epigenomics

ANNUAL REPORT 2017

2017

DETECTING CANCER IN BLOOD

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FOREWORD BY THE EXECUTIVE BOARD

DEAR SHAREHOLDERS,

The voluntary takeover offer made by Summit Hero Holding GmbH (Summit Hero) to the shareholders of Epigenomics AG in the summer of 2017 was a defining moment in the history of our Company. The Executive Board and Supervisory Board supported the offer, which we believe would have created value for all shareholders. The cash offer of EUR 7.52 per Epigenomics share reflected a premium of 51.9% on the Xetra closing price prior to the announcement of the intent to make the takeover offer. Moreover, Summit Hero's intention was to support Epigenomics' corporate strategy and to continue investing in the Company going forward.

Although regrettably the minimum acceptance threshold was not reached and the offer was unsuccessful, it nevertheless underscored the potential of our blood-based cancer screening products and technology. For us, the failure of the takeover means that we will continue to face the tasks ahead without the backing of a financially strong majority shareholder or owner, and with it opportunities such as securing the capital needed to successfully commercialize our lead product – Epi proColon – in the U.S.A.. Other companies' recent experiences make it clear that a significant amount of capital is required to launch large scale molecular diagnostic tests in the U.S. market. Access to the required capital necessary will continue to be limited until reimbursement of Epi proColon is achieved.

➛ **REIMBURSEMENT OF EPI PROCOLON IN THE U.S.A.** Securing reimbursement from the Centers of Medicare & Medicaid Services (CMS) remains our key goal for 2018. The Medicare population (persons aged 65 and above) represents around half of our available market in the U.S.A.. We will be able to apply for reimbursement from CMS as soon as Epi proColon is included in the screening guidelines of a medical association.

It also remains possible to bring about a reimbursement decision by legislative means. In March 2017, congressman Donald M. Payne, Jr. (D-NJ) introduced the "Donald Payne Sr. Colorectal Cancer Detection Act of 2017". The bipartisan initiative is supported by several members of Congress.

In March 2018, Senators Shelley Moore Capito (R-WV) and Martin Heinrich (D-NM), introduced the "Colorectal Cancer Detection Act of 2018" to the United States Senate in Washington D.C.. This Senate Bill (S. 2523) parallels the House Bill (H.R. 1578) "Donald Payne Sr. Colorectal Cancer Detection Act" introduced by Congressman Donald M. Payne, Jr. (D-NJ). These bipartisan initiatives aim to provide payment and coverage under the Medicare program for FDA-approved qualifying colorectal cancer (CRC) screening blood-based tests.

We are very excited to join the mission of the bill's sponsors to fight CRC in the United States. We believe these initiatives are an opportunity to provide millions of Americans access to CRC screening with the potential to ultimately save thousands of lives.

Key milestones in the so-called "gapfilling" process to determine the reimbursement price for Epi proColon are also on our agenda for 2018. CMS has until June 1, 2018 at the latest to announce the preliminary reimbursement price for Epi proColon, as determined by their regional Medicare Administrative Contractors (MACs). CMS is expected to publish the final reimbursement price in November 2018, which will then be effective from January 1, 2019. We are confident that the future reimbursement price will reflect the innovative nature and medical benefits of the first FDA-approved blood test for CRC screening.

Greg Hamilton, CEO

Jorge Garces, CSO

Albert Weber, EVP Finance

➛ **GROWING CLINICAL EVIDENCE FOR EPI PROCOLON.** The clinical evidence for Epi proColon in CRC screening has been further corroborated by a number of scientific publications. These include the results of the ADMIT study, which were published in the peer-reviewed journal Cancer Treatment and Research Communications. The study results confirm that a blood-based test has potential to increase participation in CRC screening. The study demonstrated a 99.5% rate of adherence to CRC screening using Epi proColon, while the fecal immunochemical test (FIT) showed an adherence rate of 88.1%. These numbers contrast to a baseline adherence to standard of care CRC screening of about 20%, as measured in a passive control arm.

Further articles in the Journal of Molecular Diagnosis & Therapy and Clinical and Translational Gastroenterology have highlighted the benefits and clinical performance of Epi proColon in CTC screening.

➛ **INNOVATIVE LUNG CANCER TEST EPI PROLUNG.** With Epi proLung, we have developed a next-generation blood-based test that detects the presence of lung cancer in blood plasma, and at the end of the past fiscal year obtained CE marking for the European market. Lung cancer diagnosis remains challenging and there is a high unmet medical need in this field. Radiological evaluations often incorrectly show positive results. A test to confirm the presence of malignant lung disease would enable earlier detection of the disease with less risk to the patient from invasive diagnostic methods, and may lead to more successful therapies, and lower treatment costs. CE marking for Epi proLung is the first step in our efforts to offer additional opportunities for lung cancer screening. Going forward, we will leverage the findings of future clinical studies to refine the product.

➛ **PROMISING NEW RESEARCH METHODS.** As part of our focused strategy, our R&D activities in 2017 were also geared towards conducting the first proof-of-concept studies for a number of clinical issues with the newly implemented next generation sequencing (NGS).

In 2017, the research team worked intensively on NGS to further refine and optimize the protocols developed in 2016. The results obtained from urine samples were transferred to plasma and a further three NGS panels were established across multiple cancer types. We will be evaluating the clinical performance of these panels currently and in the future.

We have conducted studies in collaboration with academic institutions on the monitoring of cirrhotic patients and lung cancer patients under chemotherapy. Excellent results were achieved in both cases and the corresponding papers have been or are in the process of being submitted for publication.

➛ **SOLID FINANCIAL SITUATION.** With a liquidity of EUR 13.7 million as of December 31, 2017, we had a solid financial buffer to start the new fiscal year. The issue of convertible notes and new shares in a private placement made a significant contribution to strengthen our financial situation. To ensure the continued existence of our business and our ability to leverage market opportunities, particularly in the U.S.A., we still rely on debt and equity financing going forward.

➛ **LOOKING AHEAD.** Key milestones await us in the new fiscal year which, when reached, will herald a new phase in Epigenomics' corporate development. We, as the Company's Executive Board members will spare no effort in ensuring that we reach them. We look forward to being able to keep you informed about our progress in developing and marketing innovative diagnostic products. We also wish to take this opportunity to thank our employees for their continued dedication and hard work, our customers and partners for their loyalty and you, our shareholders, for your ongoing support and trust.

Yours sincerely,

Greg Hamilton
(CEO)

Jorge Garces
(CSO)

Albert Weber
(EVP Finance)

REPORT OF THE SUPERVISORY BOARD

DEAR SHAREHOLDERS,

It has been an eventful fiscal year for Epigenomics, above all because of the voluntary takeover offer made by Summit Hero Holding GmbH. Even though the minimum acceptance threshold specified by the bidder was not ultimately reached, we see the offer, which was supported by the Supervisory Board and the Executive Board, as proof of the huge potential of our early cancer detection technology. We are among the leading companies in the global race to develop clinically effective liquid biopsy tests. The task now is to make our innovative technology available to as many patients as possible. An important prerequisite for this, and something we are working towards, is getting the public health insurer in the U.S. to cover Epi proColon, our blood test for CRC screening.

We face a number of significant decisions in the coming fiscal year. Some of these concern the Company's financial security, the implementation of the commercialization strategy in the U.S. and the development of the product pipeline. The Supervisory Board will work closely with the Executive Board to review and advise on these decisions.

WORK OF THE SUPERVISORY BOARD

Throughout 2017, the Supervisory Board of Epigenomics AG fulfilled all of the duties incumbent upon it in accordance with the law, the Articles of Association and its Rules of Procedure. It advised and monitored the Executive Board in managing the Company and kept itself apprised at all times of the Company's operating performance, the key challenges it faced, and the Executive Board's assessment as to the overall financial position and risk management of the Company. All corporate planning, including financial, capital expenditure and human resources planning, as well as general business performance was reported on a regular basis by the Executive Board. To the extent that German corporate law or the applicable Rules of Procedure required consent for certain decisions or actions by the Executive Board, such consent was granted by the Supervisory Board after thorough deliberation and careful examination of oral reports and written documentation, which were provided.

Heino von Prondzynski, Chairman of the Supervisory Board

A particular focus of the Supervisory Board's work was the voluntary takeover offer made by Summit Hero Holding GmbH to the shareholders of Epigenomics AG. After thorough review, the Executive Board and the Supervisory Board published a statement pursuant to section 27 of the German Securities Acquisition and Take-over Act (Wertpapiererwerbs- und Übernahmegesetz – WpÜG) recommending that shareholders accept the offer.

The beginning commercialization of Epi proColon in the U.S. was one of the most important issues discussed regularly at Supervisory Board meetings in fiscal year 2017. Further important topics included the implementation of capital raising measures, the overall financial situation of the Company, strategic options and human resources issues. Furthermore, where the terms and conditions of potential new cooperation agreements required the consent of the Supervisory Board, these were reviewed and discussed throughout the year in the context of regular assessments.

The Supervisory Board adopted the annual financial statements for fiscal year 2017 and approved the consolidated financial statements. The Supervisory Board always took into account in its work the interests of Epigenomics' shareholders.

During 2017, six meetings of the Supervisory Board with the Company's Executive Board took place on February 6, March 22, May 29/30, July 10/11, September 25/26 and December 4. These meetings were held in Berlin. All members of the Supervisory Board attended all of the meetings.

In addition to the very close dialog between all members of the Supervisory and the Executive Board in joint plenary meetings, detailed written and oral reports of the Executive Board were provided to the Supervisory Board within the framework of supplementary conference calls and individual discussions. Thus, the Supervisory Board was continually kept up to date on the Company's current business situation and key events throughout the year.

At its meeting on December 4, 2017, the Supervisory Board considered in detail the operational budget, financial planning and human resource allocation plan for the fiscal year 2018 and approved the Company's targets for 2018.

It also approved the Executive Board's remuneration after evaluation of appropriateness.

For each formal meeting of the Supervisory Board, in the presence of the Executive Board, all members of the Supervisory Board received comprehensive written reports in advance, prepared by the Executive Board with the input of the respective managers of the Company. These detailed documents were suitable for analyzing and discussing all relevant topics of the respective agenda of the Supervisory Board meetings and for adopting all required resolutions. Written minutes of all official meetings and telephone conferences were prepared. Whenever necessary, resolutions were also passed by written vote in accordance with the Company's Articles of Association.

ORGANIZATIONAL CHANGES IN 2017

The Supervisory Board unanimously resolved to appoint Mr. Jorge Garces and Mr. Albert Weber to the Executive Board of Epigenomics AG with effect from December 1, 2017, and January 1, 2018, respectively.

CONFLICTS OF INTEREST

No conflicts of interest for the members of the Supervisory Board arose during the reporting year.

COMMITTEES

The Audit Committee chaired by Prof. Günther Reiter, who is the expert for financial reporting and audit matters in accordance with section 100 of the German Stock Corporation Act (Aktiengesetz – AktG), is responsible for communicating regularly with the Executive Board, the Senior Vice President Finance, Accounting and Controlling and with the auditor of the Company, in order to agree with them on the preparation of financial reports, audits and quarterly financial statements. He reports regularly to the full Supervisory Board, highlighting any findings and observations in this area. At the same time, the Supervisory Board designated Ann Clare Kessler, Ph.D., as the main expert on remuneration and nomination matters. Heino von Prondzynski was designated the main expert on corporate governance matters.

CORPORATE GOVERNANCE

The Supervisory Board continuously reviewed all issues of legal and regulatory compliance by the Company. Given the rapidly and constantly changing economic environment and in light of the current financial position of the Company, the Supervisory Board also discussed in detail issues relevant to an effective risk management system. Both the Executive Board and the Supervisory Board regard the commitment to sound corporate governance as crucial to reinforcing the Company's credibility with current and future shareholders, business partners and employees. In April 2017, the Executive Board and the Supervisory Board published an updated version of the Declaration of Compliance with the German Corporate Governance Code dated October 2016 pursuant to section 161 AktG. In October 2017, the Executive Board and the Supervisory Board issued a new Declaration of Compliance with the German Corporate Governance Code (the "Code") pursuant to section 161 AktG, which is included in this annual report and is also permanently available on Epigenomics' website (*www.epigenomics.com/news-investors/corporate-governance*).

In its declaration, the Company has committed itself to adherence to the Code, and only deviates in explicitly mentioned, Company-specific cases from its recommendations.

In accordance with section 111 (5) AktG, the Supervisory Board has set a quota for female board members equal to 1/3 of the number of seats on the Supervisory Board. The number of female board members was two of four and therefore above the quota.

AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

The audit firm Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft (Baker Tilly), Duesseldorf, audited the annual financial statements and the corresponding management report of Epigenomics AG for fiscal 2017 in accordance with the principles of the German Commercial Code (HGB), as well as the consolidated financial statements and the Group management report for fiscal year 2017, which were prepared in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union (EU).

Baker Tilly did not raise any objections in relation to either the annual or consolidated financial statements and issued an unqualified audit opinion for each.

The consolidated financial statements and the Group management report were prepared in accordance with section 315a HGB in accordance with International Financial Reporting Standards (IFRSs), as adopted by the EU. Baker Tilly's audit was conducted in accordance with German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer in Deutschland e. V.). The audit reports and the audit opinions were submitted to the Supervisory Board by the Executive Board in a timely manner.

Baker Tilly's audit reports were presented to all members of the Supervisory Board and were discussed in depth at the meeting on March 22, 2018, in the presence of the auditor, who reported on the main findings of its audit. At this meeting, the Executive Board presented the 2017 annual financial statements and 2017 consolidated financial statements, as well as the Company's risk early detection system. Baker Tilly also provided a report on the scope, focal points and findings of the audit. As a result of its own observations and examinations, the Supervisory Board raised no objections, accepted and confirmed the findings of the audit. The Supervisory Board, in the presence of the auditor, formally approved the annual financial statements and the consolidated financial statements as of December 31, 2017, without raising any objections or making any amendments. By the Supervisory Board's approval, the 2017 annual financial statements of Epigenomics AG are thus adopted as submitted in accordance with section 172 AktG.

With respect to the existing internal control and risk early detection system, the auditor stated to the Supervisory Board that in its opinion these systems are suitable to meet all legally intended requirements.

The Supervisory Board would like to thank the Executive Board, the senior management and all employees of Epigenomics for their commitment and dedication throughout fiscal year 2017.

Berlin, March 2018

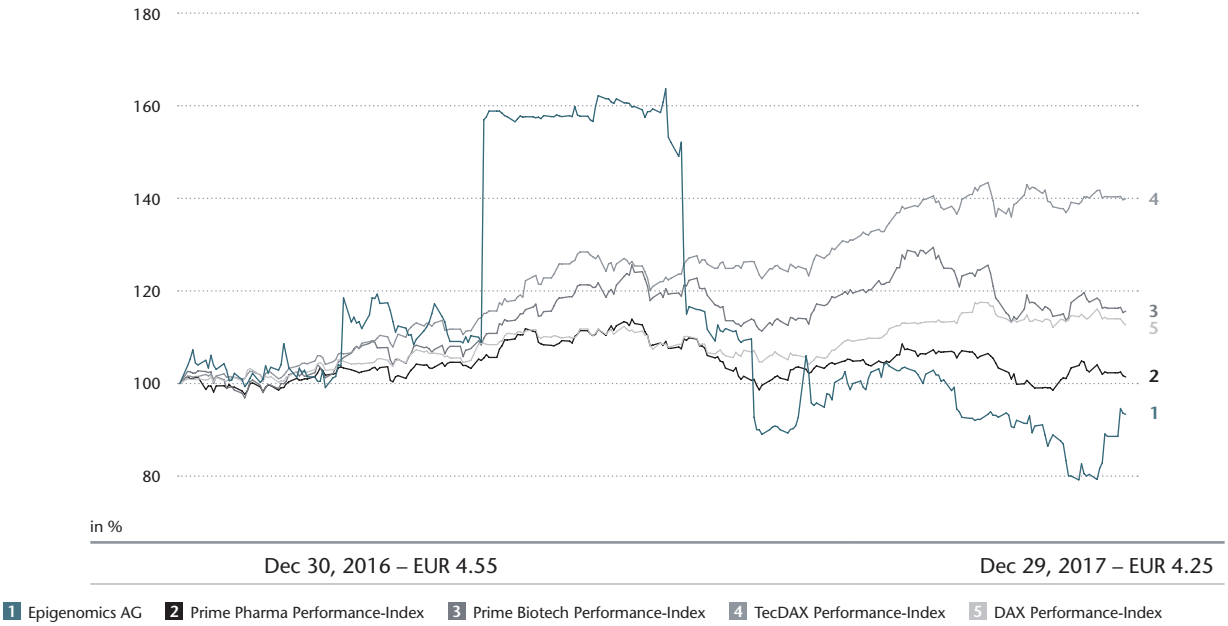
On behalf of the Supervisory Board

Heino von Prondzynski

OUR SHARE

SHARE PRICE PERFORMANCE INFLUENCED BY TAKEOVER OFFER

SHARE PRICE PERFORMANCE IN 2017



Epigenomics' share price performance in 2017 was heavily influenced by Summit Hero Holding GmbH's voluntary takeover offer. The share price rose sharply to over EUR 7.00 after the agreement to submit a takeover offer of EUR 7.52 per share was published on April 26, 2017. On July 5, 2017, shortly before the end of the acceptance period, the share price peaked at EUR 7.42 (XETRA). After our shareholders rejected the offer, the share price declined again sharply, closing at EUR 4.25 at year-end. The 2017 average daily trading volume on XETRA was about 94,000 shares.

VOLUNTARY TAKEOVER OFFER MADE TO EPIGENOMICS SHAREHOLDERS UNSUCCESSFUL

On June 8, 2017, Summit Hero Holding GmbH (a subsidiary of Cathay Fortune International Company Limited – CFIC) published the offer document concerning the voluntary public takeover offer in respect of all outstanding shares in Epigenomics AG. The offer price of EUR 7.52 per share reflected a premium of 51.9% on the XETRA closing price prior to the announcement of Summit Hero's intention to make the takeover offer and a premium of 49.2% on the 3-month weighted average share price prior to the announcement. The Executive Board and the Supervisory Board of Epigenomics supported the takeover offer and issued a reasoned statement in relation to the offer in accordance with section 27 of the German Securities Acquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetz – WpÜG). Completion of the offer was subject, inter alia, to the condition that a minimum acceptance threshold of 75% of all of Epigenomics' shares be reached. This did not occur, however, and the takeover offer was unsuccessful.

CHANGES IN THE SHARE CAPITAL/CORPORATE ACTIONS

During the reporting period, the number of outstanding Epigenomics shares increased by 1,279,100 and the total number of shares outstanding was 24,014,360 as of December 31, 2017. The market capitalization of Epigenomics amounted to around EUR 102 million at the end of 2017.

In September 2017, Epigenomics issued convertible notes with a nominal amount of EUR 7.1 million to CFIC subject to the exclusion of shareholders' pre-emptive rights. By issuing the convertible notes – as agreed in the Business Combination Agreement dated April 26, 2017, between Epigenomics and CFIC and published in the offer document for the voluntary public takeover offer of June 8, 2017 – Epigenomics received an immediate liquidity inflow of approximately EUR 6.5 million.

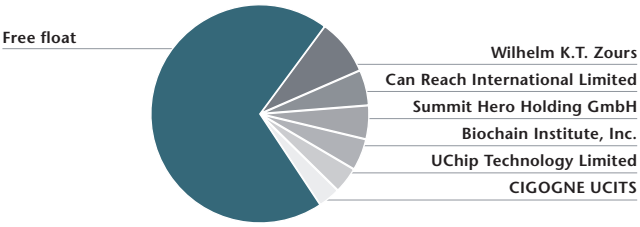
The notes were issued at 91% of their nominal value, are not interest-bearing, mature on December 31, 2018, and are convertible into up to 994,397 shares in Epigenomics.

Similarly, in September 2017, Epigenomics issued 1,279,100 new shares in the course of a capital increase, providing the Company with gross proceeds of around EUR 5.5 million. The capital increase was fully subscribed by institutional investors in Germany and the U.S..

SHAREHOLDER STRUCTURE AS OF JANUARY 23, 2018

The following shareholders held more than 3% each of Epigenomics AG.

Shareholder	Voting rights[1]
Wilhelm K.T. Zours	8.35%
Can Reach International Limited	5.53%
Summit Hero Holding GmbH	4.84%
Biochain Institute, Inc.	4.67%
UChip Technology Limited	3.97%
CIGOGNE UCITS	3.30%



Around 70% of the Epigenomics shares are in free float. The largest proportion is held by private investors. Recent voting rights notifications are available on our website under "News & Investors".

[1] *According to published voting rights notifications*

Key data on Epigenomics' shares

ISIN	DE000A11QW50
Security code number	A11QW5
Ticker symbol	ECX
Stock exchange	Frankfurt Stock Exchange Regulated Market (Prime Standard)
Number of shares outstanding (December 31, 2017)	24,014,360
Free float (Januar 23, 2018)	69.34%
Market capitalization (December 31, 2017)	EUR 102.1 million
Year-end closing price	EUR 4.25

TRANSPARENT DIALOG WITH SHAREHOLDERS

Epigenomics maintains ongoing and active dialog with the capital market. Throughout 2017, the Company hosted regular conference calls for investors and analysts to discuss the financial results and provide updates on developments within the Company. Epigenomics' Executive Board also presented at investor meetings.

At the Company's Annual General Shareholders' Meeting in Berlin on May 30, 2017, the shareholders voted in favor of all of the Company's proposals by a large majority.

On September 25, 2017, an Extraordinary General Shareholders' Meeting was held in Berlin as required pursuant to section 92 (1) of the German Stock Corporation Act (Aktiengesetz – AktG) following the Executive Board's notice of a loss. At the meeting, the Executive Board reported on the changes to the Company's share capital and took questions from the shareholders in attendance. At the time of the Extraordinary General Shareholders' Meeting, appropriate measures had already been taken to improve the Company's equity base and liquidity by means of the capital increase and the issue of convertible notes in September 2017.

ANALYST COVERAGE AND ADR PROGRAM

In 2017, the analysts of goetzpartners securities Limited, equinet Bank AG and First Berlin Equity Research GmbH followed the performance of Epigenomics' shares and regularly published their assessments and recommendations.

Epigenomics' ADRs are traded on the OTCQX International market in the United States, a segment reserved for high-quality non-U.S. companies. These ADRs are tradable U.S. dollar-denominated certificates representing ordinary shares of the Company at a ratio of five ordinary shares to one Epigenomics ADR. BNY Mellon acts as the Company's "Principal American Liaison" (PAL) on OTCQX and is responsible for providing professional guidance on OTCQX requirements.

Epigenomics AG – ADR	OTCQX Trading
Structure	Sponsored Level 1 ADR
Ratio	1 ADR = 5 Shares
Ticker symbol	EPGNY
CUSIP	29428N102
ISIN	US29428N1028
Depositary bank/PAL	BNY Mellon

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GROUP MANAGEMENT REPORT

ORGANIZATION, BUSINESS ACTIVITIES AND STRATEGY

GROUP STRUCTURE, BUSINESS ACTIVITIES AND PRODUCTS

Epigenomics AG is headquartered in Berlin, Germany, and operates a wholly owned subsidiary in the U.S.A.: Epigenomics, Inc., registered in Seattle, WA, with offices in Germantown, MD. Our business activities consist primarily of targeting the important international markets of North America, Asia and Europe. Epigenomics AG, the parent company, oversees the Group's central business functions (e.g., accounting, human resources and intellectual property). The Group's research and development (R&D) activities are also conducted from Berlin. Epigenomics, Inc. is primarily active in developing our business and commercial activities in North America and in international markets outside of Europe.

We are a molecular diagnostics company focusing on developing and commercializing in vitro diagnostic (IVD) liquid biopsy tests for the screening, early detection and diagnosis of cancer. We develop our products based on a unique and proprietary technology platform using DNA methylation. Our research and development (R&D) activities are aimed at identifying suitable biomarkers in human tissue and developing and patenting the corresponding IVD tests.

We are currently developing and commercializing IVD tests for colorectal cancer (CRC) and lung cancer. Our cancer molecular diagnostic products address a significant but largely unmet medical need, providing patients and physicians with the benefits of more user-friendly, superior diagnostic tests.

Our lead product – Epi proColon – is a blood-based test for the early detection of CRC using our proprietary DNA methylation biomarker Septin9. The test is CE-marked and has been on the European market in its current version since 2012. In April 2016, the U.S. Food and Drug Administration (FDA) approved Epi proColon as the first and, thus far, only blood-based CRC screening test for commercialization on the U.S. market. Epi proColon was also approved for commercialization in China by the China Food and Drug Administration (CFDA) at the end of 2014.

In 2017 we completed development of our second product, Epi proLung, which is used to screen for lung cancer. The product is a reflex test that is aimed at clarifying indeterminate results with the aim of enabling earlier identification of illness, improving the outcome of therapy, and lowering costs of treatment by reducing unnecessary procedures. Product development was partly financed by a grant of EUR 2.8 million from the European Commission under the Horizon 2020 research and innovation program, awarded to us in April 2015 (grant agreement number 672680). Development was completed during the reporting year with the product successfully obtaining CE marking.

CORPORATE STRATEGY AND GOALS

Epigenomics AG's primary corporate objective is to develop and commercialize IVD products for detecting cancer. We take a goal-oriented approach to managing and monitoring operational progress when executing our strategy. The Supervisory Board and the Executive Board of the Company regularly define milestones and deliverables including revenue, operating result and business targets as well as product development, clinical and regulatory milestones against which performance of the Company and its employees is regularly monitored.

Our corporate strategy is to become the global leader in the liquid biopsy market. With the first ever FDA-approved blood test for cancer screening, we have established Epigenomics as a pioneer in this fast-growing market. Based on a solid level of patent protection in DNA methylation, we intend to drive market adoption for Epi proColon and expand our product pipeline in the long term. With the successfully completed development of Epi proLung, our expertise was again on full display in 2017.

To execute our strategy we are committed to taking all the appropriate steps necessary for product development and global commercialization. Our products are marketed through our own commercialization activities as well as through distribution partners. We primarily target the economically lucrative markets of North America, Asia and Europe with the aim of exhausting their revenue potential primarily through product sales.

Our commercial strategy is initially focused on the United States as this is where we see the greatest economic opportunities for our products. The U.S.A. is a key market as new diagnostic technology is typically adopted there first.

To ensure optimal access to this most important global market despite our limited resources, we have concluded a marketing and distribution agreement with an established company in the field. Polymedco Cancer Diagnostics Products LLP (Polymedco), based in New York State, is successful in commercializing diagnostic CRC tests and since 2013 has been our partner in accessing the U.S. market. Polymedco is primarily focused on sales activities and customer support for our products.

Since the FDA's market approval for Epi proColon in the U.S.A., we have been devoting special attention to reimbursement, i.e., to convincing the payors in the U.S. healthcare system to provide the test as a covered benefit. Securing reimbursement is a key condition for commercial success in the U.S.A..

China also offers significant long-term potential for the commercialization of blood-based tests. As such, we have selected Chinese company BioChain Institute, Inc. (BioChain) as a highly capable partner for our Epi proColon and Epi proLung products. BioChain is a leading clinical diagnostics company in cancer and genetic tests in China and the U.S.A. and started offering its own internally developed Septin9 CRC screening test on the Chinese market in 2015 under a license from Epigenomics. BioChain also plans to develop a lung cancer test under a license we granted in 2016.

In Europe and other parts of the world we market our own products in selected markets like Germany, France, and Spain and use a network of distributors and commercialization partners in other major markets.

MANAGEMENT

Epigenomics is managed by a team comprised of industry experts with long-standing experience in the diagnostics industry, extensive scientific and management expertise, and the unequivocal commitment to building a world-leading cancer molecular diagnostics company.

As a stock corporation under German law, the Company is led by an experienced Executive Board under the oversight of a Supervisory Board elected by our shareholders. Greg Hamilton has been Chief Executive Officer (CEO) since July 2016. He has over 20 years of management experience in the molecular diagnostics, manufacturing and professional services industries. Prior to joining Epigenomics, Mr. Hamilton was Chief Executive Officer and Director of AltheaDx Inc., Chief Operating Officer and Chief Financial Officer of Enigma Diagnostics Inc., Vice President of Operations and Finance at Third Wave Technologies Inc. and Vice President of Operations at Hologic Inc. He has been responsible for multiple FDA-approved products including a human papilloma virus (HPV) high risk screening assay and the first-ever approved HPV genotyping assay. Mr. Hamilton received his MBA from the University of Chicago and his Bachelor of Science in Finance from Purdue University.

The Executive Board was complemented in the reporting year by Dr. Uwe Staub, who had been the Company's Chief Operating Officer (COO) since April 2013. Dr. Staub will step down from the Executive Board with effect as of March 31, 2018.

The Company's Supervisory Board appointed Jorge Garces, Ph.D. as President and Chief Scientific Officer (CSO) of Epigenomics AG with effect as of December 1, 2017. Mr. Garces, Ph.D., has held a number of senior management positions in the U.S. molecular diagnostics industry and, as a member of the Executive Board of Epigenomics AG, will oversee Operations, Research and Development, Clinical Affairs, and Regulatory and Quality.

Mr. Garces, Ph.D. (46), has over 20 years of management experience in the molecular diagnostics and life sciences industries. Prior to joining Epigenomics, he served as CEO and President of AltheaDx Inc. and previously at Enigma Diagnostics, Inc. in the same capacity. Mr. Garces, Ph.D., was also Vice President and Operations Manager at Hologic, Inc., where he led the development and submission to the FDA for approval of their cystic fibrosis and HPV products. He was also a senior executive at GenMark Diagnostics and Third Wave Technologies.

Mr. Garces, Ph.D., earned his doctorate in Cell and Molecular Biology from the City University of New York. He completed his post-doctoral training in neurobiology at the University of Massachusetts Medical School and received an MBA from the Kellogg Graduate School of Management at Northwestern University.

In November 2017 the Company's Supervisory Board also appointed Albert Weber as Executive Vice President Finance effective January 1, 2018. Mr. Weber, who has worked at Epigenomics for the past seventeen years, will become a member of the Executive Board of Epigenomics and will oversee the company's financial, accounting, controlling, human resources and IT departments.

Mr. Weber (54), has more than 25 years of corporate finance and accounting experience. Prior to this recent appointment Mr. Weber was the Senior Vice President of Finance, Accounting and Controlling for Epigenomics. Prior to joining the Company, he served as Manager Controlling of Pironet AG, a Cologne-based IT start-up and previously at EMI Group Germany as the Manager Treasury and Corporate Accounting. Mr. Weber has experience in corporate actions, all corporate finance functions and IPOs. He has a degree in Business Administration from Cologne University and is certified in IFRS accounting.

The Supervisory Board of Epigenomics comprises four members with the required industry experience and expertise. For further details on the current members of the Executive and Supervisory Boards, please see the Corporate Governance section of this management report.

PERFORMANCE INDICATORS

Epigenomics' goal is to increase shareholder value by systematically pursuing our mission and strategy. We use financial and non-financial performance indicators to control and monitor the success of our activities on an ongoing basis.

The financial indicators used to manage our operations include key financial figures which are well established and recognized by the international investor community. These include revenue, gross margin, EBIT, EBITDA adjusted for share-based payment expenses, the operating result, and earnings per share. Revenue and EBITDA before share-based payment expenses are our key indicators with regard to managing the Company and, therefore, our financial market reporting.

The aforementioned indicators are monitored closely on a monthly basis and published on a quarterly basis in our mandatory and voluntary financial reports. They are regularly compared against planned and forecast values, and against external benchmarks where appropriate. As we remain reliant on external funding from investors to support our business operations, our cash consumption is among the important financial indicators and is therefore monitored extremely closely and reported regularly.

The non-financial performance indicators important for our business primarily relate to our R&D and commercial activities. This set of indicators includes sensitivity and specificity numbers for our products as obtained from scientific studies and the results of studies published in renowned scientific journals. Progress in obtaining market approval from health authorities, the successful passing of audits of our quality management system, and reaching benchmarks and milestones in our development activities are further important indicators in measuring achievement of our targets and in helping us manage our internal activities and external communication. Last but not least, we monitor customer satisfaction using indicators such as delivery and/or turnaround times, number and nature of audit findings and complaint rates.

ECONOMIC ENVIRONMENT IN 2017 AND OUTLOOK FOR 2018

MACROECONOMIC ENVIRONMENT IN 2017

The geopolitical situation became even more complicated in 2017. None of the existing crisis areas across the world became noticeably calmer. Last year a leading German economic research institute described 2016 as the year in which globalization was "rejected". If this view is accepted, a number of logical consequences of this rejection could be seen across the world in 2017. There were also parliamentary elections in a number of significant economies during the year.

There was no clear outcome from the German parliamentary elections in September 2017. Both partners in the existing Grand Coalition lost support to the smaller parties, with the Alternative for Germany (AfD) entering the German parliament for the first time. Negotiations between the CDU/CSU, the Greens and the FDP on a so-called Jamaica Coalition ended unsuccessfully after a number of weeks. These were followed by initial negotiations between the CDU/CSU and the SPD on forming another Grand Coalition. There had been no breakthrough by the end of 2017, meaning that the most economically powerful member of the European Union (EU) entered 2018 without having formed a new government.

In neighboring Austria, the parliamentary elections of October 2017, saw a shift to the right which had already taken place in other EU member states or is forecast for upcoming elections. In the United Kingdom, Prime Minister May's Conservative Party lost its absolute majority in the elections they themselves called in the summer. Furthermore, the new parliament has to approve the conditions of a deal with the EU on the UK's exit from the EU (Brexit), further weakening the Prime Minister's negotiating position. The media are already describing her as a lame duck Prime Minister. It remains unclear what impact Brexit will have on London's importance as a financial center.

Given the UK's departure from the EU and Germany's limited capacity to act at present, hopes are high that France will play a greater role. Since May 2017, President Macron has been seen as the new hope for a stable Europe.

A further large EU member state, Spain, was in crisis in 2017 due to the escalating calls for independence in Catalonia, its economically strongest autonomous community. In November the central government in Madrid provisionally put an end to independence, dismissing the government of Catalonia. However, in late 2017 the Catalan separatist parties consolidated their strong position, leaving Spain as before facing an uncertain future. And while in the south of the EU Greece and Portugal made the first steps towards overcoming their financial and budgetary crises, Italy is approaching elections (in early 2018) and is not making any headway in reducing its government debt despite a slight economic upturn. There is also a risk that parties opposed to the EU and the euro will be successful in the upcoming elections.

Outside the EU, Turkey further distanced itself from the west in 2017. Under President Erdogan, the democratic rights of the population were further restricted and the country was in increasing conflict with its western (NATO) allies, moving closer to Russia and Iran.

Since January 2017, United States President Donald Trump has campaigned under the motto "America first", something he has acted on in his first year in office. His withdrawal of the world's largest economy from the Paris Agreement on climate change led to particular concern across the world. Trump has also withdrawn the U.S.A. from UNESCO and the UN refugee pact. Trade barriers and tariffs were increased under his administration. Trump has engaged in open confrontation with North Korea over its ambitions of becoming a nuclear power. In terms of domestic policy, Trump successfully implemented his program of tax reforms in late 2017, lowering tax rates in the U.S.A. and thereby reinvigorating the global competition in attracting business. However, he was unable to make significant changes to his predecessor's healthcare reforms (ObamaCare) in 2017.

The Chinese economy continued to expand in 2017 with a growth rate of roughly 7%, and bolstered its economic power through corporate acquisitions, mainly in Europe. President Xi Jinping made his nation's aspiration to global leadership clear at the Community Party Congress in October 2017. The primary focus in plans to expand the Chinese economy is Europe, where its volume of investment increased by approximately 1,500% between 2010 and 2017.

Overall, according to experts the global economy grew at a satisfactory rate and somewhat better than had been forecast in the prior year. Real growth in global gross domestic product (GDP) was calculated as 3.6%, following 3.1% in the prior year, both by the experts from the International Monetary Fund (IMF) in their "World Economic Outlook" (October 2017) and the Organization for Economic Cooperation and Development (OECD) in the "OECD Economic Outlook". China and India remained the driving forces behind the global economy with estimated GDP growth of 6.8% and 6.7%, respectively.

Forecast growth rates for 2017 for the eurozone (2.4%), Germany (2.5%) and the U.S. (2.2%) are all higher than in the prior year. Internal discussions on the continuity of the eurozone, the Brexit decision, the persistent weakness of the French economy and the ongoing crisis in Italy, as well as the tension between the EU and Russia and the resurgence of populist and right-wing parties in numerous countries continued to shape the political landscape and curb prospects for the European economy. On the other hand there were positive results in Russia and Brazil with moderate growth rates of 1.9% and 0.7%, respectively, after real GDP had actually fallen in 2016.

By contrast, economic development in the U.S.A. was in line with expectations. U.S. stock markets continued the strong rise they have experienced over the past few years with no let-up in momentum, while the U.S. Federal Reserve (Fed) raised its benchmark interest rate on several occasions. The Fed most recently set the target corridor at 1.25–1.50%.

Germany continued to shine within the EU with a stable and robust economy based on strong domestic demand, low inflation and a further drop in the unemployment rate, which was just 3.7% in October 2017. According to the German Ministry for Economic Affairs, at the end of the reporting year the German economy was "in a steady and broad upturn built on a sound domestic foundation". Growth was driven by both domestic demand and foreign trade. In the other large European countries such as France, Italy, Spain and the UK, growth remained fairly weak. The European Central Bank (ECB) ultimately saw no reason to raise interest rates at the end of 2017. After its final meeting in 2017 the ECB said it remained willing not just to continue its bond purchase program in order to ensure price stability, but even to expand it if appropriate.

MACROECONOMIC OUTLOOK FOR 2018

Having found that the global economy was still caught in a low-growth trap at the end of 2016, the OECD's assessment is now that synchronized global momentum for growth has now set in. The OECD sees this as being primarily due to political stimulus, with private investments continuing to be assessed as moderate. This development is also being driven by low rates of inflation and low wage increases (OECD). The OECD expects global GDP to grow by 3.7% in 2018, a slight increase on 2017, based on the growth rates forecast for the U.S.A., India and Brazil. For all other significant regions (the eurozone, United Kingdom, Canada, Japan, China and Russia), growth rates are expected to drop slightly or at best to stagnate. The IMF's forecast for global GDP growth in 2018 is identical.

The OECD looks with some concern at the increasing levels of debt being assumed by businesses and households in many countries, coupled with a decrease in credit quality and the increasing importance of less regulated financial sectors. Worldwide increases in real estate prices have also increased the risks the global economy will be exposed to over the coming year. Overall, the OECD economists criticize the trend towards companies investing too strongly in financial assets instead of physical capital and warn that the boom on the capital markets entails a risk of significant corrections which would adversely impact the economy.

The growth prospects for the German economy in 2018 are generally seen as good. The forecasts of the leading economic research institutes and the Deutsche Bundesbank for growth in domestic GDP are in line with the predictions of the OECD and IMF, and mostly range from 2.0% to 2.5%. There are significant uncertainties, firstly regarding the ongoing negotiations to form a government, and secondly in unpredictable international factors of influence such as developments in large European partners like the UK and France, or the continued aggressive economic policy in the U.S.A. under President Trump (tax cuts, protectionism, etc.). However, the continued low rates of inflation and unemployment, German industry's strong level of exports and the high level of household consumption should have a stabilizing influence. The pressure that the refugee crisis exerted on the economy already softened in 2017 and is likely to decrease further in 2018. However, it remains uncertain whether the euro will be able to maintain or build on the strong position it acquired against the U.S. dollar in 2017.

Financial experts currently expect that international monetary policy will tighten only moderately in 2018. In the U.S.A., further minor interest rate rises are expected from the Fed. By contrast, the ECB and Bank of Japan are expected to continue their expansionary policy. The only country where the situation seems unclear is the UK, where the Bank of England is faced both with weakened economic growth due to Brexit and a noticeable increase in inflation – a challenge for any central bank.

The exchange rate between the euro and the U.S. dollar stood at EUR/USD 1.05 at the beginning of 2017. At that point most analysts and experts were anticipating a strong dollar which would approach parity with the euro in 2017. Instead, the exchange rate rose more or less continually over the course of the year to reach EUR/USD 1.18–1.20, thereby supporting the economic policy of the Trump administration. Most experts do not currently see much room for a further rise and expect a similar figure at the end of 2018.

Any economic outlook is susceptible to major geopolitical developments. Existing and growing tensions between east (i.e., Russia) and west, global fears of terrorist attacks and the political instability of the EU remain significant and decisive factors with the potential to negate forecasts and estimates in the event that any of these conflicts were to escalate.

CAPITAL MARKET ENVIRONMENT

Global stock markets climbed to new record highs in many cases in 2017. The MSCI World index rose by approximately 20% for the year, after an increase of 5.6% the prior year. Causes for the boom include a high level of liquidity from investors and a lack of alternative investments (unattractive bond markets and politically dependent commodity markets) along with investors being willing to assume higher levels of risk.

Global developments on the capital markets were again driven by the U.S.A., with the S&P 500 Index increasing by around one-fifth compared to its closing position for 2016. Technology stocks performed particularly well over the reporting year. The U.S. NASDAQ-100 tech index rose by 30%, its ninth annual increase in succession, with the five largest stocks together accounting for greater market capitalization than the 30 stocks in the German DAX.

There were similar developments to the U.S. in large parts of Asia, with substantial gains on most significant stock markets, primarily driven by tech stocks. The leading stock indexes in Hong Kong, India, South Korea and Japan rose between 20% and 34% compared to 2016. Only in China and Malaysia were the increases just moderate. However, following the decreases widely seen in 2016, 2017 could be considered a successful year on the markets for China. Capital flight out of the world's second largest economy seems to have slowed down, if not to have stopped altogether.

2017 was a good year for most stock markets in Europe, too, even if markets here fell short of the boom seen in the U.S.A. and Asia. Compared to a fairly weak performance in 2016, however, there was clear growth on most European stock markets. The EURO STOXX 50 grew around 8% as against the end of the prior year, the French CAC 40 climbed more than 10% and the UK FTSE 100 reached a new record high shortly before the end of the year.

There were also clear gains on the German stock market in 2017, with the DAX 30 climbing roughly 14% despite somewhat cautious forecasts at the start of the year. In November it rose to nearly 13,500 points, its highest ever level. Dividends paid out by the companies included in the DAX 30 are also forecast to reach record levels in fiscal year 2017. The MDAX and SDAX performed even better, with gains of 18% and 25% respectively, while tech index TecDAX rose by nearly 40%.

2017 was also a good year regarding the worldwide number of initial public offerings (IPOs). According to consultancy firm EY in its "Global IPO Trends: Q4 2017" report, there was a total of 1,624 IPOs in 2017, an increase of 49% on the prior year and the highest number for 10 years. The total issue volume was USD 189 billion. The most active IPO markets were in China (582), Europe (250) and the U.S.A. (174). In Germany, the number of IPOs rose from a mere eight last year to a slightly better 14 in fiscal year 2017, although this remains a poor figure given the size of the German capital market within Europe (by way of comparison there were 72 IPOs in London and 78 in Scandinavia).

The number of IPOs in the U.S.A. for healthcare companies rose only slightly from 42 last year to 44 in 2017. In general, the biotech segment continued to show good growth on the stock market. The NASDAQ Biotech Index closed 2017 up around 19%, having fallen over 20% in 2016. Against the backdrop of ongoing discussions on the price of drugs in the U.S.A., growing competition and the somewhat disappointing numbers of new products entering the market in the sector, this level of growth can only be seen as a very positive result. M&A activity in the biotech segment also remained below experts' expectations in 2017. Nevertheless, the FDA approved a total of 46 new drugs for the market in 2017, more than twice as many as in the prior year.

INDUSTRY ENVIRONMENT

Developments in the global healthcare sector – an environment of increasing spending – are being driven not just by aging and growing populations, but also by continuous technological innovation. As in previous years the highest growth rates for the industry going forward are expected in Asia and the Middle East, with more moderate growth in Europe.

Innovative technologies in life sciences include promising new and improved diagnostic and therapeutic methods with improved outcomes for patients and greater benefits for healthcare systems. Nevertheless, in rich countries worldwide the environment is characterized by healthcare reforms, pressure on costs and prices and by the rather weak economic situation overall. This is leading to what a sector study carried out by Deloitte describes as a "mismatch between increasing R&D expenses and the payor and public demand for lower-cost treatments". Modern technologies are often drivers for rising healthcare costs. Increasing regulatory requirements and quality standards are also driving up costs for the industry. However, there is ever greater pressure on public healthcare budgets, leading to lengthy and sometimes heated public and political debates. It can be expected that this situation will persist and even intensify over the coming years. In the U.S.A., such discussions were a key issue in the 2016 presidential election campaign and President Trump has already begun to implement his plans to roll back ObamaCare.

Diagnostics remains an emerging segment of the life sciences industry that is benefiting in particular from innovation and technological progress (e.g., digital health applications). The subsegment of in vitro diagnostics (IVD), and in particular molecular diagnostics, has grown rapidly in recent years. From estimated global revenues of over USD 60 billion in 2016, market research institutes currently anticipate growth of around 5% and, depending on the underlying data and calculation methodology, forecast global revenues of around USD 80 billion in 2023. According to analysts from Stratistics MRC the blood screening market subsegment is set for robust growth, being forecast to rise more than 11% from global revenue of around USD 1.8 billion in the above-mentioned period to just under USD 4 billion. One of the factors underpinning these expectations for the market are the demographic trends in key markets such as the U.S.A. and Europe, as well as China and Japan.

This remains quite a consolidated market with competitors of all sizes, ranging from large European players (e.g., Roche, Bayer, Qiagen, BioMerieux), Sysmex from Japan and U.S. companies (e.g. Abbott, Bio-Rad, Becton Dickinson) to small companies like Epigenomics. A relatively high level of M&A activity has been seen in recent years, with some buyers continuing to show a lot of interest (e.g., Thermo Fisher, Synlab, Quest) and seeming not to be finished with their acquisition strategies. Liquid biopsies and next-generation sequencing remain highly competitive segments. In the U.S.A., USD 1.8 billion of capital was invested in three venture capital (VC) financed companies in 2017 alone – Guardant Health, Grail and Human Longevity. Even beyond these examples, however, the world's most important market continued to exhibit a high level of activity with respect to initial and follow-up financing of biotech companies at the early, pre-IPO stage. The VC companies established sector heavyweights such as Illumina or Celgene are often based on the investor side, which further fuels their own competition. For 2018, industry experts from Silicon Valley Bank expect an increase in spin-offs of new companies specialized in testing procedures and analyses from diagnostics manufacturers.

In recent years investors from China have acquired an increasing number of European and U.S. companies across all sectors. Epigenomics was also targeted by a Chinese buyer during the reporting year (see the section entitled "Overview of our Business in 2017"). It must be assumed that Chinese investors will be increasingly focused on life sciences in the near future, and diagnostics in particular. Chronic lifestyle and age-related diseases like cancer are expected to become increasingly prevalent in Chinese society as a consequence of its fast growing population, higher standard of living and the adoption of western lifestyles. Developments in China are also likely to intensify competition and it is only a matter of time before Chinese companies move beyond purchasing know-how and technology from the west to being represented on the global markets with their own technologies and products.

As is the case throughout the healthcare industry, being correctly positioned in the regulatory environment and on reimbursement are significant factors in the success of companies active in developing and commercializing novel diagnostic tools and procedures. Properly addressing these factors in different markets will remain a challenge, given the fragmented nature of the regulatory and reimbursement landscapes. While the U.S.A. is still the most attractive single market from an economic perspective, China is increasingly catching up in terms of public health policy, technology development, maturity of the capital markets and entrepreneurial spirit among its population. It is becoming the most interesting market to consider in the medium term and it may offer more and greater opportunities for our industry than presently expected.

The specific implications of the global economic situation on our business and our Group are discussed in the Report on Opportunities and Risks and the Report on Expected Developments sections of this Group management report.

OVERVIEW OF OUR BUSINESS IN 2017

EPI PROCOLON

CMS decision on reimbursement

Since receiving FDA approval for Epi proColon in 2016, the issue of reimbursement on the U.S. market has been the focus of all activities for Epigenomics. The Centers of Medicare & Medicaid Services (CMS) play a key role in this respect. The CMS is a U.S. federal agency which administers a number of federal and state health programs (including Medicare and Medicaid). One of the Agency's responsibilities is to set reimbursement prices for medical services provided to those it insures. It is estimated that 50% of the available market for our colorectal cancer test in the U.S.A. is covered by Medicare (patients aged between 65 and 75). There are three key elements regarding reimbursement in the U.S. healthcare system: Medicare coverage, Medicare rate, and private payor adoption.

In November 2016 CMS "crosswalked" the Epi proColon CPT (Current Procedural Terminology) Code 81327 to CPT Code 81287 that resulted in a reimbursement rate of USD 83.67 as of January 1, 2017. In our view, however, a significantly higher reimbursement rate was appropriate for the test and we therefore submitted a reconsideration request to the CMS. In a preliminary decision issued in September 2017, CMS upheld the crosswalk to 81287, however CMS also simultaneously increased the reimbursement for 81287 to USD 124.69 as part of the Protecting Access to Medicare Act (PAMA) implementation. Just as in 2016, CMS's Medicare Advisory Panel on Clinical Diagnostic Laboratory Tests and all of the industry associations recommended a crosswalk to 81288. The rate for 81288 increased from USD 160.76 in 2017 to USD 192.32 in 2018 via PAMA. During the CMS comment period Epigenomics continued to state that 81288 was the appropriate crosswalk in alignment with the CMS Medical Advisory Panel. In the final determination issued in November of 2017, CMS changed its reimbursement rate determination for Epi proColon, acknowledging that it was not appropriate to "crosswalk" the reimbursement rate to 81287. Instead, the price will now be determined by "gapfilling". This methodology is applied in cases where a test is considered to be novel or unique or where there is no comparable test available. As part of this process, the regional Medicare organizations – the Medicare Administrative Contractors (MACs) – set provisional reimbursement prices in the early part of each year. CMS then sets the final price the following November on the basis of these prices.

While the determination of final pricing is prolonged, we consider it a positive step that CMS has finally agreed that the crosswalk to code 81287 was not appropriate as we believe it undervalues the test. The gapfill process now gives us the opportunity to engage in dialog with the MACs to set an appropriate price that reflects the novel nature of the first FDA approved blood test for CRC screening.

During the new CMS pricing procedure Epigenomics will continue its activities at various levels with the objective of securing a suitable level of reimbursement for Epi proColon.

The general decision on CMS coverage (i.e., whether any reimbursement is made at all) takes place either through a national coverage determination (NCD) or statutory regulation (a bi-partisan bill had already been introduced in 2016). We hoped that at least one of these options will come to fruition in the near future and have been intensively working on both fronts to further our interests. While the bill remains to be voted on by the competent bodies, a key condition for an NCD is for the test to be incorporated in the guidelines of the various influential medical professional societies, such as the CRC guidelines of the American Cancer Society (ACS). However, the publication of the new ACS guidelines originally anticipated in the final quarter of 2017 has been further delayed, meaning that an NCD, too, cannot be expected until 2018.

Private payor adoption is dependent both on inclusion in the guidelines and on the CMS coverage determination and, as such, will only occur at a later stage.

Trial results for blood-based Epi proColon test

In January 2017 we announced publication of the results of our ADMIT trial in the journal *Cancer Treatment and Research Communications*. The study results confirm that a blood-based test has potential to increase participation in colorectal cancer screening.

The study demonstrated a 99.5% rate of adherence to CRC screening using Epi proColon, while the fecal immunochemical test (FIT) showed an adherence rate of 88.1%. These figures contrast with a baseline adherence rate to standard of care CRC screening of about 20%, as measured in a passive control arm in which previously non-compliant patients were offered CRC screening tests (FIT or colonoscopy) as part of their standard of care.

The ADMIT study demonstrated that in this underscreened population, a blood test could become the new "conversation starter" between patient and practitioner for achieving the desired outcome of getting more people screened, following ten years which have seen no improvement in CRC

screening rates in the U.S.A.. Higher participation in screening is essential in the fight against colorectal cancer, which is the second leading cause of cancer death in the United States.

Also in January 2017, the scientific results of a comprehensive systematic review and meta-analysis of clinical studies with Epi proColon were published in *Clinical and Translational Gastroenterology*, a journal of the Nature Publishing Group.

After analyzing results from 25 independent studies from different geographical areas, the authors conclude that methylated Septin9 detected by the Epi proColon test "is a reliable blood-based marker in colorectal cancer detection", providing further evidence of Epi proColon's solid performance already established in a number of clinical studies.

In February 2017, an independent peer-reviewed article on Epi proColon 2.0 CE was published in the *Journal of Molecular Diagnosis & Therapy*.

According to the study authors, Epi proColon 2.0 CE demonstrated high sensitivity and specificity in case-control studies. Furthermore, it provides a patient-friendly option that may increase participation in CRC screening programs. The publication thereby added to the growing scientific evidence about the clinical performance of Epi proColon.

Participation in national U.S. initiative on colorectal cancer screening

On February 27, 2017, we announced that Epigenomics was supporting the national "80% by 2018" initiative, which aims to increase CRC screening rates to 80% in the U.S.A.. The initiative is being led by renowned public health organizations including the American Cancer Society (ACS) and the Centers for Disease Control and Prevention (CDC).

Colorectal cancer is the second-leading cause of cancer-related deaths in the U.S.A.. However, it is one of only a few cancers that can be prevented. Through CRC screening, doctors can find and remove hidden growths (called "polyps") in the colon, before they become cancerous. Removing polyps can prevent colorectal cancer.

The "80% by 2018" initiative brings together hundreds of organizations that have committed to substantially reducing CRC as a major public health problem and are working toward the shared goal of 80% of adults aged 50 and older being regularly screened for CRC by 2018. According to the leading public health organizations involved, if 80% can be achieved by 2018, 277,000 cases and 203,000 CRC deaths would be prevented by 2030. Part of the 80% by 2018 goal is to leverage the energy of multiple and diverse partners to empower communities, patients and providers to increase screening rates. The 80% by 2018 initiative consists of healthcare providers, health systems, communities, businesses, community health centers, government, non-profit organizations and patient advocacy groups, among others, who are committed to getting more people screened for CRC to prevent more cancer and save lives.

U.S. Department of Veterans Affairs awards supply contract for Epi proColon

On March 3, 2017 we announced that the U.S. Department of Veterans Affairs had awarded Epigenomics' U.S. distribution partner Polymedco, Inc. a five-year supply contract for Epi proColon, commencing March 1, 2017.

According to the Veterans Administration, there are about 21 million veterans in the U.S.A.. About 11 million veterans currently are in the age group between 50 and 75, for which regular CRC screening is recommended. The Veterans Administration operates the largest integrated healthcare system in the U.S.A., with more than 1,700 hospitals, clinics, community living centers, domiciliaries, readjustment counseling centers, and other facilities.

Initiation of post-approval study on Epi proColon

On August 30, 2017 we announced the initiation of a post-approval study (PAS), Performance of Epi proColon in Repeated Testing in the Intended Use Population (PERT).

The PERT trial is being conducted in concert with the U.S. Food and Drug Administration (FDA) following the 2016 Premarket Approval (PMA) of our blood-based CRC screening test. Epi proColon is intended for average-risk patients who are unwilling or unable to be screened with other methods including colonoscopy and stool-based tests.

The trial assesses the participation rate and performance of the Epi proColon test in consecutive years as well as the willingness of patients with a positive Epi proColon test to be referred to colonoscopy. The multi-center PERT trial is being initiated at Beaumont Hospital in Royal Oak, MI, Geisinger Clinic in Danville, PA, West Virginia University in Morgantown, WV, and three additional centers of excellence within the U.S.A.. The study will investigate around 4,500 patients over the next three years, with anticipated completion in 2022.

EPI PROLUNG

Epi proLung is a highly innovative lung cancer test based on our proprietary DNA methylation biomarkers SHOX2 and PTGER4. We began product development early in 2016. Our goal was to bring a reflex test for lung cancer to market that clarifies indeterminate results, thereby enabling earlier identification of illness, improving therapy outcomes, and lowering costs of treatment by reducing unnecessary procedures. In December 2017 we announced that we had received CE certification for Epi proLung. Product development is thereby complete and the test can be marketed in Europe immediately. The development of the assay was partly funded by the European Commission under the Horizon 2020 research and innovation program (grant no. 672680).

TAKEOVER OFFER FROM SUMMIT HERO HOLDING GMBH/ CATHAY FORTUNE INTERNATIONAL COMPANY LIMITED

One of the key issues for the business in 2017 was the takeover offer submitted to the shareholders of our Company by a Chinese consortium of bidders, as announced on April 26, 2017.

The official offer document was published by Summit Hero Holding GmbH (Summit Hero; the Bidder) on June 8, 2017. Summit Hero was the German subsidiary of Cathay Fortune International Company Limited (CFIC), and was also partly owned by our then largest shareholder and strategic partner, BioChain. CFIC is an international financial investor from China. Summit Hero offered our shareholders EUR 7.52 in cash per share, valuing Epigenomics at approximately EUR 171 million at that time. The offer for all of Epigenomics' outstanding shares reflected a 49.4% premium to the 3-month volume-weighted average share price prior to announcement of the planned transaction and a 32.0% premium to the highest closing price in the last 12 months. The bidder supported Epigenomics' corporate strategy and intended to continue employing all staff in the Company and to maintain all locations, including the Company headquarters in Berlin. After all regulatory approvals had been granted for this type of transaction, the bidder made completion of the offer subject to the condition of a minimum acceptance threshold of 75% of all Epigenomics shares being reached.

Despite the full support of the Company's Executive Board and Supervisory Board for the offer, Summit Hero announced that, upon expiry of the four-week acceptance period, only approximately 62% of outstanding Epigenomics shares had been tendered under the voluntary public takeover offer or were held by or attributed to the bidder. Consequently, the minimum acceptance threshold of 75% was not reached and the transaction did not go ahead.

CORPORATE ANNOUNCEMENTS IN 2017

Convertible notes issue

On September 8, 2017 we announced the issue of convertible notes with a nominal value of EUR 7.1 million to Cathay Fortune International Company Limited (CFIC) excluding pre-emptive rights of existing shareholders. The issuance of the convertible notes – as agreed in the Business Combination Agreement dated April 26, 2017 between Epigenomics and CFIC and published in the offer document for the voluntary public takeover offer of June 8, 2017 – provided an immediate cash inflow of approximately EUR 6.5 million to Epigenomics.

The notes were issued at 91% of their nominal value, do not bear interest, mature on December 31, 2018 and are convertible into up to 994,397 shares of Epigenomics.

Further details on the terms and conditions of the convertible notes issue under the agreement with CFIC were provided in the offer document for the voluntary public takeover offer dated June 8, 2017.

Capital increase through private placement of new shares

On September 20, 2017, we announced that the Executive Board, with the approval of the Supervisory Board, had resolved to conduct a capital increase through a private placement of new shares, thereby generating approximately EUR 5.5 million in gross proceeds from the issuance.

The Executive Board of Epigenomics AG, with approval of the Supervisory Board, resolved on the increase of the Company's share capital in the amount of EUR 1,279,100.00 by issuing 1,279,100 new, registered shares of the Company from Authorized Capital 2017/I against contribution in cash. The issue price was set at EUR 4.28.

The capital increase was fully subscribed by institutional investors in Germany and the U.S.A.. The new shares were issued through a private placement with the exclusion of the shareholders' pre-emptive rights and carry dividend rights from January 1, 2017. Following the registration of the capital increase in the commercial register (Handelsregister) on October 6, 2017, the share capital of Epigenomics AG increased to EUR 24,014,360.00. The new shares were subsequently admitted to trading on the regulated market (Prime Standard) of the Frankfurt Stock Exchange.

The net proceeds from the offering will primarily be used to finance current operations and to expand U.S. commercialization capacities for our lead product, Epi proColon.

Extraordinary General Shareholders' Meeting

On September 25, 2017, we held an Extraordinary General Shareholders' Meeting as required pursuant to section 92 (1) of the German Stock Corporation Act (Aktiengesetz – AktG) following the notice of a loss on August 7, 2017. The announcement was made as soon as we assessed, at our best judgment, that we had incurred a loss greater than half of our share capital. As of the date of the Extraordinary General Shareholders' Meeting we had already taken appropriate measures to improve our equity base and liquidity through the capital increase of September 20, 2017, and the convertible notes issued on September 8, 2017, as described above.

APPOINTMENT

Epigenomics Supervisory Board appoints Mr. Jorge Garces, Ph.D., as President & Chief Scientific Officer

On November 5, 2017, we announced that the Supervisory Board had appointed Mr. Jorge Garces, Ph.D., as President and Chief Scientific Officer with effect from December 1, 2017.

Mr. Garces, Ph.D., has held a number of senior management positions in the U.S. molecular diagnostics industry and, as a member of the Executive Board of Epigenomics AG, will oversee Operations, Research and Development, Clinical Affairs, and Regulatory and Quality.

Mr. Garces, Ph.D. (46), has over 20 years of management experience in the molecular diagnostics and life sciences industries. Prior to joining Epigenomics, he served as Chief Executive Officer & President of AltheaDx Inc. and previously at Enigma Diagnostics, Inc. in the same capacity. Mr. Garces, Ph.D., was also Vice President and Operations Manager at Hologic, Inc., where he led the development and submission to the FDA for approval of their cystic fibrosis and HPV products. He was also a senior executive at GenMark Diagnostics and Third Wave Technologies. Earlier in his career, he held positions in major clinical diagnostic laboratories including Genzyme Genetics and Athena Diagnostics.

Mr. Garces, Ph.D., earned his doctorate in Cell and Molecular Biology from the City University of New York. He completed his post-doctoral training in neurobiology at the University of Massachusetts Medical School and received an MBA from the Kellogg Graduate School of Management at Northwestern University.

Dr. Uwe Staub, who has served as Chief Operating Officer and member of the Executive Board since 2013 and played a crucial leadership role during the product development and approval phase, will leave the Company with effect from March 31, 2018.

Appointment of a Director Reimbursement and Medical Affairs

On November 8, 2017, we announced that Nicholas "Nick" T. Potter, Ph.D., FACMG had been appointed as Director of Reimbursement and Medical Affairs. Nick brings with him 25 years of experience in the delivery of MDx (Molecular diagnostics) clinical services in both academic and commercial environments.

In his role at Epigenomics, he will establish the strategic approach to payors for the blood-based range of methylated cancer detection technologies. Nick will interact with MDx thought leaders on key clinical issues. Additionally, he will represent the voice of the customer in our development and lead our technical support efforts.

Most recently, Nick spent over 14 years at MPLN, Inc. in Maryville, TN as the Laboratory's Director of Molecular Diagnostics, CSO and EVP of Clinical Affairs. At the executive level at MPLN he played a pivotal role in driving value and strategic growth by pursuing business partnerships with IVD manufacturers, BioPharma, molecular diagnostics companies, and other CLIA certified/CAP accredited laboratories to enable access to new platforms, technologies, MDx tests, and clinical trials. He also led payment efforts focusing on women's health, genomics, oncology and personalized medicine and served as a College of American Pathologists (CAP) inspector for molecular diagnostic laboratories.

Nick received his Ph.D. from Duke University in immunology in 1986 following his undergraduate education at Bucknell University. He held post-graduate positions at Harvard, the University of Connecticut and the University of Tennessee where he maintains a faculty appointment.

Epigenomics Supervisory Board appoints Albert Weber as Executive Vice President Finance and Member of the Executive Board

On November 29, 2017, we announced that the Supervisory Board had appointed Albert Weber Executive Vice President Finance effective January 1, 2018. Mr. Weber has worked at Epigenomics for the past seventeen years. As a member of the Executive Board of Epigenomics, he continues to oversee the Company's financial, accounting and controlling departments.

Mr. Weber (54) has more than 25 years of corporate finance and accounting experience. Prior to this recent appointment, Mr. Weber was the Senior Vice President of Finance, Accounting and Controlling for Epigenomics. Prior to joining the company, he served as Manager Controlling of Pironet AG, a Cologne-based IT start-up and previously at EMI Group Germany as Manager Treasury and Corporate Accounting. Mr. Weber has experience in corporate actions, all corporate finance functions and IPOs. He has a degree in Business Administration from Cologne University and is certified in IFRS accounting.

FINANCIAL RESULTS

Overview of the calendar quarters in the 2017 reporting year:

EUR thousand (unless indicated otherwise)	Q1	Q2	Q3	Q4	2017
Revenue	281	246	346	991	**1,864**
Earnings before interest and taxes (EBIT)	-2,693	-4,563	-1,199	-1,834	**-10,289**
EBIT before depreciation and amortization (EBITDA)	-2,618	-4,487	-1,120	-1,721	**-9,946**
EBITDA before share-based payment expenses	-2,353	-3,424	-2,047	-1,545	**-9,369**
Earnings per share (in EUR)	-0.10	-0.18	-0.05	-0.11	**-0.44**
Net cash flow	-1,663	-3,032	9,226	-3,156	**1,375**
Cash consumption	-1,618	-3,032	-2,672	-2,802	**-10,124**
Total liquidity[1] at end of period	10,732	7,682	16,875	13,731	**13,731**

In the Outlook section of our prior-year Group management report we forecast that 2017 product and licensing revenue would remain at a similar level to 2016. The forecast for product revenue was based on the assumption that a binding coverage determination would be made for Epi proColon in the U.S.A.. However, for the reasons outlined above in this report, this did not occur this year. There has therefore not yet been any increase in test sales in the U.S.A., and with product revenue of EUR 0.5 million we remained below our expectations. By contrast, licensing revenue was higher than forecast, at EUR 1.3 million, even though our Chinese partner BioChain made less headway than had been expected due to delays in pricing decisions from the provincial administrations. Nevertheless, the total of EUR 1.9 million was significantly lower than prior-year revenue from product sales and licensing (EUR 2.8 million).

The total operating costs of EUR 13.2 million for fiscal year 2017, on the other hand, remained far lower than both the 2016 comparative figure (EUR 17.3 million) and our forecasts. Due to the prolonged pace of progress on the U.S. market we have curtailed the planned expansion of our U.S. commercialization team. We had also anticipated quicker initiation of the PERT study and, therefore, higher associated costs. EBITDA before share-based payment expenses was ultimately EUR -9.4 million, better than our forecast of more than EUR -12.0 million.

[1] *Total liquidity = Cash, cash equivalents and marketable securities.*

As the net loss was lower than forecast, our cash consumption of EUR 10.1 million for the fiscal year was also lower than anticipated. Nevertheless, it was also necessary for the Company to raise further liquidity from the capital market, which we did in the third quarter of 2017 through a capital increase without pre-emptive rights and a convertible notes issue, leading to net cash inflows totaling just under EUR 12 million.

Although the equity ratio decreased from 79.2% to 53.5% due to the acquisition of debt financing, we ended fiscal year 2017 with EUR 1.4 million more in available liquidity than we began with (EUR 13.7 million as at December 31, 2017 versus EUR 12.3 million at the start of the year).

In conclusion, the Company remained in a fundamentally stable financial position over 2017.

OUR STOCK

Market data (XETRA/Frankfurt)	Dec 31, 2016	Mar 31, 2017	Jun 30, 2017	Sep 30, 2017	Dec 31, 2017
Number of shares outstanding	22,735,260	22,735,260	22,735,260	24,014,360	**24,014,360**
Closing price (in EUR)	4.55	4.98	7.23	4.72	**4.25**
Market capitalization (in EUR)	103,445,433	113,221,595	164,284,989	113,347,779	**102,061,030**

	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Average daily trading volume	51,510	53,972	157,543	132,096	**30,722**
Highest closing price (in EUR)	5.70	5.42	7.36	7.42	**4.71**
Lowest closing price (in EUR)	4.25	4.51	4.95	4.06	**3.61**

Epigenomics' share price in 2017 was of course heavily influenced by the takeover bid from Summit Hero (see the section entitled "Overview of our Business in 2017"). Based on a 2016 closing price of EUR 4.55, the share had a largely stable start to 2017. Following the announcement of the imminent takeover bid on April 26, 2017 the share price jumped above the EUR 7.00 mark, remaining there until the announcement that our shareholders had not accepted the offer in early July. At its peak the share price was EUR 7.42. It then gradually declined, ultimately falling back below the EUR 5.00 mark, then wavering between EUR 4.00 and EUR 5.00 until late November before briefly sinking to EUR 3.62 and climbing to EUR 4.25 at year-end. The Company's market capitalization amounted to EUR 102 million, only marginally below the figure at the start of the year.

OVERALL ASSESSMENT OF THE 2017 FISCAL YEAR

The Company's performance was not entirely satisfactory in 2017, especially with regard to the U.S. market. This is largely due to the lack of reimbursement for Epi proColon. We feel it is unfortunate that our shareholders rejected what management felt was an attractive takeover offer from Summit Hero, as already expressed in corresponding press releases.

However, 2017 also saw some very positive developments, such as the establishment of Epi proLung as our second marketable product, the seamless initiation of the post-approval study for Epi proColon and the successful completion of two financing transactions in September raising gross cash inflows of nearly EUR 12 million.

COMMERCIALIZATION AND BUSINESS DEVELOPMENT

Our primary objective after obtaining FDA approval in 2016 was to make Epi proColon available nationwide in the U.S.A.. With the help of our U.S. commercialization partner Polymedco, we made progress and achieved nationwide availability soon after the approval. The test has since been offered through major laboratory chains in the U.S.A. (e.g., LabCorp, ARUP and Sonic Healthcare).

The commercial focus shifted in the reporting year from a targeted approach to building up an initial key customer base to a broader set of marketing actions. Our marketing strategy is built on the underlying assumption that there are three different target groups for Epi proColon: physicians prescribing the test; laboratories carrying out the test; and, of course, the patients themselves.

We launched a social media campaign in 2017 highlighting the availability of tests from our laboratory customers, focusing primarily on the target group of patients in selected U.S. metropolitan areas. The test characteristics "blood-based" and "FDA approved" were emphasized on the relevant Internet forums.

Regarding the target group of medical professionals, over the year we took part and made presentations at more than 30 conferences, trade fairs and similar medical events aimed primarily at practicing doctors. Such primary care physicians are often not yet able to directly address the need for early detection among their patients. The purpose of these activities was above all to familiarize the target group with the test, to directly answer their questions and also to hear their assessment of the needs among their patient group and the specific challenges regarding screening and early detection.

Last but not least, we developed and published a product dossier in 2017. This comprehensive document is primarily addressed to payors in the U.S. healthcare system, providing comprehensive medical, clinical and economic information on Epi proColon and detailing how to correctly apply this type of blood-based test.

The European market for IVD products is highly fragmented and dominated by local influences specific to individual countries. Moreover, in many European countries CRC screening is organized at a governmental level and the barriers to entry into such systems are therefore typically very high. Direct payor segments are small in most markets and need to be addressed individually at the level of physicians and/or patients. Therefore, for the time being we only have a limited focus on commercializing Epi proColon in Europe. We sell the product ourselves in selected countries (e.g., in Germany) and use distributors in other markets.

We have also identified individual markets in Asia (in South East Asia specifically) where we see good opportunities for the test to be accepted by direct payors. We mostly serve these markets through local distributors.

Going forward, we expect increasing interest on the part of physicians and patients across all markets, and commercial success in the U.S.A. could also have a positive impact on commercialization in Europe.

RESEARCH AND DEVELOPMENT (R&D)

We successfully completed development of our blood-based lung cancer test, Epi proLung, obtaining CE-marking by the end of the fiscal year. The resulting PCR will in future be marketed in combination with a new pre-analytical tool, the Epi BiSKit. Epi proLung is a highly innovative lung cancer test based on Epigenomics' patented DNA methylation markers. The development of the assay was partly funded by the European Commission under the Horizon 2020 research and innovation program (grant no. 672680).

As part of our focused strategy, our R&D activities in 2017 were also geared towards conducting the first proof-of-concept studies for a number of clinical issues with the newly implemented next generation sequencing (NGS) technology and completing development of our new blood-based Epi proLung product.

In 2017, the research team worked intensively on NGS – a new technology for Epigenomics – to further refine and optimize the protocols developed in 2016. The results obtained from urine samples in 2016 were transferred to plasma in 2017 and a further three NGS panels were established. We will be evaluating the clinical performance of these panels currently and in the future.

We have conducted studies in collaboration with academic institutions on the monitoring of cirrhotic patients and lung cancer patients under chemotherapy. Excellent results were achieved in both cases and the corresponding papers have been or are in the process of being submitted for publication.

We are working on validating a new PCR instrument system for use with our Epi proColon test to expand flexibility and broaden the number of choices on PCR instrumentation for our laboratory customers. The company is also working on developing an automation solution for Epi proColon to allow for higher throughput processing in high volume laboratories. The methods under development include automated liquid handling and magnetic bead-based DNA extraction followed by bisulfite conversion of the extracted DNA prior to PCR amplification.

QUALITY MANAGEMENT

We have repeatedly demonstrated our ability to operate under the highest regulatory standards, successfully undergoing audits of our ISO-certified quality management system, including an inspection by the FDA. Our quality systems cover all necessary requirements for development, manufacturing and commercialization of IVD products in regulated market environments around the world.

We have a well-established, comprehensive quality management system for the design, development, manufacturing and distribution of IVD products, which is compliant with the requirements of 21 CFR 820 and ISO 13485. 21 Code of Federal Regulations (CFR) 820, Quality System Regulation, represents the current American good manufacturing practice (GMP) requirements for medical device manufacturers. ISO 13485 is an internationally recognized quality management standard developed for medical devices and diagnostics by the International Organization for Standardization (ISO), a worldwide federation of national standards bodies. 21 CFR 820 and ISO 13485 specify requirements for a quality management system which ensures the organization's ability to provide medical devices and diagnostics that consistently meet customer and applicable regulatory requirements. The implementation of a quality management system compliant with 21 CFR 820 and ISO 13485 demonstrates our ongoing commitment to developing safe and effective diagnostic products such as our tests for colorectal and lung cancer.

We continuously improve our quality management system to ensure a solid foundation for regulatory approval of our products on a global basis.

FINANCIALS

RESULTS OF OPERATIONS

Because of the lack of reimbursement for Epi proColon in the U.S. market, our revenue for the year of EUR 1.9 million remained below our original expectations and below the prior-year revenue of EUR 4.2 million. Our U.S. distribution partner Polymedco purchased products in 2016 in anticipation of an imminent reimbursement decision, contributing approximately EUR 1.4 million to our revenue, a one-off item which, of course, was not repeated in 2017. One-off items from rights transfers (licensing income, including for previous years) were also EUR 0.6 million lower in 2017 than in the prior year. Furthermore, an out-licensing agreement that expired in 2016 had previously contributed EUR 0.3 million to total revenues. Revenue mainly consisted of royalties of EUR 1.3 million and product sales of EUR 0.5 million. Around half of revenue was generated in the U.S.A. and a third in Asia.

Because licensing income accounted for a high proportion of total revenue at 68% and cost of sales is very low for this revenue stream, our gross margin was high at 87% (2016: 61%).

Other income increased by EUR 0.3 million to EUR 1.1 million (2016: EUR 0.7 million), and primarily relating to reversal of provisions (EUR 0.6 million), miscellaneous refunds and income from the disposal of assets (EUR 0.2 million each).

R&D costs decreased by EUR 0.8 million from the prior year (EUR 5.1 million) to EUR 4.3 million, despite the fact that we had forecast a significant increase in this expenditure line to begin the year. This was firstly because the development costs for the blood-based Epi proLung test were lower than expected in 2017. Secondly, the initiation of the post-approval study for Epi proColon in the U.S. was delayed due to the response time in the regulatory approval of the study protocol. This delay resulted in lower expense in 2017 which will now be incurred in 2018.

In 2017, net R&D costs of EUR 67 thousand (2016: EUR 27 thousand) incurred for the development of the blood-based version of our Epi proLung test were capitalized (i.e., after deduction of research grants). As product development was not completed until the end of the fiscal year, these costs have not yet been amortized. However, R&D costs in 2017 included amortization of other capitalized development costs in the amount of EUR 0.1 million (2016: EUR 0.2 million).

Selling, general and administrative (SG&A) costs of EUR 8.0 million in the reporting year were significantly lower than in 2016 (EUR 10.2 million). This is in large part related to personnel costs, which were unusually high in 2016 due to extraordinary items (change in the Executive Board and share-based remuneration). Due to the lack of any equivalent items in 2017, personnel costs were EUR 1.2 million lower than in the prior year. Legal consultancy and audit costs, also high in 2016, sank by EUR 1.1 million in 2017.

Other expenses rose from EUR 0.3 million in 2016 to EUR 0.6 million and related almost exclusively to foreign exchange rate losses.

Total operating costs amounted to EUR 13.2 million for the reporting year, both significantly lower than our forecasts and the prior year figure of EUR 17.3 million. More than EUR 1.7 million of the decrease relates to reduced share-based payment expenses which were substantially higher in 2016 in line with our share price. As such, this must be considered a correction. The remainder of the difference is in large part due to lower materials expenses in 2017 than 2016 (EUR 0.8 million versus EUR 2.2 million), in line with the lower product revenue. Costs for managing our intellectual property rights fell from EUR 1.8 million in 2016 to EUR 1.0 million in the reporting year by optimizing our IP portfolio and related legal IP expenses.

EBIT improved to EUR -10.3 million from EUR -12.3 million in the prior year, a significantly better result than forecast. EBITDA amounted to EUR -9.9 million (2016: EUR -12.0 million). Adjusted for share-based payment expenses, EBITDA amounted to EUR -9.4 million (2016: EUR -9.7 million). This performance indicator was consequently much lower than the range of EUR -12.0 to EUR -13.5 million we had forecast at the start of the year, which assumed nearly EUR 3.0 million more in operating costs that were ultimately not incurred over the reporting year.

An interest expense of EUR 0.2 million was incurred in the reporting year (2016: interest income of EUR 17 thousand) from issuing the convertible notes. Tax income decreased from EUR 1.1 million in the prior year to EUR 0.2 million. This is largely the result of the tax reform passed by the U.S. Senate shortly before year-end, which cut the applicable corporate tax rate from 34% to 21%. The deferred tax assets previously capitalized based on our tax loss carryforwards in the U.S. had to be revalued following the decision and, correspondingly, fell sharply.

FINANCIAL POSITION AND CASH FLOW

Our cash consumption decreased to EUR 10.1 million in 2017 from EUR 13.7 million in the prior year. EUR 2.3 million of the reduction was directly related to the lower operating loss (EBITDA) with a further EUR 1.4 million resulting from changes to net current assets. Cash outflows from investing activities showed a slight increase, however.

The cash flow from operating activities fell from EUR -13.3 million in 2016 to EUR -9.6 million in 2017, largely due to the significant year-on-year improvement in the operating result.

Cash outflows from investing activities were initially lower than in the prior year, at EUR 0.6 million (2016: EUR 1.3 million). However, taking into account EU subsidies of EUR 0.9 million received to support the development of the Epi proLung test, the net cash outflow from investing activities declined to EUR 0.4 million. There was only a low level of reimbursement payments in 2017, leaving a net cash outflow of EUR 0.5 million. However, the development work undertaken gave rise to further reimbursement claims being submitted to the EU, which are expected to be paid in the second quarter of 2018.

Cash flow from financing activities amounted to EUR 11.5 million in 2017 (2016: EUR 17.4 million) and contains both the gross proceeds of the capital increase conducted in September 2017 (EUR 5.5 million) and proceeds of EUR 6.5 million from the issue of convertible notes. The cash outflow from financing activities in the amount of EUR 0.4 million concerned the costs incurred in relation to the aforementioned actions.

As a result of these financing activities, our liquidity at year-end 2017 increased to EUR 13.7 million (comprising cash and cash equivalents of EUR 12.8 million and available-for-sale securities of EUR 0.9 million) and was thus EUR 1.4 million higher than the EUR 12.3 million held at the beginning of the year.

NET ASSET POSITION

Our equity ratio decreased again in the reporting year, falling from 79.2% at the beginning of the year to 53.5% at the end of the year. This was firstly due to a reduction in equity over the year from EUR 14.4 million to EUR 10.6 million, as the net loss for the fiscal year (EUR 10.2 million) outweighed the increase in subscribed capital, capital reserve and other comprehensive income. Accumulated losses (including the net loss for 2017) now amount to EUR 73.1 million.

Secondly, the issue of convertible notes for EUR 6.5 million in September 2017 resulted in an increase in liabilities, despite a notable decrease in trade payables and current provisions and the fact that deferred income had been reduced to zero. While non-current liabilities were negligible at EUR 43 thousand as at December 31, 2017 (December 31, 2016: EUR 89 thousand), current liabilities increased from EUR 3.7 million to EUR 9.2 million in the reporting year, mainly due to the above-mentioned convertible notes issue. The reduction in current provisions was largely the result of the lower value of the provision for obligations arising from phantom stock rights, in line with the lower share price.

There was a marginal decrease in non-current assets from EUR 3.0 million as at December 31, 2016 to EUR 2.9 million as at December 31, 2017. Despite the further significant increase in tax loss carryforwards for the U.S. subsidiary over the reporting period, there was a decrease in deferred tax assets as of the balance sheet date. An allowance was recognized to take account of the U.S. tax reform mentioned above, effective January 1, 2018, which was slightly greater than the increase in tax loss carryforwards and the effects of currency translation during the year.

Current assets increased from EUR 15.2 million at the start of 2017 to EUR 16.9 million as of the balance sheet date. The main reason was the EUR 1.4 million increase in liquidity (cash and cash equivalents increased by EUR 1.3 million and marketable securities by EUR 0.1 million). Trade receivables decreased by EUR 1.3 million in the period, mostly due to a single substantial debt related to a patent sale late last year which was settled during the reporting year. Conversely, other assets grew by EUR 1.5 million due to grant funding receivables not yet due (EUR 0.8 million), receivables from the tax authority (EUR 0.3 million) and prepayments (EUR 0.5 million) for financing activities.

Total assets rose by EUR 1.6 million to EUR 19.8 million as of December 31, 2017.

EMPLOYEES

Epigenomics had an average of 44 employees in 2017 (2016: 42). The number of employees increased to 46 as of December 31, 2017 (December 31, 2016: 45). 36 employees are under contract with the German company, the remaining ten with the U.S. subsidiary.

Contrary to our expectations, in 2017 there was no further increase in the headcount in the U.S.A.. The additional activities planned around preparing Epi proColon for market entry in the U.S.A. have been limited due to delays in the reimbursement decisions and are therefore expected for 2018, with corresponding growth in the number of our U.S. employees.

The 46 employees as of the end of 2017 included 24 employees across the areas of research, product development, IP, regulatory affairs, quality assurance and manufacturing. Their activities are reported as R&D costs in our financial statements. The remaining 22 employees reported as selling, general and administrative functions are active in the areas of business and commercial development, customer and technical service, accounting, finance, legal, human resources, IT, investor relations as well as general management.

Total personnel costs amounted to EUR 5.5 million in 2017, significantly less than the prior-year figure of EUR 7.3 million, which did however include extraordinary effects relating to share-based remuneration and changes in the Executive Board.

In October 2017, we granted a total of 582,500 stock option rights to the Executive Board and Group employees. The rights derive partly from last year's stock option plan as well as a new stock option plan launched in October 2017 which is intended as an incentive scheme for our senior management in particular. The exercise price of the newly issued rights, which cannot be exercised before October 2021, has been set at EUR 5.10. We consider such long-term stock option programs to be a key instrument in aligning employees' and management's interests with corporate objectives and in motivating our staff. Details of this program and the stock option and phantom stock programs of previous years can be found in the notes to the consolidated financial statements for 2017.

REPORT ON EXPECTED DEVELOPMENTS AND ON OPPORTUNITIES AND RISKS

REPORT ON EXPECTED DEVELOPMENTS

Planned strategic direction of Epigenomics in the coming years

Over the next two years, we plan to establish our Company as the premier global player for liquid biopsy-based cancer tests. The key success factors will be the successful commercialization of Epi proColon in the U.S. market and continued development of new products such as Epi proLung.

Over the short term, our commercial efforts in the U.S.A. will continue to be focused on inclusion in medical professional societies' guidelines and reimbursement by insurers. Over the medium term, our primary goals for the U.S.A. are to increase product awareness and develop automation solutions for Epi proColon. As the first ever FDA-approved liquid biopsy test for cancer screening, we believe that the market opportunity is substantial. Our peer-reviewed, published data for Epi proColon demonstrate that more than 99% of patients who had been non-compliant with previously available CRC methods were compliant with Epi proColon. These data demonstrate that increasing market awareness is critical as it will drive utilization. In order to efficiently process increasing future volumes, Epigenomics needs to provide automation solutions for the assay. These automation solutions include high throughput and medium throughput options for our laboratory customers.

We will continue to address the European market opportunistically. In order to be more successful in this respect, we may have to engage in more partnerships or expanded partnerships in this area. Alongside these endeavors, we will support BioChain in its commercialization activities in China and its R&D activities to develop new tests.

We plan to concentrate our R&D activities firstly on the existing product range in CRC and lung cancer to develop successive generations of products with even higher performance, and secondly to expand our portfolio by broadening the scope of our proprietary biomarkers to related clinical applications.

We aim to maintain our leadership in DNA methylation technologies and to provide selected partners access to our know-how, expertise and IP in this field via licenses, patent sales, and/or services. Our goal remains to leverage proprietary products to further establish Epigenomics as the leading company for liquid biopsy-based cancer tests in the market, either directly or through commercial partnerships. We believe we have a solid foundation upon which to execute our corporate strategy.

Expected economic environment in the coming years

We expect overall economic conditions and the capital market environment in Europe and the U.S.A. to remain challenging. Despite the recent performance of the global economy, we expect that uncertainty on the capital markets – especially in Europe – could persist for the near to mid-term future. Geopolitical conditions have become more complicated with the UK's exit from the EU (which will have no specific economic consequences for our Company) and the election of a new administration in the United States. The future global economic landscape is to a large extent dependent on the political environment.

Nevertheless, we also assume that whatever setbacks there may be, life sciences companies with a solid performance record should still be able to raise equity capital. It should also be taken into account that the percentage of GDP spent on healthcare will likely grow even in the developed world (especially in the U.S.A.), and will certainly increase in emerging countries like China.

With exchange rates between the U.S. dollar and the euro remaining volatile and forecasts over the next twelve months ranging from EUR/USD 1.16 to EUR/USD 1.26, we decided in line with previous' years practice to set our budget rate for 2018 at the effective exchange rate at the time the budget was drawn up (mid-November 2017), i.e., at EUR/USD 1.18.

Outlook on earnings

Our business projections for 2018 are based mainly on the commercialization of Epi proColon in the U.S.A.. The commercialization of this product depends primarily on securing reimbursement from public and private health insurers. Prior to the entry into force of a reimbursement decision sought by us, as well as an appropriate reimbursement rate, we expect only a slight year-on-year increase in product revenue in 2018.

A further factor impacting revenue development in 2018 will be the success of our Chinese partner BioChain on the Chinese market in commercializing a Septin9-based blood test licensed by Epigenomics. We will benefit from BioChain's sales success in the form of licensing income.

Overall, we expect that revenue will increase year on year but will remain low in fiscal year 2018, ranging between EUR 2.0 million and EUR 4.0 million.

As far as costs are concerned, on the one hand we expect higher R&D costs as against 2017 due to the PERT study in the U.S.A. as well as planned development activities. On the other hand, the marketing, sales and distribution activities slated for 2017 but not yet launched due to the delayed reimbursement decisions in the U.S.A. will remain on our agenda in 2018 and will result in additional expenditure.

Against the backdrop of the revenue and cost forecasts, we continue to assume an operating loss for 2018. We anticipate that EBITDA before share-based payment expenses will amount to between EUR -11.5 million and EUR -14.0 million in 2018.

Outlook on financial position

Based on our business plans for 2018, we expect cash consumption in line with our EBITDA guidance (before share-based payment expenses). The planned cash expenditures for 2018 are related to our commercialization activities in the U.S.A., clinical studies such as first and foremost the PERT study, and ongoing R&D activities.

We ended the 2017 fiscal year with EUR 13.7 million in cash and marketable securities. While current financial resources are sufficient at our projected cash consumption to support the Company's operations beyond 2018, we will raise additional capital if necessary in 2018. These additional funds would be utilized to extend operations beyond 2018 and/or increase our investment in certain areas based upon market conditions and opportunities. The forecast cash consumption is based on our assumption that the convertible notes maturing as of December 31, 2018 will be converted with no adverse effect on liquidity, or will be extended.

Outlook on non-financial performance indicators

Our objective remains to obtain positive reimbursement decisions for the commercialization of Epi proColon in the U.S.A., which we had initially expected in 2017. The inclusion of Epi proColon in further CRC guidelines issued by medical professional societies is an important prerequisite for reimbursement by payors in the U.S. healthcare system. Moreover, we plan to continue with recruitment for the post-approval study on Epi proColon.

In R&D, in addition to automated solutions for Epi proColon, we also intend to evaluate the clinical performance of our NGS panels.

Mid-term opportunities

The CRC market opportunity in the U.S.A. and other global markets is considerable. With the approval of Epi proColon in the U.S.A. in 2016, in fiscal year 2018 we will continue to focus on inclusion in screening guidelines of medical professional societies and on reimbursement. Successfully reaching these milestones will position Epigenomics for significant test volume and revenue growth over the next two to five years.

Establishing a leadership position in innovative liquid biopsy tests for cancer screening allows us to work towards launching further pioneering products on the market going forward.

There are significant market opportunities for further cancer screening tests beyond the CRC and lung cancer blood tests already developed by Epigenomics. We are currently identifying new biomarker opportunities for various cancers such as bladder and liver cancer. In addition, we are also investigating these biomarkers with respect to sequencing by means of various platform technologies.

For our shareholders there is the opportunity to see the enterprise value increase from catalytic events, primarily the continued market commercialization of Epi proColon in the U.S.A. and also additional licensing partnerships or other forms of commercial success.

Overall outlook for the Epigenomics Group

Epigenomics is a leader in the research and development of liquid biopsy tests for cancer detection. The reimbursement we seek for our lead product Epi proColon in the U.S.A. offers the opportunity to open up innovative CRC screening to a wide range of patients, saving lives.

Following a positive reimbursement decision, we expect to generate significant growth in the coming years. The CRC screening opportunity in the U.S.A. alone represents a target market of over 25 million unscreened patients. We are building a foundation on which we can increase test volume and revenue and launch additional products in the market, thus giving us the opportunity to become a global leader in molecular diagnostics.

In order to ensure our ability to continue as a going concern, sufficient liquidity has to be maintained and/or additional liquidity secured. We aim to have liquidity to finance at least one year's operations at all times. Currently, we still rely on the capital markets to raise equity and debt financing from time to time and expect that we will have to make use of this alternative again in the near future. In order to not have to rely exclusively on capital market financing for our business operations, we will continue to evaluate other reasonable strategic options for our further development.

REPORT ON OPPORTUNITIES AND RISKS

Risk management system

Epigenomics is a globally operating cancer molecular diagnostics company and, as such, subject to many industry and company-specific opportunities and risks. In line with the German Corporate Control and Transparency Act (Gesetz zur Kontrolle und Transparenz im Unternehmensbereich – KonTraG), Epigenomics has an established, comprehensive and effective system to enable early identification, assessment, communication and management of opportunities and risks across all of its functions and operations. The underlying principles and guidelines have been documented in a Group-wide Risk Management Policy. The goal of this policy and all related instruments is to identify risks systematically at the earliest possible stage, estimate their likelihood of occurrence as well as potential qualitative and quantitative impact, and design and implement effective countermeasures. The risk management system is regularly discussed and refined on an ongoing basis at the operational level, senior management level and the Executive Board and Supervisory Board levels. The core principles are transparency of risks and opportunities across all functions and operations, interactive evaluation of these risks and opportunities and a culture of seizing opportunities and accepting risks as an integral part of doing business in cancer molecular diagnostics, but doing so responsibly and striving for an optimal balance between opportunities and risks.

Every risk has a clearly identified risk owner whose responsibility it is to continuously monitor and control risks as well as manage the implementation of any countermeasures. At quarterly intervals, these risk owners report to the corporate risk manager who communicates the risks to the Executive Board, which in turn reports to the Supervisory Board. In case of any material risk, this risk is immediately brought to the attention of the corporate risk manager and discussed at the appropriate board levels. Significant risks and the risk management system itself were also discussed in broader management groups as well as between the Company's auditor and the Supervisory Board throughout the year.

Our management structure, our organizational measures for identifying and assessing opportunities and risks, the monthly internal and the quarterly external reporting and our control systems therefore all form an integral part of the overall risk management system which is standardized across all functions and locations. All of these tools are regularly monitored for effectiveness and optimized. They are also reviewed by our external auditor and the Supervisory Board.

Alongside the opportunities that our business model offers, there are a number of significant risks to which Epigenomics is exposed, which individually or in combination could severely impact our results of operations, financial position and net assets, as well as our share price. The main opportunities and risks are described below.

Business-related opportunities and risks

Epigenomics offers two blood-based IVD products in specific markets: Epi proColon, an FDA-approved and CE-marked CRC screening test; and Epi proLung, a lung cancer confirmation test (also CE-marked). Product revenue for Epi proColon has been relatively modest thus far, while Epi proLung has only just reached the marketability stage. Following our decision to focus the organization and its commercial activities on the key markets of the U.S.A. and China for our lead product Epi proColon, regulatory approvals and reimbursement decisions in these countries are crucial for us to be able to generate revenue from product sales in conjunction with our partners and licensing agreements with third parties.

Our ability to grow revenue from our products will depend, among other factors, on the successful marketing and commercialization of our tests with key stakeholders in the healthcare industry. In 2013 we entered into a commercial partnership with Polymedco, a well-established company experienced in the commercialization of diagnostic tests in North America. The agreement gives us access to existing sales and marketing channels that we would have had to build up on our own without this partnership. This collaboration can therefore be seen as a strategy of reducing the risks associated with developing a market independently and from scratch. Nevertheless, even with such an experienced partner, there are still risks remaining with regard to commercialization. In the end, we have to rely on our ability to create sufficient customer acceptance for our product as soon as possible. We not only have to address the screening population itself, but also have to generate support in the medical and laboratory customer communities. To this effect we have extended our network in the medical community over recent years, in order to gain support for our product from key opinion leaders in the field. However, there is no guarantee that all of those involved can be convinced of the advantages of a blood-based early detection test.

An important element in being commercially successful is the availability of reimbursement for Epi proColon testing by insurance carriers including Medicare. Securing Medicare coverage at an acceptable reimbursement rate is an opportunity for the Company, as the Medicare population represents around 50% of our available market in the U.S.A.. The risk of negative reimbursement decisions would also have an impact on the decisions of other major payors in the U.S. health system.

Reimbursement risk is also related to inclusion in various CRC screening guidelines issued by medical professional societies. Payors and health systems use these guidelines as inputs for their payment determinations and exclusion or limited inclusion therefore pose a risk to reimbursement and market acceptance.

Considering the lack of standardized reimbursement rules in Europe, the market acceptance of our main product in the different European markets will remain moderate for the foreseeable future. However, a positive reimbursement decision in any European country represents a significant opportunity for the product in that market. At this point, though, we have no indication of reimbursement negotiations for products like ours taking place on a broader scale in any of the major European countries.

Under our business model, we are partly dependent on large diagnostic companies and reference laboratories to develop, commercialize, sell and distribute our products and licensed products based on our biomarkers and technologies. To ensure that our partners do their utmost to successfully commercialize these licensed products, we will continue to support them with all our expertise and know-how. Being dependent on the commercial success of our partners remains a risk factor, particularly as they may realign their priority activities in line with their internal strategic decisions. This risk can only be mitigated through diversification in the selection of our partners.

In our efforts to be able to sell our products – either directly or through partners – in the laboratory market in the U.S.A. and other countries, we have established relationships with contract manufacturers and vendors of specialized reagents to ensure an adequate supply of our product at any time. The ability of our manufacturing partners to provide us with sufficient quantities of product at quality levels mandated by regulatory authorities poses a potential risk to the Company. A failure on the part of any of these partners or product vendors could lead to us being unable to supply products to the market and thus negatively impact our ability to generate revenue. In order to mitigate this risk we work with highly capable companies in this field, with ample experience and a track record of providing high-quality products to diagnostic companies.

In most markets, the performance of the Epi proColon test is restricted to certain instruments specifically detailed in our regulatory filings. We are therefore dependent on these instruments being available to laboratory customers who buy the test from our partners or from us directly. Any changes in the products offered by these laboratory instrument manufacturers might limit the ability of our customers to order the test from us. This again would pose a risk of us not being able to generate revenue and thus negatively impact our financial performance. To mitigate this risk, we are constantly observing the market, are in dialog with instrument manufacturers and remain prepared to validate our diagnostic products on other instrumentation platforms in order to be able to react to any changes with respect to instruments being sold and installed at our customers' laboratories.

Ahead of applying for PMA approval with the FDA in the U.S.A., we also entered into licensing agreements with selected reference laboratories in North America, which have introduced their own versions of Septin9-based LDTs (laboratory-developed tests) in the U.S. market. Since 2011, Quest has offered LDT ColoVantage to aid detection of CRC and since the end of 2016 has been the only U.S. lab still marketing an LDT version of Septin9. We are in discussions to convert Quest to the FDA approved version of the test, as already done by our partner ARUP. The risk remains that such a transition might not occur, which would limit our ability to fully capture the economic benefit of our technology given that this LDT license agreement is not as attractive as the ability to directly sell our products to laboratory customers.

The area of CRC screening has seen intense competition in recent years. Some competitors have made progress in developing other non-invasive CRC screening tests, although most of them are offering these as LDT services. It is important that we and our partners defend the lead position established in terms of clinical validation with the only FDA-approved CRC blood test.

Epigenomics' future success partly relies on the experience and expertise of the management and personnel, which represents a decisive competitive advantage for the Company. Our ability to retain the current level of expertise through key employees in the Company and to be able to recruit such expertise as might become necessary remains a critical success factor and could impact the future results of operations and financial position. Management has implemented a retention plan in the form of share-based payment incentives with the objective of securing long-term commitment from key employees.

In order to achieve successful commercialization of our products and continue development of our next generation products, the business must be appropriately capitalized. Without the necessary capital the business could be at risk of not achieving our corporate goals.

IP-related opportunities and risks

Our business relies heavily on commercializing our intellectual property (IP) as well as on licenses based on our know-how, licenses to third-party patents and our own patent applications. Any negative impact on the scope, duration, depth and breadth of any single claim granted, on their regional coverage, on competing IP that we might depend on, as well as difficulties in enforcing protection, inadvertent infringement of other IP, preventing others from infringing our IP, our inability to in-license key IP, etc., would negatively impact our cost base, our competitiveness and our ability to commercialize our products and to enter into partnerships, our revenue and ultimately our earnings and overall commercial success.

In light of this, we face the possible risk of a challenge to the validity, ownership or enforceability of our patents in court. It may happen that a competitor successfully challenges our patents or that a challenge results in limiting the coverage of our patents. As a result, we could lose important patent protection for our technologies and we could lose the ability to prevent others from utilizing these technologies without compensating us. Litigation itself could result in substantial costs, delay the commercialization of our products and could divert our management's attention and resources.

Since, over recent years, we have moved our business from exclusively developing new products to also marketing and selling our existing products launched in Europe, patent protection is now even more important to prevent competitors from launching competing products based on our biomarkers. To this end, we have also conducted extensive freedom-to-operate analyses for our U.S. product, yielding satisfactory results, at least for the time being. Further freedom-to-operate analyses will be conducted as soon as new products or changes to existing products are planned and such analyses become appropriate. As a precautionary measure, we constantly monitor the status of patent applications deemed to be relevant and work closely with our IP lawyers to ensure the best possible protection of our IP rights in light of ongoing developments in the field.

We consider the extensive patent protection on our biomarkers and underlying technologies to be a competitive advantage over many of our competitors. While other companies partly rely on generic technologies or products, we have the distinct advantage of having secured an extensive proprietary intellectual property position, setting us apart from other companies in the field of DNA-based diagnostics. This puts us in the position of being able to commercialize our own products while limiting the business risk of competition, even by larger companies in the field.

At the same time, the progress made in managing our IP portfolio and obtaining several key patents for cancer testing (such as our Septin9 and SHOX2 biomarkers) puts Epigenomics in a unique position to provide attractive licensing opportunities for the growing number of commercial players active in DNA methylation. This opportunity has been underscored by numerous licensing deals in the past several years.

Opportunities and risks related to the regulatory environment

The regulatory environment in the U.S.A. and the rest of the world is challenging. In the U.S.A. in particular, the Trump administration has a stated goal of repealing and replacing the Affordable Care Act. While we believe the consequences will be beneficial to neutral for our FDA approved product, it is still an unknown and a risk.

The regulatory environment for cancer molecular diagnostics in the U.S.A. is complex, poses high barriers for new products to enter the market, and is affected by numerous entities including the FDA, CMS, the United States Preventive Services Task Force (USPSTF), and Congress. New or modified regulations from any of these entities could have a material impact on our business. We utilize both internal and external resources to monitor the activities of these organizations, and to react where necessary in order to mitigate the corresponding risks.

Epi proColon has received a PMA, and therefore passed the highest and most difficult approval hurdle in the U.S.A.. Any change in the regulatory landscape which would make it easier for competitors to develop and commercialize LDTs/homebrew assays, and therefore to compete against companies with PMA approved products, would also pose a risk for our business.

In parallel, there are increasing trends towards tightening regulatory standards on the Chinese and European markets. As mentioned for the U.S.A. above, we have always chosen the regulated path to commercialization of our products. Given the high regulatory and quality standards under which we operate, going forward we consider this approach to be a competitive advantage over those companies which do not or cannot comply with these requirements.

Financial opportunities and risks

As of December 31, 2017, our available liquidity (cash, cash equivalents and marketable securities) amounted to EUR 13.7 million. Management is aware of the risk of having limited liquid assets to sustain the operations of the business. In 2017, as in previous years, we repeatedly demonstrated that additional financial resources are accessible to us, even under difficult conditions. With the current funding and based on our business strategy for the months to come, our cash runway is expected to reach into early 2019, as long as the convertible bond issued in 2017 must not be redeemed as of December 31, 2018. Even in case of favorable reimbursement decisions by payors in the U.S.A. for Epi proColon, it cannot be expected that we will generate sufficient income from product sales quickly enough to reach the cash break-even point before the end of that runway. A lack of alternative cash inflows from financing activities before that point in time jeopardizes the Company's ability to continue as a going concern. In such a scenario, while running out of funds, the Company would have to file for insolvency. In order to mitigate the risks associated with the launch of our product, we will continue to evaluate all strategic options including the option of raising additional capital in the markets at any time throughout 2018.

Against this backdrop, it must be noted that we issued convertible notes with an aggregate principal amount of EUR 7.1 million in the reporting year. These mature as of December 31, 2018. Until that date, the holder has the right at any time before maturity to convert these into a specific number of shares to be issued by us. The holder also has the right, upon maturity, to demand the full redemption of the notes (less any portion previously converted into shares). Without successfully completing further corporate actions in 2018 and/or in the absence of an extension of maturity or changes in the terms and conditions of the notes to be agreed with the holders, it cannot be expected that we have the necessary liquidity as of December 31, 2018, to guarantee full or even partial redemption of the notes. In this case, we would be exposed to immediate insolvency as of the redemption date. Based on our past experience, and our projections of the future development of our business and the capital markets, we assume that any necessary corporate actions will be successful.

If successful progress is made in launching Epi proColon on the U.S. market, we expect to be able to generate increasing income from product sales, which would help in reducing our operating loss over time. By contrast, if the demand for our product after its commercial launch is below expectations and/or reimbursement decisions are delayed or are not taken in our favor, we would face the risk of further deterioration of our short-term financial position. Under such circumstances, this could result in lower numbers of tests sold and/or in lower than planned prices for the test, which as a consequence could make us miss our revenue, margin and/or earnings targets.

To avoid a costly setup of an internal production site and the maintenance of such a facility and qualified staff to meet the required GMP standards, we currently do not manufacture the Epi proColon test kits ourselves, but have outsourced these activities to contract manufacturing providers. Thus, we are exposed to the risk of dependence on our contract manufacturers. Ahead of the market launch of Epi proColon in the U.S.A., we have addressed this risk by implementing the manufacturing processes at an alternative supplier. This investment and the binding of resources are deemed appropriate as a risk mitigation strategy.

At the same time, the assembly of our test kits requires specific consumables and materials from audited suppliers of such goods. We cannot easily replace these consumables and materials or their suppliers in the event of delivery or quality problems, since the new vendor would require qualification in accordance with regulatory specifications. In the event of such a problem, any solution would be costly and time-consuming and could impede our ability to provide timely delivery of our products to customers.

As a Germany-based global company which reports in euros and has operations in the U.S.A., we are exposed to foreign exchange rate risks, predominantly stemming from the euro/U.S. dollar exchange rate. In the future, our partners' and distributors' net sales generated in U.S. dollars outside the eurozone and our expected royalties and profit shares may also be subject to exchange rate risks. We regularly monitor these risks and evaluate on a case-by-case basis whether hedging transactions are required to reduce our exposure to them. Additionally, it should be mentioned that transactions in foreign currencies might entail opportunities as well.

As part of its protectionist "America first" policy, the Trump administration in the U.S.A. is considering punitive tariffs for products offered in the United States but manufactured in other countries. This implies a risk, that tariffs which we would not be able to pass on to our customers may be imposed on our test, when imported into the U.S.A.. Although there are currently no signs that companies of our size or from our industry (diagnostics) – or German companies in particular – could be threatened, we will carefully monitor political developments in the U.S.A. and will establish alternative strategies for a scenario whereby we might be confronted with such protectionist measures.

We have reduced our portfolio of available-for-sale securities over recent years down to a single remaining item. The historical investment in this remaining item was made in compliance with the Company's investment policy, which was approved by the Supervisory Board. This policy stipulates that investments may only be made in items with an "investment grade" rating. Our securities portfolio is exposed to price risks – in the form of interest rate, issuer and market-related impairment risks – and liquidity risks. Under specific market conditions it could be difficult or impossible to liquidate the securities in the short term at their fair value – regardless of whether or not the issuer has a good rating. We have not made any investments in securities in recent years, and as part of our risk mitigation strategy have invested exclusively in money market instruments (i.e., demand deposits, daily and time deposits) on euro or U.S. dollar basis to maximize the availability of liquidity. At the same time, we accept the lack of returns that can be generated in the money market due to the persistently low interest rates. In 2017 and going forward, we will continue to maintain as much of our liquid assets in the form of cash and the most secure cash equivalents possible.

Between 2013 and 2015 we used phantom stock programs as incentive instruments for our Executive Board members and our staff. If our share price develops positively, the exercise of rights issued from these programs could impact the Company's liquidity significantly, as these programs provide for a cash settlement. In an extreme case, a cash outflow of up to EUR 3.1 million or EUR 4.1 million could materialize in 2018 if our share price increases to EUR 10 and EUR 12, respectively, and all beneficiaries of our programs issued between 2013 and 2015 fully exercise their rights. However, we also see an opportunity in these programs as they motivate our Executive Board members and our staff to meet our common goals. In 2016 and 2017, we did not implement any further phantom stock programs but set up stock option programs for our executives and our staff members. A disadvantage of stock option programs are the higher future administration costs compared to our phantom stock programs. However, the later exercise of stock options will not lead to cash outflows and will not burden our liquidity.

Other opportunities and risks

We continuously monitor all applicable environmental, health and safety, operational and other applicable statutory and industrial guidelines, and have implemented functions to comply with all of these effectively at each of our business locations. To minimize the potential impact from a variety of tax, corporate, employment, competition, IP and other legal frameworks, we base our decision-making and design of our policies and processes on the advice of internal experts and recognized external advisors in each of these areas. Wherever expedient and appropriate, we recognize provisions to cover any potential liability. There are also risks that are directly associated with our share price development. Comparatively low levels of liquidity in the stock, very high volatility based on all of the factors described above, as well as external influences and negative perceptions by others pose a risk of being wrongly assessed by capital markets participants (particularly analysts and investors). This could lead to unjustified stock sales by shareholders and to a sharp decline in our share price, which could negatively impact the capital market's perception of us as a listed company. At the same time, the volatility in our share price represents an opportunity to continuously find new investors willing to take the risk of an investment in the Company, even in more challenging times. In order to seize this opportunity, we maintain an active dialog with market participants and the Company's shareholders through our investor relations efforts.

There could potentially be other risks as well as significant opportunities beyond the ones described here that we currently either deem of lesser importance or of which we were not aware of when preparing this Group management report.

Summary of the opportunity and risk situation of the Epigenomics Group

With the positive approval decision for our lead product Epi proColon in the U.S.A. in 2016, the question of opportunities and risks on the U.S. market has shifted to the issue to reimbursement and guideline inclusion. We are not alone in believing that broad market penetration and therefore commercial success for the test in the U.S.A. depends on inclusion in the corresponding guidelines and a positive reimbursement decision at an appropriate rate. Failure to obtain favorable reimbursement for our product as well as lack of market acceptance and penetration in the U.S.A. based on lack of inclusion in medical guidelines or for any other reason, would have a material impact on our results of operations, financial position and net assets, and our ability to raise further capital.

Even if we are successful in the process of achieving guideline inclusion and reimbursement in the U.S.A. described above, we still face the risk that each or all of these steps could take longer than anticipated, thus resulting in slower than expected commercial adoption. In order to compensate for further potential delay in U.S. market penetration, we will further accelerate commercial efforts in other countries and reinforce the support we provide to our partners there, such as BioChain in China. Based on the medical need prevailing in most of the countries around the world we address with our products, there are still major untapped commercial opportunities which we have to make maximum possible use of.

Despite the funds raised on the capital markets in recent years, as a company with significant commercial challenges and opportunities we remain constrained in our financial resources. This limits our ability to cope with potential additional hurdles in attaining a positive reimbursement decision and in our commercial activities. Ultimately, we see our ability to access additional capital to reach our commercial goals as an opportunity to mitigate illiquidity risk which could jeopardize the Company's ability to continue as a going concern. A failure to raise capital to appropriately fund business operations might however lead to a total loss of value in our stock.

CORPORATE GOVERNANCE

For the Executive Board and the Supervisory Board of Epigenomics, corporate governance lies at the heart of responsible and ethical management. The Executive Board and the Supervisory Board maintained a very active exchange throughout 2017 in order to generate long-term value for our shareholders. This represents a key element of sound corporate governance. Moreover, openness and transparency in our corporate communications with shareholders, employees, the authorities, the general public and other stakeholder groups represent an overarching principle in our approach towards sound corporate governance.

We welcome the German Corporate Governance Code (also referred to below as the "Code") and we systematically and regularly monitor compliance with the German Corporate Governance principles, making amendments wherever possible to ensure fair and responsible corporate management in line with the most recent version of the Code.

In certain aspects, Epigenomics' corporate governance principles go above and beyond the legal requirements and the recommendations of the Code. For example, we have established binding internal guidelines on insider trading and made these part of all employment agreements. Corporate governance compliance matters are overseen by our Manager Legal Affairs, who ensures adherence to the corporate governance principles. The Manager Legal Affairs maintains a regular dialog with the Executive Board and the Supervisory Board on all compliance-related matters.

While, going forward, we are clearly committed to adhering to the Code to the furthest extent possible, there are a few exceptions based on certain Company-specific factors and peculiarities where we chose or had to deviate from the Code.

2017 DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE PURSUANT TO SECTION 161 OF THE GERMAN STOCK CORPORATION ACT (AKTG)

Pursuant to Section 161 of the German Stock Corporation Act (Aktiengesetz – AktG), each year the Executive Board and the Supervisory Board of Epigenomics AG as a listed company have to explain which recommendations of the German Corporate Governance Code were or were not complied with.

The Executive Board and the Supervisory Board of Epigenomics AG hereby declare that, since the last declaration of compliance in October 2016 and the update in April 2017, Epigenomics AG has complied with the recommendations of the German Government Commission on the German Corporate Governance Code (hereinafter also "Code") in the version of May 5, 2015 (published by the Ministry of Justice in the official part of the Federal Gazette on June 12, 2015) respectively the version of February 7, 2017 (published by the Ministry of Justice in the official part of the Federal Gazette on April 24, 2017), with the exceptions set forth below.

References to sections, paragraphs and sentences of the Code relate to the version of the Code of February 7, 2017 (published by the Ministry of Justice in the official part of the Federal Gazette on April 24, 2017).

Section 3.8 paragraph 3

Epigenomics AG has taken out a D&O policy. The policy includes as insured persons also the members of the Supervisory Board. Deviating from Section 3.8 paragraph 3 the D&O policy does not provide for a deductible for members of the Supervisory Board. We consider such a deductible as inadequate taking into account the nature of the office as member of the Supervisory Board and the function of the Supervisory Board.

Section 4.1.3 sentence 3

At Epigenomics AG there exists no separate call system which the employees can use to report, in a protected manner, suspected breaches of the law within the Company. Owing to its size and organization, the Company does not believe that it is necessary to implement such a system. Accordingly, the Company deviates from the recommendation pursuant to Section 4.1.3 sentence 3 which has been introduced by the version of the Code that was published by the Ministry of Justice in the official part of the Federal Gazette on April 24, 2017.

Section 5.1.2 paragraph 1 sentence 2 and paragraph 2 sentence 3 and Section 5.4.1 paragraph 2 sentence 1 and 2 and paragraph 4

In the past, when filling the positions in its bodies, the Executive Board and the Supervisory Board considered the Company-specific situation, and also made allowances for potential conflicts of interest as well as the international activities of the Company through an appropriate diversity of their members as well as the appointment of an adequate number of independent Supervisory Board members. Furthermore, the Supervisory Board determined a maximum term of membership and prepared a profile of skills and expertise for the entire Supervisory Board. In deviation from the recommendations in Section 5.1.2 paragraph 2 sentence 3 and in Section 5.4.1 paragraph 2 sentence 2, we however consider the commitment to institute special age limits for members of the Executive Board and the Supervisory Board as an inadequate limitation of the voting rights of our shareholders. In addition, we are convinced that sweeping requirements for the composition of the Executive Board as requested in Section 5.1.2 paragraph 1 sentence 2 constrain the Supervisory Board inadequately in its selection of suitable members of the Executive Board. The same applies accordingly to the specification of sweeping objectives regarding the composition of the Supervisory Board, as required in Section 5.4.1 paragraph 2 sentences 1 and 2 and assumed in Section 5.4.1 paragraph 4. We strive to achieve an appropriate diversity in the Executive Board and the Supervisory Board and to ensure that an adequate number of independent Supervisory Board members is elected. However, it is ultimately in the corporate interest to appoint as members of the Executive Board and the Supervisory Board the most suitable male or female candidates. Furthermore, the Supervisory Board has defined gender diversity objectives for the proportion of women in both the Executive Board and the Supervisory Board in accordance with Section 111 paragraph 5 of the Stock Corporation Act (Aktiengesetz – AktG). We therefore believe that (additional) sweeping requirements constitute an inadequate limitation of the individual selection of suitable male and female candidates for the Executive Board or the Supervisory Board. Furthermore, a target requirement regarding the composition of the Supervisory Board also inadequately impairs our shareholders' right to elect the Supervisory Board members. Accordingly, we did not and will not comply with these recommendations of the Code.

Sections 5.3.1 sentence 1, and 5.3.3

Due to the size of the company, the Supervisory Board did not and does not believe that it is necessary to form a Nomination Committee composed exclusively of shareholder representatives which recommends suitable Supervisory Board candidates for the proposals of the Supervisory Board to the General Shareholders' Meeting. Rather, this task is being performed by the full Supervisory Board. Owing to the size of the company and of the Supervisory Board, the Supervisory Board considers it adequate and appropriate to form only an Audit Committee. In contrast, the implementation of further committees was and is in the opinion of the Supervisory Board not necessary. Hence, the recommendations pursuant to Sections 5.3.1 sentence 1 and 5.3.3 continue not to be complied with.

Berlin, October 2017

On behalf of the Supervisory Board:

Heino von Prondzynski
(Chairman of the Supervisory Board)

On behalf of the Executive Board:

Greg Hamilton
(CEO)

Dr. Uwe Staub
(COO)

This statement has also been made permanently accessible to the general public in German and English on the Company's website under *www.epigenomics.com/news-investors/corporate-governance*.

DECLARATION OF GOVERNANCE

In accordance with section 289f of the German Commercial Code (Handelsgesetzbuch – HGB), the Declaration of Governance has been made permanently accessible to the general public in German and English on Epigenomics AG's website under *www.epigenomics.com/de/news-investoren/corporate-governance.*

KEY FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM RELATED TO THE GROUP ACCOUNTING PROCEDURES OF THE COMPANY

The internal control and risk management system (ICR) of Epigenomics has been set up by the Company's Executive Board, which also takes responsibility for it. The ICR is not defined as a comprehensive standardized system across the Company as a whole, but rather the scope of control and intensity are adjusted according to the respective risk. In addition, control options are used at all Company levels and supervision by management is ensured. Epigenomics has developed an individual top-down approach for Company-wide controls and supervision, including verification of effectiveness. The flexible structure of the reporting system – supported by established tools and adjusted to the Company's needs – ensures transparency and targeted supervision by the internal control system. Financial and non-financial indicators are taken into account.

The Supervisory Board and the Executive Board continuously monitor the ICR. Apart from the true and fair view presented by the financial reporting it also ensures the efficiency and cost-effectiveness of the daily business as well as compliance with relevant regulations and internal guidelines. The supervision of the accounting procedures goes hand in hand with the monitoring of the ICR.

Within the organization of the Company, there are various departments and employees involved in developing, coordinating and monitoring control measures. The risk management function and controlling as well as quality departments are of major importance here. Due to its small size, the Company has not yet established an internal audit function.

The adequacy and the effectiveness of the ICR are continuously ensured by discussions with relevant employees, by benchmarking with other organizations and also by way of a regular dialog with the Company's auditor and consultations with the Company's lawyers as required.

The Epigenomics Group has established the principle of separation of functions as far as reasonable in a commercial organization with a limited number of employees. This principle is supplemented by the principle of dual control. Neither Executive Board members nor any employees are authorized to represent and sign on behalf of the Company on their own.

For routine internal activities, instructions and regulations are provided where possible. Those instructions and regulations can be found within so-called "standard operating procedures" as well as in guidelines such as an employee's manual, detailed job descriptions, a travel policy or an accounting manual. The guidelines have been made permanently accessible to all concerned employees of the Company via the intranet. All guidelines are checked continuously and amended if necessary. Legal advice from experts is taken as needed to ensure conformity of the internal regulations with the applicable legal requirements or regulations.

The Company's management and controlling system is primarily based on various planning, monitoring and reporting tools. Qualitative information is derived from an internally-developed project documentation database, and quantitative information is processed by all Group entities using Microsoft Dynamics Navision™, a widely used enterprise resource planning (ERP) software program. Our accounting and controlling departments provide all relevant management and controlling information to the Executive Board on a monthly basis. The ongoing training of the team members is ensured.

For internal management and control purposes, we set up an annual budget, usually based on the current long-term strategic business plan of the Company and a corresponding set of goals. The budget is developed bottom-up from all cost centers and R&D projects. All budgets are extensively reviewed internally by the senior management team and the Executive Board, and a final approval of the annual budget by our Supervisory Board is mandatory. The primary focus of our regular internal management reporting lies in comparing actual versus budgeted values for a comprehensive set of metrics. From these, we compile the external quarterly reports. These are usually accompanied by an internal forecast,

which provides us with an updated estimate of expected full-year results and performance vis-à-vis target numbers and public guidance. Actual versus budget comparisons of financial performance indicators are also prepared on a regular basis within the framework of the internal reporting system and are reported monthly to the senior management team of the Company. The focus is on cost and liquidity control. Deviations versus budget or historical values are analyzed on a short-term basis and supplemented by a presentation of alternative options. The reporting is supplemented as needed with additional data requested by the Supervisory Board or the Executive Board as well as the controlling team.

The Company's assets are tested for impairment on a regular basis in accordance with the appropriate accounting standards or if there are indications of possible impairment.

REMUNERATION REPORT

Composition and remuneration of the Executive Board

The Executive Board of Epigenomics AG is responsible for independently managing and running operations, developing and implementing corporate strategy and budgetary planning, appointing and guiding senior management and overseeing the general management of the Company. There is a continuous and intensive dialog between the Executive Board and the Supervisory Board and their respective members. In its charter, the Executive Board has been given a clear set of rules and procedures for certain actions and decisions that require Supervisory Board approval.

Mr. Greg Hamilton has served as the Company's Chief Executive Officer (CEO) since July 1, 2016. The service agreement with Mr. Hamilton has a term until December 31, 2018. For the entire reporting year, the Executive Board also included Dr. Uwe Staub, who joined Epigenomics in November 2008 and had been the Company's Chief Operating Officer (COO) since April 2013. Dr. Staub will leave the Company's Executive Board as of March 31, 2018. Mr. Jorge Garces, Ph.D., was appointed the Company's President & Chief Scientific Officer effective December 1, 2017. The service agreement with Mr. Garces has a term until December 31, 2020. In November 2017, the Supervisory Board also appointed Mr. Albert Weber as Executive Vice President Finance and member of the Executive Board. Mr. Weber's appointment to the Executive Board does not take effect until January 1, 2018, thus after the reporting period.

The total remuneration of the members of the Company's Executive Board is reviewed by the Supervisory Board annually and is compared against national and international benchmarks. Remuneration takes into account the economic and financial situation of the Company as well as size and complexity of international operations and responsibilities. The remuneration package comprises both a fixed and variable component. The variable component are determined on the basis of a variety of criteria, which are set by the Supervisory Board on a yearly basis, e.g., the achievement of individual performance targets and/or Company performance targets. In addition, Mr. Hamilton and Mr. Garces are entitled to reimbursement of their travel expenses from their permanent addresses in San Diego to the Company's headquarters in Berlin and the related accommodation costs there. Their package of fringe benefits includes an annual car allowance, a 50% matching contribution of the Company in a 401k plan in the U.S.A., various insurance policies and reimbursement for legal and tax advice expenses and the communications costs associated with them working from their country of residence. Mr. Garces also received a one-time signing bonus which is required to be repaid on a pro rata basis if his service agreement is terminated prior to December 31, 2019 (exception: termination for cause).

Apart from the fixed and variable components, a third remuneration component comprises a long-term performance-based compensation in the form of stock option rights. Such rights are currently granted under the Company's stock option programs, which are described in detail in the notes to the consolidated financial statements for the reporting year.

The total position of Mr. Hamilton and Dr. Staub with regard to their stock option rights is shown in the following table[1]:

Executive Board member	Program	Reporting year	Rights held as of Jan 1	Rights granted	Rights forfeited	Rights exercised	Rights held as of Dec 31	thereof vested	Exercise price (weighted avg.) in EUR
G. Hamilton	**SOP 16–18**	**2017**	**91,580**	**68,420**	**0**	**0**	**160,000**	**0**	**5.29**
		2016	0	91,580	0	0	91,580	0	5.43
	SOP 17–19	**2017**	**0**	**31,580**	**0**	**0**	**31,580**	**0**	**5.10**
		2016	0	0	0	0	0	0	n/a
	Total SOP	**2017**	**91,580**	**100,000**	**0**	**0**	**191,580**	**0**	**5.26**
		2016	0	91,580	0	0	91,580	0	5.43

Executive Board member	Program	Reporting year	Rights held as of Jan 1	Rights granted	Rights forfeited	Rights exercised	Rights held as of Dec 31	thereof vested	Exercise price (weighted avg.) in EUR
Dr. Uwe Staub	**SOP 16–18**	**2017**	**90,000**	**0**	**67,500**	**0**	**22,500**	**0**	**5.43**
		2016	0	90,000	0	0	90,000	0	5.43
	SOP 17–19	**2017**	**0**	**70,000**	**70,000**	**0**	**0**	**0**	**n/a**
		2016	0	0	0	0	0	0	n/a
	Total SOP	**2017**	**90,000**	**70,000**	**137,500**	**0**	**22,500**	**0**	**5.43**
		2016	0	90,000	0	0	90,000	0	5.43

The exercise prices of the rights held by Mr. Hamilton and Dr. Staub range from EUR 5.10 to EUR 5.43.

From 2013 until 2015, Dr. Staub received the long-term performance-based compensation in the form of phantom stock rights (PSRs). Mr. Hamilton and Mr. Garces do not hold any PSRs.

[1] *Mr. Garces did not hold any stock options as at the balance sheet date.*

The total position of Dr. Staub with regard to his PSRs is shown in the following table:

Executive Board member	Program	Reporting year	Rights held as of Jan 1	Rights forfeited	Rights expired	Rights exercised	Rights held as of Dec 31	thereof vested	Exercise price (weighted avg.) in EUR
Dr. Uwe Staub	**PSP 03–15**	**2017**	**28,800**	**0**	**6,400**	**0**	**22,400**	**22,400**	**3.43**
		2016	38,800	0	10,000	0	28,800	28,800	6.96
	PSP 2013	**2017**	**20,000**	**0**	**0**	**0**	**20,000**	**20,000**	**6.15**
		2016	115,000	0	0	95,000	20,000	16,000	6.15
	PSP 2014	**2017**	**60,000**	**0**	**0**	**0**	**60,000**	**60,000**	**3.23**
		2016	60,000	0	0	0	60,000	36,000	3.23
	PSP 2015	**2017**	**24,000**	**9,600**	**0**	**0**	**14,400**	**14,400**	**5.05**
		2016	24,000	0	0	0	24,000	4,800	5.05
	Total PSR	**2017**	**132,800**	**9,600**	**6,400**	**0**	**116,800**	**116,800**	**3.99**
		2016	237,800	0	10,000	95,000	132,800	85,600	5.13

The exercise prices of the PSRs held by Dr. Staub range from EUR 2.51 to EUR 11.05.

In addition to the aforementioned remuneration components, the Executive Board members are beneficiaries of a D&O insurance policy with excess according to the statutory minimum amount, and receive full reimbursement of their business travel expenses from the Company in accordance with its general travel policy. In the individual case of a temporary incapacity to work due to illness, the Executive Board members will continue to receive their fixed salary for a maximum term of twelve months or up to the termination of their service agreement, respectively. In such case, any payments received under insurance policies as sickness benefit will be deducted from the fixed salary.

The service agreements of all Executive Board members contain post-contractual non-compete provisions for a period of twelve months after the respective service agreements end. During such period, at the decision of the Supervisory Board, Executive Board members are entitled to 100% of their last fixed compensation as a non-competition payment. The Supervisory Board may at any time, however, revoke the non-compete covenant (including after the respective agreement has ended). In the event of a change of control pursuant to the provisions of the German Securities Acquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetz – WpÜG), the members of the Executive Board have a special right to terminate their service agreements and would in such case be entitled to receive payment of their fixed remuneration for the remaining term of their respective service agreements. However, in no case would such payment exceed 150% of the severance payment cap in accordance with section 4.2.3 of the German Corporate Governance Code.

Total individual remuneration of the Company's Executive Board members[1]:

	Greg Hamilton, CEO since July 1, 2016			
Benefits granted in EUR	**2016**	**2017**	**2017 (min)**	**2017 (max)**
Fixed compensation	183,133	352,603	352,603	352,603
Fringe benefits	80,583	162,169	162,169	162,169
Total	**263,716**	**514,772**	**514,772**	**514,772**
One-year variable compensation	126,911	205,453	0	308,180
Multi-year variable compensation	42,175	99,264	n/a	n/a
** share-based compensation*	*42,175*	*99,264*	*n/a*	*n/a*
– PSP 03–15	*0*	*0*	*n/a*	*n/a*
– PSP 2013	*0*	*0*	*n/a*	*n/a*
– PSP 2014	*0*	*0*	*n/a*	*n/a*
– PSP 2015	*0*	*0*	*n/a*	*n/a*
– SOP 16–18	*42,175*	*91,333*	*n/a*	*n/a*
– SOP 17–19	*0*	*7,931*	*n/a*	*n/a*
** non-share-based compensation*	*0*	*0*	*0*	*0*
Total	**432,803**	**819,489**	**514,772**	**822,951**
Service cost	*0*	*0*	*0*	*0*
Total	**432,803**	**819,489**	**514,772**	**822,951**

[1] The value of the share-based compensation in the table is measured by the fair value of the issued rights at their grant dates. Granted PSRs cannot be exercised before the end of a waiting period of three years after their issuance.

	Jorge Garces, Ph.D., CSO since December 1, 2017			
Benefits granted in EUR	**2016**	**2017**	**2017 (min)**	**2017 (max)**
Fixed compensation	n/a	26,572	26,572	26,572
Fringe benefits	n/a	14,432	14,432	14,432
Total	**n/a**	**41,004**	**41,004**	**41,004**
One-year variable compensation	n/a	0	0	0
Multi-year variable compensation	n/a	17,226	n/a	n/a
** share-based compensation*	*n/a*	*10,555*	*n/a*	*n/a*
– PSP 03–15	*n/a*	*0*	*n/a*	*n/a*
– PSP 2013	*n/a*	*0*	*n/a*	*n/a*
– PSP 2014	*n/a*	*0*	*n/a*	*n/a*
– PSP 2015	*n/a*	*0*	*n/a*	*n/a*
– SOP 16–18	*n/a*	*0*	*n/a*	*n/a*
– SOP 17–19	*n/a*	*10,555*	*n/a*	*n/a*
** non-share-based compensation*	*n/a*	*6,671*	*6,671*	*6,671*
Total	**n/a**	**58,229**	**47,674**	**47,674**
Service cost	*n/a*	*0*	*0*	*0*
Total	**n/a**	**58,229**	**47,674**	**47,674**

	Dr. Uwe Staub, COO since April 1, 2013			
Benefits granted in EUR	**2016**	**2017**	**2017 (min)**	**2017 (max)**
Fixed compensation	230,000	230,000	230,000	230,000
Fringe benefits	0	0	0	0
Total	**230,000**	**230,000**	**230,000**	**230,000**
One-year variable compensation	64,000	63,333	0	80,000
Multi-year variable compensation	34,782	52,464	n/a	n/a
** share-based compensation*	*34,782*	*52,464*	*n/a*	*n/a*
– PSP 03–15	*0*	*0*	*n/a*	*n/a*
– PSP 2013	*0*	*0*	*n/a*	*n/a*
– PSP 2014	*0*	*0*	*n/a*	*n/a*
– PSP 2015	*0*	*0*	*n/a*	*n/a*
– SOP 16–18	*34,782*	*52,464*	*n/a*	*n/a*
– SOP 17–19	*0*	*0*	*n/a*	*n/a*
** non-share-based compensation*	*0*	*0*	*0*	*0*
Total	**328,782**	**345,797**	**230,000**	**310,000**
Service cost	*0*	*0*	*0*	*0*
Total	**328,782**	**345,797**	**230,000**	**310,000**

	Greg Hamilton, CEO since July 1, 2016		Jorge Garces, Ph.D., CSO since December 1, 2017		Dr. Uwe Staub, COO since April 1, 2013	
Allocations in EUR	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**
Fixed compensation	183,133	352,603	n/a	26,572	230,000	230,000
Fringe benefits	79,052	162,169	n/a	14,432	0	0
Total	**262,185**	**514,772**	n/a	**41,004**	**230,000**	**230,000**
One-year variable compensation	0	130,373	n/a	0	70,000	64,000
Multi-year variable compensation	0	0	n/a	0	318,250	0
** share-based compensation*	*0*	*0*	*n/a*	*0*	*318,250*	*0*
– PSP 03–15	*0*	*0*	*n/a*	*0*	*0*	*0*
– PSP 2013	*0*	*0*	*n/a*	*0*	*318,250*	*0*
– PSP 2014	*0*	*0*	*n/a*	*0*	*0*	*0*
– PSP 2015	*0*	*0*	*n/a*	*0*	*0*	*0*
– SOP 16–18	*0*	*0*	*n/a*	*0*	*0*	*0*
– SOP 17–19	*0*	*0*	*n/a*	*0*	*0*	*0*
** non-share-based compensation*	*0*	*0*	*n/a*	*0*	*0*	*0*
Total	**262,185**	**645,145**	n/a	**41,004**	**618,250**	**294,000**
Service cost	*0*	*0*	*n/a*	*0*	*0*	*0*
Total	**262,185**	**645,145**	n/a	**41,004**	**618,250**	**294,000**

Shares of the Company held by members of the Executive Board:

		Number of shares			
Executive Board member	Reporting year	held as of Jan 1	purchased	sold	held as of Dec 31
Greg Hamilton	**2017**	**0**	**0**	**0**	**0**
	2016	n/a	0	0	0
Jorge Garces, Ph.D. (since Dec 1, 2017)	**2017**	**n/a**	**0**	**0**	**0**
	2016	n/a	n/a	n/a	n/a
Dr. Uwe Staub	**2017**	**30,000**	**0**	**0**	**30,000**
	2016	5,000	25,000	0	30,000
Total Executive Board	**2017**	**30,000**	**0**	**0**	**30,000**
	2016	5,000	25,000	0	30,000

Composition and remuneration of the Supervisory Board

The Supervisory Board of Epigenomics AG consists of four members with broad experience in the pharmaceutical, diagnostics or financial industries.

- **Heino von Prondzynski** – Einsiedeln (CH) – Chairman (since May 2, 2012)
  Independent consultant and former member of the group management of F. Hoffmann-La Roche Ltd. (CEO of the Division Roche Diagnostics at F. Hoffmann-La Roche Ltd., Basel, CH)

  Supervisory Board member from May 2007 until March 2010 and since May 2012

  Heino von Prondzynski is not a member of other mandatory supervisory boards. He is a member of comparable boards with supervisory function of the following German and foreign undertakings:

  – HTL-Strefa S.A., Warsaw, POL
  – Koninklijke Philips Electronics N.V. (Royal Philips Electronics), Eindhoven, NL
  – Quotient Ltd., Jersey, UK – Independent Lead Director

- **Ann Clare Kessler, Ph.D.** Rancho Santa Fe, CA (U.S.A.) – Vice-Chairwoman (since May 2, 2012)
  Independent consultant and former Head of Global Project Management at F. Hoffmann-La Roche Ltd. (Basel, CH) and former Head of the Division of Exploratory Research at Hoffmann-La Roche Inc. (U.S.A.)

  Supervisory Board member since June 2005

  Ann Clare Kessler, Ph.D., is not a member of other mandatory supervisory boards. She was a member of comparable boards with supervisory function of the following German and foreign undertakings:

  – AltheaDx, Inc., CA., U.S.A.
  – MedGenesis Therapeutix, Inc., BC, Canada
  – Scripps Translational Science Institute, CA, U.S.A.
  – Gen-Probe, Inc., CA, U.S.A.
  – Spectrum Pharmaceuticals, CA, U.S.A.

- **Prof. Dr. Günther Reiter** – Pfullingen (GER) – Vice-Chairman (since November 5, 2014)
  Professor at the ESB Business School in Reutlingen (GER)

  Supervisory Board member since June 2005; Chairman of the Audit Committee

  Prof. Dr. Reiter is not a member of other mandatory supervisory boards or comparable boards with supervisory function. He was a member of comparable boards with supervisory function of the following German undertakings:

  – Internationales Bankhaus Bodensee AG
  – Actium AG
  – Deltoton GmbH
  – CSA Verwaltungs GmbH

- **Dr. Helge Lubenow** – Langenfeld (Rhineland) (GER)
  Independent Management Consultant and former Head of the Molecular Diagnostic Business Area at Qiagen (GER)

  Supervisory Board member since May 2016; Member of the Audit Committee

  Dr. Lubenow is a member of comparable boards with supervisory function of the following foreign undertakings:

  – ProteoMediX AG, Switzerland

The remuneration structure for the Supervisory Board is based on an annual cash retainer (fixed remuneration) and meeting-related payments (variable remuneration). The remuneration does not include any performance-related elements or long-term incentive components.

Remuneration of the members of the Supervisory Board:

in EUR	Reporting year	Fixed remuneration	Variable remuneration	**Total remuneration**
Heino von Prondzynski	**2017**	**90,000**	**12,000**	**102,000**
	2016	90,000	12,000	102,000
Ann C. Kessler, Ph.D.	**2017**	**40,000**	**12,000**	**52,000**
	2016	40,000	12,000	52,000
Prof. Dr. Günther Reiter	**2017**	**35,000**	**12,000**	**47,000**
	2016	45,000	12,000	57,000
Dr. Helge Lubenow (since May 25, 2016)	**2017**	**35,000**	**12,000**	**47,000**
	2016	17,500	6,000	23,500
Total Supervisory Board	**2017**	**200,000**	**48,000**	**248,000**
	2016	192,500	42,000	234,500

In addition, the members of the Supervisory Board were reimbursed for expenses totaling EUR 77 thousand in 2017 (2016: EUR 41 thousand).

Shares of the Company held by members of the Supervisory Board:

		Number of shares			
Supervisory Board member	Reporting year	held as of Jan 1	purchased	sold	held as of Dec 31
Heino von Prondzynski	**2017**	**140,000**	**0**	**0**	**140,000**
	2016	129,000	11,000	0	140,000
Ann C. Kessler, Ph.D.	**2017**	**24,650**	**0**	**0**	**24,650**
	2016	10,650	14,000	0	24,650
Prof. Dr. Günther Reiter	**2017**	**0**	**0**	**0**	**0**
	2016	0	0	0	0
Dr. Helge Lubenow (since May 25, 2016)	**2017**	**6,000**	**0**	**0**	**6,000**
	2016	n/a	5,000	0	6,000
Total Supervisory Board	**2017**	**170,650**	**0**	**0**	**170,650**
	2016	139,650	30,000	0	170,650

FINANCIAL REPORTING

In line with fair and open disclosure and the requirements of the Prime Standard segment of the Frankfurt Stock Exchange, quarterly interim statements and half-year financial reports are made available within two months after quarter-/half-year-end and annual financial statements within four months after year-end. All information is made available simultaneously on our website *www.epigenomics.com*. All material news is announced following the latest guidelines and legal requirements on ad hoc notification.

ADDITIONAL MANDATORY DISCLOSURES FOR LISTED COMPANIES IN ACCORDANCE WITH SECTION 315 (4) OF THE GERMAN COMMERCIAL CODE (HGB)

In accordance with section 315 (4) of the German Commercial Code (Handelsgesetzbuch – HGB), the Company is required to report on certain structures governed by the German Stock Corporation Act (Aktiengesetz – AktG) and other legal frameworks, in order to provide a better overview of the Company and disclose any impediments to a takeover.

SHAREHOLDERS WITH DIRECT OR INDIRECT SHAREHOLDINGS OF MORE THAN 10% OF THE VOTING RIGHTS

Based on the information available to the Company, no direct or indirect holdings exceeding 10% of the voting rights were held as of the balance sheet date.

COMPOSITION OF SHARE CAPITAL

As of December 31, 2017, the share capital of Epigenomics AG consisted exclusively of registered shares with equal rights with a par value of EUR 1.00 each. The total number of outstanding shares as of December 31, 2017, was 24,014,360.

Under section 136 of the German Stock Corporation Act (AktG), shareholders are not entitled to vote in certain circumstances. We are not aware of any contractual restrictions related to voting rights or the transfer of shares.

LEGISLATION AND PROVISIONS OF THE ARTICLES OF ASSOCIATION GOVERNING THE APPOINTMENT AND DISMISSAL OF MEMBERS OF THE EXECUTIVE BOARD AND AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The appointment and dismissal of members of the Executive Board is subject to the provisions of sections 84 and 85 of the German Stock Corporation Act (AktG).

The Supervisory Board shall appoint members of the Executive Board for a maximum period of five years. It is permissible to appoint members to the Executive Board on more than one occasion or to extend their period of office, on each occasion for a maximum of five years.

The Executive Board may consist of one or more persons. The number of members of the Executive Board shall be determined by the Supervisory Board in accordance with the statutory provisions. The Supervisory Board may appoint a member of the Executive Board as its chairperson (CEO) and one or more members of the Executive Board as his/her deputy(ies). Deputy members of the Executive Board may be appointed. The statutory provisions regarding the amendment of the Articles of Association are governed in sections 179 to 181 of the German Stock Corporation Act (AktG).

Pursuant to Article 14 of the Articles of Association, the Supervisory Board may adopt amendments or supplements to the Articles of Association if the changes are merely editorial in nature.

MATERIAL AGREEMENTS OF THE COMPANY SUBJECT TO THE CONDITION OF A CHANGE OF CONTROL FOLLOWING A TAKEOVER BID

(Such disclosure may be omitted if it could materially adversely affect the Company).

Apart from the service agreements of the Executive Board members (see section "Composition and remuneration of the Executive Board" of this Group management report), the Company's phantom stock programs and the related agreements with the beneficiaries of these programs are also subject to any change of control. In the event of a takeover or a mandatory offer for the shares of the Company in accordance with the German Securities Acquisition and Takeover Act (WpÜG), the holders of vested PSRs become entitled to exercise these rights in full. This shall also apply if the waiting period for these rights has not expired yet. The PSR holder's right of exercise only applies, however, if the offered consideration exclusively comprises a cash settlement and if the bidder has gained control over the Company, i.e., has acquired at least 30% of the voting rights of the Company (section 29 (2) sentence 30 WpÜG).

AUTHORIZATION OF THE EXECUTIVE BOARD TO ISSUE SHARES

Authorized Capital 2017/I

The Executive Board is authorized until May 29, 2022, to increase, with the consent of the Supervisory Board, the share capital of the Company once or several times by up to a total of EUR 2,273,526.00 against cash and/or in-kind contributions by issuing new non-par value registered shares (Authorized Capital 2017/I). Subscription rights shall be granted to the shareholders. The new shares can also be subscribed by one or more credit institutions or undertakings acting pursuant to section 53 (1) sentence 1 or section 53b (1) sentence 1 or (7) of the German Banking Act (Kreditwesengesetz – KWG) under the obligation to offer the shares to the shareholders for subscription (indirect subscription right). The Executive Board is, however, authorized to exclude, with the consent of the Supervisory Board, the shareholders' statutory subscription rights in the following events:

- for fractional amounts;
- if the new shares are issued according to section 186 (3) sentence 4 of the German Stock Corporation Act (Aktiengesetz – AktG) against contribution in cash at an issue price which is not significantly below the stock exchange price of the shares already listed and the pro rata notional portion of the share capital represented by the new shares does not exceed ten per cent (10%) of the share capital at the time this authorization is registered with the commercial register, or, if lower, at the respective time when the authorization is exercised. The 10% limitation shall include other shares which have been newly issued by the Company by way of a capital increase against contribution in cash during the term of this authorization pursuant to or in application mutatis mutandis of section 186 (3) sentence 4 AktG, or which have been sold following a repurchase, in each case under exclusion of subscription rights. Furthermore, the 10% limitation shall include shares for which there is an option or conversion right or obligation, or a share delivery right in favor of the Company, based on bonds with warrants or convertible bonds or participation rights that have been issued during the term of this authorization under exclusion subscription rights pursuant to section 221 (4) sentence 2 in conjunction with section 186 (3) sentence 4 AktG by the Company or its subsidiaries;
- for capital increases against contribution in kind in order to be able to offer the new shares to third parties with regard to mergers or upon the purchase (including an indirect purchase) of enterprises, parts of enterprises, shares in enterprises, or the purchase (including an indirect purchase) of other assets (including receivables, also to the extent owed by the Company or subsidiaries);
- to the extent necessary to grant subscription rights for new shares to holders or creditors of option rights or creditors of convertible bonds or participation rights issued by the Company or its subsidiaries in the amount in which they would be entitled thereto upon the exercise of the option or conversion rights or the exercise of share delivery rights, or performance of conversion or option obligations.

The Executive Board is further authorized to determine, with the consent of the Supervisory Board, the dividend rights of the new shares in deviation from section 60 (2) AktG as well as the further details of the implementation of capital increases from Authorized Capital 2017/I. The Supervisory Board is authorized to amend the wording of the Articles of Association, as appropriate, after implementation of a capital increase from the Authorized Capital 2017/I in accordance with the respective share capital increase or after expiry of the term of the authorization.

Authorized Capital 2017/II

The Executive Board is authorized until May 29, 2022, to increase, with the consent of the Supervisory Board, the share capital of the Company once or several times by up to a total of EUR 9,094,104.00 against cash and/or in-kind contributions by issuing new non-par value registered shares (Authorized Capital 2017/II). Subscription rights shall be granted to the shareholders. The new shares can also be subscribed by one or more credit institutions or undertakings acting pursuant to section 53 (1) sentence 1 or section 53b (1) sentence 1 or (7) of the German Banking Act (Kreditwesengesetz – KWG) under the obligation to offer the shares to the shareholders for subscription (indirect subscription right). The Executive Board is, however, authorized to exclude, with the consent of the Supervisory Board, the shareholders' statutory subscription rights in the following events:

- for fractional amounts;
- for capital increases against contribution in kind in order to be able to offer the new shares to third parties with regard to mergers or upon the purchase (including an indirect purchase) of enterprises, parts of enterprises, shares in enterprises, or the purchase (including an indirect purchase) of other assets (including receivables, also to the extent owed by the Company or subsidiaries);

- for capital increases in cash, to the extent the capital increases are implemented for the purpose of the placement of the shares in the context of a listing or the subsequent placement on a foreign stock exchange. The Executive Board is further authorized to determine, with the consent of the Supervisory Board, the dividend rights of the new shares in deviation from section 60 (2) AktG as well as the further details of the implementation of capital increases from Authorized Capital 2017/II. The Supervisory Board is authorized to amend the wording of the Articles of Association, as appropriate, after implementation of a share capital increase from Authorized Capital 2017/II in accordance with the respective share capital increase or after expiry of the term of the authorization.

Conditional Capital VII

The share capital is conditionally increased by up to EUR 21,065.00 by means of issuing up to 21,065 new non-par value registered shares (Conditional Capital VII). The conditional capital increase can only be carried out to the extent that option rights were issued on the basis of the stock option program 09–13 of the Company and the holders of these share options exercise their right to subscribe to shares of the Company and the Company does not transfer its own shares in fulfillment of these option rights. The new shares will participate in the profit from the beginning of the financial year in which they are issued. Up to a maximum amount of 2,000 new shares could still be created upon exercise of granted and outstanding options from the underlying program.

Conditional Capital IX

The share capital is conditionally increased by up to EUR 521,095.00 by means of issuing up to 521,095 new non-par value registered shares (Conditional Capital XI). The conditional capital increase serves to grant shares to the holders or creditors of bonds or participation rights issued by the Company or a subsidiary until May 29, 2022, on the basis of the authorization resolution of the General Shareholders' Meeting dated May 30, 2017, if option or conversion rights are exercised, if option or conversion obligations are performed or if the Company exercises its optional right to deliver shares of the Company instead of payment of the cash amount due (or parts thereof). The new shares are issued at the respective option or conversion price to be determined in accordance with the aforementioned authorization resolution.

The conditional capital increase is only to be implemented if bonds or participation rights are issued in accordance with the authorization resolution of the General Shareholders' Meeting dated May 30, 2017, and only to the extent that

- option or conversion rights are exercised or
- holders or creditors of bonds or participation rights who are under an obligation to exercise an option or under a conversion obligation perform their obligation to exercise the option or their conversion obligation or
- the Company exercises its optional right to deliver shares of the Company instead of paying the cash amount due (or parts thereof)

and to the extent that no cash settlement is granted and no shares from an authorized capital, treasury shares or shares of another listed company are delivered. The new shares issued carry dividend rights from the beginning of the fiscal year in which they are issued. The Executive Board is authorized, as far as legally permissible and with the consent of the Supervisory Board, to determine that, if no resolution on the appropriation of net profit for the fiscal year immediately preceding the year of issue of the new shares has been adopted when the new shares are issued, the new shares shall carry dividend rights from the beginning of the fiscal year immediately preceding the year of issue.

The Executive Board is also authorized, with the consent of the Supervisory Board, to determine the further details concerning the implementation of the conditional capital increase.

Conditional Capital X

The share capital is conditionally increased by up to EUR 8,825,470.00 by means of issuing up to 8,825,470 new non-par value registered shares (Conditional Capital X). The conditional capital increase serves to grant shares to the holders or creditors of bonds or participation rights issued by the Company or a subsidiary until May 29, 2022, on the basis of the authorization resolution of the General Shareholders' Meeting dated May 30, 2017, if option or conversion rights are exercised, if option or conversion obligations are performed or if the Company exercises its optional right to deliver shares of the Company instead of payment of the cash amount due (or parts thereof). The new shares are issued at the respective option or conversion price to be determined in accordance with the aforementioned authorization resolution.

The conditional capital increase is only to be implemented if bonds or participation rights are issued in accordance with the authorization resolution of the General Shareholders' Meeting dated May 30, 2017, and only to the extent that

- option or conversion rights are exercised or
- holders or creditors of bonds or participation rights who are under an obligation to exercise an option or under a conversion obligation perform their obligation to exercise the option or their conversion obligation or
- the Company exercises its optional right to deliver shares of the Company instead of paying the cash amount due (or parts thereof)

and to the extent that no cash settlement is granted and no shares from an authorized capital, treasury shares or shares of another listed company are delivered. The new shares issued carry dividend rights from the beginning of the fiscal year in which they are issued. The Executive Board is authorized, as far as legally permissible and with the consent of the Supervisory Board, to determine that, if no resolution on the appropriation of net profit for the fiscal year immediately preceding the year of issue of the new shares has been adopted when the new shares are issued, the new shares shall carry dividend rights from the beginning of the fiscal year immediately preceding the year of issue.

The Executive Board is also authorized, with the consent of the Supervisory Board, to determine the further details concerning the implementation of the conditional capital increase.

Conditional Capital XI

The share capital is conditionally increased by up to EUR 1,000,000.00 through issuance of up to 1,000,000 new non-par value registered shares (Conditional Capital XI). The conditional capital increase serves to grant or issue shares to members of the Executive Board of the Company, to members of the management of domestic and foreign dependent companies of the Company as defined in sections 15 and 17 AktG and to employees of the Company and of domestic and foreign dependent companies of the Company as defined in sections 15 and 17 AktG who exercise the subscription rights they were granted prior to the end of April 30, 2018 pursuant to the authorization resolution of the General Shareholders' Meeting dated May 25, 2016 (Stock Option Program 16–18). The new shares are issued against payment by the beneficiary to the Company of the respective exercise price to be determined in accordance with the aforementioned authorization resolution.

The conditional capital increase is to be implemented only if subscription rights are issued in accordance with the authorization resolution on the Company's Stock Option Program 16–18 by the General Shareholders' Meeting dated May 25, 2016, and only to the extent that the holders of these subscription rights exercise them and the Company does not grant any treasury shares or cash compensation to fulfill these subscription rights.

The new shares issued carry dividend rights from the beginning of the fiscal year in which they are created. The Executive Board may determine, as far as legally permissible and with the consent of the Supervisory Board, that, if no resolution on the appropriation of net profit for the fiscal year immediately preceding the year of issue of the new shares has been adopted when the new shares are issued, the new shares shall be entitled to dividends from the beginning of the fiscal year immediately preceding the year of issue; if the new shares are issued to members of the Executive Board, the Supervisory Board shall be authorized to do so.

The Supervisory Board is also authorized to determine the further details concerning the implementation of the conditional capital increase where the granting of subscription rights to members of the Executive Board is concerned. In all other cases, the Executive Board is authorized to determine such details.

Conditional Capital XII

The Company's share capital is conditionally increased by up to EUR 1,000,000.00 by means of issuing up to 1,000,000 new non-par value registered shares (Conditional Capital XII). The conditional capital increase serves to grant or issue shares to members of the Executive Board of the Company, to members of the management of domestic and foreign dependent companies of the Company as defined in sections 15 and 17 AktG and to employees of the Company and of domestic and foreign dependent companies of the Company as defined in sections 15 and 17 AktG who exercise the subscription rights they were granted prior to the end of May 31, 2019, pursuant to the authorization resolution of the General Shareholders' Meeting dated May 30, 2017 (Stock Option Program 17–19). The new shares are issued against payment by the beneficiary to the Company of the respective exercise price to be determined in accordance with the aforementioned authorization resolution.

The conditional capital increase is to be implemented only if subscription rights are issued in accordance with the authorization resolution on the Company's Stock Option Program 17–19 by the General Shareholders' Meeting dated May 30, 2017, and only to the extent that the holders of these subscription rights exercise them and the Company does not grant any treasury shares or cash compensation to fulfill these subscription rights.

The new shares issued carry dividend rights from the beginning of the fiscal year in which they are created. The Executive Board may determine, as far as legally permissible and with the consent of the Supervisory Board, that, if no resolution on the appropriation of net profit for the fiscal year immediately preceding the year of issue of the new shares has been adopted when the new shares are issued, the new shares shall be entitled to dividends from the beginning of the fiscal year immediately preceding the year of issue; if the new shares are issued to members of the Executive Board, the Supervisory Board shall be authorized to do so.

The Supervisory Board is also authorized to determine the further details concerning the implementation of the conditional capital increase where the granting of subscription rights to members of the Executive Board is concerned. In all other cases, the Executive Board is authorized to determine such details.

Berlin, March 16, 2018

The Executive Board

KEY FIGURES

– in accordance with the consolidated financial statements –

EUR thousand (unless indicated otherwise)	2013	2014	2015	2016	2017
Statement of Profit or Loss					
Revenue	1,588	1,507	2,082	4,201	1,864
Gross profit	1,101	776	907	2,567	1,618
EBIT	-7,288	-8,383	-9,264	-12,312	-10,289
EBITDA	-6,489	-7,613	-8,596	-11,956	-9,946
EBITDA before share-based payment expenses	-5,902	-6,743	-9,352	-9,670	-9,369
Net loss for the period	-7,411	-8,854	-8,985	-11,161	-10,235
Balance Sheet					
Non-current assets	2,167	2,352	1,822	3,019	2,914
Investments in non-current assets	0	911	200	379	548
Current assets	8,914	8,968	10,776	15,203	16,859
Non-current liabilities	542	1,407	217	89	43
Current liabilities	4,080	3,805	5,283	3,709	9,153
Equity	6,459	6,108	7,098	14,424	10,577
Equity ratio (in %)	58.3	54.0	56.3	79.2	53.5
Total assets	11,081	11,320	12,598	18,222	19,773
Statement of Cash Flows					
Cash flow from operating activities	-6,505	-7,242	-8,127	-13,283	-9,576
Cash flow from investing activities	-20	-853	159	-379	-548
Cash flow from financing activities	11,527	7,603	9,032	17,422	11,499
Net cash flow	5,002	-492	1,064	3,760	1,375
Cash consumption	-6,525	-8,095	-7,968	-13,662	-10,124
Cash and cash equivalents at the end of the year	7,207	6,715	7,779	11,531	12,826
Stock					
Weighted average number of shares issued	11,910,017	13,631,263	17,117,101	20,271,817	23,161,627
Earnings per share (basic and diluted, in EUR)	-0.62	-0.65	-0.52	-0.55	-0.44
Share price as of the balance sheet date (in EUR)	6.12	5.10	2.22	4.55	4.25
Number of employees as of the reporting date	34	37	38	45	46

CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL 2017

– in accordance with International Financial Reporting Standards (IFRSs) –

CONTENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31

EUR thousand	Note	2016	2017
Revenue	1	4,201	1,864
Cost of sales	3	-1,634	-246
Gross profit		**2,567**	**1,618**
Gross margin (in %)		*61.1*	*86.8*
Other income	2	743	1,054
Research and development costs	3	-5,119	-4,329
Selling, general and administrative costs	3	-10,247	-8,035
Other expenses	3,6	-256	-597
Operating result/earnings before interest and taxes (EBIT)	7	**-12,312**	**-10,289**
Interest income	8	17	18
Interest expenses	8	0	-175
Other financial result	8	-1	-3
Net loss for the year before taxes on income		**-12,296**	**-10,449**
Taxes on income	9	1,135	214
Net loss for the year		**-11,161**	**-10,235**
Items that may be reclassified subsequently to profit or loss:			
Fair value adjustment of available-for-sale securities	23	-31	152
Exchange rate differences	23	-58	322
Other comprehensive income for the year		**-89**	**474**
Total comprehensive income for the year		**-11,250**	**-9,761**
Earnings per share (basic and diluted, in EUR)	10	**-0.55**	**-0.44**

CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31

ASSETS EUR thousand	Note	Dec 31, 2016	Dec 31, 2017
Non-current assets			
Intangible assets	11	755	668
Property, plant and equipment	12	713	720
Deferred taxes	14	1,551	1,526
Total non-current assets		**3,019**	**2,914**
Current assets			
Inventories	15	257	293
Trade receivables	16	2,248	937
Marketable securities	17	753	905
Cash and cash equivalents	18	11,531	12,826
Other current assets	19	414	1,898
Total current assets		**15,203**	**16,859**
Total assets		**18,222**	**19,773**

EQUITY AND LIABILITIES (EUR thousand	Note	Dec 31, 2016	Dec 31, 2017
Equity			
Subscribed capital	20	22,735	24,014
Capital reserve	21	54,873	59,509
Retained earnings	22	-51,719	-62,880
Net loss for the year		-11,161	-10,235
Other comprehensive income	23	-305	169
Total equity		**14,424**	**10,577**
Non-current liabilities			
Provisions	25	89	43
Total non-current liabilities		**89**	**43**
Current liabilities			
Trade payables	26	1,089	952
Deferred income	27	302	0
Convertible notes issued	28	0	6,536
Other liabilities	29	466	562
Provisions	25	1,852	1,103
Total current liabilities		**3,709**	**9,153**
Total equity and liabilities		**18,222**	**19,773**

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

EUR thousand	Note	2016	2017
Cash and cash equivalents at the beginning of the year		**7,779**	**11,531**
Operating activities			
Net loss for the year		**-11,161**	**-10,235**
Adjustments for:			
Stock option expenses	4	128	455
Amortization of intangible assets	5, 11	234	191
Depreciation of property, plant and equipment	5, 12	122	152
Losses from the disposal of non-current assets	6	3	2
Foreign currency exchange results		34	0
Financial income	8	-18	-18
Financial expenses	8	1	177
Taxes	9	-1,135	-214
Operating result before changes in operating assets and liabilities		**-11,792**	**-9,490**
Changes in operating assets and liabilities:			
Inventories	15	820	-37
Trade receivables	16	-2,005	1,262
Other assets	19	547	-1,491
Non-current and current provisions	25	789	-698
Trade payables and other liabilities	26, 28	-1,350	891
Deferred income		-284	-6
Tax paid		-8	-7
Cash flow from operating activities		**-13,283**	**-9,576**

EUR thousand	Note	2016	2017
Investing activities			
Payments to acquire intangible assets		-169	-37
Payments to acquire property, plant and equipment		-207	-183
Payments related to capitalized development costs		-892	-363
Proceeds from investment grants received	12	871	17
Interest received	8	18	18
Cash flow from investing activities		**-379**	**-548**
Financing activities			
Proceeds from the issue of new shares	20, 21	13,982	5,475
Payments for the issue of new shares	21	-729	-374
Proceeds from the conversion of convertible notes	27	4,169	6,461
Payments for the issue of convertible notes	27	0	-63
Cash flow from financing activities		**17,422**	**11,499**
Net cash flow		**3,760**	**1,375**
Currency translation effects		-8	-80
Cash and cash equivalents at the end of the year		**11,531**	**12,826**

As of the balance sheet date, EUR 24 thousand of cash and cash equivalents included restricted cash.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
AS OF DECEMBER 31

EUR thousand	Note	Subscribed capital	Capital reserve	Retained earnings	Net loss for the year	Other comprehensive income	**Group equity**
December 31, 2015		**18,088**	**40,945**	**-42,734**	**-8,985**	**-216**	**7,098**
Total comprehensive income 2016		**0**	**0**	**0**	**-11,161**	**-89**	**-11,250**
Transfer of net loss for the year 2015 to retained earnings		0	0	-8,985	8,985	0	0
Capital increase with subscription rights		2,946	0	0	0	0	2,946
Premium from the capital increase with subscription rights		0	11,036	0	0	0	11,036
Costs for the creation of new shares		0	-774	0	0	0	-774
Stock option expenses		0	128	0	0	0	128
Conversion of convertible notes		1,701	3,538	0	0	0	5,239
December 31, 2016		**22,735**	**54,873**	**-51,719**	**-11,161**	**-305**	**14,424**
December 31, 2016		**22,735**	**54,873**	**-51,719**	**-11,161**	**-305**	**14,424**
Total comprehensive income 2017	23	**0**	**0**	**0**	**-10,235**	**474**	**-9,761**
Transfer of net loss for the year 2016 to retained earnings		0	0	-11,161	11,161	0	0
Capital increase without subscription rights	20	1,279	0	0	0	0	1,279
Premium from the capital increase without subscription rights	20, 21	0	4,195	0	0	0	4,195
Costs for the creation of new shares	21	0	-52	0	0	0	-52
Stock option expenses	4, 21	0	455	0	0	0	455
Option premium on convertible notes	27	0	38	0	0	0	38
December 31, 2017		**24,014**	**59,509**	**-62,880**	**-10,235**	**169**	**10,577**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2017

BASIC INFORMATION, PRINCIPLES AND METHODS

DESCRIPTION OF BUSINESS ACTIVITY

Epigenomics ("Epigenomics" or the "Company") was founded as a limited liability company under German law (Gesellschaft mit beschränkter Haftung – GmbH) in 1998 and has its registered office in Berlin, Germany. In 2000, the Company was converted into a stock corporation under German law (Aktiengesellschaft – AG) and entered into the commercial register (Handelsregister) of Charlottenburg under HRB 75861. It has been listed in the Prime Standard segment of the Frankfurt Stock Exchange since July 19, 2004 (ticker symbol: ECX).

In accordance with its Articles of Association, the object of the Company is the development and marketing of procedures and devices for the production in quantity of particular epigenetic parameters such as DNA methylation patterns as well as the information technology bases necessary for their procurement and evaluation. Epigenomics AG is a molecular diagnostics company developing and commercializing a pipeline of proprietary products for screening, early detection and diagnosis of cancer. The Company's products enable doctors to diagnose cancer earlier and more accurately, leading to improved outcomes for patients.

GENERAL PRINCIPLES

The consolidated financial statements of Epigenomics AG have been prepared in accordance with section 315e of the German Commercial Code (Handelsgesetzbuch – HGB) and in application of the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB), London, in effect as of the December 31, 2017 balance sheet date, as adopted by the European Union (EU).

The Company has incurred accounting losses of EUR 62,880 thousand since being founded. The Company generated a net loss of EUR 10,235 thousand for 2017 (2016: EUR 11,161 thousand). The "going concern" principle in accordance with IAS 1.25 Presentation of Financial Statements was applied. With EUR 13.7 million in liquid assets (cash, cash equivalents and marketable securities) at year-end 2017, at the projected cash consumption the Company's current financial resources are sufficient to support its operations beyond 2018. Against this backdrop, it must be noted that we issued convertible notes with an aggregate principal amount of EUR 7.1 million in the reporting year. These mature as of December 31, 2018. Until that date, the holder has the right at any time before maturity to convert these into a specific number of shares to be issued by the Company. The holder also has the right, upon maturity, to demand the full redemption of the notes (less any portion previously converted into shares). Without successfully completing further corporate actions in 2018 and/or in the absence of an extension of maturity or changes in the terms and conditions of the notes to be agreed with the holders, it cannot be expected that the Company has the necessary liquidity as of December 31, 2018 to guarantee full or even partial redemption of the notes. In this case, we would be exposed to immediate insolvency as of the redemption date. Based on our past experience, and our projections of the future development of our business and the capital markets, we assume that any necessary corporate actions will be successful.

The consolidated statement of profit or loss has been prepared using the cost of sales method.

REPORTING PERIOD AND REPORTING CURRENCY

The reporting period (comparative period) as defined in these consolidated financial statements is the period from January 1 to December 31, 2017 (2016). The reporting currency is the euro (EUR). Many figures are rounded to the nearest thousand euros, which may give rise to rounding differences in the figures presented in these notes.

SCOPE OF CONSOLIDATION

The consolidated Group consists of Epigenomics AG as the parent company (registered office: Geneststrasse 5, 10829 Berlin, Germany) and Epigenomics, Inc. (registered office: Suite 400, 1455 NW Leary Way, Seattle, WA 98107, U.S.A.), as its sole subsidiary during the reporting period. Epigenomics, Inc. additionally operates an office in Germantown, MD, U.S.A.. Epigenomics AG held 100% of the share capital and the voting rights of Epigenomics, Inc. between January 1, 2016 and December 31, 2017.

For the reporting year and the previous year, the two companies each prepared separate financial statements which were either audited or reviewed, independent of their inclusion in the consolidated financial statements.

PRINCIPLES OF CONSOLIDATION

In acquisition accounting, the carrying amount of the investment is offset against the share of equity of the subsidiary attributable to the parent as at the date of acquisition. Any resulting difference is added to the assets and liabilities in the amount in which their market value deviates from their carrying amount at the time of the initial consolidation. Any amount in excess is recognized as goodwill.

All intercompany transactions and interim results, income and expenses, profits and losses, receivables and payables are eliminated in full on consolidation.

APPLICATION OF NEW AND REVISED IFRSs AND INTERPRETATIONS

In the reporting year, the Group for the first time applied the following amended IFRSs and Interpretations issued by the IASB and endorsed by the EU that are effective for accounting periods beginning on or after January 1, 2017. Generally, the amendments mentioned below require prospective application.

Amendments to IAS 7 Statement of Cash Flows – Disclosure Initiative (endorsed by the EU as of November 6, 2017)

The amendments to IAS 7 call for entities to provide expanded disclosures on changes in those liabilities reported in the balance sheet in the reporting period for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities (liabilities arising from financing activities). In addition, corresponding expanded disclosures must also be made on changes in the carrying amounts of financial assets (for example, assets that hedge liabilities arising from financing activities) if cash flows from those financial assets are likewise included in cash flows from financial activities.

Amendments to IAS 12 Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses (endorsed by the EU as of November 6, 2017)

The amendments to IAS 12 clarify the issue of recognizing a deferred tax asset for temporary differences resulting from unrealized losses. A temporary difference within the meaning of IAS 12 is determined based on the premise that the carrying amount as of the date of recognition will be recovered in the form of economic benefits that will flow to the entity in future periods. The existence of a temporary difference depends solely on a comparison of the IFRS carrying amount as of the respective reporting date with the tax base as of that date, and is not affected by possible future changes in the carrying amount.

It was also clarified that the IFRS carrying amount is only relevant to determining temporary differences, and not to estimating future taxable profits. When calculating taxable profit, it is also conceivable for a value exceeding the current IFRS carrying amount to be recovered, if this is probable. In this context it was also clarified that, if tax law restricts the utilization of deductible temporary differences to a specific type of income, the assessment of whether and in what amount a deferred tax asset is to be recognized must only be based on the source of income specific to these temporary differences.

Finally, it was clarified that future taxable profit must be calculated before the reversal of any deductible temporary differences in order to prove the recoverability of the deductible temporary differences.

Amendments to IFRS 12 Disclosure of Interests in Other Entities as Part of the Annual Improvements to IFRS Standards (2014–2016 Cycle) (EU endorsement pending as of December 31, 2017)

Endorsement by the EU was also scheduled for 2017 for the amendments to IFRS 12 as part of the annual improvements (2014–2016 Cycle). The amendments clarify that the requirements specified under this IFRS apply to an entity's interests that are classified as held for sale or discontinued operations (or included in a disposal group that is classified as held for sale or discontinued operations) in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Contrary to the timetable published by the European Financial Reporting Advisory Group (EFRAG) at the end of 2017, this endorsement did not take place in 2017. The amendments are thus not reflected in these consolidated financial statements.

New and Revised IFRSs and Interpretations that do not yet Require Mandatory Application (but Allow Early Application) for the Reporting Year

Except where indicated, the Group has not applied the following new and revised IFRSs and Interpretations which have been issued but are not yet effective and some of which have not yet been endorsed by the EU:

Mandatory application for fiscal years beginning on or after January 1, 2018:

- IFRS 9 *Financial Instruments* (as revised in 2014)
- IFRS 15 *Revenue from Contracts with Customers* including the *Modifications to IFRS 15 – Effective Date of IFRS 15* and the *Clarifications to IFRS 15 – Revenue from Contracts with Customers*
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*
- Amendments to IFRS 4 applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*
- Amendments to IAS 40 *Transfers of Investment Property*
- Annual Improvements to IFRSs (2014–2016 Cycle) – Amendments to IFRS 1, IFRS 12 and IAS 28
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

IFRS 9 (as revised in 2014) will supersede IAS 39 *Financial Instruments*: *Recognition and Measurement* in its entirety upon its effective date. Compared to IFRS 9 (as revised in 2013), the 2014 version includes limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" measurement category for certain simple debt instruments. It also adds the impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit. IFRS 9 was endorsed by the EU on November 22, 2016.

The new **IFRS 15** establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It will supersede the following revenue standards and interpretations upon its effective date: IAS 18 *Revenue*, IAS 11 *Construction Contracts*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers*, and SIC-31 *Revenue – Barter Transactions Involving Advertising Services*. IFRS 15 was endorsed by the EU on September 22, 2016.

The **Amendments to IFRS 2** clarify issues concerning the treatment and/or distinction between cash-settled and equity-settled share-based payments.

The **Amendments to IFRS 4** clarify the scope of the standard and the applicable conditions for a temporary exemption from IFRS 9 for insurers, as well as for a temporary exemption from specific requirements under IAS 28. The amendments to IFRS 4 were endorsed by the EU on November 3, 2017.

The **Amendments to IAS 40** clarify that a change in use of investment property occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use.

The **Annual Improvements (2014–2016 Cycle)** include amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, and to IAS 28 *Investments in Associates and Joint Ventures*. The amendments to IFRS 1 relate to the removal of short-term exemptions for first-time adopters. The amendments to IAS 28 clarify the measurement of an associate or a joint venture at fair value.

The new **IFRIC 22** addresses the issue of how to determine the date of the transaction for the purpose of determining which exchange rate to use when recognizing revenue in circumstances where an entity has received advance consideration in a foreign currency.

Mandatory application for fiscal years beginning on or after January 1, 2019:

- IFRS 16 *Leases*
- IFRIC 23 *Uncertainty over Income Tax Treatments*
- Amendments to IFRS 9 *Prepayment Features with Negative Compensation*
- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*

The new **IFRS 16** provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. Upon its effective date it will supersede IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions in the Legal Form of a Lease*. IFRS 16 introduces significant changes to lessee accounting. It removes the distinction between operating and finance leases under IAS 17 and instead requires a lessee to recognize a right-of-use asset and a lease liability at lease commencement for all leases, except for short-term leases and leases of low value assets. A lessee can apply IFRS 16 either by means of a full retrospective approach or a modified retrospective approach. If the latter approach is selected, an entity is not required to restate the comparative information and the cumulative effect of initially applying IFRS 16 must be presented as an adjustment to opening retained earnings (or other component of equity as appropriate). IFRS 16 was endorsed by the EU on October 31, 2017.

The new **IFRIC 23** clarifies the accounting for uncertainties in income taxes. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12.

The **Amendments to IFRS 9** contain on the one hand changes regarding symmetric prepayment options. These amend the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments. On the other hand, the amendments clarify that the carrying amount of a financial liability is immediately recognized in profit or loss following modification or exchange. A retrospective change of the accounting treatment may therefore become necessary if in the past the effective interest rate was adjusted and not the amortized cost amount.

The **Amendments to IAS 28** clarify that an entity applies IFRS 9, including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. In addition, paragraph 41 was deleted.

Mandatory application for fiscal years beginning on or after January 1, 2021:

- IFRS 17 *Insurance Contracts*

The new **IFRS 17** establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that a reporting entity provides relevant information and faithfully represents those contracts.

Application of the new standards and expected effects on the Company's future accounting

The Company intends to adopt these new and/or revised standards, amendments and interpretations as soon as their adoption is mandatory and they are endorsed by the EU.

The Company does not engage in hedge accounting. In addition, an analysis of past developments in receivables has shown that the Company was not exposed to any notable defaults. Adoption of the new IFRS 9 is therefore not expected to give rise to any material effects on the Company's financial statements for fiscal year 2018. This is particularly true of the "impairment approach" prescribed in the standard, which we do not expect to have any effect with regard to our current customer base. In addition, the new requirements for classifying financial assets depending on our business model and on classifying financial liabilities are not expected to give rise to any changes in measurement and recognition.

The application of the new IFRS 15 will not have any material impact on the Company's financial statements for fiscal year 2018, as its business model is based on standardized product sales and royalty income which are not significantly affected by the new requirements.

The application of IFRS 16 will impact the Company's financial statements from fiscal year 2019 onwards. As a result of this new standard on leases, the Company's rental agreement for office space at its Berlin headquarters must then be recognized as a liability in the balance sheet instead of being treated as an off-balance sheet liability. Based on the current contractual situation and parameters, the rental agreement will correspondingly be recognized as a non-current asset in a range of approximately EUR 600 thousand to EUR 700 thousand as of January 1, 2019. From fiscal year 2019, this will increase total assets and cause a decrease in the equity ratio. Amortization and impairment, as well as the interest expense on the affected leases will in future be recognized in other comprehensive income as opposed to the current method of recognizing the lease expense, which will result in a slight improvement in EBIT, EBITDA, and EBITDA before share-based payment expenses. Currently, the Company has no other lease agreements in place that would be affected by IFRS 16.

The Company is currently examining the effects of applying IFRIC 23 on the consolidated financial statements from fiscal year 2019 onwards.

From the current perspective, the Company does not expect that application of the other amendments, improvements, and new interpretations will have any material impact on its financial statements for fiscal years from 2018 onwards (e.g., because these standards and interpretations or their mere clarifications regarding presentation are not applicable).

MANAGEMENT'S JUDGEMENT, ASSUMPTIONS AND EXPECTATIONS

The management of the Company has made several judgements in the process of applying the entity's accounting policies that have a significant effect on the amounts recognized in the financial statements. Those judgements concern the capitalization of development costs and the recognition of deferred taxes. The judgements are described for each relevant position in the enumeration of accounting and valuation principles.

Management's expectations on the future are usually based on the current economic outlook according to the consensus prognoses by leading economic and financial research institutions and independent analysts. The global economic situation is not expected to change significantly in 2018, but rather to rest on shaky ground due to the increasing political challenges around the world.

The plans of the Group's management do not expect Epigenomics to be highly dependent on the overall economic situation in the short term. The Group's operating activities are furthermore not highly dependent on the availability of or the price development for commodities or industrial supplies but rather on the individual situation of the Company and its opportunities to continue its operations by further financing transactions. Therefore, the Company is still dependent on the condition and the development of the capital markets (mainly in the U.S.A. and in Germany), particularly with regard to the life sciences industry. Additionally, the Company is strongly dependent on inclusion in expert organization guidelines and the reimbursement decisions by the payors in the healthcare system of the U.S.A. with regard to its lead product – Epi proColon – and subsequently on the commercial success of this product. The Company's strategy going forward assumes positive reimbursement decisions in 2018 and the years to come.

At the end of 2017, the U.S. Congress passed comprehensive tax reform legislation that resulted in a significant tax cut for businesses with effect as of January 1, 2018. This improves the long-term competitiveness of the U.S.A. as a business location, and is expected to have noticeable effects on the location decisions and investment activities of businesses from a range of sectors. For our Company, too, this necessitates taking the new conditions into account in our strategic decision-making processes and making any necessary modifications to our plans for the future. By contrast, it remains to be seen how developments will pan out in Germany given the fact that, following the parliamentary elections in the fall of 2017, a new government had still not been formed by the end of the year. Although tax relief (such as rescinding the "solidarity surcharge") has to date been a discussion point in exploratory talks between the potential coalition partners, it cannot currently be foreseen whether a specific proposal will make it onto the new coalition's agenda. For this reason, our initial assumption is that the conditions in Germany will remain unchanged in 2018.

The Trump administration in the U.S.A. also plans to partially or even fully repeal ObamaCare, the semi-state healthcare system introduced by the previous administration. It remains to be seen how successful this will be. However, the assumption must be that attempts will continue to be made to stem the cost explosion in the healthcare sector, and that this will also be to the detriment of the life sciences industry.

All future scenarios furthermore assume essentially unrestricted access to the relevant clinical and biological samples, corresponding clinical data and sufficient resources for the execution of the Company's commercial projects.

In the short to medium term, the expectation is that the euro will continue to strengthen against the U.S. dollar, as it has since spring 2017, on the back of the Trump administration's economic policy. Management plans are based on an average exchange rate of EUR/USD 1.18 throughout 2018. It also took note of the predictions of financial experts and banks at the time of the budget preparation.

The preparation of the consolidated financial statements in accordance with IFRSs requires, in the case of several items, that assumptions or estimates be made that affect the carrying amounts in the consolidated balance sheet and/or the amounts recognized in the consolidated statement of profit or loss and other comprehensive income. This also applies to the presentation of contingent assets and liabilities. The actual amounts may vary from these assumptions and estimates.

Determining the useful life of capitalized development costs of the Company's products requires a long-term estimation of the market approval timelines for the products, their market acceptance and/or the speed of their market penetration, regulatory developments in key markets, the timing and the extent of reimbursement decisions, and competition just to name some of the most important parameters. Particularly for novel products like blood-based cancer tests there are no empirical values and less experience available, which makes any estimations difficult. The Group's management closely observes developments on the key markets and regularly reviews its own projections. Reaching or not reaching a milestone – like a market approval decision – will therefore lead to remeasurements which may possibly be decisive for a change of the previously assumed useful lives.

In particular, further assumptions and estimates are required for:

- determining the useful lives of other property, plant and equipment and non-current intangible assets,
- determining whether the criteria for the capitalization of development costs and the recoverability of internally generated intangible assets are met,
- testing assets for impairment (particularly regarding intangible assets),
- determining the terms of in-licensed intellectual property rights,
- determining if deferred taxes are realizable,
- determining whether securities classify as "available for sale" or "at fair value through profit or loss",
- determining the fair value of financial instruments,
- setting the parameters regarding the measurement of share-based payment instruments, and
- accounting for provisions (particularly the determination of the likelihood of occurrence).

ACCOUNTING AND VALUATION PRINCIPLES

Fair value measurement

These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at revalued amounts or their fair values at the end of each reporting period.

For determining and disclosing the fair value of financial instruments, the Company uses the following hierarchy in accordance with IFRS 13 *Fair Value Measurement:*

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within level 1 that are observable for assets or liabilities, either directly (as prices) or indirectly (derived from prices)

Level 3: Inputs for assets or liabilities that are not based on observable market data (unobservable inputs)

The carrying amounts of financial assets and liabilities such as cash and cash equivalents, marketable securities, trade receivables, trade payables, convertible notes and other current liabilities approximate their fair values due to their short-term maturities. The fair value of marketable securities is based on quoted market prices (level 1). There were no transfers between level 1 and level 2 fair value measurements, and no transfers into or out of level 3 fair value measurements during the reporting period.

Revenue recognition

Revenue from the sale of goods and property rights (e.g., patents), and the rendering of other services is recognized when:

- the goods or property rights have been delivered to the buyer,
- the risks and rewards connected with the goods or property rights have been transferred,
- the amount of revenue and the costs involved in the transaction can be measured reliably and
- it is probable that the economic benefits associated with the transaction will flow to the entity.

Revenue from research and development collaboration agreements is recorded and recognized pursuant to the percentage of completion method when costs are incurred in connection with the contractual obligations in accordance with the applicable performance requirements and terms of the respective contracts.

Milestone payments are recorded and recognized when acknowledgment of having achieved applicable performance requirements is received from the partner.

Non-refundable upfront payments are deferred and recognized on a straight-line basis over the contractual collaboration term. Optional prolongation terms are considered individually in accordance with the underlying exercise conditions and anticipated likelihood of their exercise.

Royalty revenue is recognized on an accrual basis in accordance with the substance of the relevant contract. Royalties determined on a time basis are recognized on a straight-line basis over the contracted period. Royalty arrangements that are based on sales and other measures are recognized by reference to the underlying contract.

Cost of sales

Cost of sales includes expenses for material used in products sold, changes in inventories, services received in connection with product sales or other types of revenue, royalties to be paid to third parties and triggered by product sales or other types of revenue. In addition, cost of sales includes directly allocable portions of personnel expenses, costs of intellectual property, depreciation, amortization and impairment, as well as pro rata overheads.

Other income

Other income includes third-party research grants, currency exchange rate gains, earnings from the reversal of provisions, income from the sale of assets outside of the Company's ordinary business activities, reimbursements from suppliers and insurance companies, and other non-operating earnings.

Government grants

In individual cases, cost contributions from public authorities are granted for research projects. These grants are partially paid in advance and then reported as deferred income (see below). To some extent, grants will only be paid after the work has been performed and proven. A current asset is recorded in such cases.

Subsidies received for product development activities are deducted from capitalized development costs, and investment grants and subsidies are offset directly against the acquisition costs of the subsidized assets, i.e. in both cases the carrying amount of the asset is reduced. The grant is thus recognized as a reduced depreciation expense over the remaining useful life.

Government grants usually come with certain requirements, which have been met so far by the Company and are expected to be met going forward. Should the requirements cease to be met in the future, repayment obligations could arise which have not been recognized yet.

Research and development costs

Research and development costs (R&D costs) include the personnel expenses for the R&D staff, costs of R&D material, depreciation, amortization and impairment, service fees, licensing fees and other direct expenses in connection with the Company's research and/or development activities (including clinical studies) which cannot be classified as revenue-generating activities. In addition, R&D costs include pro rata overhead costs charged to the R&D departments.

Selling, general and administrative costs

Selling, general and administrative costs (SG&A costs) include:

- all direct personnel and material expenses of the corresponding departments,
- depreciation and amortization expenses of the corresponding departments,
- other direct expenses of the corresponding departments, and
- pro rata overheads of the corresponding departments as well as the Company's statutory costs.

Other expenses

Other expenses consist of all operating expenses which do not classify as cost of sales, R&D costs or SG&A costs as defined above. This includes in particular but not exclusively

- foreign exchange rate losses,
- losses from the disposal of assets outside of the ordinary business activities, and
- expenses due to extraordinary effects or measures such as restructuring expenses or write-downs of non-current assets (e.g., goodwill impairment).

Share-based payment expenses

The fair value of granted stock options is determined in accordance with IFRS 2 *Share-based Payment* by simulation of the future movement in the Company's share capital on the basis of market parameters (e.g., volatility and risk free rate) and normal distributed random numbers (Monte Carlo simulation). The fair value of the stock options is expensed over the expected option term of up to four years against the capital reserve. The measurement is based on the fair value as of the grant date.

The fair value of phantom stock rights granted in previous years is calculated using the binomial model based on the Cox-Ross-Rubinstein model in accordance with IFRS 2 *Share-based Payment*, and recognized pro rata temporis as expenses and as a provision due to the obligation of the Company for a cash settlement in the future. If phantom stock rights are held by current employees of the Group, the related expenses are recorded as personnel costs and included in the payroll provisions. If phantom stock rights are held by former employees of the Group, the related expenses are recorded as other costs and included in other provisions.

Intangible assets

Intangible assets other than goodwill and capitalized development costs are measured at cost less straight-line amortization. Depending on the investment, the useful life of between three years (software) and twenty years (patents) will be defined. For patents, the useful life in individual cases depends on the term of the patent protection. Amortization of intangible assets is allocated in the consolidated statement of profit or loss and other comprehensive income to the functional area in which they are used. IAS 38 *Intangible Assets* is applied. In accordance with this standard, an intangible asset is reported if it is likely that a future economic benefit is associated with the use of such asset and that its cost can be reliably determined. An impairment test is carried out annually for assets or groups of assets for which an impairment is assumed. If the carrying amount of an intangible asset exceeds the recoverable amount of this asset as of the balance sheet date, this will be taken into account by means of a write-down, the amount of which is determined by the result of the impairment test. If there is no longer any indication of impairment, the impairment loss is reversed up to a maximum of the asset's amortized cost.

Capitalized development costs

Expenditure on research activities is recognized as an expense in the period in which it is incurred. An internally generated intangible asset arising from internal development is recognized if, and only if, all of the following requirements in accordance with IAS 38.57 *Intangible Assets* have been fulfilled:

- proof of the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- proof of the intention to complete the intangible asset to use or sell it;
- proof of the ability to use or sell the intangible asset;
- proof of how the intangible asset will generate probable future economic benefits;
- proof of the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- demonstration of the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for the capitalization of development costs is the sum of expenditure incurred from the date when the intangible assets first met the aforementioned recognition criteria. Where no internally generated intangible asset can be recognized, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, capitalized development costs are reported at cost less accumulated amortization and impairment losses, on the same basis as intangible assets acquired separately. The useful life of such capitalized development costs is assumed under consideration of the business plan and amounts to up to ten years for the currently capitalized assets. Amortization is recorded on a straight-line basis.

Property, plant and equipment

Property, plant and equipment is measured at cost less depreciation. Apart from directly attributable costs, pro rata overhead costs and depreciation are also included in the cost of internally produced items of property, plant and equipment. The cost is reduced by public and governmental investment grants. Repair costs are immediately recorded as an expense. Leasehold improvements are depreciated on a straight-line basis over the remaining term of the underlying leases (including optional extension periods). Movable items of property, plant and equipment are depreciated on a straight-line basis. The useful life is three to ten years for technical and electronic equipment and five to ten years for operating and office equipment.

In the "Assets schedule", fully depreciated items of property, plant and equipment are shown under cost and accumulated depreciation until the assets in question are decommissioned. Once disposed of, the asset and its accumulated depreciation are reported as a disposal. Income or expenses resulting from the disposal of assets (proceeds less residual carrying amount) is reported in the Consolidated Statement of Profit or Loss and Other Comprehensive Income under Other Income/Other Expenses.

If the carrying amount of the property, plant and equipment calculated in accordance with the above principles exceeds the recoverable amount of these assets as of the balance sheet date, it will be taken into account by means of impairment. The amount of the impairment is determined by the net sale proceeds or – if higher – the net present value of future cash flows estimated from the value in use of the asset. An impairment test will be carried out annually for assets or groups of assets for which an impairment is assumed. If there is no longer any indication of impairment, the impairment loss is reversed up to a maximum of the asset's amortized cost.

Deferred taxes

Deferred taxes are calculated in accordance with IAS 12 *Income Taxes*. They are recognized on the basis of temporary differences between the carrying amount of assets and liabilities in the financial statements in accordance with IFRS of the companies involved and in their tax accounts. Furthermore, deferred tax assets are recognized for unutilized tax loss carryforwards and unutilized tax credits to the extent that deferred tax liabilities exist, or that taxable income is likely to be available against which to utilize the benefits of the temporary differences and that these are expected to reverse in the foreseeable future. At each balance sheet date, it is determined whether or not these requirements are still met. If such a realization in the foreseeable future is not likely, a valuation allowance is recognized against the tax loss carryforwards.

Deferred tax assets and tax liabilities from temporary differences associated with investments in subsidiaries are not recognized when the timing of the 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 assets and liabilities are measured using the local tax rates applicable on the balance sheet date or the local tax rates which are expected to apply at the future point in time when the asset is realized or the liability settled. Tax rates are used that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets and liabilities are only offset if they relate to taxes levied by the same tax authority and if the Group intends to settle its current tax assets and liabilities on a net basis.

Inventories

Inventories consist of finished and unfinished products, raw materials, low-value consumables as well as other production supplies. They are measured at the lower of cost and net realizable value. The manufacturing costs of the finished and semi-finished products include directly attributable unit costs, depreciation, amortization of capitalized development costs and overheads attributable to the production process. For finished and semi-finished products the principle of item-by-item measurement applies.

Financial instruments

Financial assets and liabilities are initially measured at fair value. Purchases and sales of financial assets are recognized using trading date accounting.

Primary financial instruments

The reported primary financial instruments include cash and cash equivalents, marketable securities, trade receivables, trade payables and other liabilities. Those instruments are initially recognized at cost or at fair value and then at amortized cost or fair value.

Marketable securities

In accordance with the definitions of IAS 39.9 *Financial Instruments: Recognition and Measurement*, the Company's marketable securities are classified either as "financial assets at fair value through profit or loss" (FVTPL) or as "available-for-sale financial assets" (AFS). The Group does not hold financial assets for trading purposes. Irrespective of this classification, financial assets are recognized at fair value. Changes in fair value are recognized through profit or loss or – if the securities classify for AFS – in other comprehensive income until the securities are disposed of or are determined to be permanently impaired. Impairment losses recognized in profit or loss are subsequently reversed if an increase in the fair value of the instrument can be objectively determined.

Trade receivables

Trade receivables are measured at fair value, net of allowances for doubtful accounts.

Derivative financial instruments

Derivative financial instruments are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair values at the end of each reporting period. The result is recognized as financial result through profit or loss.

The fair values of derivative financial instruments generally correspond to their market values. For unlisted derivatives the fair values are determined by individual settlement quotes from the Group's contractual partner to the underlying agreement.

Impairment of financial assets

At the balance sheet date, financial assets other than those measured at fair value are tested for impairment whenever there is an indication that the asset might be impaired. A financial asset is impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows from the asset have been impacted. Objective evidence that financial assets are impaired can include the default or the insolvency of a debtor or economic conditions that correlate with default in payment obligations.

For available-for-sale securities, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment, as is the disappearance of an active market for such securities.

The carrying amount of a financial asset is directly reduced by the impairment amount for all financial assets, with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered to be no longer collectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

Additionally, global allowances against trade receivables are recognized on a portfolio basis determined by reference to past default experience.

Cash equivalents

A cash equivalent is defined as a financial instrument which is readily convertible on a short-term basis to a known amount of cash and which is subject to an insignificant risk of changes in value (IAS 7.6 *Statement of Cash Flows*). Financial instruments generally qualify as cash equivalents when they are more closely related to the money markets than to the bond markets and are issued by a debtor rated "investment grade". All such cash equivalents must be readily convertible into primary cash.

Prepaid expenses

Payments before the balance sheet date in respect of expenses for a specific period after that date are deferred and reported as prepaid expenses in other current assets.

Financial liabilities

On initial recognition, financial liabilities are carried at fair value less transaction costs. The price is determined on a price-efficient and liquid market. In subsequent periods, the financial liabilities are measured at amortized cost. Any differences between the amount received and the amount repayable are recognized through profit or loss over the term of the loan using the effective interest method.

Compound financial instruments constituting a financial liability to the Company and granting an optional conversion right into an equity instrument are recognized separately by an equity and a liability element in the balance sheet. The liability element is measured at fair value.

Non-current and current liabilities

Liabilities are classified as current when certain criteria in accordance with IAS 1.60 et seq. *Presentation of Financial Statements* are met. The Company's normal operating cycle in accordance with this definition is generally 12 months. In the licensing business, the operating cycle exceeds 12 months.

Trade payables

Trade payables are initially recognized at the fair value of the received goods and services. After initial recognition they are measured at amortized cost. Foreign currency liabilities are translated at market exchange rates as of the reporting date. Trade payables are derecognized if the obligation on which this liability is based is fulfilled, canceled or expired.

Convertible notes issued

Convertible notes are compound financial instruments which must be split in a repayment obligation (liability element) and a conversion right (equity element). The carrying amount of the equity element to be recognized in the capital reserves is determined by using the subtraction method (subtraction of the financial liability from the total value of the compound instrument). The equity element is presented in equity as "option premium on convertible notes".

Deferred income

Deferred income is recognized for grants and for research and development payments (R&D payments) received in advance. Grants received in advance for research expenses which were provided by governmental or comparable national, regional or local authorities are recognized through profit or loss as other income over the subsidized terms of each grant project according to its stage of completion. Subsidies received in advance for product development activities are deducted from capitalized development costs. Payments received in advance from customers for R&D services to be rendered by the Company in the future or for licenses are deferred and recognized through profit or loss under the terms and conditions of the contract according to the stage of project completion (percentage of completion method).

Provisions

In accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, a provision is recognized if a present obligation exists as a result of a past event, if it is probable that an outflow of resources embodying economic benefits will be required to settle this obligation and if a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows expected to be required to settle the present obligation, its carrying amount is the present value of these cash flows. Obligations arising from share-based payment programs that provide for awards payable in cash (i.e., the Company's phantom stock programs) are measured at fair value and recognized as current or non-current provisions based on the remaining term of the underlying rights until these can be exercised.

CURRENCY TRANSLATION

In the separate financial statements, receivables and liabilities in foreign currencies are measured using the corresponding euro reference rate published by the European Central Bank and applicable as of the balance sheet date. Items that are hedged by forward transactions are valued at their forward prices.

Since the beginning of 2016, the functional and reporting currency of our U.S. subsidiary has been the U.S. dollar.

For consolidation purposes, the expenses and income of the subsidiary are translated into euros at the average monthly exchange rates. The monetary assets and liabilities of the subsidiary are translated at the end of each reporting period using the closing rate. Equity components and other non-monetary items that are measured in terms of historical cost in U.S. dollars are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in U.S. dollars are translated using the exchange rates at the date when the fair value was measured. The resulting translation differences are accounted for separately within equity.

Foreign currency exchange rates applied in the reporting period:

Closing rates	Dec 31, 2016	Dec 31, 2017
EUR/USD	1.0541	1.1993

Average rates	2016	2017
EUR/USD	1.1032	1.1370

NOTES TO THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

1 REVENUE

Revenue by type:

	2016		2017	
	EUR thousand	in %	EUR thousand	in %
Product sales (own and third-party)	2,213	52.7	548	29.4
Sale of non-capitalized property rights	1,350	32.1	0	0.0
Licensing income	564	13.4	1,271	68.2
R&D income and reimbursements	74	1.8	45	2.4
Total revenue	**4,201**	**100.0**	**1,864**	**100.0**

Licensing income is generated by out-licensing of own intellectual property (e.g., technologies, biomarkers) to third parties. Revenue from product sales is generated by the sale of the Group's products through own sales channels, through distribution partners or by the rendering of services by third parties based on the Company's products. R&D income and reimbursements are generated by rendering services in connection with contract research and by charging pass-through costs to third parties.

Revenue by geographical market:

	2016		2017	
	EUR thousand	in %	EUR thousand	in %
Europe	1,907	45.4	280	15.0
North America	1,536	36.6	943	50.6
Asia	752	17.9	638	34.2
Rest of the world	6	0.1	3	0.2
Total revenue	**4,201**	**100.0**	**1,864**	**100.0**

In the reporting year, 81% of total revenue (2016: 90%) was generated by the Company's three largest customers.

2 OTHER INCOME

EUR thousand	2016	2017
Income from the reversal of provisions	65	581
Reversal of write-downs on receivables	0	209
Income from the disposal of other assets	0	161
Recoveries and refunds	85	59
Correction of deferred liabilities	122	42
Foreign exchange rate gains	156	2
Third-party research grants from public authorities	312	0
Other	3	0
Total other income	**743**	**1,054**

3 COST ALLOCATION BY FUNCTION

2016 EUR thousand	Cost of sales	R&D costs	SG&A costs	Other expenses	**Total**
Materials and consumables	1,306	678	210	0	2,194
Depreciation, amortization and impairment	3	290	63	0	356
Personnel costs	6	2,815	4,483	0	7,304
Other costs	319	1,336	5,491	256	7,402
Total	**1,634**	**5,119**	**10,247**	**256**	**17,256**

2017 EUR thousand	Cost of sales	R&D costs	SG&A costs	Other expenses	**Total**
Materials and consumables	197	591	17	0	805
Depreciation, amortization and impairment	9	253	81	0	343
Personnel costs	4	2,247	3,285	0	5,536
Other costs	36	1,238	4,652	597	6,523
Total	**246**	**4,329**	**8,035**	**597**	**13,207**

4 PERSONNEL COSTS

EUR thousand	2016	2017
Wages and salaries	4,415	4,304
Share-based payment expenses	2,286	577
– thereof: expenses for issuing phantom stock rights (PSR) to members of the Executive Board		
PSR expenses for Dr. T. Taapken (CEO/CFO until June 30, 2016)	*373*	*0*
PSR expenses for Dr. U. Staub (COO)	*378*	*0*
– thereof: expenses for issuing stock options (SO) to members of the Executive Board		
SO expenses for G. Hamilton (CEO)	*42*	*99*
SO expenses for J. Garces, Ph.D. (CEO since December 1, 2017)	*0*	*11*
SO expenses for Dr. U. Staub (COO)	*35*	*52*
Social security expenses	602	655
– thereof:		
employer's contribution to a national pension fund (Germany)	*155*	*160*
employer's contribution to a 401k savings plan (U.S.A.)	*37*	*51*
Total personnel costs	**7,303**	**5,536**

The Group employed an average of 44 employees in 2017 (2016: 42). The 46 employees as of the end of 2017 included 24 employees across the areas of research, product development, IP, regulatory affairs, quality assurance and manufacturing. Their activities are reported as R&D costs in the financial statements. The remaining 22 employees reported as selling, general and administrative functions work in business and commercial development, customer and technical service, accounting, finance, legal, human resources, IT, investor relations and general management.

The share-based payment expenses for PSR in the amount of EUR 122 thousand (2016: EUR 2,158 thousand) resulted from cash payments for exercises of PSR and revaluations of issued PSR which had not been exercised yet, and included a fluctuation of the fair value of the rights in the amount of EUR 109 thousand (2016: EUR 1,936 thousand). Measurement of the stock options granted gave rise to share-based payment expenses amounting to EUR 455 thousand (2016: EUR 128 thousand).

5 DEPRECIATION AND AMORTIZATION

EUR thousand	2016	2017
Amortization of intangible assets	234	191
– thereof: amortization of capitalized development costs	*185*	*111*
Depreciation of property, plant and equipment	122	152
Total depreciation and amortization	**356**	**343**

6 OTHER EXPENSES

EUR thousand	2016	2017
Foreign exchange rate losses	27	595
Losses from the disposal of assets	3	1
Allowance for doubtful accounts	226	0
Other	0	1
Total other expenses	**256**	**597**

7 OPERATING RESULT (EBIT) AND EBITDA

EUR thousand	2016	2017
Operating result/earnings before interest and taxes (EBIT)	**-12,312**	**-10,289**
Total depreciation and amortization	356	343
EBIT before depreciation and amortization (EBITDA)	**-11,956**	**-9,946**
Share-based payment expenses	2,286	577
EBITDA before share-based payment expenses	**-9,670**	**-9,369**

8 FINANCIAL RESULT

Net gains and losses on all financial instruments:

EUR thousand	2016	2017
Interest from cash and cash equivalents	0	0
Interest from available-for-sale financial assets	17	18
Interest and related income	**17**	**18**
Other financial income	**0**	**0**
Total financial income	**17**	**18**
Other interest expenses	0	-175
Interest and related expenses	**0**	**-175**
Other finance costs	-1	-3
Total financial expenses	**-1**	**-178**
Total financial result	**16**	**-160**

9 TAXES ON INCOME

The reported taxes on income in the amount of EUR -214 thousand (2016: EUR -1,135 thousand) consist solely of taxes relating to the Company's U.S. subsidiary.

EUR thousand	2016	2017
Current tax expenses	8	8
Deferred tax income due to loss carryforwards	-1,143	-222
Total taxes on income	**-1,135**	**-214**

For the calculation of deferred taxes of the U.S. subsidiary, a local tax rate of 21% was applied from January 1, 2018 onwards (previous year: 34%).

Calculation of the applicable tax rate in Germany for the purpose of deferred taxes:

in %	2016	2017
Corporate income tax	15.0	15.0
Solidarity surcharge	5.5	5.5
Trade tax	14.35	14.35
underlying trade tax rate of assessment	*410*	*410*
Total applicable tax rate in Germany for the purpose of deferred taxes	**30.2**	**30.2**

Tax reconciliation:

EUR thousand	2016	2017
Net loss for the year before taxes on income	**-12,296**	**-10,449**
Expected tax income	**3,713**	**3,156**
applicable tax rate for the Group	*30.2%*	*30.2%*
permanent differences	*-37*	*-41*
other foreign taxes	*-9*	*-7*
effect of foreign taxes	*129*	*-313*
unrecognized tax loss carryforwards	*-2,662*	*-2,580*
Effective tax income	**1,135**	**214**
Effective tax rate	**9.2%**	**2.1%**

The expected tax expense for the reporting year has been calculated by applying the individual tax rates for the Group companies to the net results before taxes on income. Permanent differences result from non-deductible expenses in accordance with German tax law.

10 EARNINGS PER SHARE

Earnings per share (basic) are calculated by dividing the net loss for the year by the weighted average number of shares issued. The outstanding stock options and convertible notes granted by the Company are antidilutive in accordance with IAS 33.41 and 33.43 *Earnings per Share*. Therefore, the earnings per share (diluted) equal the earnings per share (basic). The number of shares issued as of the balance sheet date amounted to 24,014,360 (December 31, 2016: 22,735,260).

	2016	2017
Net loss for the year (in EUR thousand)	-11,161	-10,235
Weighted average number of shares issued	20,271,817	23,161,627
Earnings per share (basic and diluted, in EUR)	-0.55	-0.44

NOTES TO THE CONSOLIDATED BALANCE SHEET

NON-CURRENT ASSETS

11 INTANGIBLE ASSETS

EUR thousand		Software	Licenses/ patents	Development costs	**Total intangible assets**
Jan 1, 2016	**Cost**	**587**	**1,151**	**3,559**	**5,297**
	Additions	171	0	27	198
	Disposals	0	0	0	0
Dec 31, 2016	**Cost**	**758**	**1,151**	**3,586**	**5,495**
	Additions	37	0	67	104
	Disposals	-384	-113	0	-497
	Currency translation	-1	0	0	-1
Dec 31, 2017	**Cost**	**410**	**1,038**	**3,653**	**5,101**
Jan 1, 2016	**Accumulated amortization and impairment**	**579**	**1,033**	**2,893**	**4,505**
	Additions	15	35	185	235
	Disposals	0	0	0	0
Dec 31, 2016	**Accumulated amortization and impairment**	**594**	**1,068**	**3,078**	**4,740**
	Additions	40	40	111	191
	Disposals	-384	-113	0	-497
	Currency translation	-1	0	0	-1
Dec 31, 2017	**Accumulated amortization and impairment**	**249**	**995**	**3,189**	**4,433**
Dec 31, 2016	**Carrying amounts**	**164**	**83**	**508**	**755**
Dec 31, 2017	**Carrying amounts**	**161**	**43**	**464**	**668**

The capitalized development costs for Epi proColon are assumed to have a useful life of ten years. The annual amortization for this asset amounted to EUR 111 thousand.

The Company finished developing the blood-based Epi proLung test at the end of the reporting year. The EUR 1,168 thousand total costs incurred (2016: EUR 892 thousand) was reduced by subsidies received as part of the development project from EUR 1,101 thousand (2016: EUR 865 thousand) to a net amount of EUR 67 thousand (2016: EUR 27 thousand). Going forward, it is assumed that this asset will also have a useful life of ten years, commencing at the beginning of the 2018 fiscal year.

12 PROPERTY, PLANT AND EQUIPMENT

EUR thousand		Fixtures/ leasehold improvements	Technical equipment	Other property, plant and equipment	**Total property, plant and equipment**
Jan 1, 2016	**Cost**	**568**	**1,320**	**78**	**1,966**
	Additions	3	125	26	154
	Disposals	0	-26	-13	-39
Dec 31, 2016	**Cost**	**571**	**1,419**	**91**	**2,081**
	Additions	0	165	3	168
	Disposals	0	-337	-4	-341
	Currency translation	-5	23	-5	13
Dec 31, 2017	**Cost**	**566**	**1,270**	**85**	**1,921**
Jan 1, 2016	**Accumulated depreciation and impairment**	**100**	**1,144**	**38**	**1,282**
	Additions	44	70	8	122
	Disposals	0	-26	-10	-36
Dec 31, 2016	**Accumulated depreciation and impairment**	**144**	**1,188**	**36**	**1,368**
	Additions	44	99	9	152
	Disposals	0	-336	-4	-340
	Currency translation	-5	28	-2	21
Dec 31, 2017	**Accumulated depreciation and impairment**	**183**	**979**	**39**	**1,201**
Dec 31, 2016	**Carrying amounts**	**427**	**231**	**55**	**713**
Dec 31, 2017	**Carrying amounts**	**383**	**291**	**46**	**720**

Subsidies received in the reporting year reduced the cost of property, plant and equipment by EUR 17 thousand in 2017 (2016: EUR 54 thousand).

These subsidies constitute public financial assistance for businesses under the joint program for the improvement of regional economic structures (Gemeinschaftsaufgabe "Verbesserung der regionalen Wirtschaftsstruktur") granted from German federal and state funds. The funding period ended on April 8, 2017. However, if certain conditions attaching to the funding are not complied with going forward, the funding sponsors may demand partial or full repayment of the subsidies in the following years. These conditions include preserving the current permanent jobs at the Company's Berlin site and the obligation to keep the subsidized assets for a period of at least five years after the end of the project at the subsidized location. The Company assumes that it will be able to fulfill all of the conditions.

13 ASSETS SCHEDULE

EUR thousand		Intangible assets	Property, plant and equipment	**Total intangible assets and property, plant and equipment**
Jan 1, 2016	**Cost**	**5,297**	**1,966**	**7,263**
	Additions	198	154	352
	Disposals	0	-39	-39
Dec 31, 2016	**Cost**	**5,495**	**2,081**	**7,576**
	Additions	104	168	272
	Disposals	-497	-341	-838
	Currency translation	-1	13	12
Dec 31, 2017	**Cost**	**5,101**	**1,921**	**7,022**
Jan 1, 2016	**Accumulated depreciation/amortization and impairment**	**4,505**	**1,282**	**5,787**
	Additions	235	122	357
	Disposals	0	-36	-36
Dec 31, 2016	**Accumulated depreciation/amortization and impairment**	**4,740**	**1,368**	**6,108**
	Additions	191	152	343
	Disposals	-497	-340	-837
	Currency translation	-1	21	20
Dec 31, 2017	**Accumulated depreciation/amortization and impairment**	**4,433**	**1,201**	**5,634**
Dec 31, 2016	**Carrying amounts**	**755**	**713**	**1,468**
Dec 31, 2017	**Carrying amounts**	**668**	**720**	**1,388**

14 DEFERRED TAXES

For the Group, deferred taxes arise as described in the following table:

	Deferred tax assets from temporary differences		Deferred tax liabilities from temporary differences	
TEUR	**Dec 31, 2016**	**Dec 31, 2017**	**Dec 31, 2016**	**Dec 31, 2017**
Intangible assets and property, plant and equipment	58	34	154	140
Current assets	0	0	1	1
Non-current liabilities	0	0	1	0
Current liabilities	0	0	33	88
Total	**58**	**34**	**189**	**229**
Total after offsetting	**0**	**0**	**131**	**195**

EUR thousand	**Dec 31, 2016**	**Dec 31, 2017**
Deferred tax assets due to German tax loss carryforwards	55,270	57,404
Deferred tax assets due to U.S. tax credits	2,774	2,562
Deferred tax assets due to U.S. tax loss carryforwards	1,551	1,781
Total deferred tax assets due to tax loss carryforwards	**59,595**	**61,747**
Deferred tax position (net) from temporary differences	-131	-195
Total deferred tax assets	**59,464**	**61,552**
Allowance on deferred tax assets	-57,913	-60,026
Recognized deferred tax assets	**1,551**	**1,526**

Overview of tax loss carryforwards (2017 estimated):

EUR thousand	**2016**	**2017**
Tax loss carryforwards in Germany (corporate income tax)	*183,903*	*190,974*
Tax loss carryforwards in Germany (trade tax)	*182,354*	*189,425*
Tax loss carryforwards in the U.S.A. (corporate income tax)	*4,627*	*7,072*
R&D tax credits in the U.S.A.	*2,774*	*2,562*

Since all deferred tax assets and liabilities arising from temporary differences must be settled with the same tax authority that levied the taxes to which those deferred tax assets and liabilities relate, in accordance with IAS 12.71 et seq. *Income Taxes*, only those deferred tax assets and liabilities which relate to taxes levied by the same tax authority have been offset.

Since its founding through to December 31, 2016, the Company's tax loss carryforwards in Germany amounted to EUR 184 million for corporate income tax and to EUR 182 million for trade tax. Furthermore, the Company estimates that the accumulated tax loss carryforwards in both aforementioned tax categories will increase by approximately EUR 7 million when it files its tax returns for 2017. In accordance with German tax law, such tax losses have an unlimited carryforward period. As a consequence of completed tax audits, tax loss carryforwards in the amount of EUR 167 million are undisputed. The resulting deferred tax asset is therefore sufficient to offset the aforementioned deferred tax liability from temporary differences of EUR 195 thousand as of December 31, 2017. However, a future utilization of these carryforwards could become impossible under certain conditions (e.g., a major change of ownership and a change of business) based on the applicable German tax law. Due to the current financial situation of the Company, without sufficient liquidity to achieve the break-even point, valuation allowances have been recognized for the calculated exceeding amount of deferred tax assets at the balance sheet date.

The temporary differences connected with shares in subsidiaries, for which no deferred tax assets had been recognized in the reporting periods presented, amounted to a total of EUR 5,655 thousand (2016: EUR 2,791 thousand).

In the reporting year, deferred tax assets were recognized due to tax loss carryforwards of Epigenomics, Inc. and temporary differences between IFRSs and U.S. tax law. These tax loss carryforwards in the U.S.A. arising before December 31, 2017 can be utilized for up to twenty years. A utilization of the remaining tax loss carryforwards of Epigenomics, Inc. in the amount of EUR 7 million over the next three years is very likely according to the Company's business plan, which is based on favorable reimbursement decisions in the U.S.A. for Epi proColon over the course of 2018.

The deferred tax asset in the U.S.A. was remeasured as of the end of the year in light of the tax reform legislation passed by the U.S. Senate at the end of December 2017. The key point of this reform was to cut the tax rate for businesses from 34% to 21% from January 2018 onwards. Going forward, there will be no time limit on utilizing tax loss carryforwards arising from January 1, 2018 onwards.

The R&D tax credits in the U.S.A. expire on various dates beginning in 2022 through to 2034.

Changes in recognized deferred tax assets in the reporting year:

EUR thousand	2016	2017
January 1	**346**	**1,551**
Deferred tax income	1,143	1,146
Adjustment due to changes in tax rates	0	-937
Foreign currency adjustments	62	-234
December 31	**1,551**	**1,526**

CURRENT ASSETS

15 INVENTORIES

EUR thousand	Dec 31, 2016	Dec 31, 2017
Consumables, raw materials, supplies	142	71
Semi-finished goods	0	148
Finished goods	115	74
Total inventories	**257**	**293**

The cost of inventories recognized as R&D costs through profit or loss in 2017 amounted to EUR 63 thousand (2016: EUR 172 thousand) and was attributable to write-offs of finished goods due to the determination of an unlikelihood that these goods could have been sold before the end of their shelf lives or because their shelf lives had already expired.

16 TRADE RECEIVABLES

Trade receivables primarily include receivables from development partners, customers and licensees. These receivables do not bear interest and are therefore not exposed to any interest rate risk. The carrying amounts of the receivables correspond to their fair values. The maximum default risk corresponded to the carrying amount as of the balance sheet date.

EUR thousand	Dec 31, 2016	Dec 31, 2017
Trade receivables, gross	2,474	937
Allowance for doubtful accounts	-226	0
Trade receivables, net	**2,248**	**937**

As of the balance sheet date, trade receivables in the amount of EUR 862 thousand were not due (December 31, 2015: EUR 454 thousand). Receivables amounting to EUR 34 thousand had not yet been billed as of the balance sheet (December 31, 2016: EUR 0 thousand).

Receivables past due as of the balance sheet date:

EUR thousand	Dec 31, 2016	Dec 31, 2017
Trade receivables up to 90 days past due	1,673	41
Trade receivables more than 90 days past due	347	0
Trade receivables past due	**2,020**	**41**

17 MARKETABLE SECURITIES

The marketable securities in the amount of EUR 905 thousand as of December 31, 2017 (December 31, 2016: EUR 753 thousand) are so-called "Trust-preferred Securities" issued by a wholly owned subsidiary of Deutsche Bank AG. They are recognized as "available-for-sale" financial instruments in accordance with IAS 39.9 *Financial Instruments: Recognition and Measurement* and at the issuer's discretion have been redeemable at any time in one payment since June 2015.

The reported securities are denominated in euros and are subject to the usual market and interest risks. The interest rate risks are price risks and interest rate cash flow risks. The fair value of the marketable securities is identified by their stock exchange quotations at each relevant balance sheet date. The securities were traded on active markets in the reporting year.

18 CASH AND CASH EQUIVALENTS

Cash consists of bank deposits and cash in hand. Cash equivalents are defined as instruments which are convertible on a short-term basis to a known amount of cash, i.e., highly liquid financial instruments which are subject to only a very low risk of changes in value.

At the balance sheet date, an amount of EUR 24 thousand of bank deposits was restricted cash.

Cash and cash equivalents increased to EUR 12,826 thousand as of the balance sheet date (December 31, 2016: EUR 11,531 thousand). 98.4% of those funds was denominated in euros at the balance sheet date, with the remainder denominated in U.S. dollars. The total amount was deposited in current accounts at three different banks.

19 OTHER CURRENT ASSETS

EUR thousand	Dec 31, 2016	Dec 31, 2017
Claims from grant projects	0	808
Prepaid expenses	239	709
Receivables from tax authorities	43	307
Deposits	20	19
Creditors with debt accounts	35	12
Interest receivables	9	9
Advance payments	28	0
Other	40	34
– thereof: with a prospective maturity > 1 year	*38*	*0*
Total other current assets	**414**	**1,898**

Claims from grant projects as of December 31, 2017 arose due to a government subsidized R&D project which the Company commenced in 2016 under the European Union's Horizon 2020 framework program. The grant was used to fund clinical research to validate lung cancer biomarkers with the goal of developing a CE-certified product for the detection of lung cancer in blood plasma under the new In Vitro Diagnostic Medical Devices Directive (IVD Directive). Product development was successfully completed by the end of the reporting year, and the Epi proLung test subsequently received CE certification. The final report to the EU will be prepared and submitted in the first quarter of 2018. The EU is expected to reimburse the claims in the second quarter of 2018. In the reporting year, the Company received subsidies from the EU in the amount of EUR 17 thousand (2016: EUR 816 thousand).

As of the balance sheet date, the reported prepaid expenses (EUR 709 thousand) included EUR 346 thousand in expenses associated with the preparation of potential financing activities. They were deferred as of the balance sheet date since the project had not yet been completed and because they will have to be recognized directly in equity upon successful completion of such activities.

EQUITY

20 SHARE CATEGORIES AND CAPITAL STRUCTURE

As of December 31, 2017, the share capital of Epigenomics AG consisted exclusively of non-par value ordinary registered shares with equal rights.

Equity structure of the Company as of the balance sheet date:

EUR	Dec 31, 2016	Dec 31, 2017
Subscribed capital	**22,735,260**	**24,014,360**
Authorized Capital	**7,942,046**	**10,088,530**
Authorized Capital 2016/I	*380,412*	*0*
Authorized Capital 2016/II	*7,561,634*	*0*
Authorized Capital 2017/I	*0*	*994,426*
Authorized Capital 2017/II	*0*	*9,094,104*
Conditional Capital	**8,566,862**	**11,367,630**
Conditional Capital VII	*21,065*	*21,065*
Conditional Capital IX	*521,095*	*521,095*
Conditional Capital X	*7,024,702*	*8,825,470*
Conditional Capital XI	*1,000,000*	*1,000,000*
Conditional Capital XII	*0*	*1,000,000*

Subscribed capital increased by 1,279,100 shares or EUR 1,279,100 in September 2017 by way of a capital increase through issuing new shares under exclusion of subscription rights.

Authorized Capital 2016/I and Authorized Capital 2016/II were fully revoked by means of the resolution of the General Shareholders' Meeting dated May 30, 2017, and replaced by Authorized Capital 2017/I and Authorized Capital 2017/II.

The Executive Board is authorized until May 29, 2022, to increase, with the consent of the Supervisory Board, the share capital of the Company once or several times by up to a total of EUR 2,273,526.00 against cash and/or in-kind contributions by issuing new non-par value registered shares **(Authorized Capital 2017/I)**. Subscription rights shall be granted to the shareholders. The new shares can also be subscribed by one or more credit institutions or undertakings acting pursuant to section 53 (1) sentence 1 or section 53b (1) sentence 1 or (7) of the German Banking Act (Kreditwesengesetz – KWG) under the obligation to offer the shares to the shareholders for subscription (indirect subscription right). The Executive Board is, however, authorized to exclude, with the consent of the Supervisory Board, the shareholders' statutory subscription rights in the following events:

- for fractional amounts;
- if the new shares are issued according to section 186 (3) sentence 4 of the German Stock Corporation Act (Aktiengesetz – AktG) against contribution in cash at an issue price which is not significantly below the stock exchange price of the shares already listed and the pro rata notional portion of the share capital represented by the new shares does not exceed ten per cent (10%) of the share capital at the time this authorization is registered with the commercial register, or, if lower, at the respective time when the authorization is exercised. The 10% limitation shall include other

shares which have been newly issued by the Company by way of a capital increase against contribution in cash during the term of this authorization pursuant to or in application mutatis mutandis of section 186 (3) sentence 4 AktG, or which have been sold following a repurchase, in each case under exclusion of subscription rights. Furthermore, the 10% limitation shall include shares for which there is an option or conversion right or obligation, or a share delivery right in favor of the Company, based on bonds with warrants or convertible bonds or participation rights that have been issued during the term of this authorization under exclusion subscription rights pursuant to section 221 (4) sentence 2 in conjunction with section 186 (3) sentence 4 AktG by the Company or its subsidiaries;

- for capital increases against contribution in kind in order to be able to offer the new shares to third parties with regard to mergers or upon the purchase (including an indirect purchase) of enterprises, parts of enterprises, shares in enterprises, or the purchase (including an indirect purchase) of other assets (including receivables, also to the extent owed by the Company or subsidiaries);
- to the extent necessary to grant subscription rights for new shares to holders or creditors of option rights or creditors of convertible bonds or participation rights issued by the Company or its subsidiaries in the amount in which they would be entitled thereto upon the exercise of the option or conversion rights or the exercise of share delivery rights, or performance of conversion or option obligations.

The Executive Board is further authorized to determine, with the consent of the Supervisory Board, the dividend rights of the new shares in deviation from section 60 (2) AktG as well as the further details of the implementation of capital increases from Authorized Capital 2017/I. The Supervisory Board is authorized to amend the wording of the Articles of Association, as appropriate, after implementation of a capital increase from the Authorized Capital 2017/I in accordance with the respective share capital increase or after expiry of the term of the authorization.

In the reporting year, 1,279,100 new shares were created from Authorized Capital 2017/I as part of the capital increase referred to above.

The Executive Board is authorized until May 29, 2022, to increase, with the consent of the Supervisory Board, the share capital of the Company once or several times by up to a total of EUR 9,094,104.00 against cash and/or in-kind contributions by issuing new non-par value registered shares **(Authorized Capital 2017/II)**. Subscription rights shall be granted to the shareholders. The new shares can also be subscribed by one or more credit institutions or undertakings acting pursuant to section 53 (1) sentence 1 or section 53b (1) sentence 1 or (7) of the German Banking Act (Kreditwesengesetz – KWG) under the obligation to offer the shares to the shareholders for subscription (indirect subscription right). The Executive Board is, however, authorized to exclude, with the consent of the Supervisory Board, the shareholders' statutory subscription rights in the following events:

- for fractional amounts;
- for capital increases against contribution in kind in order to be able to offer the new shares to third parties with regard to mergers or upon the purchase (including an indirect purchase) of enterprises, parts of enterprises, shares in enterprises, or the purchase (including an indirect purchase) of other assets (including receivables, also to the extent owed by the Company or subsidiaries);
- for capital increases in cash, to the extent the capital increases are implemented for the purpose of the placement of the shares in the context of a listing or the subsequent placement on a foreign stock exchange. The Executive Board is further authorized to determine, with the consent of the Supervisory Board, the dividend rights of the new shares in deviation from section 60 (2) AktG as well as the further details of the implementation of capital increases from Authorized Capital 2017/II. The Supervisory Board is authorized to amend the wording of the Articles of Association, as appropriate, after implementation of a share capital increase from Authorized Capital 2017/II in accordance with the respective share capital increase or after expiry of the term of the authorization.

No shares were issued from Authorized Capital 2017/II in the reporting year.

Conditional Capital VII can no longer be used to grant stock options as the respective deadlines have passed. 2,000 new shares can still be created from Conditional Capital VII upon exercise of granted options from one of the underlying stock option programs (09–13).

The share capital is conditionally increased by up to EUR 521,095.00 by means of issuing up to 521,095 new non-par value registered shares (**Conditional Capital IX**). The conditional capital increase serves to grant shares to the holders or creditors of bonds or participation rights issued by the Company or a subsidiary until May 29, 2022 on the basis of the authorization resolution of the General Shareholders' Meeting dated May 30, 2017 if option or conversion rights are exercised, if option or conversion obligations are performed or if the Company exercises its optional right to deliver shares of the Company instead of payment of the cash amount due (or parts thereof). The new shares are issued at the respective option or conversion price to be determined in accordance with the aforementioned authorization resolution.

The conditional capital increase is only to be implemented if bonds or participation rights are issued in accordance with the authorization resolution of the General Shareholders' Meeting dated May 30, 2017, and only to the extent that

- option or conversion rights are exercised or
- holders or creditors of bonds or participation rights who are under an obligation to exercise an option or under a conversion obligation perform their obligation to exercise the option or their conversion obligation or
- the Company exercises its optional right to deliver shares of the Company instead of paying the cash amount due (or parts thereof)

and to the extent that no cash settlement is granted and no shares from an authorized capital, treasury shares or shares of another listed company are delivered. The new shares issued carry dividend rights from the beginning of the fiscal year in which they are issued. The Executive Board is authorized, as far as legally permissible and with the consent of the Supervisory Board, to determine that, if no resolution on the appropriation of net profit for the fiscal year immediately preceding the year of issue of the new shares has been adopted when the new shares are issued, the new shares shall carry dividend rights from the beginning of the fiscal year immediately preceding the year of issue.

The Executive Board is also authorized, with the consent of the Supervisory Board, to determine the further details concerning the implementation of the conditional capital increase.

The share capital is conditionally increased by up to EUR 8,825,470.00 by means of issuing up to 8,825,470 new non-par value registered shares **(Conditional Capital X)**. The conditional capital increase serves to grant shares to the holders or creditors of bonds or participation rights issued by the Company or a subsidiary until May 29, 2022 on the basis of the authorization resolution of the General Shareholders' Meeting dated May 30, 2017 if option or conversion rights are exercised, if option or conversion obligations are performed or if the Company exercises its optional right to deliver shares of the Company instead of payment of the cash amount due (or parts thereof). The new shares are issued at the respective option or conversion price to be determined in accordance with the aforementioned authorization resolution.

The conditional capital increase is only to be implemented if bonds or participation rights are issued in accordance with the authorization resolution of the General Shareholders' Meeting dated May 30, 2017, and only to the extent that

- option or conversion rights are exercised or
- holders or creditors of bonds or participation rights who are under an obligation to exercise an option or under a conversion obligation perform their obligation to exercise the option or their conversion obligation or
- the Company exercises its optional right to deliver shares of the Company instead of paying the cash amount due (or parts thereof)

and to the extent that no cash settlement is granted and no shares from an authorized capital, treasury shares or shares of another listed company are delivered. The new shares issued carry dividend rights from the beginning of the fiscal year in which they are issued. The Executive Board is authorized, as far as legally permissible and with the consent of the Supervisory Board, to determine that, if no resolution on the appropriation of net profit for the fiscal year immediately preceding the year of issue of the new shares has been adopted when the new shares are issued, the new shares shall carry dividend rights from the beginning of the fiscal year immediately preceding the year of issue.

The Executive Board is also authorized, with the consent of the Supervisory Board, to determine the further details concerning the implementation of the conditional capital increase.

In the reporting year, no shares have been issued from Conditional Capital X.

Based on Conditional Capital IX and Conditional Capital X, convertible notes were issued in the reporting year that, if converted, will lead to the creation of up to 994,397 new shares in 2018.

The share capital is conditionally increased by up to EUR 1,000,000.00 through issuance of up to 1,000,000 new non-par value registered shares **(Conditional Capital XI)**. The conditional capital increase serves to grant or issue shares to members of the Executive Board of the Company, to members of the management of domestic and foreign dependent companies of the Company as defined in sections 15 and 17 AktG and to employees of the Company and of domestic and foreign dependent companies of the Company as defined in sections 15 and 17 AktG who exercise the subscription rights they were granted prior to the end of April 30, 2018 pursuant to the authorization resolution of the General Shareholders' Meeting dated May 25, 2016 (Stock Option Program 16–18). The new shares are issued against payment by the beneficiary to the Company of the respective exercise price to be determined in accordance with the aforementioned authorization resolution.

The conditional capital increase is to be implemented only if subscription rights are issued in accordance with the authorization resolution on the Company's Stock Option Program 16–18 by the General Shareholders' Meeting dated May 25, 2016 and only to the extent that the holders of these subscription rights exercise them and the Company does not grant any treasury shares or cash compensation to fulfill these subscription rights.

The new shares issued carry dividend rights from the beginning of the fiscal year in which they are created. The Executive Board may determine, as far as legally permissible and with the consent of the Supervisory Board, that, if no resolution on the appropriation of net profit for the fiscal year immediately preceding the year of issue of the new shares has been adopted when the new shares are issued, the new shares shall be entitled to dividends from the beginning of the fiscal year immediately preceding the year of issue; if the new shares are issued to members of the Executive Board, the Supervisory Board shall be authorized to do so.

The Supervisory Board is also authorized to determine the further details concerning the implementation of the conditional capital increase where the granting of subscription rights to members of the Executive Board is concerned. In all other cases, the Executive Board is authorized to determine such details.

In the reporting year, 429,920 stock options were issued based on Conditional Capital XI (2016: 314,580). However, in accordance with the terms and conditions of the stock option program, no new shares can be created upon exercise of these stock options before October 2020.

The share capital is conditionally increased by up to EUR 1,000,000.00 through issuance of up to 1,000,000 new non-par value registered shares (**Conditional Capital XII**). The conditional capital increase serves to grant or issue shares to members of the Executive Board of the Company, to members of the management of domestic and foreign dependent companies of the Company as defined in sections 15 and 17 AktG and to employees of the Company and of domestic and foreign dependent companies of the Company as defined in sections 15 and 17 AktG who exercise the subscription rights they were granted prior to the end of April 30, 2019 pursuant to the authorization resolution of the General Shareholders' Meeting dated May 30, 2017 (Stock Option Program 17–19). The new shares are issued against payment by the beneficiary to the Company of the respective exercise price to be determined in accordance with the aforementioned authorization resolution.

The conditional capital increase is to be implemented only if subscription rights are issued in accordance with the authorization resolution on the Company's Stock Option Program 17–19 by the General Shareholders' Meeting dated May 30, 2017 and only to the extent that the holders of these subscription rights exercise them and the Company does not grant any treasury shares or cash compensation to fulfill these subscription rights.

The new shares issued carry dividend rights from the beginning of the fiscal year in which they are created. The Executive Board may determine, as far as legally permissible and with the consent of the Supervisory Board, that, if no resolution on the appropriation of net profit for the fiscal year immediately preceding the year of issue of the new shares has been adopted when the new shares are issued, the new shares shall be entitled to dividends from the beginning of the fiscal year immediately preceding the year of issue; if the new shares are issued to members of the Executive Board, the Supervisory Board shall be authorized to do so.

The Supervisory Board is also authorized to determine the further details concerning the implementation of the conditional capital increase where the granting of subscription rights to members of the Executive Board is concerned. In all other cases, the Executive Board is authorized to determine such details.

In the reporting year, 152,580 stock options were issued based on Conditional Capital XII (2016: 0). However, in accordance with the terms and conditions of the stock option program, no new shares can be created upon exercise of these stock options before October 2021.

21 CAPITAL RESERVE

The capital reserve comprises the premiums arising on the issuance of shares and the expenses relating to the issuance of shares, as well as expenses from the issue of stock options to Executive Board and staff members. The capital reserve increased from EUR 54,873 thousand as of December 31, 2016 to EUR 59,509 as of December 31, 2017. A net increase of EUR 4,142 thousand was attributable to the capital increase in the September of the reporting year through issuing new shares from authorized capital. An increase of EUR 455 thousand was attributable to the issuance of stock options to Executive Board and staff members (2016: EUR 128 thousand). In addition, the capital reserve increased by EUR 38 thousand in 2017 due to the option premium on issued convertible notes.

22 RETAINED EARNINGS

Retained earnings decreased from EUR -51,719 thousand as of December 31, 2016, to EUR -62,880 thousand as of December 31, 2017 due to the transfer of the Company's net loss for 2016.

23 OTHER COMPREHENSIVE INCOME

The other comprehensive income includes unrealized gains and/or losses on available-for-sale securities and exchange rate differences from the remeasurement of the results and the financial position of the Company's subsidiary whose financial statements were prepared in U.S. dollars. The actual disposal of remeasured financial assets and/or liabilities leads to a recognition of the cumulated revaluation differences through profit or loss.

EUR thousand	2016	2017
January 1	**216**	**305**
Remeasurement of marketable securities	31	-152
Exchange rate differences	58	-322
December 31	**305**	**-169**

24 CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the long-term return to stakeholders. An optimization of the debt/equity ratio is always considered.

The current liabilities, cash and cash equivalents, the securities available for sale and equity attributable to equity holders, comprising subscribed capital, capital reserve (including offset retained earnings) and other comprehensive income are subject to the Group's capital management.

In the reporting year, the Group's equity ratio decreased from 79.2% as of December 31, 2016 to 53.5 % as of December 31, 2017, primarily due to the net loss for the year and the issue of a convertible note in September 2017.

The Company is not subject to any statutory capital requirements. However, the Company is obliged to issue new shares in connection with granted option rights from its existing stock option programs.

LIABILITIES

25 PROVISIONS

Statement of changes in provisions:

EUR thousand	Contract-related provisions	Payroll provisions	Provisions for claims from phantom stock rights	Other provisions	Total
Jan 1, 2016	**51**	**192**	**782**	**86**	**1,111**
thereof non-current	*0*	*0*	*181*	*36*	*217*
Utilizations	0	-185	-480	-40	-705
Reversals	-51	-7	-6	0	-64
Additions	323	431	826	19	1,599
Dec 31, 2016	**323**	**431**	**1,122**	**65**	**1,941**
thereof non-current	*0*	*0*	*50*	*39*	*89*
Utilizations	0	-415	-185	-12	-612
Reversals	-273	-12	-290	-6	-581
Additions	0	381	0	17	398
Dec 31, 2017	**50**	**385**	**647**	**64**	**1,146**
thereof non-current	*0*	*0*	*0*	*43*	*43*

Payroll provisions were recognized for obligations from bonus commitments to management and employees of the Company. These provisions may in individual cases also be utilized beyond a twelve-month time frame.

Provisions for claims from phantom stock rights (PSRs) were recognized based on the fair value of all issued and outstanding rights resulting from the Company's phantom stock programs (PSPs). The non-current portion of these provisions amounted to EUR 0 thousand as of the balance sheet date (December 31, 2016: EUR 50 thousand).

Statutory provisions were recognized for expenses associated with the General Shareholders' Meeting. Other provisions were recognized for various operating obligations which were uncertain as of the reporting date with respect to their exact amounts and/or timing. A utilization of both of these categories of provisions is largely expected within the next twelve months.

26 TRADE PAYABLES

The reported trade payables in the amount of EUR 952 thousand as of the balance sheet date (December 31, 2016: EUR 1,089 thousand) are all non-interest-bearing and are generally due within 30 days.

27 CONVERTIBLE NOTES ISSUED

In September 2017, the Company issued a convertible note with a principal amount of EUR 7.1 million to Cathay Fortune International Company Limited (CFIC) under exclusion of subscription rights. By issuing the convertible notes – as agreed in the Business Combination Agreement dated April 26, 2017 between Epigenomics and CFIC and published in the offer document for the voluntary public takeover offer of June 8, 2017 – the Company received an immediate liquidity inflow of approximately EUR 6.5 million.

The note comprises 71,000 registered bonds ranked pari passu, each with a principal amount of EUR 100.00, in favor of CFIC. The notes were issued at 91% of their principal amount, are not interest-bearing and are not admitted to stock market trading. They mature on December 31, 2018 and may be converted by the holder into up to 994,397 shares of the Company. The conversion price per share amounts to EUR 7.144 or, if lower, 95.00% of the market price of the bondholder's shares, however no less than EUR 1.099.

Convertible notes are compound financial instruments which must be split in a repayment obligation (liability element) and a conversion right (equity element). The fair value of the overall compound financial instrument is determined by discounting future payments of principle and interest payments using a 7.75% risk-weighted discount rate. The effective interest rate of the liability element cannot be conclusively determined due to the uncertainty as to the repayment amount and date. The carrying amount of the equity element to be recognized in the capital reserves was determined by using the subtraction method (subtraction of the financial liability from the total value of the compound instrument). The equity element is presented in equity as "option premium on convertible notes". The EUR 62 thousand in transaction costs relating to the issue of the convertible note were deducted from equity if attributable to the equity element or recognized as an interest expense over the term of the note if attributable to the liability component. EUR 175 thousand in interest expenses for convertible notes was recognized through profit or loss in the reporting year. The difference between the carrying amount of the financial liability recognized under current liabilities and the amount that the Company is contractually obliged to pay at maturity to noteholders who have not exercised their conversion option amounted to EUR 564 thousand.

EUR thousand	
Gross proceeds of the issue of convertible notes 2017	**6,461**
thereof: Liability element of convertible notes at issue date	*6,423*
thereof: Equity element of convertible notes at issue date	*38*
Total expenses related to the issue of the convertible notes for the liability element	-62
Expenses related to the issue of the convertible notes for the equity element	-0
Total interest expense	175
Liability element of convertible notes at December 31, 2017	**6,536**

28 OTHER LIABILITIES

EUR thousand	Dec 31, 2016	Dec 31, 2017
Payables due to staff	202	345
Accrued audit fees	146	121
Payables due to tax authorities	114	91
Payables to social security institutions	0	1
Other	4	4
Total other liabilities	**466**	**562**

The reported other liabilities are all non-interest-bearing and are generally due at short notice.

29 FINANCIAL INSTRUMENTS AND FINANCIAL LIABILITIES FROM FINANCING ACTIVITIES

Primary financial instruments			as of Dec 31, 2016		as of Dec 31, 2017	
EUR thousand	Measure-ment principle	Fair value hierarchy level	Carrying amount	Fair value	Carrying amount	Fair value
Assets						
Loans and receivables	AC		2,353	2,353	1,814	1,814
Trade receivables			*2,248*	*2,248*	*937*	*937*
Other current assets			*105*	*105*	*883*	*883*
Financial assets available for sale	FV Rec. Eq.		753	753	905	905
Marketable securities		1	*753*	*753*	*905*	*905*
Cash and cash equivalents	n/a		11,531	11,531	12,826	12,826
Liabilities						
Financial liabilities measured at amortized cost	AC		1,259	1,259	8,283	7,719
Trade payables			*1,089*	*1,089*	*952*	*952*
Convertible notes		2	*0*	*0*	*7,100*	*6,536*
Other current liabilities			*170*	*170*	*231*	*231*

AC = Amortized cost
FV Rec. Eq. = Fair Value Recognized in Equity

				Non-cash changes			
in EUR thousand	Note	**Jan 1, 2017**	Cash flows	Equity component of convertible notes	Liabilities from equity trans-actions	Other changes	**Dec 31, 2017**
Other current assets (prepaid expenses)	19	0	-278	0	-68	0	-346
Trade payables	26	0	0	0	68	0	68
Convertible notes	8, 27	0	6,399	-38	0	175	6,536
Net liabilities from financing activities		**0**	**6,121**	**-38**	**0**	**175**	**6,258**

NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Cash consists of bank deposits and cash in hand. Cash equivalents are defined as instruments convertible to a known amount of cash on a short-term basis and carrying a very low risk of changes in value. As of the balance sheet date, the Company's cash and cash equivalents balance sheet item comprised exclusively cash. For the cash flow consolidation of the U.S. subsidiary, the operating assets and liabilities (excluding cash and cash equivalents) were translated at the average monthly exchange rates.

30 OPERATING ACTIVITIES

Cash flow from operating activities is derived indirectly on the basis of the net profit/loss for the year.

31 INVESTING ACTIVITIES

Cash flow from investing activities is calculated based on actual payments.

Proceeds from investment grants received of EUR 17 thousand (2016: EUR 871 thousand) were used for the purchase of property, plant and equipment.

32 FINANCING ACTIVITIES

Cash flow from financing activities is calculated based on actual payments.

Gross proceeds from the issue of new shares in the amount of EUR 5,475 thousand in the reporting year (2016: EUR 13,982 thousand) related to the Company's capital increase from authorized capital in 2017. The Company generated a gross cash inflow of EUR 6,461 thousand from the issue of convertible notes in the reporting year (2016: EUR 0). The cash outflow from financing activities amounted to EUR 437 thousand in 2017 (2016: EUR 729 thousand) and related to the above-mentioned capital increases and the issue of convertible notes.

33 CASH CONSUMPTION

Cash flow from operating activities and cash flow from investing activities less transactions in securities is monitored by the Company as "cash consumption".

EUR thousand	2016	2017
Cash flow from operating activities	-13,283	-9,576
Cash flow from investing activities	-379	-548
Net proceeds from transactions in securities	0	0
Cash consumption	**-13,662**	**-10,124**

RISKS AND RISK MANAGEMENT

34 GENERAL

For a comprehensive overview of the risks the Company is facing, please refer to the Report on opportunities and risks section of the Group management report 2017.

35 LIQUIDITY RISK

The liquidity risk to which Epigenomics is exposed results from the Group's potential inability to meet its financial liabilities, i.e., not being able to pay its suppliers, creditors or lenders. It is therefore the task of cash and liquidity management to ensure the individual Group companies' liquidity at any time. The expected cash inflows and outflows are constantly monitored to ensure short-term liquidity. These activities are supported by internal cash forecasts and a corresponding strategy of managing time deposits with the Company's principal banks.

Furthermore, Epigenomics constantly monitors the capital markets and – if required – makes all necessary efforts to raise fresh capital in order to avoid illiquidity.

Epigenomics has strict cost management in place to avoid unnecessary spending. On the procurement side, the Company always tries to reduce purchase prices by closing favorable contracts and negotiating all relevant conditions and takes advantage of granted terms of payment.

36 FOREIGN CURRENCY EXCHANGE RISK

The Group executes transactions denominated in foreign currencies and is therefore exposed to the risk of exchange rate fluctuations. In past years, this risk mainly stemmed from the need to purchase some goods and services in U.S. dollars. In the reporting year, Epigenomics received FDA approval for Epi proColon in the U.S.A. and began to commercialize the product there. Revenue is now generated by the Group's U.S. entity Epigenomics, Inc. in U.S. dollars, while the kits are manufactured and invoiced primarily in euros. This leads to an increased foreign currency exchange (FX) risk for the Group. This risk is reduced by utilizing the proceeds generated in U.S. dollars to finance the operating business activities of Epigenomics, Inc. (e.g., to purchase goods and services). With regard to U.S. dollar amounts in excess of the U.S. subsidiary's mid- to long-term cash requirements, the Group will constantly try to mitigate or to eliminate the remaining risk as far as possible, for example through the use of derivative financial instruments (e.g., forward contracts) to minimize this risk. As of the balance sheet date, there was only a very limited number and volume of items denominated in foreign currencies other than the U.S. dollar.

The following table shows the carrying amounts of the Group's foreign currency denominated monetary assets and liabilities:

Primary financial instruments	**Dec 31, 2016**			**Dec 31, 2017**		
EUR thousand	Total	thereof in USD	in %	Total	thereof in USD	in %
Trade receivables	2,248	379	16.9	937	899	95,9
Marketable securities	753	0	0.0	905	0	0.0
Cash and cash equivalents	11,531	123	1.1	12,826	200	1.6
Other current assets	105	20	18.9	883	19	2.1
Trade payables	-1,089	-124	11.4	-952	-284	29.8
Convertible notes issued	0	0	0.0	-7,100	0	0
Other current liabilities	-170	-32	18.9	-231	-29	12.7
Total net position	**13,378**	**366**	**2.7**	**7,267**	**804**	**11.1**
thereof in third currencies	*-2*			*-3*		

The sensitivity of the Group's net result and of shareholders' equity to foreign currency exchange rate fluctuations is shown in the table below:

Scenario EUR thousand	**Impact on**	**2016**	**2017**
10% increase in the EUR/USD rate	Total comprehensive income	-32	-57
	Equity	185	445
10% decrease in the EUR/USD rate	Total comprehensive income	39	69
	Equity	-227	-544

The table shows a stronger impact of exchange rate fluctuations on equity in the reporting year than in fiscal year 2016. This is mainly attributable to a significant increase in current liabilities denominated in U.S. dollars in the Group parent company's balance sheet.

37 CREDIT RISK

Credit risks arise from the Group's operating and investing business activities. Trade receivables essentially relate on the one hand to renowned commercial partners with acceptable ratings and on the other to small customers (predominantly laboratories, clinics and researchers) with non-material ordering volumes. Whenever possible, payments are collected upfront. The Group maintains a long-standing, good contractual relationship with its major partners (e.g., BioChain and Polymedco). Receivables from Polymedco are secured up to a maximum of EUR 500 thousand by an irrevocable standby letter of credit issued by a leading North American bank.

Securities have only been acquired under careful adherence to the Company's investment policy, i.e., a strict selection by the credit ratings of the issuers has been conducted. However, the global financial crisis in recent years has shown that even top-rated issuers can suddenly find themselves in a precarious situation or even facing collapse. Additionally, it has become clear that there is a constant risk of illiquid markets. Cash and cash equivalents are deposited at three different banks.

In all cases, the maximum amount at risk can be derived from the carrying amounts of the recognized receivables.

38 INTEREST RATE RISK

The Group holds interest-bearing financial instruments only in the form of marketable securities.

Given the historically low interest rates on the international capital markets, the Group is not exposed to any interest rate risks from its cash and cash equivalents item.

INFORMATION ON SHARE-BASED PAYMENT PLANS

39 DESCRIPTION OF STOCK OPTION PROGRAMS

As of the balance sheet date, the Company had four stock option programs (SOPs) in place:

Both the SOP 09–13 and SOP 11–15 programs have expired. Stock options can no longer be granted from these programs.

On May 25, 2016, the General Shareholders' Meeting resolved to implement a new stock option program (SOP 16–18) based on the new Conditional Capital XI (see also note 20 Share Categories and Capital Structure). Under this program, the Executive Board and the Supervisory Board of the Company were authorized, until the end of April 30, 2018, to issue stock options in accordance with the provisions set forth below to members of the Executive Board and to employees of the Company as well as to members of the management and to employees of domestic and foreign dependent companies of the Company provided that each stock option so issued entitles the beneficiary to subscribe for one non-par value registered share of the Company. Under this authorization, the Executive Board and the Supervisory Board may issue a total of up to 1,000,000 stock options which entitle the beneficiaries to subscribe for no more than 1,000,000 non-par value registered shares of the Company. Only the Supervisory Board of the Company is authorized to issue stock options to beneficiaries who are members of the Executive Board of the Company. In all other respects, the Executive Board is authorized to grant stock options, with the Executive Board being required to obtain the Supervisory Board's consent before granting stock options to holders of a general power of attorney (Prokura) of the Company and to members of the management of subordinated Group companies. The shareholders have no subscription rights.

The beneficiaries are the members of the Executive Board of the Company (group 1), the employees of the Company (group 2), the members of the management of subordinated Group companies (group 3) and the employees of subordinated Group companies (group 4). From the total volume of SOP 16–18, the distribution shall be as follows:

- Group 1 all beneficiaries: max. 25% or 250,000 stock options
- Group 2 all beneficiaries: max. 35% or 350,000 stock options
- Group 3 all beneficiaries: max. 7% or 70,000 stock options
- Group 4 all beneficiaries: max. 33% or 330,000 stock options

Stock options may be issued with effect as of up to four dates, i.e., in each case with effect as of the beginning of October 1, 2016, April 1, 2017, October 1, 2017 and April 1, 2018 (each an "issue date"). The subscription rights may only be exercised outside the blackout periods. Blackout periods means the periods between the end of the fiscal year and the publication of the annual report and the consolidated financial statements for the respective fiscal year, and between the end of the first, second and third quarters of a fiscal year and the publication of a quarterly report or a quarterly announcement of the Company for the respective quarter.

A quarter of the subscription rights in every tranche shall vest for the beneficiaries one year, two years, three years and four years, respectively, after the issue date of the respective tranche. In deviation from the above provision, the Supervisory Board may declare full or partial vesting of subscription rights issued in one tranche in favor of any one or all group 1 beneficiaries, and the Executive Board may with the consent of the Supervisory Board declare full or partial vesting of subscription rights issued in one tranche in favor of any one or all group 2 to 4 beneficiaries, at any time after the issue date of the respective tranche. In this case, the subscription rights shall be deemed vested upon receipt by the respective beneficiary of the corresponding declaration by the Executive Board or the Supervisory Board.

Subscription rights of each tranche can be exercised for the first time after their vesting and after expiration of the waiting period. The waiting period ends four years after the issue date of the tranche. The restriction of the exercise of the subscription rights to certain exercise periods and subject to compliance with all exercise conditions shall remain unaffected by the expiration of the waiting period.

The term of the subscription rights of every tranche starts on the issue date of the subscription rights and ends seven years after such issue date. Subscription rights that have not been exercised by the end of their term shall expire without compensation. This shall also apply where the non-exercise of the subscription rights is attributable to the fact that they could not be exercised, and shall also apply to vested subscription rights.

The subscription rights can only be exercised against payment of the exercise price to the Company. The exercise price for a subscription right of the respective tranche equals the non-volume weighted average stock exchange closing price of the shares of the Company on the ten stock exchange trading days preceding the issue date of the tranche in the electronic trading system of the Frankfurt Stock Exchange plus 10%.

After vesting has occurred and after the waiting period has expired, subscription rights may be exercised only if the closing stock exchange price of the shares of the Company in the electronic trading system of the Frankfurt Stock Exchange has exceeded the original price by at least 10% on at least one trading day in the period between the issue date of the tranche and the expiration of the waiting period (performance target). If the performance target has not been reached upon expiration of the waiting period, the subscription rights shall expire without compensation.

Any subscription rights of a beneficiary that have not yet vested shall expire without compensation upon termination of the service or employment contract between the beneficiary and the Company (or a subordinated Group company) if the service or employment contract has been terminated by the beneficiary, or by the Company (or the respective subordinated Group company) for cause. This shall not apply to any termination by group 1 or group 3 beneficiaries on account of a vote of no confidence by the General Shareholders' Meeting. Subscription rights of a beneficiary that have vested but have not yet been exercised or could not yet be exercised by the respective beneficiary shall expire without compensation upon termination of the service or employment contract between the beneficiary and the Company (or a subordinated Group company) if the service or employment contract has been terminated by the Company (or the respective subordinated Group company) for cause. This shall not apply to any termination by group 1 or group 3 beneficiaries on account of a vote of no confidence by the General Shareholders' Meeting.

The Executive Board or, in the case of group 1 beneficiaries, the Supervisory Board, may reserve the right to fulfill subscription rights that have been validly exercised by paying to the beneficiary compensation in cash instead of delivering any newly issued or previously acquired treasury shares of the Company. Such cash compensation shall equal the difference between the exercise price and the closing price of the shares of the Company last determined in the electronic trading system of the Frankfurt Stock Exchange before the exercise of the subscription right. However, the Company has no obligation to offer cash compensation for exercised subscription rights and does not currently intend to offer such cash compensation for exercised subscription rights.

For further details on SOP 16–18, please see the invitation to the General Shareholders' Meeting on May 25, 2016. The document is available on the Company's website (*www.epigenomics.com*).

On May 30, 2017, the General Shareholders' Meeting resolved to implement a new stock option program (SOP 17–19) based on the new Conditional Capital XII (see also the section Share Categories and Capital Structure). Under this program, the Executive Board and the Supervisory Board of the Company were authorized, until the end of May 31, 2019, to issue stock options in accordance with the provisions set forth below to members of the Executive Board and to employees of the Company as well as to members of the management and to employees of domestic and foreign dependent companies of the Company provided that each stock option so issued entitles the beneficiary to subscribe for one non-par value registered share of the Company. Under this authorization, the Executive Board and the Supervisory Board may issue a total of up to 1,000,000 stock options which entitle the beneficiaries to subscribe for no more than 1,000,000 non-par value registered shares of the Company. Only the Supervisory Board of the Company is authorized to issue stock options to beneficiaries who are members of the Executive Board of the Company. In all other respects, the Executive Board is authorized to grant stock options, with the Executive Board being required to obtain the Supervisory Board's consent before granting stock options to holders of a general power of attorney (Prokura) of the Company and to members of the management of subordinated Group companies. The shareholders have no subscription rights.

The beneficiaries are the members of the Executive Board of the Company and members of the management of subordinated Group companies (group 1) and the employees of the Company and of subordinated Group companies (group 2). From the total volume of SOP 17–19, the distribution shall be as follows:

- Group 1 all beneficiaries: max. 68% or 680,000 stock options
- Group 2 all beneficiaries: max. 32% or 320,000 stock options

Stock options may be issued with effect as of up to four dates, i.e., in each case with effect as of the beginning of October 1, 2017, April 1, 2018, October 1, 2018 and April 1, 2019 (each an "issue date"). The subscription rights may only be exercised outside the blackout periods. Blackout periods means the periods between the end of the fiscal year and the publication of the annual report and the consolidated financial statements for the respective fiscal year, and between the end of the first, second and third quarters of a fiscal year and the publication of a quarterly report or a quarterly announcement of the Company for the respective quarter.

A quarter of the subscription rights in every tranche shall vest for the beneficiaries one year, two years, three years and four years, respectively, after the issue date of the respective tranche. In deviation from the above provision, the Supervisory Board may declare full or partial vesting of subscription rights issued in one tranche in favor of any one or all group 1 beneficiaries, and the Executive Board may with the consent of the Supervisory Board declare full or partial vesting of subscription rights issued in one tranche in favor of any one or all group 2 beneficiaries, at any time after the issue date of the respective tranche. In this case, the subscription rights shall be deemed vested upon receipt by the respective beneficiary of the corresponding declaration by the Executive Board or the Supervisory Board.

Subscription rights of each tranche can be exercised for the first time after their vesting and after expiration of the waiting period. The waiting period ends four years after the issue date of the tranche. The restriction of the exercise of the subscription rights to certain exercise periods and subject to compliance with all exercise conditions shall remain unaffected by the expiration of the waiting period.

The term of the subscription rights of every tranche starts on the issue date of the subscription rights and ends seven years after such issue date. Subscription rights that have not been exercised by the end of their term shall expire without compensation. This shall also apply where the non-exercise of the subscription rights is attributable to the fact that they could not be exercised, and shall also apply to vested subscription rights.

The subscription rights can only be exercised against payment of the exercise price to the Company. The exercise price for a subscription right of the respective tranche equals the non-volume weighted average stock exchange closing price of the shares of the Company on the ten stock exchange trading days preceding the issue date of the tranche in the electronic trading system of the Frankfurt Stock Exchange plus 10%.

After vesting has occurred and after the waiting period has expired, subscription rights may be exercised only if the closing stock exchange price of the shares of the Company in the electronic trading system of the Frankfurt Stock Exchange has exceeded the original price by at least 10% on at least one trading day in the period between the issue date of the tranche and the expiration of the waiting period (performance target). If the performance target has not been reached upon expiration of the waiting period, the subscription rights shall expire without compensation.

Any subscription rights of a beneficiary that have not yet vested shall expire without compensation upon termination of the service or employment contract between the beneficiary and the Company (or a subordinated Group company) if the service or employment contract has been terminated by the beneficiary, or by the Company (or the respective subordinated Group company) for cause. This shall not apply to any termination on account of a vote of no confidence by the General Shareholders' Meeting by group 1 beneficiaries who are simultaneously members of the Executive Board. Subscription rights of a beneficiary that have vested but have not yet been exercised or could not yet be exercised by the respective beneficiary shall expire without compensation upon termination of the service or employment contract between the beneficiary and the Company (or a subordinated Group company) if the service or employment contract has been terminated by the Company (or the respective subordinated Group company) for cause. This shall not apply to any termination on account of a vote of no confidence by the General Shareholders' Meeting by group 1 beneficiaries who are simultaneously members of the Executive Board.

The Executive Board or, in the case of group 1 beneficiaries, the Supervisory Board, may reserve the right to fulfill subscription rights that have been validly exercised by paying to the beneficiary compensation in cash instead of delivering any newly issued or previously acquired treasury shares of the Company. Such cash compensation shall equal the difference between the exercise price and the closing price of the shares of the Company last determined in the electronic trading system of the Frankfurt Stock Exchange before the exercise of the subscription right. However, the Company has no obligation to offer cash compensation for exercised subscription rights and does not currently intend to offer such cash compensation for exercised subscription rights.

For further details on SOP 17–19, please see the invitation to the General Shareholders' Meeting on May 30, 2017. The document is available on the Company's website (*www.epigenomics.com*).

40 STOCK OPTION PROGRAMS – OUTSTANDING RIGHTS

No rights under SOP 09–13 were issued, exercised or forfeited in the reporting year, nor did any rights expire. While 21,065 rights with an average exercise price of EUR 15.65 were in circulation as of December 31, 2016, 19,065 expired in the reporting year, meaning that 2,000 rights with an exercise price of EUR 11.05 were outstanding as of December 31, 2017, which subsequently also expired on the following day. None of these rights were held by members of the Company's Executive Board.

SOP 16–18	Options outstanding	Issued	Expired	Forfeited	Exercised	Options outstanding	Options exercisable
	as of Jan 1, 2017 (2016)		**Options in 2017 (2016)**			**as of Dec 31, 2017 (2016)**	
Option holder							
Greg Hamilton (CEO)	**91,580**	**68,420**	**0**	**0**	**0**	**160,000**	**0**
	(0)	(91,580)	(0)	(0)	(0)	(91,580)	(0)
Dr. Uwe Staub (COO)	**90,000**	**0**	**0**	**67,500**	**0**	**22,500**	**0**
	(0)	(90,000)	(0)	(0)	(0)	(90,000)	(0)
Other option holders	**133,000**	**361,500**	**0**	**39,250**	**0**	**455,250**	**0**
	(0)	(133,000)	(0)	(0)	(0)	(133,000)	(0)
All option holders	**314,580**	**429,920**	**0**	**106,750**	**0**	**637,750**	**0**
	(0)	(314,580)	(0)	(0)	(0)	(314,580)	(0)
Average exercise price	**5.43**	**5.10**	**n/a**	**5.35**	**n/a**	**5.22**	**n/a**
(in EUR)	(n/a)	(5.43)	(n/a)	(n/a)	(n/a)	(5.43)	(n/a)

SOP 17–19	Options outstanding	Issued	Expired	Forfeited	Exercised	Options outstanding	Options exercisable
	as of Jan 1, 2017 (2016)		**Options in 2017 (2016)**			**as of Dec 31, 2017 (2016)**	
Option holder							
Greg Hamilton (CEO)	**0**	**31,580**	**0**	**0**	**0**	**31,580**	**0**
	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Dr. Uwe Staub (COO)	**0**	**70,000**	**70,000**	**0**	**0**	**0**	**0**
	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Other option holders	**0**	**51,000**	**0**	**0**	**0**	**51,000**	**0**
	(0)	(0)	(0)	(0)	(0)	(0)	(0)
All option holders	**0**	**152,580**	**70,000**	**0**	**0**	**82,580**	**0**
	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Average exercise price	**n/a**	**5.10**	**5.10**	**n/a**	**n/a**	**5.10**	**n/a**
(in EUR)	(n/a)	(n/a)	(n/a)	(n/a)	(n/a)	(n/a)	(n/a)

Contractual commitments to a total of 295,000 further rights under the SOP 16–18 and SOP 17–19 programs were made to members of the Executive Board in the reporting year for award to them between 2018 and 2020.

Terms of outstanding stock options of all programs:

	Weighted average exercise price (in EUR)	Stock options issued and outstanding	Weighted average exercise price (in EUR)	Stock options issued and outstanding
Term	**Dec 31, 2016**		**Dec 31, 2017**	
2017	16.13	19,065	n/a	0
2018	11.05	2,000	11.05	2,000
2023	5.43	314,580	5.43	232,830
2024	5.10	0	5.10	487,500
Total	**6.07**	**335,645**	**5.22**	**722,330**

41 STOCK OPTION PROGRAMS – VALUATION PARAMETERS

The fair value of SOP 16–18 and SOP 17–19 was determined using the Monte Carlo simulation. It was assumed that the rights will be exercised in the fifth year after the grant date if the market price of the shares exceeds the exercise price of the stock option rights by more than 20% or in the sixth year after the grant date if the market price of the shares exceeds the exercise price of the stock option rights by more than 10%. An earlier exercise of the rights is not permitted under the program terms and conditions.

The following table gives detailed information on both programs active over the balance sheet date and the applied valuation parameters.

SOP 16–18	**Dec 31, 2016**	**Dec 31, 2017**
Total number of outstanding options	314,580	637,750
thereof vested	*0*	*78,645*
thereof exercisable	*0*	*0*
Exercise price (in EUR)	5.43	5.10–5.43
Weighted average term of outstanding rights in years	6.75	6.39
Weighted average fair value per option (EUR)	2.97	2.85
Applied share price volatility in %	84.10	84.40
Risk-free interest rate in %	-0.44	-0.14
Assumed staff turnover in %	4.6	4.0
Expiry dates	Oct 1, 2023	Oct 1, 2023–Oct 1, 2024

SOP 17–19	**Dec 31, 2016**	**Dec 31, 2017**
Total number of outstanding options	n/a	82,580
thereof vested	*n/a*	*0*
thereof exercisable	*n/a*	*0*
Exercise price (in EUR)	n/a	5.10
Weighted average term of outstanding rights in years	n/a	6.76
Weighted average fair value per option (EUR)	n/a	2.65
Applied share price volatility in %	n/a	84.58
Risk-free interest rate in %	n/a	0.04
Assumed staff turnover in %	n/a	3.7
Expiry dates	n/a	Oct 1, 2024

The risk-free interest rates are derived from the yield curve of German government bonds at the valuation date. The volatility of the share price can be derived from the historical volatility of the shares (in accordance with Bloomberg data) over the most recent past period equaling the remaining term of the rights. For adjustment purposes, a constant staff turnover was assumed based on the historical turnover of the Company's staff over the past four years. No dividend payments were assumed during the term of the rights (i.e., the assumed dividend yield was 0%).

42 PHANTOM STOCK PROGRAMS – DESCRIPTION

As of the balance sheet date, the Company had four phantom stock programs (PSPs)/virtual share plans in place as an incentive scheme for management and staff by granting so-called phantom stock rights (PSRs) from such programs to the beneficiaries. The programs define a PSR as a conditional claim of its holder against the Company for a future payment in cash of a premium to the benefit of the holder. As PSRs will be settled in cash upon their exercise, the Company had to record a provision based on the fair values of the outstanding rights.

Phantom stock program 03–15 (PSP 03–15)

PSP 03–15 was established in 2013 to serve as a transformation tool for outstanding stock options at that time. Executive Board and Supervisory Board of the Company therefore had decided to offer PSRs from the PSP 03–15 to all stock option holders who were employees or members of the Executive Board at that time and to a dedicated number of former employees of the Company who still held stock options. For each stock option right returned to the Company in connection with an exchange offer, one PSR from PSP 03–15 was granted to its holder. Each PSR from PSP 03–15 became the legal successor of the returned stock option right then and was on equal terms with its economic value. Hence, the term of each PSR from PSP 03–15 equals the remaining term of the returned stock option right. These PSRs will expire without compensation at that point in time when the stock option right that has been returned in exchange would have expired. After the exchange of previously unvested stock option rights against PSRs, the vesting rules of the underlying SOPs applied equally with respect to the vesting of the PSRs. PSRs which were issued in exchange for vested stock options also vested immediately. Vested PSRs obtained in exchange for stock options from the SOP 06–10 can be exercised immediately. Vested PSRs obtained in exchange for stock options from SOP 09–13 and SOP 11–15 can only be exercised when the holding or waiting period of the stock options returned in exchange is or would have expired for its holder.

The exercise price of a PSR from PSP 03–15 equals the exercise price of the stock option right returned in exchange. The exercise of such a PSR simulates the exercise of the former stock option right in a so-called "ExerSale" transaction. Unlike the exercise of stock option rights, the holder of a PSR is not entitled to subscribe to a share of the Company by exercising a PSR. Upon the exercise of a PSR from PSP 03–15, the holder of the right obtains a claim against the Company for the payment of the PSR premium. The PSR premium is defined as the absolute difference between the then-current market price for Epigenomics shares and the exercise price of the PSR. Holders of PSRs are entitled to exercise their right during the exercise period when the strike price at the exercise date is higher than the base value. The strike price equals the arithmetic average of the Xetra closing rates for Epigenomics shares on the Frankfurt Stock Exchange on the five consecutive trading days prior to the exercise date. By exercising the PSR, the holder earns an entitlement to obtain the "PSR premium" from the Company. The PSR premium equals the absolute difference between strike price and base value of the right without any limitation. In contrast to the exercise of stock option rights, the exercise of PSRs is not compulsory subject to pre-defined exercise periods (trading windows) and can be done at any time during the year. Nevertheless, the Executive Board and the Supervisory Board may stipulate compulsory exercise periods for holders of PSRs who are current employees of the Company. This applies in particular to holders of PSRs who are identified as "insiders" within the meaning of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG). It is left to the sole discretion of the Company's Executive Board to define and announce such exercise periods to the employees of the Company holding PSRs. Such exercise periods as determined by the Executive Board will then always apply simultaneously to the Executive Board members.

A takeover or a mandatory offer for the shares of the Company in accordance with the German Securities Acquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetz – WpÜG) entitles the holders of vested PSRs to exercise these rights in full. This also applies if the waiting period for these rights has not yet expired. The exercise right for the PSR holder shall apply only if the offered consideration consists solely of a cash settlement and if the bidder has gained control over the Company. In the event of a takeover, the PSR premium equals the difference between the cash amount which was finally offered to the shareholders as part of a takeover or a mandatory offer and the base value of the PSR.

Phantom stock program 2013 (PSP 2013), phantom stock program 2014 (PSP 2014), and phantom stock program 2015 (PSP 2015)

PSP 2013 was approved by the Executive Board and the Supervisory Board of the Company in May 2013. PSP 2014 was approved by the Executive Board and the Supervisory Board of the Company in May 2014. PSP 2015 was approved by the Executive Board and the Supervisory Board of the Company in September 2015.

No further rights can be issued from PSP 2013, PSP 2014, and PSP 2015. The eligible beneficiaries of these programs were the members of the Executive Board and Group employees with an unterminated service or employment agreement with a Group company. The Executive Board decided on issuing PSRs from these programs to employees of the Company and to executives and employees of the subsidiaries. The Supervisory Board decided on issuing PSRs to the members of the Executive Board.

A certain number of PSRs granted to a beneficiary at a certain point in time is defined as a tranche. The PSRs of each tranche issued to beneficiaries who were not members of the Company's Executive Board at the issuance date started to vest from the beginning of the first full calendar quarter over the three years following their issuance in five equal parts, beginning with the first day of the fifth full calendar quarter after the issuance of the tranche. Thereafter, the further four of the five parts each vest after the end of the following four half-years. Thus, the last of the five parts vests after the last day of the twelfth full calendar quarter following issuance of the tranche and therefore at the end of a three-year waiting period. PSRs of each tranche can only be exercised after their vesting, but not before the end of the waiting period. The term of the PSRs begins with their issuance and ends five years after the beginning of their vesting period. Rights not exercised upon the end of their term expire without compensation. PSRs can generally be exercised at any time in the two years between the end of their waiting period and the end of their term (exercise period). Nevertheless, the Executive Board and Supervisory Board can stipulate adherence to timing restrictions in the exercise periods. This applies in particular to holders of rights who are identified by the Executive Board as an "insider" within the meaning of section 15b WpHG. The Executive Board of the Company reserves the right to establish such timing restrictions in the exercise periods and to announce such restrictions in the exercise periods to rights holders who are employees of the Company at that date. Timing restrictions in exercise periods as announced by the Executive Board will always apply simultaneously to PSRs held by the Executive Board members themselves.

At the issuance of a PSR tranche, a so-called "base value" of the rights was determined. This base value equaled the average of the Xetra closing rates for Epigenomics shares on the Frankfurt Stock Exchange on the last five trading days before issuance. Holders of PSRs are entitled to exercise their right during the exercise period when the strike price at the exercise date is higher than the base value. The strike price equals the arithmetic average of the Xetra closing rates for Epigenomics shares on the Frankfurt Stock Exchange on the five consecutive trading days prior to the exercise date. By exercising the PSR, the holder earns an entitlement to obtain the "PSR premium" from the Company. The PSR premium equals the absolute difference between the strike price and the base value of the right up to a maximum of EUR 8.00 (PSP 2013), EUR 12.00 (PSP 2014), or EUR 15.00 (PSP 2015).

Any PSRs held by a beneficiary that have not yet vested expire without compensation upon termination of the service or employment agreement by the beneficiary or if the service or employment agreement has been terminated by the Company for cause. Any PSRs held by a beneficiary that have not yet vested shall remain valid if the Company terminates the service or employment agreement due to operational reasons. If the service or employment agreement is terminated by mutual consent, it is left to the sole discretion of the Executive Board or the Supervisory Board to decide whether those PSRs held by the beneficiary that have not yet vested at that point in time remain valid. If holders of vested PSRs leave the Company before the expiry date of those rights, they remain entitled to such vested rights until the expiry date. In such case, the strike price of their rights from PSP 2014 and PSP 2015 will be limited to the arithmetic average of the Xetra closing rates on the Frankfurt Stock Exchange on the five consecutive trading days prior to the final termination date of their employment agreement with the Company.

A takeover or a mandatory offer for the shares of the Company in accordance with the WpÜG entitles the holders of vested PSRs to exercise these rights in full. This also applies if the waiting period for these rights has not yet expired. The exercise right for the PSR holder will only apply if the offered consideration consists solely of a cash settlement and if the bidder has gained control over the Company. In the event of a takeover, the PSR premium equals the difference between the cash amount which was finally offered to the shareholders as part of a takeover or a mandatory offer and the base value of the PSR. However, the limitation of the PSR premium to EUR 8.00 (PSP 2013), EUR 12.00 (PSP 2014), and EUR 15.00 (PSP 2015) will still apply in such case.

43 PHANTOM STOCK PROGRAMS – OUTSTANDING RIGHTS

Phantom stock program 03–15 (PSP 03–15)

PSP 03–15 Beneficiaries	Year	Rights held as of Jan 1	Rights				Reclassification of beneficiary	Rights held as of Dec 31
			granted	expired	forfeited	exercised		
Dr. Thomas Taapken (CEO/CFO)	**2017**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
until June 30, 2016	2016	40,000	0	0	0	0	-40,000	0
Dr. Uwe Staub (COO)	**2017**	**28,800**	**0**	**6,400**	**0**	**0**	**0**	**22,400**
	2016	38,800	0	10,000	0	0	0	28,800
Other beneficiaries	**2017**	**119,413**	**0**	**27,263**	**0**	**16,350**	**0**	**75,800**
	2016	116,079	0	16,666	0	20,000	40,000	119,413
Total	**2017**	**148,213**	**0**	**33,663**	**0**	**16,350**	**0**	**98,200**
	2016	194,879	0	26,666	0	20,000	0	148,213
Average base value	**2017**	**8.53**	**n/a**	**18.89**	**n/a**	**2.51**	**n/a**	**5.98**
(EUR/right)	2016	8.66	n/a	13.63	n/a	3.03	n/a	8.53

Phantom stock program 2013 (PSP 2013)

PSP 2013 Beneficiaries	Year	Rights held as of Jan 1	Rights				Reclassification of beneficiary	Rights held as of Dec 31
			granted	expired	forfeited	exercised		
Dr. Thomas Taapken (CEO/CFO)	**2017**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
until June 30, 2016	2016	110,000	0	0	0	0	-110,000	0
Dr. Uwe Staub (COO)	**2017**	**20,000**	**0**	**0**	**0**	**0**	**0**	**20,000**
	2016	115,000	0	0	0	95,000	0	20,000
Other beneficiaries	**2017**	**136,000**	**0**	**0**	**0**	**58,000**	**0**	**78,000**
	2016	497,000	0	0	8,000	463,000	110,000	136,000
Total	**2017**	**156,000**	**0**	**0**	**0**	**58,000**	**0**	**98,000**
	2016	722,000	0	0	8,000	558,000	0	156,000
Average base value	**2017**	**2.55**	**n/a**	**n/a**	**n/a**	**2.29**	**n/a**	**2.70**
(EUR/right)	2016	1.89	n/a	n/a	4.05	1.69	n/a	2.55

Phantom stock program 2014 (PSP 2014)

PSP 2014 Beneficiaries	Year	Rights held as of Jan 1	Rights				Reclassification of beneficiary	Rights held as of Dec 31
			granted	expired	forfeited	exercised		
Dr. Thomas Taapken (CEO/CFO)	**2017**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
until June 30, 2016	2016	73,333	0	0	0	0	-73,333	0
Dr. Uwe Staub (COO)	**2017**	**60,000**	**0**	**0**	**0**	**0**	**0**	**60,000**
	2016	60,000	0	0	0	0	0	60,000
Other beneficiaries	**2017**	**271,633**	**0**	**0**	**0**	**7,800**	**0**	**263,833**
	2016	202,500	0	0	4,200	0	73,333	271,633
Total	**2017**	**331,633**	**0**	**0**	**0**	**7,800**	**0**	**323,833**
	2016	335,833	0	0	4,200	0	0	331,633
Average base value	**2017**	**3.23**	**n/a**	**n/a**	**n/a**	**3.23**	**n/a**	**3.23**
(EUR/right)	2016	3.23	n/a	n/a	3.23	n/a	n/a	3.23

Phantom stock program 2015 (PSP 2015)

PSP 2015 Beneficiaries	Year	Rights held as of Jan 1	Rights granted	Rights expired	Rights forfeited	Rights exercised	Reclassification of beneficiary	Rights held as of Dec 31
Dr. Thomas Taapken (CEO/CFO)	**2017**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
until June 30, 2016	2016	59,000	0	0	0	0	-59,000	0
Dr. Uwe Staub (COO)	**2017**	**24,000**	**0**	**0**	**9,600**	**0**	**0**	**14,400**
	2016	24,000	0	0	0	0	0	24,000
Other beneficiaries	**2017**	**84,000**	**0**	**0**	**0**	**0**	**0**	**84,000**
	2016	25,000	0	0	0	0	59,000	84,000
Total	**2017**	**108,000**	**0**	**0**	**9,600**	**0**	**0**	**98,400**
	2016	108,000	0	0	0	0	0	108,000
Average base value	**2017**	**5.05**	**n/a**	**n/a**	**5.05**	**n/a**	**n/a**	**5.05**
(EUR/right)	2016	5.05	n/a	n/a	n/a	n/a	n/a	5.05

44 PHANTOM STOCK PROGRAMS – VALUATION PARAMETERS

The fair value of all PSR was calculated by using the binomial approach based on the Cox-Ross-Rubinstein model. For PSP 03–15 it was assumed that the rights will be exercised after their waiting period if the market price of the shares exceeds the base value of the PSR by more than 10%. For PSP 2013, PSP 2014, and PSP 2015 it was assumed that the rights will be exercised in the fourth year after the grant date if the market price of the shares exceeds the base value of the PSR by more than 20% or in the fifth year after the grant date if the market price of the shares exceeds the base value of the PSR by more than 10%. An earlier exercise of the rights is not permitted under the program terms and conditions.

The following table gives detailed information on all programs and the applied valuation parameters.

PSP 03–15	Dec 31, 2016	Dec 31, 2017
Total number of outstanding PSRs	148,213	98,200
thereof vested	*148,213*	*98,200*
thereof exercisable	*148,213*	*98,200*
Base value of PSR (in EUR)	2.51–19.35	2.51–11.05
Aggregate adjusted fair value of PSRs (in EUR thousand)	130	76
Aggregate maximum payments if PSRs are exercised (in EUR thousand)	n/a[1]	n/a[1]
Weighted average term of outstanding rights (in years)	1.26	0.62
Weighted average fair value (EUR/PSR)	0.88	0.77
Applied share price volatility in %	60.14	44.58
Risk-free interest rate in %	-0.83	-0.72
Assumed staff turnover in %	0.0	0.0
Expiry dates	Jan 1, 2017 – Mar 1, 2019	Jan 1, 2018 – Jan 1, 2019

PSP 2013	Dec 31, 2016	Dec 31, 2017
Total number of outstanding PSRs	156,000	98,000
thereof vested	*150,000*	*98,000*
thereof exercisable	*120,000*	*98,000*
Base value of PSR (in EUR)	1.62–6.45	1.62–6.45
Aggregate adjusted fair value of PSRs (in EUR thousand)	375	202
Aggregate maximum payments if PSRs are exercised (in EUR thousand)	1,248	784
Weighted average term of outstanding rights (in years)	1.78	0.71
Weighted average fair value (EUR/PSR)	2.41	2.06
Applied share price volatility in %	84.65	56.85
Risk-free interest rate in %	-0.82	-0.72
Assumed staff turnover in %	0.2	0.0
Expiry dates	Jul 1, 2018 – Apr 1, 2019	Jul 1, 2018 – Apr 1, 2019

[1] The aggregate maximum payment to be made by the Company upon exercise of all outstanding rights under PSP 03–15 cannot be calculated as the program does not provide for a cap on the PSR premium.

PSP 2014	Dec 31, 2016	Dec 31, 2017
Total number of outstanding PSRs	331,633	323,833
thereof vested	*228,733*	*323,833*
thereof exercisable	*0*	*323,833*
Base value of PSR (in EUR)	3.23–3.70	3.23–3.70
Aggregate adjusted fair value of PSRs (in EUR thousand)	566	329
Aggregate maximum payments if PSRs are exercised (in EUR thousand)	3,204	3,113
Weighted average term of outstanding rights (in years)	2.80	1.78
Weighted average fair value (EUR/PSR)	1.82	1.02
Applied share price volatility in %	82.51	58.66
Risk-free interest rate in %	-0.74	-0.68
Assumed staff turnover in %	1.4	0.0
Expiry dates	Oct 1, 2019	Oct 1, 2019

PSP 2015	Dec 31, 2016	Dec 31, 2017
Total number of outstanding PSRs	108,000	98,400
thereof vested	*68,800*	*88,400*
thereof exercisable	*0*	*0*
Base value of PSR (in EUR)	5.05	5.05
Aggregate adjusted fair value of PSRs (in EUR thousand)	50	39
Aggregate maximum payments if PSRs are exercised (in EUR thousand)	735	591
Weighted average term of outstanding rights (in years)	3.80	2.79
Weighted average fair value (EUR/PSR)	0.70	0.42
Applied share price volatility in %	84.56	74.95
Risk-free interest rate in %	-0.64	-0.52
Assumed staff turnover in %	1.7	0.47
Expiry dates	Oct 1, 2020	Oct 1, 2020

The risk-free interest rates are derived from the yield curve of German government bonds at the valuation date. The volatility of the share price can be derived from the historical volatility of the shares (in accordance with Bloomberg data) over the most recent past period equaling the remaining term of the rights. For adjustment purposes, a constant staff turnover was assumed based on the historical turnover of the Company's staff over the past three years. No dividend payments were assumed during the term of the rights (i.e., the assumed dividend yield was 0%).

The aggregate adjusted fair value of the rights granted under all programs amounted to EUR 647 thousand as of December 31, 2017 (December 31, 2016: EUR 1,122 thousand). This was recognized as a non-current provision of EUR 0 thousand and a current provision of EUR 647 thousand as of the balance sheet date.

OTHER INFORMATION

45 INFORMATION ON THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD OF THE COMPANY AND THEIR REMUNERATION

In the reporting year, the Company's Executive Board consisted of Greg Hamilton as CEO and Dr. Uwe Staub as COO. Effective December 1, 2017, the Executive Board was expanded to include Jorge Garces, Ph.D., as CSO. Effective January 1, 2018, Albert Weber has been appointed as Executive Vice President Finance and member of the Executive Board of the Company (in charge of the Company's financial, accounting, and controlling departments).

The remuneration of the members of the Company's Executive Board comprises a fixed and a variable component. The variable amount is determined on the basis of a variety of criteria, including the achievement of individual performance targets and Company performance targets, which are set by the Supervisory Board on a yearly basis. Apart from the fixed and the variable component, a third remuneration component consists of a long-term performance-based remuneration in the form of phantom stock rights (PSRs) and stock options. In addition, the Executive Board members are beneficiaries of a D&O insurance policy with excess set at the statutory minimum amount. They also receive full reimbursement of their business travel expenses and other incidental benefits detailed in the Remuneration Report section of the Group management report 2017.

In 2017, total remuneration of the members of the Executive Board based on the benefits granted amounted to EUR 1,224 thousand (2016: EUR 1,616 thousand) and comprised:

EUR thousand	2016	2017
Fixed remuneration	734	786
One-year variable remuneration	400	269
Multi-year variable remuneration	482	169
Total remuneration (granted benefits)	**1,616**	**1,224**
thereof severance payments	688	0

The multi-year variable remuneration of the Executive Board members in 2017 comprised 170,000 stock options (2016: 181,580 PSRs).

Based on the allocations (cash payments), the total remuneration of the members of the Executive Board amounted to EUR 980 thousand (2016: EUR 2,125 thousand) and comprised:

EUR thousand	2016	2017
Fixed remuneration	732	786
One-year variable remuneration	279	194
Multi-year variable remuneration	1,113	0
Total remuneration (allocations)	**2,125**	**980**
thereof severance payments	688	0

In the event of a change of control, all Executive Board members have a special right to terminate their service agreements and would in such case be entitled to receive payment of their fixed remuneration for the remaining term of their service agreements. In no case will such payment exceed 150% of the severance payment cap in accordance with section 4.2.3 of the German Corporate Governance Code.

The Supervisory Board of the Company remained unchanged in the reporting year and comprised the following members: Heino von Prondzynski, Einsiedeln (Switzerland) as Chairman, Ann Clare Kessler, Ph.D., Rancho Santa Fe, CA (U.S.A.), and Prof. Günther Reiter, Pfullingen (Germany) as Deputy Chairman, and Dr. Helge Lubenow, Langenfeld/Rhineland (Germany).

The remuneration structure for the Supervisory Board is based on an annual cash retainer (fixed remuneration) and meeting-related payments (variable remuneration). The remuneration does not include any performance-related elements or long-term incentive components. In 2017, total remuneration of the members of the Supervisory Board amounted to EUR 248 thousand (2016: EUR 235 thousand) and comprised:

EUR thousand	**2016**	**2017**
Fixed remuneration	193	200
Variable remuneration	42	48
Total remuneration	**235**	**248**

Further details to the composition of the Executive Board and the Supervisory Board and details of the remuneration of their members in the reporting year can be found in the Remuneration Report section of the Group management report 2017.

46 OTHER FINANCIAL OBLIGATIONS

EUR thousand	Term < 1 year	Term 1–5 years
Financial obligations from commercial lease agreements	120	151
Financial obligations from licensing agreements	155	41
Financial obligations from operating rental, lease, maintenance and service agreements	30	2
Financial obligations from manufacturing orders	99	0
Financial obligations from the purchase of goods and services	242	0
Total financial obligations	**646**	**194**

For the Epigenomics Group, obligations from commercial lease agreements arise from a lease at the Berlin location. For the office space at Geneststrasse 5, there is a fixed-term lease with a term expiring on April 30, 2020. The Company has the option to extend the lease by six more years. In the reporting year the total expenses for lease payments and incidental costs under this agreement amounted to EUR 120 thousand (2016: EUR 119 thousand).

The U.S. subsidiary is located in Seattle, WA, with further offices in Germantown, MD. In both locations the Company has rented office space which can be terminated on a short-term basis.

In the previous years, Epigenomics acquired numerous exclusive licenses to third-party intellectual property. This means that there are some obligations to pay minimum license fees in years to come. Additionally, Epigenomics has the obligation to reimburse most of those third parties for costs incurred in connection with the maintenance and the prosecution of the licensed rights. Those costs are mainly fees for patent attorneys or patent office actions and their amounts and timing are difficult to forecast.

47 INFORMATION ON THE COMPANY'S AUDITOR APPOINTED BY THE GENERAL SHAREHOLDERS' MEETING

At the Company's Annual General Shareholders' Meeting in May 2017, Baker Tilly AG Wirtschaftsprüfungsgesellschaft (now Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft) was engaged to audit the Company's annual financial statements and consolidated financial statements for fiscal year 2017. During the reporting year, a total amount of EUR 141 thousand (2016: EUR 180 thousand) was expensed for miscellaneous services of this auditing firm for Epigenomics AG. Details are shown in the following table:

EUR thousand	2016	2017
Costs for audit services	145	141
Costs for other assurance services	15	0
Costs for other services	20	0
Total	**180**	**141**

The costs disclosed for audit services relate to the audits of the separate financial statements of Epigenomics AG in accordance with German GAAP as well as the consolidated financial statements for the Epigenomics Group in accordance with IFRSs, and on reviews of the interim statements.

48 DECLARATION OF THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD OF EPIGENOMICS AG PURSUANT TO SECTION 161 AKTG ON THE GERMAN CORPORATE GOVERNANCE CODE

In October 2017, the Executive Board and the Supervisory Board of the Company issued an updated declaration of compliance pursuant to section 161 of the German Stock Corporation Act (Aktiengesetz – AktG). The declaration was published on the Company's website (*www.epigenomics.com/news-investors/corporate-governance/*).

49 INFORMATION ON OTHER TRANSACTIONS WITH RELATED PARTIES

As of the reporting date, the Company's liabilities due to members of its Executive Board amounted to EUR 84 thousand (December 31, 2016: EUR 4 thousand) and liabilities due to members of its Supervisory Board amounted to EUR 32 thousand (December 31, 2016: EUR 144 thousand). There were no other transactions with related parties during the reporting year.

50 REPORT ON POST-BALANCE SHEET DATE EVENTS

No events occurred after the balance sheet date which could materially affect the Company's net assets, financial position and results of operations or its risk assessment.

51 APPROVAL FOR PUBLICATION

These consolidated financial statements were approved and cleared for publication by the Executive Board of the Company on March 16, 2018.

Berlin, March 16, 2018

The Executive Board

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements 2017 give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Berlin, March 16, 2018

The Executive Board

INDEPENDENT AUDITOR'S REPORT

To Epigenomics AG, Berlin

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

Audit opinions

We have audited the consolidated financial statements of Epigenomics AG and its subsidiary (the Group) – comprising the consolidated balance sheet as of December 31, 2017, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the fiscal year from January 1, 2017 through December 31, 2017 as well as the notes to the consolidated financial statements, including a summary of significant accounting methods. In addition, we have audited Epigenomics AG's Group management report for the fiscal year from January 1, 2017 through December 31, 2017.

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

- the attached consolidated financial statements comply, in all material respects, with the IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to Art. 315e Sec. 1 HGB (German Commercial Code) and provides, in compliance with these requirements, a true and fair view of the Group's assets, liabilities, and financial position as of December 31, 2017, and of its profit situation for the fiscal year from January 1, 2017 through December 31, 2017; and
- the attached Group management report as a whole provides a true and fair view of the Group's position. In all material respects, this Group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of the Group's future development.

Pursuant to Art. 322 Sec. 3 sentence 1 HGB, we declare that our audit has not led to any reservations relating to the consolidated financial statements' and the Group management report's legal compliance.

Basis for the audit opinion

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

Material uncertainties in connection with the continuation as a going concern

We refer to the section "General Principles" in the notes to the consolidated financial statements as well as the information in the section "Financial opportunities and risks" of the Group management report, where the legal representatives explain that the Company, without a successful implementation of capital measures in 2018 and/or an extension of the term or amendment of the Company's bond conditions, as of December 31, 2018 is expected to no longer have the required liquidity in order to ensure a full or even partial repayment of the bond. Irrespective of a possible repayment of the convertible bond further capital market measures must be implemented until the beginning of 2019 in order to ensure the ability to continue as a going concern beyond the beginning of 2019. As explained in the section "General Principles" in the notes to the consolidated financial statements as well as in the section "Financial opportunities and risks" in the Group management report, this reveals the existence of a material uncertainty which may raise doubts as to the Group's ability to continue as a going concern and poses a risk to the Group's continued existence as a going concern pursuant to Art. 322 Sec. 2 sentence 3 HGB. We have not modified our audit opinion with regard to these facts.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from January 1, 2017 through December 31, 2017. These matters have been taken into account in connection with our audit of the consolidated financial statements as a whole, and in forming our audit opinion related herewith; we do not provide a separate audit opinion on these matters.

From our perspective, the following matters were of most significance during our audit:

- Revenue recognition
- Share-based compensation.

We have structured our presentation of these key audit matters as follows:

1.) Facts and problems

2.) Audit approach and findings

3.) Reference to further information.

In the following, we will present these key audit matters:

Revenue recognition:

1. During the fiscal year, the Company recognized sales revenues in the amount of EUR 1.9 million. Sales revenues are one of the most significant financial performance indicators in the capital market communication. From these sales revenues, sales of the only main product account for EUR 0.5 million and license revenues account for EUR 1.3 million. Product sales are mainly realized by means of sales to few major customers. In general, there are framework agreements with these customers which may be supplemented by further agreements. These agreements may be decisive as to whether a sale has been realized. An incomplete presentation of these additional agreements within the scope of revenue recognition poses a risk, which is why we believe this matter is of particular importance.
2. We have convinced ourselves from the correct sales recognition by means of the framework agreements, external confirmations as to possibly existing additional arrangements, proofs of delivery as well as the outgoing invoices and the related incoming payments. We could convince ourselves that any conditions additionally agreed upon with the major customers have been appropriately processed during the revenue recognition's assessment.
3. The Company's statements on the revenue recognition are contained in the Group management report in section "Financials – result of operations" and in the notes to the consolidated financial statements in the section "Notes to the consolidated statement of profit or loss and other comprehensive income – 1 revenue".

Share-based compensation:

1. As of the balance sheet date, both the stock option programs (AOP – "Equity settled share based payments") and the phantom stock programs (PSP – "Cash settled options") have been recognized in the Company's consolidated financial statements.

   During the reporting year, further commitments for AOPs have been granted to employees.

   The AOPs are presented in the consolidated financial statements under the positions "personnel expenses" and "equity" and PSPs are presented under the relevant expense positions (cost of sales, research and development costs as well as distribution and administration costs) as well as the position "other provisions". An amount of EUR 0.1 million of AOPs and EUR 0.5 million of PSPs has been recognized through profit and loss.

   The Company uses an external expert for the valuation of AOPs and PSPs. From our perspective, share-based remuneration programs were of particular importance as they depend to a major extent from the legal representatives' assessments and estimates and are thus afflicted by uncertainties.

2. Based on the knowledge that estimated values provide for an increased risk of misstatements in the financial reporting and that the legal representatives' assessment decisions have a direct and clear impact on the consolidated financial statements, we have convinced ourselves from the valuation parameters' (such as risk-free interest and the shares' volatility) appropriateness by means of contract and company data and by involving a specialist's expertise and have assessed the new commitments' valuations' appropriateness. Based on that, we audited the accounting effect in the consolidated statement of comprehensive income (consolidated income statement and other results) and in the consolidated balance sheet. The management board's underlying estimates and assessments made are within a reasonable range.
3. The Company's information on the stock option program's valuation is contained in the notes to the consolidated financial statements in section "39 Description of Stock Option Programs et. seq." and in the Group management report in the sections "Remuneration report" and "Conditional capital".

Other information

The legal representatives are responsible for other information. Other information comprises:

- Responsibility statement by the legal representatives in the 2017 annual report's section "Responsibility Statement"
- Compliance statement in Section 10 of the 2017 Group management report
- Declaration on the continuation as a going concern in Section 10 of the 2017 Group management report
- The section "Foreword by the Executive Board" in the 2017 annual report
- The Section "Our share" in the 2017 annual report

The supervisory board is responsible for the following other information:

- The section "Report of the Supervisory Board" in the 2017 annual report.

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

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

- is materially inconsistent with the consolidated financial statements, with the Group management report or our knowledge obtained during the audit; or
- otherwise seem to have been materially misstated.

Responsibilities of the legal representatives and the Supervisory Board for the consolidated financial statements and the Group management report

The legal representatives are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Art. 315e Sec. 1 HGB and that the consolidated financial statements, in compliance with these requirements, provide a true and fair view of the Group's assets, liabilities, financial position, and profit situation. Furthermore, the legal representatives are responsible for such internal controls they have determined as being necessary in order to provide for the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the consolidated financial statements, the legal representatives are responsible to assess the Group's ability to continue as a going concern. They also have the responsibility to disclose, as applicable, matters related to the continuation as a going concern. Furthermore, they are responsible for financial reporting based on the going concern principle unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the legal representatives are responsible for the preparation of the Group management report that, as a whole, provides a true and fair view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. Furthermore, the legal representatives are responsible for such arrangements and measures (systems) they have deemed necessary in order to provide for the preparation of a Group management report that is in accordance with applicable German legal requirements, and in order to provide sufficiently appropriate evidence for the assertions in the Group management report.

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

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

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

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

Throughout the entire audit, we exercise professional judgment and maintain professional skepticism. We also:

- identify and assess the risks of material misstatements in the consolidated financial statements and the Group management report, whether due to fraud or error, plan and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting any material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls;
- obtain an understanding of the internal control system relevant for the audit of the consolidated financial statements and of arrangements and measures relevant for the audit of the Group management report in order to plan audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems;
- evaluate the appropriateness of accounting policies used by the legal representatives and the reasonableness of estimates made by the legal representatives as well as the related disclosures;
- draw conclusions on the appropriateness of the legal representatives' application of the going concern principle and, based on the audit evidence obtained, whether a material uncertainty exists in connection with events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the Group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements provide a true and fair view of the Group's assets, liabilities, financial position and profit situation in compliance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Art. 315e Sec. 1 HGB;
- obtain sufficiently appropriate audit evidence regarding the financial information of the entities or business activities within the Group in order to express audit opinions on the consolidated financial statements and on the Group management report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinions;
- evaluate the consistency of the Group management report with the consolidated financial statements, its conformity with German law, and its presentation of the Group's position;
- perform audit procedures on the prospective information presented by the legal representatives in the Group management report. On the basis of sufficiently appropriate audit evidence we evaluate, in particular, the significant assumptions used by the legal representatives as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the underlying assumptions. There is a substantial unavoidable risk that future events will differ significantly from the prospective information.

We discuss with those charged with governance, inter alia, the planned scope and timing of the audit as well as significant audit findings, including any deficiencies in the internal control system we identify during our audit.

We also provide those charged with governance with a declaration that we have complied with the relevant independence requirements, and discuss with them all relationships and other circumstances that may reasonably be expected to affect our independence, as well as the related protective measures taken in this regard.

From the circumstances discussed with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current reporting period and therefore constitute key audit matters. We describe these circumstances in our auditor's report unless any law or other regulation precludes the circumstance's public disclosure.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on May 30, 2017. We were engaged by the supervisory board on December 8, 2017. We have been the auditor of Epigenomics AG, Berlin, without interruption since the fiscal year 2015.

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

RESPONSIBLE AUDITOR

The German Public Accountant responsible for the audit is Klaus Biersack.

Munich, March 16, 2018

Baker Tilly GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
(Düsseldorf)
(formerly Baker Tilly AG Wirtschaftsprüfungsgesellschaft)

Weissinger	Biersack
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

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LIST OF ABBREVIATIONS

ADMIT	Adherence to Minimally Invasive Testing
ADR	American Depositary Receipts
AktG	German Stock Corporation Act (Aktiengesetz)
ARUP	ARUP Laboratories
CFDA	China Food and Drug Administration
CMS	Centers for Medicare & Medicaid Services
CPT	Current Procedural Terminology
CUSIP	Committee on Uniform Security Identification Procedures
EBIT	Earnings before interest and taxes
EBITDA	EBIT before depreciation and amortization
ECB	European Central Bank
ERP	Enterprise Resource Planning
EU	European Union
FDA	Food and Drug Administration
Fed	Federal Reserve System
FIT	Fecal immunochemical test
GDP	Gross domestic product
GMP	Good manufacturing practice
GSTP1	DNA methylation biomarkers, intellectual property by Epigenomics
HGB	German Commercial Code (Handelsgesetzbuch)
HPV	Human Papilloma Virus
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICR	Internal control and risk management system
IDW	Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer)
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund

IPO	Initial public offering
ISIN	International Securities Identification Number
ISO	International Organization for Standardization
IVD	In vitro diagnostic
KonTraG	German Corporation Sector Supervision and Transparency Act (Gesetz zur Kontrolle und Transparenz im Unternehmensbereich)
LDCT	Low-dose spiral computed tomography
LDT	Laboratory-developed test
M&A	Mergers & Acquisitions
NCD	National Coverage Determination
NGS	Next Generation Sequencing
OECD	Organisation for Economic Cooperation and Development
OTCQX	Over-the-counter stock exchange
PAL	Principal American Liaison
PCR	Polymerase Chain Reaction
PMA	Premarket approval
PSP	Phantom stock program
PSR	Phantom stock rights
PTGER4	DNA methylation biomarkers, intellectual property by Epigenomics
R&D	Research and Development
Septin9	DNA methylation biomarkers, intellectual property by Epigenomics
SHOX2	DNA methylation biomarkers, intellectual property by Epigenomics
SO	Stock options
SOP(s)	Stock option program(s)
USPSTF	United States Preventive Services Task Force
WpÜG	German Securities Acquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetz)

IMPRINT

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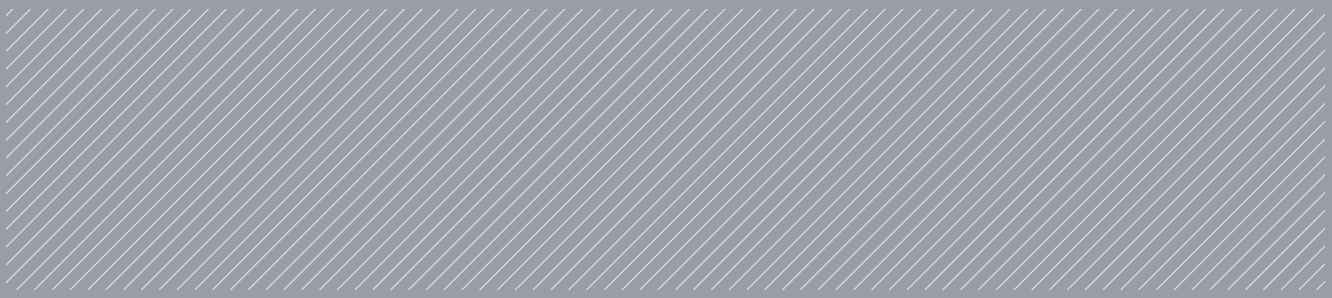
This annual report is also available in German.

CORPORATE CALENDAR

Interim Statement 2018 – January 1–March 31, 2018	Wednesday, May 09, 2018
Annual General Shareholders' Meeting 2018 in Berlin	Wednesday, May 30, 2018
Half-yearly Report 2018 – January 1–June 30, 2018	Wednesday, August 8, 2018
Interim Statement 2018 – January 1–September 30, 2018	Wednesday, November 7, 2018



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