Evotec (UK) Limited

Strategic report, Directors' report and financial statements

For the year ended 31 December 2020
Registered number 2674265

Strategic report, Directors' report and financial statements

Contents

Page Number

Company information

Company Registration Number	2674265
Registered Office	114 Innovation Drive Milton Park Abingdon Oxon OX14 4RZ United Kingdom
Directors	Craig Johnstone Enno Spillner Werner Lanthaler Christophe Muller
Secretary	Christian Dargel
Auditor	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 2020.

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 2020 the Company achieved revenue of £45.3m (2019: £40.7m) and gross profitability of £6.8m (2019: £6.5m). The Company reported profit before tax of £3.8m (2019: £3.8m). The Company also continued to generate cash securing £7.2m (2019: £3.6m) from operations. The Company's robust liquidity position has been achieved with zero debt.

The overall growth in revenues was 11% and amounted to £4.6m. In the prior year, revenues and profit before tax were boosted by a milestone receipt of €895k. Therefore the growth in 2020 in underlying revenues was 14%. Gross margin was 15% for 2020. In the prior year, the gross margin was 16%, which was boosted by a milestone receipt. When excluding the milestone payment, the gross margin in the prior year stood at 14%.

2020 was therefore a very strong year for the Company, driven by growth in revenue, despite generally difficult conditions due to the COVID-19 pandemic. In 2020, all sites were operational without any interruptions. In the spring of 2020, the Company immediately introduced new health and safety rules, which were adjusted when the second wave of infections hit at the end of the year, to protect as best as possible the Company's employees and ensure the continuation of lab operations. Despite the difficult environment, which affected the Company mainly between March and June 2020 and again from November, the financial implications are manageable so far.

The positive track record of growth has led to an expansion in its infrastructures at its sites in Abingdon in the UK. The Company has, therefore, signed additional leases, which explains the increase in the net book value on rights-of-use assets to a total of £32.3m (2019: £11.8m).

Looking to the outlook, in the pharmaceutical and biotechnology sectors, companies continuously adjust their business strategies to meet new challenges. They are increasingly investing in new trends in healthcare, including cell therapy, gene therapy, personalised medicine, and drugs for rare diseases (so-called orphan drugs). This has triggered extensive restructuring and consolidation processes in the industry: The pharmaceutical sector relies increasingly on new structures of collaboration for capital-efficient, fast and innovative drug discovery to gain access to innovations and accelerate the discovery and development of new drugs. Drug discovery and early development outsourcing has been the trend for years, and the demand for innovative drug candidates continues unabated, from development and approval through to commercialisation. Aside from all of the major pharmaceutical groups, many newly founded US and European biotechnology companies are also among customers and partners today of the Evotec group. These companies increasingly tend to operate virtually rather than with their own operating infrastructures and often outsource operational activities such as production to service providers like the Evotec group.

For more than ten years, the global pharmaceutical industry has been struggling with declining efficiency in introducing new products. While expenses for research and development have risen significantly over the years, products already on the market are generating lower revenues than in earlier decades: between 2012 and 2020, expenses for research and development (R&D) in the biotechnology and pharmaceutical industries rose by almost 40% from $ 136 bn to $ 188 bn (source: *EvaluatePharma*, June 2020). According to a survey by BDO, an increase of 22% was recorded between 2018 and 2019 alone, while revenues grew by only 2%. The report Evaluate Pharma World Preview 2020 projects annual growth in R&D expenses of 3%, which corresponds to roughly $ 233 bn in 2026. The decrease in R&D expenses relative to revenues from prescription drugs from 21.3% in 2019 to 16.7% in 2026 suggests that the biopharma industry in the coming years hopes to reap the rewards of R&D investments made

Strategic report (continued)

now. Looking ahead, these data support the industry trend toward specialised treatments with smaller patient populations. At the same time, the biotechnology industry will invest heavily in options to improve R&D efficiency. This is the starting point for Evotec's business model.

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 15.

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 19 (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 at group level 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.

COVID-19

With regard to the ongoing COVID-19 pandemic outbreak, the company has not experienced any significant financial impact and has maintained business continuity throughout this period. Many business continuity measures have been put in place, including shift operations to reduce density at any given time, regular task force meetings comprising site leadership, increase in stock for critical lines and increased communication with all stakeholders, in particular employees and customers.

The nature of the Company's activities and its varied customer base has meant that the business has seen no fall in demand. This is expected to continue but the possibility of global macro-economic weaknesses persisting could impact some of our customers, which may in turn affect future revenue and profitability of the Company.

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 2021 at the underlying operations level. The Company continues to be cash generative and the 2021 sales order book is showing a strong position against budget.

Strategic report (continued)

Streamlined Energy and Carbon Reporting

Our Environment:

Evotec (UK) is a part of the Evotec SE Group. Evotec SE in December 2020 signed the pledge to the Science Based Targets initiative (SBTi) and is now officially listed as one of the companies committed to the transition to a low-carbon economy; to set targets for reducing greenhouse gas emissions in alignment with the goals of the Paris Agreement – to limit global warming to well-below 2°C above pre-industrial levels and pursue efforts to limit warming to <1.5°C.

What does this mean?

We have up to 24 months now to perform an inventory of the Groups greenhouse gas emissions, and to then communicate specific targets that suffice to reduce direct and indirect emissions (e.g. from heating and electricity use, "scope 1 and 2") by 50-60% until 2030. In addition, an analysis of indirect emissions e.g. through suppliers, commuting or business travel ("scope 3") will be performed, and certain goals for reduction of corresponding emissions will be set as well. By doing this, we will put the Evotec Group on a trajectory to become net carbon neutral by 2050. SBTi will review the emission targets, and upon approval will list the Groups target on their website. SBTi will also track progress towards achieving the target. Performing the greenhouse gas emissions inventory and subsequent target planning rank high on the agenda for 2021.

Energy Consumption & Carbon Emissions:

During 2020, Evotec (UK) has continued to invest in energy saving technologies including LED lighting and utilised Capital expenditure to the ongoing program to upgrade fumehood extracts in our chemistry laboratories to Variable Air Volume (VAV) controllers.

Greenhouse Gas (GHG) Emissions:
We report emissions as defined by the GHG protocol as follows:

Scope 1 (Direct emissions from controlled or owned sources – which includes those from combustion of fuel and operation of facility)
Scope 2 (Indirect emissions from generation of purchased energy)
Scope 3 (Other indirect emissions – Business travel)

Greenhouse Gas Emissions	kWh * (2020)	t CO_2e (2020)	Revenue £m (2020)	t CO_2e per £m revenue (2020)	t CO_2e per employee (2020)
Scope 1	4,716,473	953			
Scope 2	5,714,057	1,442			
Total Emissions (Scope 1&2)	10,430,530	2,395	£45.264	52.9	5.7
Scope 3		2.5			

* **Note1:** August 2020 we leased another building hence annual energy consumption has been estimated. **Note 2:** One of our Facilities comprises shared space, thus energy purchased (Electric & Gas) defined as Scope 2 with consumption (kWh) calculated on % leased space for last 12 billed months (Sep19-Aug20).

Scope & Methodology:
As Evotec (UK) is a part of the Evotec SE group, we will adhere to the recommendations of the SBTi, which requires emissions reporting and tracking according to the internationally accepted GHG Protocol Corporate Accounting and Reporting Standard. The process of setting targets will be conducted in the course of 2021/22.

In an effort to reduce our CO2 footprint, we have started to collect emissions data. As 2020 was effected by an external shock, we believe that 2019 may be a more suitable reference

Strategic report (continued)

year for our climate targets. A decision will be made after diligent assessment in the course of 2021. A first indication with regard to the Company's GHG emissions (CO2 Scope 1 and Scope 2 related to consumption of electricity and natural gas) points to a volume >2,161 tonnes of CO2 per year.

A first assessment of Scope 1 emissions is yet to include fugitive emissions from intentional / unintentional losses. Likewise, Scope 3 emissions thus far, are limited to mileage claimed in 2020 for Business use of a private car, whereby car size and fuel type were unknown thus Average size and unknown fuel type values were used. Going forward we will look to include Water (supply & treatment) and Waste disposal.

Conversion factors for UK electricity, gas and other emissions are those published by the department for Business, Energy and Industrial Strategy 2020.

The reporting period corresponds to the Company's 2020 financial year, i.e. the period from 1 January 2020 to 31 December 2020.

Section 172 (1) statement

In accordance with Section 172 (1) the directors act in a way they consider in good faith would be the most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

a) The likely consequences of any decisions in the long term
b) The interest of the company's employees
c) The need to foster the company's business relationships with suppliers, customers and others
d) The impact of the company's operations on the community and the environment
e) The desirability of the company maintain a reputation for high standards of business conduct and
f) The need to act fairly as between members of the company.

The board of directors is collectively responsible for ensuring that the Company's operations are aligned to our internal values and to focus on the short and long term strategically important decisions and activities of the company, including considering how the Company will act fairly with all key stakeholders. These stakeholders include our workforce, customers and suppliers.

Our Workforce

Our success hinges upon our employees' skills and dedication. On a fast track to growth, the Company strives to offer fair, respectful and attractive working conditions that allow growth for and with our employees.

2020 was marked by the need to rapidly implement measures to manage the effects of the COVID-19 pandemic. New health and safety regulations were introduced shortly after the outbreak, and pandemic readiness programmes were developed by local leadership teams at the site level. When required, shift systems were used to increase lab space per scientist. Mandatory face masks, employees working from home where possible, were some of the other key measures introduced. There were also regular site management calls to review processes and procedures relating to the pandemic as well as frequent communication to all staff. Our employees dealt with the situation in a very responsible manner, with those showing symptoms of a potential COVID-19 infection isolated themselves immediately. As a result of these combined endeavours, all locations continued to operate without interruptions.

Our Customers

The vast majority of the Company's revenues is generated through alliances with Pharma and biotech companies. Of vital importance is the quality of its drug discovery solutions and its performance within its customer alliances and overall customer satisfaction.

Performance in this regard was measured on an overall Evotec SE group level by reference to capturing and analysing relevant indicators such as the total number, growth and size of

Strategic report (continued)

customer alliances, the percentage of repeat business, average contract duration, new customer acquisition and the status of the company's sale and order book.

Our Suppliers

The quality and continuity of the Company's supplier relationships are key assets that are highly significant to the Company's success.

Our suppliers need to be assured they are treated fairly, and most importantly paid on time for the goods they supply to us.

The Company has identified key metrics, such as the percentage of payments made within payment terms and the average number of days before a supplier is paid following receipt of invoices, to monitor performance and identify any areas of improvement.

By order of the Board on 28 July 2021 and signed on its behalf by

Enno Spillner
Chief Financial Officer

Registered Address

114 Innovation Drive

Milton Park
Abingdon
Oxon
OX14 4RZ
United Kingdom

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 2020. 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 2020 or 31 December 2019.

Dividends paid

The directors do not recommend payment of a dividend for the year ended 31 December 2020 (2019: £8,561k).

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 2020.

Political and charitable donations

The Company made charitable donations of £nil during the year (2019: £1k). There were no political donations in the year (2019: £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 who held office during the year were as follows:

Craig Johnstone

Werner Lanthaler
Enno Spillner
Christophe Muller

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.

Going Concern

At 31 December 2020, the Company has net assets of £38.1m and cash balances of £24.4m. The Directors consider that it is appropriate to prepare the financial statements on a going concern basis, due to the entity being profitable, possessing sufficient cash reserves and its assets exceeding its liabilities.

The directors have prepared cash flow forecasts for the company from the date of approval of the 2020 financial statements through to 31 July 2021 ("the going concern period"). These forecasts reflect an assessment of current and future market conditions and their impact on the company's future cash flow performance. The forecasts have been sensitized for a reduction in revenue through to 31 July 2021. The forecasts have also been reverse stress tested by significantly reducing revenue to the end of the review period. The forecasts indicate the company would still have sufficient cash to continue.

In assessing whether the going concern basis is appropriate the directors have taken account of all available information about the future up to and including 31 July 2021, which is at least 12 months from the date of approval of these financial statements. Accordingly, they continue to adopt the going concern basis in preparing the annual financial statements.

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.

Directors' report *(continued)*

Auditor

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 28 July 2021 and signed on its behalf by

Enno Spillner

Chief Financial Officer

Registered Address

114 Innovation Drive, Milton Park
Abingdon
Oxfordshire
OX14 4RZ
United Kingdom

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 2020 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 2020 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. 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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

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.

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 course of 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 themselves. 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, 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

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

Responsibilities of directors

As explained more fully in the statement of Directors' responsibilities set out on page 10, 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.

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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are United Kingdom Generally Accepted Accounting Practice, Companies Act 2006, Data Protection Act 1998, Health and Safety at Work Act 1974, HMRC Regulations, The Coronavirus Act 2020 Functions of Her Majesty's Revenue and Customs (Coronavirus Job Retention Scheme), UK Bribery Act, Equality Act and Anti-Money Laundering Regulations.
- We understood how Evotec (UK) Limited is complying with those frameworks by making enquiries of those charged with governance and management. We understood the potential incentive and ability to override the controls. We considered management's attitude and tone from the top to embed a culture of honesty and ethical behaviour whereby a strong emphasis is placed on fraud prevention which may reduce opportunities for fraud to take place. We further understood the adoption of accounting standards and considered the compliance with the above laws.

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

- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by obtaining and reading internal policies, holding enquiries of management and those charged with governance as to any fraud risk framework within the entity. Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved enquiry of management and those charged with governance as to any fraud risk framework within the entity, including whether a formal fraud risk assessment is completed.
- Enquiry of management and those charged with governance around actual and potential litigation and claims.
- Enquiry of management and those charged with governance to identify any instances of non-compliance with laws and regulations, including communications with tax authorities.
- Reading minutes of meetings of those charged with governance.
- Enquiry of management over reports to whistleblowing hotlines.
- Reading financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations.
- Auditing the risk of management override of controls, including through testing journal entries and other adjustments for appropriateness.
- Evaluating the business rationale of significant transactions outside the normal course of business, and;
- Challenging judgments made by management. This included corroborating the inputs and considering contradictory evidence.

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.

Daniel Dennett (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Reading
Date 28 July 2021

Statement of income

For the year ended 31 December 2020

	Note	2020	2019
		£000	£000
Revenue	2	45,264	40,649
Cost of sales		(38,473)	(34,153)
Gross profit		6,791	6,496
Research and development expense	4	(320)	(350)
Marketing and sales expense		(1,263)	(1,330)
Administrative expense		(5,264)	(4,992)
Other operating income	6	8,896	8,437
Other operating expense	7	(4,665)	(4,361)
Operating profit		4,175	3,900
Finance income	8	81	370
Finance expenses	9	(472)	(423)
Profit before taxation		3,784	3,847
Taxation	10	(613)	(677)
Profit after taxation		3,171	3,170

Statement of comprehensive income

For the year ended 31 December 2020

	2020	2019
	£000	£000
Profit after taxation	3,171	3,170
Other comprehensive income	-	-
Total comprehensive income for the year, net of tax	3,171	3,170

Statement of financial position

As at 31 December 2020

	Note	2020	2019
Assets		£000	£000
Property, plant and equipment	11	39,339	16,760
Intangible assets	13	1,124	1,306
Investments	12	-	-
Deferred tax asset	20	1,646	2,226
Total non-current assets		42,109	20,292
Inventories	14	881	258
Trade and other receivables	15	13,187	11,748
Cash and cash equivalents	16	24,383	22,960
Total current assets		38,451	34,966
Total assets		80,560	55,258
Equity and liabilities			
Share capital	22	4,361	4,361
Reserves	23	33,715	29,132
Total equity		38,076	33,493
Non-current liabilities			
Trade and other payables	17	30,962	12,308
Provisions	21	489	567
Total non-current liabilities		31,451	12,875
Current liabilities			
Trade and other payables	17	10,366	7,601
Provisions	21	667	1,289
Total current liabilities		11,033	8,890
Total liabilities		42,484	21,765
Total equity and liabilities		80,560	55,258

These financial statements were approved by the Board of Directors on 28 July 2021 and were signed on its behalf by:

Enno Spillner
Chief Financial Officer

Statement of changes in equity
For the year ended 31 December 2020

	Share capital £000	Additional paid in capital on share options (see note 24) £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 2019	4,361	6,820	(1,190)	27,646	37,637
Profit for the year	-	-	-	3,170	3,170
Other comprehensive income	-	-	-	-	-
Equity effect of incentive scheme awards	-	116	(116)	-	-
Equity effect of incentive scheme earned	-	-	587	-	587
Share options – excess tax deduction	-	-	-	660	660
Additional paid-in capital on share options	-	-	-	-	-
Dividend paid	-	-	-	(8,561)	(8,561)
Balance at 31 December 2019	4,361	6,936	(719)	22,915	33,493
Balance at 1 January 2020	4,361	6,936	(719)	22,915	33,493
Profit for the year	-	-	-	3,171	3,171
Other comprehensive income	-	-	-	-	-
Equity effect of incentive scheme awards	-	524	(524)	-	-
Equity effect of incentive scheme earned	-	-	558	-	558
Share options – excess tax deduction	-	-	-	854	854
Additional paid-in capital on share options	-	-	-	-	-
Dividend paid	-	-	-	-	-
Balance at 31 December 2020	4,361	7,460	(685)	26,940	38,076

Statement of cash flows

For the year ended 31 December 2020

	Note	2020	2019
		£000	£000
Cash flows from operating activities			
Profit before taxation		3,784	3,847
Adjustments for:			
Depreciation and amortisation	11,13	3,414	3,041
Finance income	8	(81)	(370)
Finance expense		470	423
Foreign exchange losses/(gains)		-	154
Share option compensation expense		558	582
Loss on sale of property, plant and equipment	11	-	33
Operating profit before changes in working capital and provisions		8,145	7,710
(Increase)/Decrease in inventories		(622)	(11)
(Increase) in trade and other receivables		(618)	(932)
(Decrease)/Increase in trade and other payables		1,401	(2,589)
(Decrease) in non-current payables		-	(179)
Increase/(Decrease) in provisions		(700)	310
		7,606	4,309
Interest received		81	100
Interest paid		(470)	(423)
Tax paid		-	(436)
Net cash flows from operating activities		7,217	3,550
Cash flows from investing activities			
Acquisition of property, plant and equipment	11	(3,809)	(2,083)
Proceeds from sale or maturity of financial assets		-	1,582
Proceeds from sale of property, plant and equipment		-	6
Intercompany loan receipt		-	20,321
Net cash flows (used)/from investing activities		(3,809)	19,826
Cash flows from financing activities			
Dividend paid to parent company		-	(8,561)
Repayment of leases liabilities		(1,985)	(308)
Net cash flows from financing activities		(1,985)	(8,869)
Net increase in cash and cash equivalents		1,423	14,507
Cash and cash equivalents at 1 January 2020		22,960	8,453
Cash and cash equivalents at 31 December 2020	16	24,383	22,960

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

1) Summary of significant accounting policies

The Company is a private Company limited by shares, registered in England and Wales. The address of the registered office is 114 Innovation Drive, Milton Park, Abingdon, Oxfordshire, OX14 4RZ.

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 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 SE, 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 SE, within which the Company is included, can be obtained from the address given in note 27

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 rounded to the nearest thousand.

b) Going Concern

At 31 December 2020, the Company has net assets of £38.1m and cash balances of £24.4m. The Directors consider that it is appropriate to prepare the financial statements on a going concern basis, due to the entity being profitable, possessing sufficient cash reserves and its assets exceeding its liabilities.

The directors have prepared cash flow forecasts for the company from the date of approval of the 2020 financial statements through to 31 July 2021 ("the going concern period"). These forecasts reflect an assessment of current and future market conditions and their impact on the company's future cash flow performance. The forecasts have been sensitized for a reduction in revenue through to 31 July 2021. The forecasts have also been reverse stress tested by significantly reducing revenue to the end of the review period. The forecasts indicate the company would still have sufficient cash to continue.

In assessing whether the going concern basis is appropriate the directors have taken account of all available information about the future up to and including 31 July 2021, which is at least 12 months from the date of approval of these financial statements. Accordingly, 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.

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

1) Summary of significant accounting policies (continued)

Impact of new accounting standards and recent accounting pronouncements

First time adoption of new accounting standards in the Financial Year 2020

Standards/Interpretation	Description	Effects
IFRS 9, IAS39 and IFRS 7	Interest Rate Benchmark Reform A number of reliefs, which apply to all hedging relationships that are directly affected by interest benchmark reform	No effects
IAS 1 and IAS 8	New definition of the key term "material", that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."	No effects
IFRS 16	COVID-19-Related Rent Concessions: The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic.	No effects
Conceptual Framework	The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.	No effects

Recent Accounting Pronouncements, not yet adopted

The following standards and interpretations published by the IASB are not yet mandatory because they have not been endorsed by the EU yet, or the date of their first mandatory application has not yet been reached and they have not been adopted by Evotec at an early stage:

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

1) Summary of significant accounting policies (continued)

Impact of new accounting standards and recent accounting pronouncements (continued)

Standards/Interpretation	Description	Mandatory application	Endorsement by European Commission	Expected Effect
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	**Interest Rate Benchmark Reform – Phase 2:** Modification of financial assets, financial liabilities and leasing liabilities, requirements regarding accounting and disclosure of hedging relationships under application of IFRS 7	1 Jan 2021	Yes	No material effects
IAS 16	Change in accounting of proceeds before intended use.	1 Jan 2022	No	No effects
IAS 37	Specification which costs an entity needs to include when assessing whether a contract is onerous or loss making.	1 Jan 2022	No	No effects
IFRS 9	Clarification with regard to fees in the 10 per cent test for derecognition of financial liabilities.	1 Jan 2022	Yes	No effects
IAS 1	In the future, only "material" accounting policies are displayed in the notes	1 Jan 2023	No	Effects are being analysed
IAS 8	Clarification to help entities to distinguish between accounting policies and accounting estimates	1 Jan 2023	No	No material effects
IFRS 17	New accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure.	1 Jan 2023	No	No effects
IAS 1	Change in classification of liabilities as current or non-current	1 Jan 2023	No	No effects

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

1) Summary of significant accounting policies (continued)

c) Revenue

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

d) 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 (UK) Limited'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.

e) 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.

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

f) 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 statement of financial position date, and any adjustments to the taxation payable or credit in respect of previous years.

Deferred taxation is provided, without discounting, using the statement of financial position 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.

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

1) Summary of significant accounting policies (continued)

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.

g) 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:

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

h) 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 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.

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

1) Summary of significant accounting policies (continued)

i) Investments

Investments in subsidiary 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 j).

j) 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 statement of financial position 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.

k) 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 statement of financial position 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.

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.

Monetary assets and liabilities denominated in foreign currencies are re-translated using the rate of exchange ruling at the statement of financial position 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 SE, 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.

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

1) Summary of significant accounting policies (continued)

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 statement of financial position 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.

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 statement of financial position 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.

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

1) Summary of significant accounting policies (continued)

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 statement of financial position date if the effect is material. Amounts held in foreign currencies are treated under the policy laid down in accounting policy I.

s) Provisions

A provision is recognised in the statement of financial position 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 statement of financial position 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.

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 statement of financial position 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 statement of financial position 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.

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

1) Summary of significant accounting policies (continued)

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:

- Impairment testing (Note 13)
- Deferred tax asset (note 20)
- Share options (Note 24)
- Lease terms and discount rate (note 25)
- Provisions (Note 21)

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.

w) Leases

The Company recognises and measures all leases (excluding short-term leases and leases of low-value assets) using a single model.

Right-of-use assets

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

Right-of-use assets relating to buildings - 8 – 22 years

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

Lease Liabilities

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

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

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

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

1) Summary of significant accounting policies (continued)

Short-term leases and leases of low-value assets

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

2) Revenues

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

	2020 £000	2019 £000
Contracted research fees for goods and services	45,264	39,754
Milestone revenues	-	895
	45,264	40,649

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 2020	2019
Directors	1	1
Administration	46	43
Production, research and development	365	295
Marketing	5	4
	417	343

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

	2020 £000	2019 £000
Wages and salaries	17,055	15,616
Social security costs	2,268	2,160
Contribution to defined contribution pension plans	926	963
Share-based compensation	565	582
	20,814	19,321

The Directors as at 31 December 2020 were employed by either the Company or Evotec SE, the direct and ultimate parent undertaking of the Company. Details of Directors remuneration are given in note 26

Notes *(continued)*
(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.

	2020 £000	2019 £000
Internal research costs expensed	320	350

5) Auditor's remuneration

Auditor's remuneration in the year

	2020 £000	2019 £000
Audit of financial statements pursuant to legislation	52	52

The auditor has provided no other services to the Company in the year (2019: £nil).

6) Other operating income

	2020 £000	2019 £000
Cost recharges to group companies	6,095	6,009
Grant income	2	29
Foreign exchange gains	247	241
Research and Development expenditure credit	2,552	2,158
	8,896	8,437

The Company elected to claim the Research and Development Expenditure Credit (RDEC). This credit is recorded in other operating income and amounts to £2,552k (2019: £2,158k) which represents the Research and Development expenditure credit claimed.

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

7) Other operating expense

	2020	2019
	£000	£000
Costs incurred on behalf of group companies	4,132	3,723
Foreign exchange losses	352	457
Amortisation in relation to intangible assets	181	181
	4,665	4,361

8) Finance income

	2020	2019
	£000	£000
Bank interest income	81	100
Intercompany interest received on loan	-	270
	81	370

9) Finance expenses

	2020	2019
	£000	£000
Interest on lease liabilities	472	423
	472	423

Notes *(continued)*

(forming part of the financial statements)

10) Taxation

Recognised in the statement of comprehensive income

	2020 £000	2019 £000
UK corporation taxation		
Current taxation on income for the period	(821)	613
Adjustments in respect of previous periods	-	(583)
Total current taxation (credit)/charge	(821)	30
Deferred taxation		
Origination/reversal of timing differences	1,471	160
Adjustments in respect of previous periods	(37)	487
Total deferred taxation charge	1,434	647
Total taxation charge in statement of comprehensive income	613	677

	2020 £000	2019 £000
Reconciliation of effective taxation rate		
Profit on ordinary activities before taxation	3,784	3,847
Tax calculated using the UK corporation taxation rate 19% (2019: 19%)	719	731
Effects of:		
Non-deductible expenses	43	32
Provisions deductible on realisation	(24)	(6)
Capital items expensed	22	14
Release of deferred tax on intangible assets	(38)	(38)
Capital allowances for period in excess of depreciation	46	10
Adjustments in respect of prior periods	(37)	(96)
Losses carried forward	756	-
Losses group relieved	(821)	-
Adjustments in respect of Share options	(53)	30
Total taxation in statement of comprehensive income	613	677

Factors that may affect future taxation charges

Tax balances have been calculated at the rate they are expected to unwind at using rates substantively enacted at the statement of financial position date, which is 19% at 31 December 2020.

In the March 2021 budget, it was announced that the corporation tax rate would increase from 19% to 25% in April 2023.

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

11) Property, plant and equipment

	Buildings and leasehold improvements	Plant and machinery	Fixtures, fittings, tools and equipment	Assets under construction	Total
	£000	£000	£000	£000	£000
Cost					
At 1 January 2019	10,319	14,291	5,007	188	29,805
IFRS 16 adoption	13,111	-	-	-	13,111
Additions	118	1,589	355	21	2,083
Disposals	(44)	(882)	(14)	-	(940)
At 31 December 2019	23,504	14,998	5,348	209	44,059
At 1 January 2020	23,504	14,998	5,348	209	44,059
IFRS 16 additions	22,003	-	-	-	22,003
Additions	972	2,364	560	(87)	3,809
Disposals	-	-	(21)	-	(21)
At 31 December 2020	46,479	17,362	5,887	122	69,850
Depreciation					
At 1 January 2019	8,812	11,983	4,543	-	25,338
Charge for year	277	928	298	-	1,503
Provided during the year on right-of-use asset	1,357	-	-	-	1,357
Disposals	(43)	(842)	(14)	-	(899)
At 31 December 2019	10,403	12,069	4,827	-	27,299
At 1 January 2020	10,403	12,069	4,837	-	27,299
Charge for year	317	1,117	341	-	1,775
Provided during the year on right-of-use asset	1,458	-	-	-	1,458
Disposals	-	-	(21)	-	(21)
At 31 December 2020	12,178	13,186	5,147	-	30,511
Net book value					
At 31 December 2020	34,301	4,176	740	122	39,339
At 1 January 2020	13,101	2,929	521	209	16,760

Included in the category fixtures, fittings, tools and equipment is software with a net book value of £156k (2019: £71k).

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

12) Investments

	Subsidiary investments
	£000
Shares	
Cost	
At 1 January 2019	736
Additions	-
Disposals	-
At 31 December 2019	736
At 1 January 2020	736
Additions	-
Disposals	(736)
At 31 December 2020	-
Impairments	
At 1 January 2019	(736)
Disposals	-
Impairment	-
At 31 December 2019	(736)
At 1 January 2020	(736)
Disposals	736
Impairment	-
At 31 December 2020	-
Net book value	
At 31 December 2020	-
At 31 December 2019	-

In 2020, the investment in Euprotec Limited was disposed of, following the dissolution of Euprotec Limited in 2020.

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

13) Intangible assets

	Goodwill	Customer lists	Developed technology	Total
	£000	£000	£000	£000
Cost				
At 1January 2019	1,049	244	1,270	2,563
Additions	-	-	-	-
Disposals	-	-	-	-
At 31 December 2019	1,049	244	1,270	2,563
At 1 January 2020	1,049	244	1,270	2,563
Additions	-	-	-	-
Disposals	-	-	-	-
At 31 December 2020	1,049	244	1,270	2,563
Amortisation				
At 1 January 2019	-	244	832	1,076
Charge for the year	-	-	181	181
Disposals	-	-	-	-
At 31 December 2019	-	244	1,013	1,257
At 1 January 2020	-	244	1,013	1,257
Charge for year	-	-	182	182
Disposals	-	-	-	-
At 31 December 2020	-	244	1,195	1,439
Net book value				
At 31 December 2020	1,049	-	75	1,124
At 31 December 2019	1,049	-	257	1,306

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

13) Intangible assets (*continued*)

The company has tested the goodwill for impairment based on the net book values as of 31 December 2020. 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 2020, 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	8.94%
Growth rate for terminal value	0.0%

MRP = Mid Range Plan 2021-2026

In 2020 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 2020 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.

14) Inventories

	2020 £000	2019 £000
Raw materials and consumables	864	241
Work in progress	17	17
	881	258

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

15) Trade and other receivables

	2020 £000	2019 £000
Trade receivables from customers	794	477
Trade receivables from group undertakings	3,409	4,113
Other receivables and accrued income	7,251	5,398
Prepayments	1,733	1,760
Total receivables	13,187	11,748

Included within the trade receivables from customers figure is a provision against doubtful debts of £nil (2019: £nil).

16) Cash and cash equivalents

	2020 £000	2019 £000
Cash and cash equivalents	24,383	22,960

17) Trade and other payables

	2020 £000	2019 £000
Trade payables due to suppliers	3,718	2,651
Trade payables due to group undertakings	297	400
Other taxes and social security	2,323	761
Other payables	18	1,322
Current lease liabilities	1,857	494
Accrued expenses and deferred income	2,153	1,973
	10,366	7,601

All of the trade and other payables above are payable within one year.

	2020 £000	2019 £000
Non-current lease liabilities	30,962	12,308
Total trade and other payables	41,328	19,909

18) Corporation taxation

At 31st December 2020 corporation taxation of £3,795k (2019: £3,746k) is receivable and the amount is included within Other receivables and accrued revenue (note 15).

Notes *(continued)*

(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 statement of financial position, which are given below, are not considered to be materially different to their fair values, due to their short term nature. The basis for calculating fair values, where applicable, is set out in the accounting policy notes:

	Carrying amount 2020 £000	Carrying amount 2019 £000
IFRS 9 categories of financial instruments:		
Cash and cash equivalents (note 16)	24,383	22,960
Other receivables at amortised cost (note 15)	13,187	11,748
Total financial assets	37,570	34,708
Trade and other payables at amortised cost (note 17)	(41,328)	(19,909)
Total financial liabilities	(41,328)	(19,909)
Total financial instruments	(3,758)	14,799

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.

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

19) Financial instruments (continued)

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 £24,383k (2019: £22,960k).

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 statement of financial position date was £37,570k (2019: £34,708k) being the total of the carrying amount of financial assets shown in the table above.

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

	2020 £000	2019 £000
North America	794	478
UK group undertakings	282	285
US group undertakings	7	23
European group undertakings	3,120	3,804
	4,203	4,590

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

	2020 £000	2019 £000
Third party customers	794	477
Group undertakings	3,409	4,113
	4,203	4,590

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

	2020 £000	2019 £000
Not past due	4,115	4,259
Past due 0-30 days	4	152
Past due 31-120 days	84	179
Past 120 days	-	-
	4,203	4,590

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

19) Financial instruments (continued)

All of the trade receivable balances are held with customers with good credit history. As such no impairment of these balances is considered necessary.

Liquidity risk:

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

The Company has cash balances at year end totalling £24,383k (2019: £22,960k) 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 (2019: £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 – foreign currency risk:

The Company has a certain portion of its revenues in US dollars 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 where appropriate spot transfer when the rate is deemed favourable.

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 2020	Euro £000	US Dollar £000	Total £000
Cash and cash equivalents	4,636	5,593	10,229
Trade receivables	397	943	1,340
Trade payables	(646)	(446)	(1,092)
Net exposure	4,387	6,090	10,477

31 December 2019	Euro £000	US Dollar £000	Total £000
Cash and cash equivalents	1,907	3,568	5,475
Trade receivables	163	944	1,107
Trade payables	(720)	(597)	(1,317)
Net exposure	1,350	3,915	5,265

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

19) Financial instruments (continued)

Sensitivity analysis

A 10 percent weakening/strengthening of the following currencies against pound sterling at 31 December 2020 would have increased/(decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the statement of financial position 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 2019.

10% weakening:

	Equity		Profit or loss	
	2020 £000	2019 £000	2020 £000	2019 £000
Euro	(439)	(135)	(439)	(135)
USD	(609)	(392)	(609)	(392)

10% strengthening:

	Equity		Profit or loss	
	2020 £000	2019 £000	2020 £000	2019 £000
Euro	439	135	439	135
USD	609	392	609	392

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.

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

19) Financial instruments (continued)

Contractual maturities of financial liabilities

2020	Due in 1 year £000	Due in 2-5 years £000	More than 5 years £000	Total £000
Trade and other payables				
Trade payables due to suppliers	3,718	-	-	3,718
Trade payables due to group undertakings	297	-	-	297
Other taxes and social security	2,323	-	-	2,323
Other payables	18	-	-	18
Accrued expenses	2,153			2,153
Lease liabilities	1,857	9,937	21,025	32,819
Total	10,366	9,937	21,025	41,328

2019	Due in 1 year £000	Due in 2-5 years £000	More than 5 years £000	Total £000
Trade and other payables				
Trade payables due to suppliers	2,651	-	-	2,651
Trade payables due to group undertakings	400	-	-	400
Other taxes and social security	761	-	-	761
Other payables	1,322	-	-	1,322
Accrued expenses	1,973			1,973
Lease liabilities	494	5,635	6,673	12,802
Total	7,601	5,635	6,673	19,909

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

20) Deferred taxation

Deferred taxation assets and liabilities are attributable to the following:

	2020 £000	2019 £000
Difference between accumulated depreciation and capital allowances	(1,106)	(693)
Timing Differences		
Deferred tax on losses	1,227	564
Intangible assets on acquisition	(16)	(54)
Deferred tax on share options	1,298	2,048
Provisions	243	361
Deferred taxation asset	1,646	2,226

Reconciliation of deferred tax assets and liabilities

	2020 £000	2019 £000
As of 1 January 2020	2,226	2,825
Tax (charge)/income during the period recognised in the statement of income	(1,434)	(646)
Tax credit recognised in equity	854	47
As at 31 December 2020	1,646	2,226

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 19% at 31 December 2020 (2019: 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
Provisions			
Balance at 1 January 2020	1,676	180	1,856
Provision released upon payment in year	(1,280)	-	(1,280)
Provision made during the year	580	-	580
Balance at 31 December 2020	976	180	1,156
Current	667	-	667
Non-current	309	180	489
Total	976	180	1,156

	Social security contributions on share options £000	Decommission costs £000	Total £000
Provisions			
Balance at 1 January 2019	1,599	180	1,779
Provision released upon payment in year	(492)	-	(492)
Provision made during the year	569	-	569
Balance at 31 December 2019	1,676	180	1,856
Current	1,289	-	1,289
Non-current	387	180	567
Total	1,676	180	1,856

Notes *(continued)*

(forming part of the financial statements)

21) Provisions for liabilities and charges *(continued)*

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.

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

	2020 £000	2019 £000
Authorised share capital		
60,000,000 ordinary shares of 10p each	6,000	6,000
Allotted, called up and fully paid		
43,612,042 ordinary shares of 10p each	4,361	4,361

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 2019	6,820	(1,190)	27,646	33,276
Total recognised income and expense	116	471	3,170	3,757
Unrealised losses on available for sale financial asset	-	-	-	-
Dividend	-	-	(8,561)	(8,561)
Excess tax deduction on cumulative share option expense	-	-	660	660
Balance at 31 December 2019	6,936	(719)	22,915	29,132
Balance at 1 January 2020	6,936	(719)	22,915	29,132
Total recognised income and expense	524	34	3,171	3,729
Unrealised losses on available for sale financial asset	-	-	-	-
Dividend	-	-	-	-
Excess tax deduction on cumulative share option expense	-	-	854	854
Balance at 31 December 2020	7,460	(685)	26,940	33,715

*The additional paid-in capital reflects the fair value of share options and share performance plan awards held at the statement of financial position 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 SE, the parent of the Company, under the terms disclosed in note 24. 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. The additional paid-in capital and unearned compensation together form the share-based payment reserve

Notes *(continued)*
(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 £926k (2019: £963k).

Contributions amounting to £202k (2019: £246k) were payable to the fund managers at the year end and are included in trade and other payables (note 17).

Share-based payment transactions

Long term incentive scheme

To further incentivise executives via variable long-term incentive compensation, the Annual General Meeting in June 2020, June 2017, and June 2015 approved the respective contingent capital necessary to support the Restricted Share Plan 2020 ("RSP 2020") as well the Share Performance Plan 2017 ("SPP 2017"), 2015 ("SPP 2015"). Under these plans, Restricted Share Awards ("RSA") may be granted to a level of 1,200,000 bearer shares ("RSP 2020) and 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) of Evotec SE being issued at maturity to key employees. Each RSA grants one subscription right to shares of the Company while each SPA grants up to two subscription rights to shares of the Company, each of which in turn entitles the holder to subscribe for one share of the Company.

SPAs under SPP 2017 are exercised automatically within 10 trading days after the four-years holding period, whereas RSAs under RSP 2020 and SPAs under SPP 2015 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. After five years RSAs are exercised automatically. The holder has to contribute € 1.00 per share at the date of issue.

RSAs under RSP 2020 can only be exercised, if and to the extent that performance targets are achieved in a single of four consecutive calendar years. These performance targets consist of Evotec's group adjusted EBITDA. The Supervisory Board of Evotec SE determines annually key performance indicators for each individual tranche of awards at the grant date. The Restricted Share Plan RST 2020 is subject to certain restrictions regarding issuing periods and the allocation of the grants to members of the Management Board of Evotec SE and other key employees.

SPAs under SPP 2017 can only be exercised, if 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 targets consist of Evotec SE's share price and "total shareholder return", which is derived by comparison with the return of the TecDax index. 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 can only be exercised, if and to the extent that key performance indicators are achieved within a performance measurement period of three years. These performance indicators consist of service conditions relating to certain key financial figures (e.g. revenue- and income-related indicators) of the Company as well as certain share-based measurements (e.g. Evotec SE's share price). The Supervisory Board determines annually key performance indicators for each individual tranche of awards at grant date. The Share Performance Plans SPP 2015 are subject to certain restrictions regarding issuing periods and the allocation of the grants to members of the Management Board and other management members. If a member of the Management

Notes *(continued)*

(forming part of the financial statements)

24) Employee benefits (continued)

Board of Evotec SE leaves the company during the performance measurement period, they are 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.

A summary of the status of the Share Performance Plans as of 31 December 2020 and 2019 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 2020	1.00	449,530
Forfeited during the year	1.00	(2,829)
Exercised during the year	1.00	(260,905)
Granted during the year	1.00	28,404
Lapsed during the year	-	-
Carried forward at 31 December 2020	1.00	214,200

	Weighted average exercise price (€ per share)	Number of Share Performance awards (SPAs)
Brought forward at 1 January 2019	1.00	534,284
Forfeited during the year	1.00	(7,035)
Exercised during the year	1.00	(108,971)
Granted during the year	1.00	31,252
Lapsed during the year	-	-
Carried forward at 31 December 2019	1.00	449,530

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:	29 October 2020	15 January 2020	15 January 2019	15 January 2018	25 August 2017
Risk-free interest rate in %	(0.85)	(0.55)	(0.46)	(0.25)	(0.50)
Volatility of Evotec share in %	40.0	37.0	54.0	51.0	34.0
Volatility of TecDax index in %	-	18.0	22.0	13.0	n/a
Fluctuation in %	5.0	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	1.00
Share price at grant date in Euros	22.92	23.39	18.83	14.35	16.24
Market value of TecDax index at grant date in Euro	-	3,099.05	2,478.06	2,663.91	2,266.43
Fair value of SPA	21.89	25.28	20.84	15.94	19.68

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

24) Employee benefits (continued)

The performance measurement period for the vesting 29 October 2020, 15 January 2020 and 2019 started on 1 January of the corresponding year. The expected dividend yield is zero, the expected life is 4 years. The base for the expected volatility are the historic volatilities of the year before the grant date. For the vesting period starting 29 October 2020 expected life period is 5 years.

Evotec SE's stock option plan result in compensation expense in the financial accounts of the Company of £557k (2019: £582k) for the long-term incentive scheme. These amounts were initially reflected in unearned compensation, a component of stockholders' equity.

25) Commitments and Leases

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

	2020 £000	2019 £000
Contracted	10,168	9,312

b. The total future minimum leases payments under lease agreements are as follows:

	2020 £000	2019 £000
Future lease payments:		
Within one year	1,857	494
Between two and five years	9,937	5,635
Over five years	21,025	6,673
	32,819	12,802

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

	31 December £000	1 January £000
Right-of-use asset		
Buildings and leasehold improvements	32,297	11,754
Lease Liabilities		
Current	1,857	494
Non-current	30,962	12,308

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

25) Commitments and Leases *(continued)*

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

	2020 £000
Depreciation expense of right-of-use assets	1,458
Interest expense on lease liabilities	470
Expense relating to short-term leases	2
Total amount recognised in income statement	1,930

The total cash outflow for leases for the year ended 31 December 2020 was £2,456k (2019: £1,069). There are no leases which the Company has committed to but not yet commenced.

26) Related party transactions

The Company has related party transactions with its Directors and with Directors of its ultimate parent company, Evotec SE. 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.

Remuneration of Directors.

	2020 £000	2019 £000
Remuneration as executives	287	235
Fair value of shares granted	84	59
Amounts paid to defined contribution schemes	23	22
	394	316

The aggregate of emoluments and amounts receivable under long-term incentive schemes of the highest paid Director was £394k (2019: £316k). Contributions of £23k (2019: £22k) were made for the Director's personal pension scheme during the year. Directors' emoluments for three directors have been borne by the ultimate parent company, Evotec SE. These directors are also directors of the ultimate parent company, Evotec SE.

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

26) Related party transactions (continued)

	Number of directors	
	2020	2019
Retirement benefits are accruing to the following number of Directors under money purchase schemes at the year end.	1	1

The remaining Directors are remunerated by the other group companies.

The highest paid Director received 3,919 share performance awards (2019: 3,327).

Related party transactions with the parent company:

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

The Company invoiced services in the amount of £160k (2019: £4,785k) to Evotec SE in the year. Additionally costs of £1,641k (2019: £1,430k) were recharged to Evotec SE in the year. The corresponding receivables at the statement of financial position date amounted to £nil (2019: £1,068k).

The Company received invoices for costs and services in the amount of £1,506k (2019: £1,877) from Evotec SE in the year. The corresponding payables at the statement of financial position date amounted to £83k (2019: £244k).

The company paid a dividend of £nil (2019: £8,561k) to the parent company.

Related party transactions with other companies within the Evotec SE group:

The Company invoiced services in the amount of £39,484k (2019: £29,912k) to Evotec International GmbH in the year. Additionally costs of £1,365k (2019: £1,581k) were recharged to Evotec International GmbH in the year. Evotec International GmbH is a wholly owned subsidiary of Evotec SE, the parent company of the Company, and is therefore consolidated into the group accounts. The corresponding receivables at the statement of financial position date amounted to £2,699k (2019: £2,390k).

The Company received invoices for costs and services in the amount of £297k (2019: £192k) from Evotec International GmbH in the year. The corresponding payables at the statement of financial position statement of financial position date amounted to £35k (2019: £nil).

The Company invoiced services in the amount of £nil (2019: £5k) to Evotec France in the year. The Company recharged costs of £1,239k (2019: £1,133k) to Evotec France in the year. Evotec France is a wholly owned subsidiary of Evotec SE. The corresponding receivables at the statement of financial position date amounted to £106k (2019: £147k).

The Company received invoices for costs and services in the amount of £1,380k (2019: £1,206k).

The corresponding payables at the statement of financial position date amounted to £113k (2019: £78k).

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

26) Related party transactions (continued)

The Company recharged costs of £27k (2019: £15k) to Evotec (Munich) GmbH in the year. Evotec (Munich) GmbH is a wholly owned subsidiary of Evotec SE. The corresponding receivables at the statement of financial position date amounted to £10k (2019: £3k).

The Company invoiced services in the amount of £nil (2019: £nil) to Evotec US Inc in the year. The Company also recharged costs of £55k (2019: £66k) in the year. Evotec US Inc is a wholly owned subsidiary of Evotec SE.

Evotec US Inc also recharged to the Company costs incurred on its behalf to a value of £224k (2019: £361k) in the year. The corresponding payables were £3k (2019: £3k) at the statement of financial position date. The corresponding receivables at the statement of financial position date amounted to £6k (2019: £4k).

The Company recharged costs of £385k (2019: £378k) in the year to Cyprotex Discovery Limited, a fellow group subsidiary, in the year. The corresponding receivables at the statement of financial position date amounted to £84k (2019: £123k).

The Company received invoices for costs and services in the amount of £25k (2019: £48k) from Cyprotex Discovery Limited a fellow group subsidiary, in the year. The corresponding payables at the statement of financial position date amounted to £6k (2019: £28k).

The Company recharged costs of £8k (2019: £nil) in the year to Cyroptex US a fellow group subsidiary, in the year. The corresponding receivables at the statement of financial position date amounted to £2k (2019: £nil).

The Company recharged costs of £nil (2019: £nil) in the year to Aptuit (Switzerland) a fellow group subsidiary, in the year. The Company received invoices for costs and services in the amount of £nil (2019: £11k).

The Company recharged costs of £34k (2019: £11k) in the year to Aptuit (Potters Bar) a fellow group subsidiary, in the year. The corresponding receivables at the statement of financial position date amounted to £9k (2019: £6k).

The Company recharged costs of £576k (2019: £718k) in the year to Aptuit (Oxford) a fellow group subsidiary, in the year. The Company received invoices for costs and services in the amount of £190k (2019: £98k). The corresponding receivables at the statement of financial position date amounted to £188k (2019: £156k). The corresponding payables were £63k (2019: £nil) at the statement of financial position date.

The Company recharged costs of £10k (2019: £19k) in the year to Just Evotec Biologics a fellow group subsidiary, in the year. The corresponding receivables at the statement of financial position date amounted to £nil (2019: £19k).

The Company received invoices for costs and services in the amount of £70k (2019: £nil) from Aptuit (Verona) a fellow group subsidiary. The company recharged costs of £596k (2019: £492k) in the year to Aptuit (Verona). The corresponding receivables at the statement of financial position date amounted to £326k (2019: £241k). The corresponding payables at the statement of financial position date amounted to £16k (2019: £80k).

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

26) Related party transactions (continued)

The Company received invoices for costs and services in the amount of £nil (2019: £nil) from Evotec (Lyon), a fellow group subsidiary, in the year. The Company recharged costs of £160k (2019: £164k) to Evotec (Lyon) in the year. The corresponding receivables at the statement of financial position date amounted to £11k (2019: £9k).

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 SE incorporated in Germany.

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