evotec (Munich) GmbH in the year. Evotec (Munich) GmbH is a wholly owned subsidiary of Evotec AG. The corresponding receivables at the balance sheet date amounted to £5k (2017: £1k).

The Company invoiced services in the amount of £nil (2017: £nil) to Evotec US Inc in the year. The Company also recharged costs of £93k (2017: £181k) in the year. Evotec US Inc is a wholly owned subsidiary of Evotec AG. The corresponding receivables at the balance sheet date amounted to nil (2017: £15k).

Evotec US Inc also recharged to the Company costs incurred on its behalf to a value of £174k (2017: £146k) in the year. The corresponding payables were £14k (2017: £3k) at the balance sheet date.

## **Notes**

*(forming part of the financial statements)*

### **26) Related party transactions (continued)**

The Company recharged costs of £336k (2017: £37k) in the year to Cyprotex Discovery Limited, a fellow group subsidiary, in the year. The corresponding receivables at the balance sheet date amounted to £336k (2017: £76k).

The Company received invoices for costs and services in the amount of £2k (2017: £3k) from Cyprotex Discovery Limited a fellow group subsidiary, in the year. The corresponding payables at the balance sheet date amounted to £nil (2017: £nil).

The Company recharged costs of £19k (2017: £nil) in the year to Cyroptex US a fellow group subsidiary, in the year. The corresponding receivables at the balance sheet date amounted to £22k (2017: £nil).

The Company recharged costs of £14k (2017: £nil) in the year to Aptuit (Switzerland) a fellow group subsidiary, in the year. The corresponding receivables at the balance sheet date amounted to £14k (2017: £nil).

The Company recharged costs of £15k (2017: £nil) in the year to Aptuit (Potters Bar) a fellow group subsidiary, in the year. The corresponding receivables at the balance sheet date amounted to £12k (2017: £nil).

The Company recharged costs of £304k (2017: £nil) in the year to Aptuit (Oxford) a fellow group subsidiary, in the year. The corresponding receivables at the balance sheet date amounted to £371k (2017: £nil).

The Company received invoices for costs and services in the amount of £2k (2017: £9k) from Aptuit (Verona) a fellow group subsidiary. The company recharged costs of £342k (2017: £nil) in the year to Aptuit (Verona). The corresponding receivables at the balance sheet date amounted to £546k (2017: £nil). The corresponding payables at the balance sheet date amounted to £nil (2017: £nil).

The Company received invoices for costs and services in the amount of £9k (2017: £9k) from Evotec (Lyon), a fellow group subsidiary, in the year. The Company recharged costs of £8k (2017: £nil) to Evotec (Lyon) in the year. The corresponding receivables at the balance sheet date amounted to £46k (2017: £nil). The corresponding payables at the balance sheet date amounted to £nil (2017: £nil).

### **Related party transactions with other related parties:**

There were no transactions during the year with other related parties. There were no expenses recognised during the period in respect of bad or doubtful debts or provisions in place with regard to debts due from related parties. Additionally there are no guarantees given or received in relation to outstanding balances with related parties. All balances due are to be settled in cash.

### **27) Ultimate parent company**

The immediate and ultimate parent undertaking and controlling party of the Company is Evotec AG incorporated in Germany.

The only group in which the results of the Company are consolidated is that headed by Evotec AG. The consolidated accounts of this group are available from Essener Bogen 7, 22419 Hamburg, Germany.