For immediate release
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Evolutec Group plc
("Evolutec" or "the Company")

Preliminary Results for the year ended 31 December 2006

Exploring all strategic options to realise value for shareholders

Evolutec Group plc (AIM: EVC), the biopharmaceutical company developing novel products for the treatment of allergic, inflammatory, and autoimmune diseases, announces Preliminary Results for the year ended 31 December 2006.

Highlights

- Two Phase II trials completed for lead development candidate rEV131
    - Primary endpoints not met in allergic rhinitis and inflammation following cataract surgery
    - No further work with rEV131 planned in these indications

- Positive rEV576 preclinical results in life threatening autoimmune conditions myasthenia gravis and Guillain-Barré Syndrome
    - Potential orphan drug status

- Research and development activity is currently on hold
- Cash and held-to-maturity investments of £8.7m (2005: £17.6m)
    - Redundancies and other cost cutting measures implemented post year-end

Mark Carnegie Brown, Chief Executive of Evolutec, said:

"Inevitably the disappointing clinical results with rEV131 have overshadowed progress made in research and the preclinical development of rEV576. The immediate priority for the business is to explore all strategic options and realise value for shareholders."

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Notes for Editors:

About Evolutec

Evolutec, which is based in Reading, UK, is a clinical stage biopharmaceutical company with a focus on asthma and auto-immune diseases.

The Company's lead candidate, which is in preclinical development, is rEV576, a complement inhibitor. rEV576 has demonstrated preclinical activity against the autoimmune diseases myasthenia gravis and Guillain-Barré Syndrome, asthma and acute myocardial infarction ("AMI") (heart attack). Evolutec has established a research collaboration with Case Western Reserve University, Cleveland, Ohio, to undertake further preclinical work with rEV576 in myasthenia gravis.

The rights to Evolutec's vaccine technology for animals are partnered with Merial.

Evolutec is listed on the AIM market of the London Stock Exchange and develops therapeutics originally isolated from the saliva of ticks. The tick remains undetected by its hosts, including humans, by injecting an array of molecules into the skin that suppresses host immunity. These stealth molecules have undergone millions of years of natural evolution to select a promising efficacy, potency and safety profile. Evolutec employs the tick's evolutionary stealth technology to offer the potential of treating human diseases.

Safe Harbour statement: this news release may contain forward-looking statements that reflect the current expectations of the Company regarding future events. Forward-looking statements involve risks and uncertainties. Actual events could differ materially from those projected herein and depend on a number of factors including the success of the Company's research strategies, the applicability of the discoveries made therein, the successful and timely completion of clinical studies, the uncertainties related to the regulatory process, the successful integration of completed mergers and acquisitions and achievement of expected synergies from such tractions, and the ability of the Company to identify and consummate suitable strategic and business combination transactions.

Chairman's Review

The financial year ended with the disappointing news that rEV131, the Company's lead clinical development candidate, did not show clinical efficacy in either the allergic rhinitis or post-operative cataract surgery Phase II clinical trials.

The Company took immediate steps to put all significant external expenditure on hold while it undertook a review of the best route to protect shareholder value. The year-end cash position of £8.7 million provides adequate working capital. The Board is exploring all strategic options for the Group. There are a number of positive value-driving ways forward for the Company and these are being pursued actively. It is expected that at least one of these will be brought to fruition by the middle of the current financial year.

The failure of clinical trials is an occupational hazard of all biotechnology and pharmaceutical companies. Phase II clinical studies are conducted to generate information about the clinical efficacy, safety and tolerance of drug candidates at a limited number of doses. There still remains potential value in rEV131 given its good clinical safety and tolerance profile and because of its novel mechanism of pharmacological action. It is clear, however, that Evolutec on its own does not have sufficient resources to explore these options further.

Evolutec continued to diversify its asset base during the course of the year with particularly exciting progress on its novel inhibitor of the complement pathway, rEV576. This product candidate opens a new route to the treatment of a number of autoimmune diseases, including myasthenia gravis and Guillain-Barré Syndrome, where there is currently no curative therapy available. Both these indications potentially qualify for Orphan Drug status in the US which, if granted, would reduce cash outflow associated with further development. The low cost and short timeline to clinical proof of concept in critical care markets where there is high unmet need are expected to make rEV576 an attractive asset. The Company is focussed on realising value from rEV576 for shareholders via partnering or a corporate solution.

The Company also began to invest in exploratory research to evaluate the potential of the tick saliva to yield further molecules that could be of therapeutic interest. Initial results are encouraging, and, given Evolutec's patent protection for the discovery of new proteins by this route, this represents a further asset to exploit.

I would like to take this opportunity to thank our staff for the timely delivery of the key objectives for the Company and for their ability to generate the results within budget. The Company is also indebted to our investors for their continued support and we particularly acknowledge the additional investment received in October 2006.

Clearly this year has been a disappointing experience both for investors and staff alike. It is our intention to do everything in our power to enhance the value of Evolutec and realise value to investors as soon as possible. We intend to continue active dialogue with our shareholder base to keep them aware of our plans.

David P Bloxham
Chairman
26 February 2007

Chief Executive's Review of Operations

2006 was set to be a transformational year for Evolutec with key clinical results with the lead development candidate rEV131 and the development of the preclinical pipeline through rEV576. It was anticipated that a positive allergic rhinitis result with rEV131 would have led to a major licensing deal. The year ended and 2007 started with disappointing clinical results, first, from the Phase IIb rhinitis trial and then the Phase II post-cataract inflammation trial – both of which failed to meet their end points. At the year end the rEV576 preclinical programmes were ahead of schedule and development plans were in place for the progression of this asset to the clinic. The disappointing clinical results with rEV131 left the Group with net cash of £8.7 million, a promising preclinical asset and a much reduced market capitalisation.

In the first six months of 2006 the focus of activities in Evolutec was on the preparatory work for the two rEV131 clinical trials. These trials, in allergic rhinitis and post-cataract eye inflammation, commenced in June 2006. The 300 patient rhinitis trial was undertaken in the Environmental Exposure Chamber at Allied Research International ("Allied") in Toronto under the leadership of Dr. Piyush Patel. The study evaluated the efficacy of rEV131 under a constant high level pollen challenge for up to 12 hours. Duration and onset of action were evaluated and the end point was sum of symptom scores after 7 days twice daily ("b.i.d.") dosing. This Phase IIb trial followed a positive 112 patient rhinitis trial where patients received a single dose of rEV131 and then a nasal allergen challenge. Prospective partners and a clinical research panel were consulted about the design of the Phase IIb study. The Environmental Exposure Chamber at Allied has been used in the development programme for fluticasone, cyclesonide, and glutaraldehyde modified vaccines. These products had performed well in the chamber. rEV131 did not demonstrate any significant efficacy or meet its endpoint in the Phase IIb trial.

The Phase II rEV131 post-cataract eye inflammation trial was undertaken at 15 separate clinical sites across the United States. This 150 patient trial was coordinated by Ophthalmic Research Associates, Inc ("ORA") led by Dr. Mark Abelson. This dose ranging trial evaluated the efficacy of rEV131 in pre-selected patients and compared the anti-inflammatory potential of rEV131 with the steroid standard, prednisolone. The study design was similar to that used in the approval of other anti-inflammatories. The primary endpoint in the trial was inflammation 14 days following surgery. This clinical trial followed positive preclinical data in a well recognized surrogate model of post-cataract inflammation. rEV131 showed no appreciable efficacy and the level of inflammation was no different to the placebo. The prednisolone standard performed as anticipated and efficacy was significantly superior to the placebo.

The disappointing results of rEV131 in Evolutec's clinical trials demonstrate the high level of risk associated with drug development. Both trials were monitored by our Clinical Research Manager Lisa Wilson-Campbell and supervised by our Medical

Director Dr. Wynne Weston-Davies. Retrospective analysis of the trials has confirmed drug product conformity and protocol implementation was in line with intention. It is possible that the pharmacokinetic properties of rEV131 may not be ideal for these indications. This means that either insufficient drug reached the target or alternatively remained within the target area. A second potential contribution to the rhinitis result was that the drug was simply overwhelmed by the amount of histamine generated by patients in the chamber. It was by design, that the recent Phase IIb rhinitis trial represented a higher hurdle, with patients being exposed to greater levels of ragweed pollen than in the previous Phase IIa trial. Other rhinitis products have been through similar clinical trial programmes and it was felt that another single nasal allergen study would not have provided sufficient commercial validation. As expected, patients showed twice the allergic symptom score compared to the previous trial. Thus the lack of efficacy observed may have been because the amount of histamine released exceeded the availability and binding capacity of rEV131. The amount of histamine released and involved in allergic and inflammatory conditions is not known. Evolutec has effectively demonstrated the mechanism of action of rEV131 and shown preclinical and clinical efficacy. However, during the course of the rEV131 development programme the Company has found itself at the centre of an evolving knowledge base concerning the importance of histamine in inflammation. The recent clinical trial results demonstrate the challenge of validating a novel mechanism of action for a potential first in class therapy. The Company has no plans to make further investment in rEV131 in allergic rhinitis or post-cataract inflammation.

Topical rEV131 administration to both the eye and the nose did not meet the necessary efficacy goals. The Company has confirmed the excellent patient safety profile of rEV131 and the lack of immunogenic response from a recombinant protein isolated from tick saliva. Evolutec has reviewed its strategy for rEV131 and believes that two areas warrant further consideration. rEV131 has shown efficacy in preclinical models of Acute Respiratory Distress Syndrome and this may offer a long term investment opportunity. Furthermore intravenous delivery would negate any weakness in the pharmacokinetic profile of rEV131. Secondly the demonstration that, rather unexpectedly, rEV131 penetrates the skin might offer a lower risk strategy to explore dermatological indications where histamine is implicated in pruritus and dermatitis. The clinical programmes in dry eye and asthma have been cancelled.

rEV576

The preclinical programme with rEV576, a novel complement inhibitor, has made good progress in 2006. This development candidate binds C5a in the complement cascade. Unlike histamine, C5a levels can be predicted and monitored in preclinical and clinical situations. This means that intravenous delivery of rEV576 can be adjusted to bind varying levels of C5a in the body. Furthermore this mechanism of action has been validated by Alexion Pharmaceuticals Inc who will launch eculizumab in the orphan indication paroxysmal nocturnal haemoglobinuria in 2007.

The Company has generated positive results in preclinical models of myasthenia gravis, Guillain-Barré Syndrome ("GBS"), acute myocardial infarction and asthma. Myasthenia gravis and GBS are autoimmune conditions in which disease impacts the peripheral

nervous system. These two areas are commercially attractive as they are not only areas of high unmet clinical need, but also small patient numbers, potentially allowing direct sales rather than marketing via a partner. These are also potential orphan drug indications which would allow the Company reduced development expenditure and a period of marketing exclusivity.

The myasthenia gravis research collaboration at Case Western is led by Professor Kaminski who is funded by the National Institutes of Health ("NIH"). This work has shown that rEV576 impacts both mild and severe disease in the preclinical models. The models reflect the chronic disease closely because antibodies are developed *in vivo*. These results are important as they suggest that rEV576 could be used as a rescue therapy during myasthenic crises. Evolutec has focused its commercial activities in developing a solid understanding of the commercial opportunity in myasthenia gravis. The Company believes that the US market for such an acute therapy is approximately $100 million. In the GBS model, rEV576 had a significant effect in reducing moderate levels of disease.

The Company has applied for orphan indication in myasthenia gravis and the FDA have indicated that they would need to see further progress on the manufacture of current Good Manufacturing Practice ("cGMP") material before granting orphan status. Work leading to the production of cGMP material is underway with Wacker Biotech GmbH ("Wacker").

In a preclinical asthma model, inhaled rEV576 significantly reduced airway hyper-responsiveness with good effect at low doses. Effects were comparable to the commercial standard budesonide. In addition, rEV576 reduced the number of eosinophils in the bronchoalveolar lavage fluid suggesting a reduction in underlying inflammation. Recent evidence suggests that activation of the complement system is associated with the more severe forms of asthma. It is possible that rEV576 could be suited to severe asthma patients and further examination of the economics of this market are required.

The rEV576 process development work with Wacker has progressed well and was on track to deliver the clinical grade material required for clinical studies in 2007. Evolutec had intended to progress rEV576 to the clinic in 2007. However, in exploring strategic options for the business it has been decided that these plans will be delayed until 2008. Evolutec is now seeking to partner rEV576 prior to entering the clinic with this development candidate.

Discussions have continued with Merial regarding Evolutec's animal vaccines and we are awaiting their response to the proposed continuation of this work.

rEV598 was found to have limited activity when evaluated in a preclinical model of chemotherapy induced nausea and vomiting. No further work will be undertaken with rEV598 at this stage.

A research feasibility programme commenced in October 2006 with Atheris Laboratories in Switzerland. The programme examines the feasibility of isolating further proteins and peptides from the saliva of the deer tick and will use both genomics and proteomics

approaches to evaluate potential activities. The project has enjoyed excellent momentum and is ahead of schedule with a goal of producing preclinical molecules at the end of 2007.

In 2006, Malcolm Darvell joined the board as a Non-Executive Director. Malcolm is Chief Executive Officer of Rontech a software supplier to the financial service industry. During 2006, the Company employed Lisa Wilson-Campbell as Clinical Research Manager; Lisa is the Company's first US employee. Andrew Moberly also joined the business in the role of part-time Company Secretary. These recruitments increased the total number of Evolutec full-time employees to twelve. Following the disappointing clinical results the company has made four redundancies.

In the last three years Evolutec has undertaken three clinical trials with rEV131, managed two manufacturing programmes and developed rEV576 to a position that it can progress to the clinic in the next 12 months. Prior to the latest clinical trials the Company made good progress with partnering rEV131. The Company's animal vaccines have been partnered with Merial. Despite the strong science behind Evolutec's technology the most recent clinical trial results failed to realise value for the Company's shareholders. The immediate focus for the business is to consider all strategic options to realise value for its shareholders. In January 2007 the Company appointed Numis Securities Limited to advise on strategic options; Numis will also act as broker and adviser to Evolutec.

It leaves me to thank the staff within the business for their substantial efforts in delivering the preclinical and clinical programmes in a timely and highly professional manner.

Mark Carnegie Brown
Chief Executive Officer
26 February 2007

Financial review

EVOLUTEC HAD CASH AND CASH EQUIVALENTS OF £8.7 MILLION AS AT 31 DECEMBER 2006.

EVOLUTEC REPORTS 2006 OPERATING LOSS OF £(12.9) MILLION, WHICH IS WITHIN MARKET EXPECTATIONS. THE PRINCIPAL EXPENDITURE ITEMS IN 2006 WERE THE PHASE II TRIALS IN RHINITIS AND POST-CATARACT INFLAMMATION.

International Financial Reporting Standards ("IFRS")
The financial results for the year ended 31 December 2006 are the first annual results prepared in accordance with IFRS. In accordance with IFRS 1, the results for the year ended 31 December 2005 have been restated to comply with IFRS.

Balance sheet

Share capital
The Company issued 2.4 million shares via a placing in November 2006 bringing the number of 10p ordinary shares in issue at the year-end up to 26.0 million.

Liquidity
The Group had cash and held-to-maturity investments of £8.7 million as at 31 December 2006 compared with £17.6 million as at 31 December 2005. The decrease in cash and held-to-maturity investments reflects the expenditure during 2006, principally on the Company's lead drug development candidate, rEV131. The net cash outflow from operating activities was £12.0 million (2005: £5.6 million) reflecting the Group's expenditure for the period.

The Group had no borrowings during the year (2005: £nil).

Treasury
As at 31 December 2006 the Group had £8.2 million on treasury deposit. The Group's policy is to split its deposits between at least two banks each with a minimum credit rating of F1/A. The objective is to derive the maximum interest consistent with flexibility to undertake ongoing activity and safeguarding the asset.

A material portion of Evolutec's expenditure is US Dollar denominated and a smaller portion is Euro denominated. This means that Evolutec is exposed to exchange rate movements in these currencies. The Group's policy is not to engage in speculative transactions or derivatives trading in respect of cash balances held. The objective is to monitor closely the movement in these exchange rates and to buy foreign currencies as and when appropriate.

The weakening US Dollar has led to an unrealised foreign exchange loss of £0.2 million for 2006 (2005: gain of £0.4 million).

Cash flow

Net cash outflow from operating activities in the year was £12.0 million (2005: £5.6 million). The principal cash inflow items were net interest receipts of £0.6 million (2005: £0.4 million) and receipt of the research and development tax credit for the prior period of £0.5 million (2005: £0.2 million).

Other than the operating expenditure, the principal cash outflow was capital expenditure of £0.1 million (2005: £0.2 million). This capital expenditure was mainly in relation to refurbishment of additional office space and office equipment.

Income statement

Revenue

Evolutec is a clinical stage biopharmaceutical company and as such has no source of direct revenue. The revenue for the period was £14,000 (2005: £14,000) relating to payments for materials supplied to Merial in connection with its work in relation to animal vaccines.

Selling and marketing

The selling and marketing costs of £0.2 million (2005: £nil) reflect costs of market research in the respiratory and ophthalmology markets.

Research and development

Higher research and development expenditure of £10.5 million (2005: £5.3 million) reflects increased development activity with the lead molecule rEV131. In particular, it includes the cost of the 300 patient Phase IIb allergic rhinitis clinical trial and the 150 patient post-cataract inflammation trial. It also includes costs associated with the development of a cGMP manufacturing process for rEV576 carried out by Wacker Biotech GmbH.

Administrative expenses

The increase in administrative expenses to £2.2 million (2005: £1.7 million) reflects the full-year cost associated with the additional staff recruited during the second half of 2005 as well as the additional employee recruited in 2006. At the end of 2006, Evolutec had 12 full-time employees compared to 11 full-time employees the beginning of the year. Since the year-end, 4 employees have been made redundant leaving Evolutec with 8 full-time employees.

Interest receivable and interest payable

Foreign exchange gains and losses are shown under finance income and finance costs respectively. Interest receivable increased to £0.6 million (2005: £0.4 million) reflecting the higher average cash balance during 2006. In 2006, there was a foreign exchange loss of £0.2 million (2005: foreign exchange gain: £0.4 million).

Taxation
The Group's research and development tax credit of £0.6 million (2005: £0.5 million) reflects the Group's qualifying research and development expenditure.

Nicholas Badman
Chief Financial Officer
26 February 2007

Consolidated income statement
For the year ended 31 December 2006

	Note	**Year ended 31 December 2006**	Year ended 31 December 2005 Restated
		£000	£000
Revenue	2	**14**	14
Cost of sales		**(1)**	(6)
Gross Profit		**13**	8
Selling and marketing costs		**(189)**	-
Research and development expenditure		**(10,509)**	(5,346)
Administrative expenses		**(2,172)**	(1,665)
Operating loss		**(12,857)**	(7,003)
Finance income		**749**	1,017
Finance costs		**(364)**	(147)
Loss before tax		**(12,472)**	(6,133)
Taxation		**645**	528
Loss for the period		**(11,827)**	(5,605)
Basic and diluted loss per ordinary share	3	**(49.3)p**	(34.8)p

The results for the period are derived from continuing activities.

Balance sheets
As at 31 December 2006

	Note	**Group 31 December 2006**	Group 31 December 2005 Restated	**Company 31 December 2006**	Company 31 December 2005 Restated
ASSETS		**£000**	£000	**£000**	£000
Non-current assets					
Property, plant and equipment		**140**	161	-	-
Investments		**-**	-	**3,853**	29,186
		140	161	**3,853**	29,186
Current assets					
Research and development tax credits		**645**	502	**-**	-
Trade and other receivables	4	**203**	819	**-**	-
Held-to-maturity investments		**-**	15,877	**-**	-
Cash and cash equivalents		**8,682**	1,739	**3,147**	-
		9,530	18,937	**3,147**	-
Total assets		**9,670**	19,098	**7,000**	29,186
EQUITY					
Share capital		**27,037**	24,402	**27,037**	24,402
Other reserves	5	**9,083**	8,793	**5,349**	4,784
Retained deficit		**(27,839)**	(16,012)	**(25,386)**	-
Equity shareholders' funds		**8,281**	17,183	**7,000**	29,186
LIABILITIES					
Non current liabilities	6	**34**	-	**-**	-
		34	-	**-**	-
Current liabilities					
Trade and other payables	6	**1,355**	1,915	**-**	-
Total liabilities		**1,389**	1,915	**-**	-
Total equity and liabilities		**9,670**	19,098	**7,000**	29,186

Statements of changes in shareholders' equity

Group	Share capital £000	Share Premium £000	Other reserves £000	Retained deficit £000	**Total £000**
Balance at 1 January 2005	5,824	4,622	3,734	(10,407)	**3,773**
Net income recognised directly in equity					
Loss for the year	-	-	-	(5,605)	**(5,605)**
Share-based payments charge	-	-	275	-	**275**
Total recognised income and expense for the period	-	-	275	(5,605)	**(5,330)**
Issue of ordinary shares	1,339	17,421	-	-	**18,760**
Cancellation of deferred shares	(4,804)	-	4,804	**-**	**-**
Purchase of own shares	-	-	(20)	**-**	**(20)**
Balance at 31 December 2005	**2,359**	**22,043**	**8,793**	**(16,012)**	**17,183**
Net income recognised directly in equity					
Loss for the year	-	-	-	(11,827)	**(11,827)**
Share-based payments charge	-	-	290	-	**290**
Total recognised income and expense for the period	-	-	290	(11,827)	**(11,537)**
Issue of ordinary shares	236	2,399	-	-	**2,635**
Balance at 31 December 2006	**2,595**	**24,442**	**9,083**	**(27,839)**	**8,281**
Company					
Balance at 1 January 2005	5,824	4,622	-	-	**10,446**
Net income recognised directly in equity					
Cancellation of deferred shares	(4,804)	-	4,804	-	**-**
Purchase of own shares	-	-	(20)	-	**(20)**
Total recognised income and expense for the period	(4,804)	-	4,784	-	**(20)**
Issues of ordinary shares	1,339	17,421	-	-	**18,760**
Balance at 31 December 2005	**2,359**	**22,043**	**4,784**	**-**	**29,186**
Net income recognised directly in equity					
Impairment charge	-	-	-	(25,386)	**(25,386)**
Share-based payments charge	-	-	565	-	**565**
Total recognised income and expense for the period	**-**	**-**	**565**	**(25,386)**	**(24,821)**
Issue of ordinary shares	236	2,399	-	-	**2,635**
Balance at 31 December 2006	**2,595**	**24,442**	**5,349**	**(25,386)**	**7,000**

Cash flow statements for the year ended 31 December 2006	**Group Year ended 31 December 2006**	Group Year ended 31 December 2005	Company Year ended 31 December 2006	Company Year ended 31 December 2005
		Restated		Restated
	£000	£000	£000	£000
Cash flows from operating activities				
Loss for the period	**(11,827)**	(5,605)	(25,386)	-
Taxation	**(645)**	(528)	-	-
Depreciation	**87**	29	-	-
Interest received	**(595)**	(429)	-	-
Fair value adjustment on investment in subsidiary	**-**	-	25,386	-
Unrealised foreign exchange losses/(gains)	**81**	(311)	-	-
Share options – value of employee services	**290**	275	-	-
Decrease/(increase) in trade and other receivables	**616**	(741)	-	-
(Decrease)/Increase in trade and other payables	**(526)**	1,548	-	-
Cash used by operations	**(12,519)**	(5,762)	-	-
Taxation received	**502**	203	-	-
Net cash outflow from operating activities	**(12,017)**	(5,559)	-	-
Cash flows from investing activities				
Purchase of property, plant and equipment	**(66)**	(179)	-	-
Decrease/(increase) in investment in subsidiary	**-**	-	512	(18,740)
Interest received	**595**	429	-	-
Decrease/(increase) in held-to-maturity investments	**15,877**	(13,167)	-	-
Net cash generated from investing activities	**16,406**	(12,917)	512	(18,740)
			-	
Cash flows from financing activities				
Proceeds from issuance of shares	**2,635**	18,760	2,635	18,760
Purchase of treasury shares	**-**	(20)	-	(20)
Net cash generated from financing activities	**2,635**	18,740	2,635	18,740
Net increase/(decrease) in cash and cash equivalents	**7,024**	264	3,147	-
Cash and cash equivalents at the start of the period	**1,739**	1,374	-	-
Exchange gains/(losses) on cash and bank overdrafts	**(81)**	101	-	-
Cash and cash equivalents at the end of the period	**8,682**	1,739	3,147	-

Preliminary results for the year ended 31 December 2006

1. Accounting policies and basis of preparation

Prior to 2006, the Group prepared its audited financial statements under UK GAAP. For the year ended 31 December 2006, the Group has decided to prepare its annual consolidated financial statements in accordance with accounting standards as adopted in the European Union ("EU"). As such, these financial statements will take account of the requirements and options in IFRS 1 "First-time Adoption of International Financial Reporting Standards" as they relate to the 2005 comparatives included therein.

Evolutec is a research and development-based pharmaceutical business which expects to incur further losses until revenues from product sales, royalty income and milestone receipts exceed expenditure on the product portfolio as well as overheads and administrative costs. Following the negative trial results with rEV131, all strategic options for the Group are being explored. Whilst the Board is exploring strategic options for the Group, the Directors consider that it is reasonable for the financial information to be prepared on a going concern basis. However, if Evolutec were unable to continue in operational existence for the foreseeable future, adjustments would have to be made to reduce the balance sheet value of assets to their recoverable amounts, and to provide for further liabilities that might arise, and to reclassify fixed assets and long-term liabilities as current assets and liabilities.

Basis of preparation These financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations endorsed by the EU and with those parts of the Companies Act, 1985 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

Certain of the requirements and options in IFRS 1 relating to comparative financial information presented on first-time adoption may result in a different application of accounting policies in the 2005 restated financial information to that which would apply if the 2005 financial statements were the first financial statements of the Group prepared in accordance with IFRS. An explanation of how the transition from UK GAAP to IFRS has affected the Group's financial position, income statement and cash flow is set out in Note 7.

Company income statement In accordance with the provisions of Section 230 of the Companies Act 1985, no separate income statement has been presented for Evolutec Group plc. The results for the Company are also presented under IFRS.

Accounting policies The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

Basis of consolidation The consolidated financial statements of the Group include the accounts of Evolutec Group plc and all its subsidiary undertakings (together, the "Group"), made up to 31 December 2006. Inter-company transactions are eliminated on consolidation.

The identifiable assets and liabilities of subsidiary undertakings accounted for under acquisition accounting principles are included in the consolidated balance sheet at their fair values at the date of acquisition. The results and cash flows of such subsidiaries are brought into the Group accounts only from the date of acquisition.

The combination of Evolutec Group plc and Evolutec Limited in 2004 was accounted for under merger accounting principles.

Revenue The Group generates revenue by licensing its technologies. The recognition of such revenue, including up front and milestone payments, is dependent on the terms of the related arrangement, having regard to the ongoing risks and rewards of the arrangement, and the existence of any performance or repayment obligations with any third party.

Non-refundable access fees, options fees and milestone payments receivable for participation by a third party in development and commercialisation of a product development candidate are recognised when they become contractually binding, provided there are no related commitments of the Group. Where there are related commitments, revenue is recognised on a percentage-of-completion basis in line with the actual levels of expenditure incurred in fulfilling these commitments. All other licence income and contract research fees are recognised over the accounting period to which the relevant services relate. Revenues derived from grants received are recognised in line with the related expenditure. Royalty income is recognised in relation to sales to which the royalty relates.

Operating leases Costs in respect of operating leases are charged to the profit and loss account on a straight-line basis over the terms of the leases.

Share-based payments The Group makes equity-settled share-based payments to its employees and Directors. Equity-settled share-based payments are measured at fair value at the date of grant and expensed on a straight-line basis over the vesting period of the award. At each balance sheet date, Evolutec revises its estimate of the number of options that are expected to become exercisable.

The value of any shares or options granted is charged to the profit and loss account over the period the shares vest, with a corresponding credit to reserves. When share options are exercised, the proceeds received, net of any transaction costs, are credited to share capital (nominal value) and share premium.

The principal assumptions used to calculate the value of options issued are:

Share price volatility	45%
Risk free rate of return	4.5%
Date of exercise	Normally assumed to be the first possible exercise date

Employee benefits All employee benefit costs, notably holiday pay and contributions to personal defined contribution pension plans, are charged to the income statement on an accruals basis. The Group does not offer any other post-retirement benefits.

Taxation Current tax, including UK corporation tax and research and development tax credits, is provided (or shown) at amounts expected to be paid (or recovered) using the tax rates or laws that have been enacted, or substantially enacted, by the balance sheet date.

Credit is taken in the accounting period for research and development tax credits, which will be claimed from HM Revenue and Customs in respect of qualifying research and development costs incurred in the same accounting period.

Deferred tax is recognised in respect of all temporary differences identified at the balance sheet date. Temporary differences are differences between the carrying amount of the Group's assets and liabilities and their tax base.

A deferred tax asset is recognised only when, on the basis of all the available evidence, it can be regarded as probable that there will be suitable taxable profits, within the same jurisdiction, in the foreseeable future against which the deductible temporary difference can be utilised.

Deferred tax is provided on temporary differences arising in subsidiaries, except where the timing of reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the asset is realised or liability settled, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Measurement of deferred tax liabilities and assets reflects the tax consequence expected to follow from the manner in which the asset or liability is recovered or settled.

Property, plant and equipment Property, plant and equipment are stated at historic cost less depreciation and any provision for impairment. Historic cost comprises the purchase price together with any incidental costs of acquisition. Depreciation is calculated to write off the cost, less residual value, of tangible fixed assets in equal annual instalments over their estimated useful lives as follows:

Plant and machinery 3-5 years
Office equipment 3-5 years
Fixtures and fittings 3 years

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate that carrying value may not be recoverable. The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each financial year-end.

Internally-generated intangible assets – product research and development Development expenditure on new or substantially improved products is capitalised as an intangible asset and amortised through cost of sales over the expected useful life of the product concerned. Capitalisation commences from the point at which the technical feasibility and commercial viability of the product can be demonstrated and the Group is satisfied that it is probable that future economic benefit will result from the product once completed. This is usually at the point of regulatory filing in a major market and approval is highly probable. Capitalisation ceases when the product is ready for launch. Where assets are acquired or constructed in order to provide facilities for research and development over a number of years, they are capitalised and depreciated over their useful lives. Expenditure relating to clinical trials is accrued on a percentage-of-completion basis with reference to fee estimates with third parties.

Expenditure on research and development activities which do not meet the above criteria is charged to the income statement as incurred.

Financial instruments The Group's financial instruments comprise cash and cash equivalents, held-to-maturity financial assets and various receivables and payables, such as trade receivables and trade and other payables, which arise directly from its operations. The Group does not enter into derivative transactions or other forms of hedging arrangements.

Held-to-maturity investments Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management

has the positive intention and ability to hold to maturity. Assets in this category are held at amortised cost. Held-to-maturity investments include short-term investments with original maturities of more than 3 months.

Cash and cash equivalents Cash and cash equivalents include cash in hand, bank deposits repayable on demand and other short-term highly liquid investments with original maturities of 3 months or less.

Foreign currencies Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the transaction date. Monetary assets and liabilities in foreign currencies are retranslated into sterling at the rates of exchange ruling at the balance sheet date. Differences arising due to exchange rate fluctuations are taken to the income statement in the period in which they arise.

2. Segmental information

Primary reporting format – business segments
At 31 December 2006, the Group operates a single business segment, which is the research and development of a range of pharmaceutical product candidates. An analysis of revenue by category within the research and development business segment is as follows:

Analysis of revenue by category

	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000
Collaborative agreements	**14**	14
Total	**14**	14

Secondary reporting format – geographical segments

The Group operates in four main geographical areas, even though it is managed on a worldwide basis. The home country of the Company, and of Evolutec Limited – which is the main operating company – is the United Kingdom. The area of operation is primarily research and development of a range of pharmaceutical product candidates.

Revenue	**Year ended 31**	Year ended 31

	December 2006 £000	December 2005 £000
United Kingdom	**-**	-
Rest of Europe	**-**	-
North America	**14**	14
Rest of the World	**-**	-
Total	**14**	14

Total assets

	31 December 2006 £000	31 December 2005 £000
United Kingdom	**9,670**	19,098
Rest of Europe	**-**	-
North America	**-**	-
Rest of the World	**-**	-
Total	**9,670**	19,098

Total assets are allocated based on where the assets are located.

Capital expenditure

	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000
United Kingdom (Note 8)	**66**	179
Rest of Europe	**-**	-
North America	**-**	-
Rest of the World	**-**	-
Total	**66**	179

Capital expenditure is allocated based on where the assets are located.

3. Loss per share

Basic loss per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

For diluted loss per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. Since the group is loss-making there is no such dilutive impact.

	Year ended 31 December 2006	Year ended 31 December 2005
Attributable loss (£000)	**(11,827)**	(5,605)
Weighted average number of shares in issue (000)	**24,011**	16,096
Loss per share (basic and diluted)	**(49.3)p**	(34.8)p

All potential ordinary shares including options and conditional shares are anti-dilutive.

4. Trade and other receivables

	Group 31 December 2006	Group 31 December 2005	**Company 31 December 2006**	Company 31 December 2005
	£000	£000	**£000**	£000
Non-current trade and other receivables	**-**	-	-	-
Trade receivables	**-**	17	-	-
Other receivables	**24**	21	-	-
Prepayments and accrued income	**179**	781	-	-
Current trade and other receivables	**203**	819	-	-

5. Other reserves

	Share-based payments reserve £000	Capital redemption reserve £000	Merger reserve £000	Own shares held by Employee Benefit Trust £000	Total £000
Group					
Balance at 1 January 2005	-	-	3,734	-	3,734
Fair value of share-based payments	275	-	-	-	275
Cancellation of deferred shares	-	4,804	-	-	4,804
Purchase of own shares	-	-	-	(20)	(20)
Balance at 31 December 2005	275	4,804	3,734	(20)	8,793
Share-based payments charge	290	-	-	-	290
Balance at 31 December 2006	565	4,804	3,734	(20)	9,083
Company					
Balance at 1 January 2005	-	-	-	-	-
Cancellation of deferred shares	-	4,804	-	-	4,804
Purchase of own shares	-	-	-	(20)	(20)
Balance at 31 December 2005	-	4,804	-	(20)	4,784
Share-based payments charge	565	-	-	-	565
Balance at 31 December 2006	**565**	**4,804**	**-**	**(20)**	**5,349**

The share-based payments reserve arises from the value of share-based payments to employees which are recognised over the vesting period.

The merger reserve arises as a difference on consolidation under merger accounting principles and is solely in respect of the merger of Evolutec Group plc and Evolutec Limited in a prior period. The reserve represents the difference between the nominal value of shares issued by Evolutec Group plc in consideration for Evolutec Limited shares and the nominal value and share premium and other capital reserves of Evolutec Limited shares at the date of the merger.

The capital redemption reserve arises from the off-market purchase of deferred shares on 4 May 2005 and their subsequent cancellation.

6. Trade and other payables

	Group 31 December 2006	Group 31 December 2005	**Company 31 December 2006**	Company 31 December 2005
	£000	£000	**£000**	£000
Provision for NI on share options	**34**	-	-	-
Non Current trade and other liabilities	**34**	-	-	-
Trade payables	**165**	599	-	-
Taxation and social security payable	**136**	109	-	-
Accruals	**1,054**	1,207	-	-
Current trade and other liabilities	**1,355**	1,915	-	-
Total trade and other liabilities	**1,389**	1,915	-	-

7. Explanation of transition to IFRS

These financial statements have been prepared in accordance with the recognition and measurement principles of IFRS. The following disclosures are required in the period of transition. For the purpose of this financial information the last interim statements were for the six month period ended 30 June 2006, the last annual financial statements were for the year ended 31 December 2005, and the date of transition to IFRS was 1 January 2005.

IFRS 1 "First-time Adoption of International Financial Reporting Standards" sets out the transition rules which must be applied when IFRS is adopted for the first time. As a result, certain of the requirements and options in IFRS 1 may result in a different application of accounting policies in the 2005 restated financial information from that which would apply if the 2005 financial statements were the first financial statements. The standard sets out certain mandatory exemptions to retrospective application and certain optional exemptions.

The most significant optional exemption available taken by the Group is in respect of business combinations. The Group has elected not to apply IFRS 3 "Business Combinations" retrospectively to business combinations that took place prior to the transition date. Consequently, goodwill arising on business combinations before the transition date remains at its previous UK GAAP carrying value of £nil at the date of transition from the UK GAAP financial statements.

Reconciliation of equity and loss There were no adjustments required to either net assets or loss under UK GAAP in order to arrive at net assets or loss under IFRS. As shown in the following tables, there have been adjustments within current assets to reclassify short-term investments with original maturities of 3 months or less as cash and cash equivalents; within equity to reclassify own shares purchased as other reserves; and within the income statement to reclassify exchange gains and losses as finance income and similar finance costs, respectively.

Reconciliation of the consolidated income statement There were no adjustments required to the consolidated income statement under UK GAAP in order to arrive at the consolidated income statement under IFRS.

Reconciliation of Company primary statements There were no adjustments required to the Company's primary statements as a result of the transition to IFRS.

Reconciliation of balance sheet presentation at 1 January 2005 (date of transition to IFRS)

		UK GAAP £000	IFRS effect £000	**IFRS £000**
ASSETS				
Non-current assets				
Property, plant and equipment		11	-	**11**
		11	-	**11**
Current assets				
Research and development tax credits		177	-	**177**
Trade and other receivables		78	-	**78**
Held-to-maturity investments	a	3,761	(1,261)	**2,500**
Cash and cash equivalents	a	113	1,261	**1,374**
		4,129	-	**4,129**
Total assets		4,140	-	**4,140**
EQUITY				
Capital and reserves attributable to the equity holders of the Company				
Share capital		10,446	-	**10,446**
Other reserves		3,734	-	**3,734**
Retained deficit		(10,407)	-	**(10,407)**
Total equity		3,773	-	**3,773**
LIABILITIES				
Current liabilities				
Trade and other payables		367	-	**367**
Total liabilities		367	-	**367**
Total equity and liabilities		4,140	-	**4,140**

Reconciliation of balance sheet presentation at 31 December 2005

		UK GAAP £000	IFRS effect £000	**IFRS £000**
ASSETS				
Non-current assets				
Property, plant and equipment		161	-	**161**
		161	-	**161**
Current assets				
Research and development tax credits		502	-	**502**
Trade and other receivables		819	-	**819**
Held-to-maturity investments	a	17,013	(1,136)	**15,877**
Cash and cash equivalents	a	603	1,136	**1,739**
		18,937	-	**18,937**
Total assets		19,098	-	**19,098**
EQUITY				
Capital and reserves attributable to the equity holders of the Company				
Share capital		24,402	-	**24,402**
Capital redemption reserve		4,804	-	**4,804**
Other reserves		3,989	-	**3,989**
Retained deficit		(16,012)	-	**(16,012)**
Total equity		17,183	-	**17,183**
LIABILITIES				
Current liabilities				
Trade and other payables		1,915	-	**1,915**
Total liabilities		1,915	-	**1,915**
Total equity and liabilities		19,098	-	**19,098**

Reconciliation of income statement presentation for the year ended 31 December 2005

		UK GAAP £000	IFRS effect £000	**IFRS £000**
Revenue		14	-	**14**
Cost of sales		(6)	-	**(6)**
Gross profit		8	-	**8**
Research and development expenditure		(5,346)	-	**(5,346)**
Administrative expenses	b	(1,224)	(441)	**(1,665)**
Operating loss		(6,562)	(441)	**(7,003)**
Interest receivable and similar income	b	429	441	**870**
Loss before tax		(6,133)	-	**(6,133)**
Tax credit on loss on ordinary activities		528	-	**528**
Loss for the period		(5,605)	-	**(5,605)**

Notes to the reconciliation of presentation of balance sheets and income statements

a. Under IFRS, short-term investments with a maturity of three months or less at the date of acquisition are included in cash and cash equivalents.

b. Under IFRS, Evolutec has chosen to reclassify foreign exchange gains and losses within finance income and finance costs, respectively.

Explanation of the principal differences between the cash flow statements presented under UK GAAP and the cash flow statements presented under IFRS

The cash flow statement has been prepared in conformity with IAS 7 "Cash Flow Statements". The principal differences between the 2005 cash flow statements presented in accordance with UK GAAP and the cash flow statements presented in accordance with IFRS for the same periods are as follows:

Under UK GAAP, net cash flow from operating activities was determined before considering cash out flows from (a) returns on investments and servicing of finance, (b) taxes paid. Under IFRS, net cash flow from operating activities is determined after these items.

Under UK GAAP, capital expenditure, financial investments and acquisitions were classified separately, while under IFRS they are classified as investing activities.

Under UK GAAP, movements in short-term investments were not included in cash but classified as management of liquid resources. Under IFRS, short-term investments with maturity of three months or less at the date of acquisition are included in cash and cash equivalents.

8. Publication of non-statutory accounts

The financial information set out in this preliminary announcement does not constitute statutory accounts as defined in section 240 of the Companies Act 1985.

The balance sheets at 31 December 2006 and the consolidated income statement, statements of changes in shareholders' equity, cash flow statements and associated notes for the year then ended have been extracted from the Group's 2006 statutory financial statements upon which the auditor's opinion is unqualified and does not include any statement under section 237 of the Companies Act 1985. The auditor has included an emphasis of matter paragraph in respect of going concern in their audit report.

Those financial statements have not yet been delivered to the Registrar of Companies.