epigenomics

ANNUAL REPORT 2020

SAVING LIVES THROUGH BLOOD-BASED CANCER DETECTION

We revolutionize the way of cancer diagnostics using our unique, proprietary DNA methylation biomarker technology. Epigenomics develops and commercializes patient-friendly, blood-based diagnostic tests across multiple cancer indications with high medical need. Using blood as a liquid biopsy can improve patient access to cancer screening and thereby contribute to eradicate today's deadliest cancer types such as colorectal, liver, and lung cancer. By leveraging our product pipeline and strong intellectual property, we aim to become a global leader in blood-based cancer detection.

CONTENTS

epi pro colon®

Epi proColon is indicated for colorectal cancer screening in average-risk patients who are unwilling or unable to perform colorectal cancer screening by colonoscopy and stool-based methods. It is a qualitative, in vitro diagnostic blood test for CRC that uses real-time PCR to detect methylation of a target DNA sequence within the Septin9 gene promoter; methylation of this DNA sequence is associated with the occurrence of CRC and can be detected in cell-free DNA that circulates in the plasma. For patients, the test only requires a simple blood sample draw as part of routine healthcare provider visits. There are no dietary restrictions or alterations in medication required for the test. The sample will be analyzed at a national or regional diagnostic laboratory.

CorporateLiveWire
INNOVATION & EXCELLENCE AWARDS 2019

TOP 10 IN-VITRO DIAGNOSTIC 2019
MED-TECH OUTLOOK

Epi proColon is recipient of the 2019 Excellence in Molecular Diagnostics Award by Corporate LiveWire's Innovation and Excellence Awards.

Foreword by the Executive Board

WE LOOK AHEAD!

DEAR SHAREHOLDERS,

Despite the solid foundation of evidence created to support reimbursement for Epi proColon, the Centers for Medicare and Medicaid Services (CMS) issued a negative National Coverage Determination (NCD) on January 19, 2021. CMS's decision is contrary to the vast majority of expert opinion submitted during the public comment period but none the less has significant implications for Epigenomics.

MAJOR CONCERNS AND DISAGREEMENT WITH CMS'S DECISION Our judgment, which we already announced in a detailed statement during the public comment period following the publication of the preliminary reimbursement decision, has not changed: We do not agree with CMS's decision, as it is contrary to the evidence and unprecedented in its establishment of clinical performance parameters outside of FDA approval. We do, however, agree with several professional societies, such as the American Cancer Society, which also outlined its concerns with CMS's reasoning during the public comment period: Randomly selecting sensitivity, specificity, and testing interval values from various tests and assuming it will reduce mortality from colorectal cancer is not the appropriate way to make evidence-based coverage decisions. Rather, by denying coverage for the only FDA approved blood test at this time, a portion of Medicare beneficiaries will needlessly die of colorectal cancer. This is especially true for underserved populations, including minority groups and the impoverished.

FURTHER STEPS We are firmly determined not to accept the ruling and are currently examining all available options to revise the NCD decision. There are two main alternatives open to us: First, there is the option of appealing the decision and/or taking legal action. To optimize our appeal strategy it is important to first communicate with the new leadership of the U.S. Department of Health and Human Services as well as CMS. Second, there is still the option of the legislative pathway to coverage. Although this option has moved into the background over the past year for good reasons, it remains a viable alternative that we continue to pursue.

NEXT GENERATION LIQUID BIOPSY TEST In addition, we continue to pursue our leadership position in the colorectal cancer screening market and in liquid biopsy technology. Building on our expertise, we have developed and validated a new colorectal cancer screening assay based on Epi proColon with clinical performance characteristics that meet the coverage criteria outlined by CMS in the final NCD. We are excited by the data from the tests and studies performed to date. Accordingly, the test represents a fast, easy-to-use and affordable option for the detection of colorectal cancer in a liquid biopsy and offers a promising perspective for the company. As a new test, a large prospective trial is required for FDA approval. Such a trial and subsequent FDA approval will take at least two to three years and require additional funding.

Albert Weber

Greg Hamilton

FINANCIAL POSITION Due to our current financial position the Company has implemented significant cost saving measures to minimize our cash burn and extend our operational "runway". With the successful placement of the convertible bond in the amount of EUR 5.5 million in January 2021, the liquidity reaches well into 2022. Nevertheless, the necessary investments to further develop our next-generation liquid biopsy test will entail the raising of additional funds in the course of the year. We are confident that the new test will receive FDA approval and CMS reimbursement. However, in order to achieve this goal, we need to capitalize the Company appropriately for the necessary timeframe.

HCCBloodTest We scaled back activities around our second promising liquid biopsy test, the HCCBlood test for the detection of liver cancer in patients with cirrhosis, last year. On the one hand, this is due to the cost reduction measures we took in connection with the COVID-19 pandemic. On the other hand, we focused on reimbursement and market preparation of Epi proColon in 2020. The prospective study for the test, which was completed at the end of 2019, has been submitted for publication and accepted

LOOKING AHEAD Even though the NCD decision has set us back significantly at the start of the current fiscal year 2021, we believe that Epigenomics AG's journey is far from over. We are currently exploring all strategic alternatives to maximize the company's prospects for success and thus shareholder value, either as a stand-alone company or in partnership with other major players in our industry. We will continue to keep you informed about these developments. At the same time, we would like 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
(Chief Executive Offier)

Albert Weber
(Executive Vice President Finance)

SUPERVISORY BOARD REPORT

DEAR SHAREHOLDERS,

The fiscal year 2020 was a very difficult one for Epigenomics AG in two respects. On the one hand, the global COVID-19 pandemic radically changed the daily living and working conditions not only for all of us as individuals, but also for the global economy and all associated companies. The buzzwords included contact reduction, video conferencing and home office. Like almost all other companies worldwide, Epigenomics was affected by the consequences of this crisis of historic proportions. The collapse of the capital markets in the first quarter of 2020 created very difficult conditions under which our Company had to refinance at that time. Although it was possible to raise new liquidity at the end of March, the volume of the capital increase was noticeably lower than had previously been assumed and considered necessary. Our employees at the Berlin location have been on short-time work since April of the reporting year.

On the other hand, it was with great disappointment and complete incomprehension that we had to acknowledge the preliminary negative decision on reimbursement of Epi proColon in the U.S.A. by the Centers for Medicare and Medicaid Services (CMS) in October 2020, which was then finally confirmed after the end of the reporting year in January 2021. We believe that this decision by CMS is wrong and that the reasons for reimbursing our test have not been sufficiently noted and appreciated. However, the framework that has now been formulated means that the next generation of Epi proColon, which is currently under development, would be reimbursed without further application. However, this still requires a new pivotal study, which will take at least two to three years, and appropriate funding. We will therefore carefully evaluate our options to respond to the decision and will leave no stone unturned to bring about a favorable turnaround in this important process.

WORK OF THE SUPERVISORY BOARD In this financial year, the Supervisory Board of Epigenomics has again fulfilled all its duties according to the law, the Articles of Association and the rules of procedure. It advised the Executive Board on the management of the Company and monitored its conduct of business. In addition, the Supervisory Board was always informed about the Company's operational progress and major challenges as well as about the Executive Board's assessment of the financial situation and risk management. It was regularly informed by the Executive Board about the overall corporate planning, including financial, investment and personnel planning, and about the general course of business. For decisions and measures of the Executive Board which required the approval of the Supervisory Board in accordance with the law or the applicable rules of procedure of the Executive Board, the Supervisory Board gave its approval after thorough examination of the documents submitted and detailed consideration of them.

Among the regularly discussed significant business transactions in fiscal year 2020 was again the reimbursement issue for Epi proColon in the United States. Other important items were the capital increase by subscription rights issue in March, the overall financial situation of the Company, strategic options as well as legal topics. Last but not least, the impact of the COVID-19 pandemic on the Company and the consequences and measures derived from it were regularly discussed and coordinated with the Executive Board.

Heino von Prondzynski

The Supervisory Board also adopted the Company's annual financial statements and approved the consolidated financial statements. In its work, the Supervisory Board always took into account the interests of Epigenomics' shareholders.

During 2020, the Supervisory Board had seven meetings. These took place on January 22/23, April 9, May 15, June 15, July 15, September 1, September 30 as well as on December 2, each in the presence of the Executive Board. Against the background of the widespread travel and contact restrictions due to the aforementioned pandemic, all meetings from April 9 onwards were held exclusively as video conferences. All members of the Supervisory Board attended all meetings. In addition, our Annual General Meeting on June 12 and an Extraordinary General Meeting on November 27 were held in 2020 in video format and without the physical presence of shareholders.

In addition to a very intensive dialog between all members of the Supervisory Board and the Executive Board in the joint meetings, the Executive Board provided the Supervisory Board with detailed written and verbal reports in additional telephone and video conferences and in individual meetings. As a result, the Supervisory Board was kept up to date at all times on the current business situation and on significant events in the Company. In the reporting year, due to the particular importance of the reimbursement issue and the announcement of the National Coverage Determination in the U.S.A. by CMS, significantly more additional telephone and video conferences were held with the Executive Board than in previous fiscal years.

At its meeting on December 2, 2020, the Supervisory Board intensively discussed and approved the operational, financial, and personnel planning as well as the corporate goal for fiscal year 2021.

The Supervisory Board also approved the remuneration of the Executive Board. In addition, it commissioned an expert opinion on the appropriateness of Executive Board remuneration from a renowned management consulting firm in response to the increased importance of this topic, which is due among other things to the Act on the Implementation of the Second Shareholders Rights Directive (ARUG II), which came into force in the previous year.

Prior to each formal meeting of the Supervisory Board in the presence of the Executive Board, all members of the Supervisory Board received detailed written reports prepared by the Executive Board with the assistance of the responsible managers of the Company. These detailed documents were suitable for dealing with and discussing in detail the items on the agenda of the Supervisory Board meetings so that the necessary resolutions could be adopted. Written minutes of the meetings were always prepared. Where necessary, resolutions were also adopted by circular resolution in accordance with the Company's Articles of Association.

ORGANIZATIONAL CHANGES IN 2020 At the Annual General Shareholders' Meeting on July 12, 2020, which in this reporting year was held virtually on the Internet rather than in person, a resolution was passed to increase the size of the Supervisory Board from five to six members, and Mr. Alexander Link was elected as a new member of the Supervisory Board. Mr. Link is a member of the Executive Board of Deutsche Balaton AG, which is the Company's largest shareholder.

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

COMMITTEES The Supervisory Board established an Audit Committee chaired by Prof. Günther Reiter, who was nominated as the main expert for financial reporting and audit matters in accordance with Section 100 of the German Stock Corporation Act (Aktiengesetz – AktG). In this role, he is responsible for communicating regularly with the Executive Board, the Senior Manager Controlling and with the auditor of the Company, in order to provide advice 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 Dr. Ann Clare Kessler, 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 October 2020, the Executive Board and the Supervisory Board published a declaration of conformity with the German Corporate Governance Code according to Section 161 of the German Stock Corporation Act (AktG), which came into force in 2020, and which is included in this annual report and has also been made permanently available on Epigenomics' website (http://www.epigenomics.com/de/news-investoren/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 and therefore in line with the quota.

AUDIT OF THE ANNUAL FINANCIAL STATEMENTS The audit firm Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft (Baker Tilly), Düsseldorf, audited the annual financial statements and the corresponding management report of Epigenomics AG for fiscal year 2020, which were prepared in accordance with the principles of German commercial law, as well as the consolidated financial statements and the group management report for fiscal year 2020, 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 315e Paragraph 1 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 24, 2021, in the presence of the auditor, who reported on the main findings of the audit. At this meeting, the Executive Board presented the 2020 annual financial statements and 2020 consolidated financial statements, as well as the Company's early risk 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, 2020, without raising any objections or making any amendments. By the Supervisory Board's approval, the 2020 annual financial statements of Epigenomics AG are thus adopted as submitted in accordance with Section 172 AktG.

With respect to the Company's existing internal control and early risk 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 express its sincere thanks to the Executive Board, the managers, and all employees for their dedication and hard work in the difficult fiscal year 2020.

Berlin, March 2021

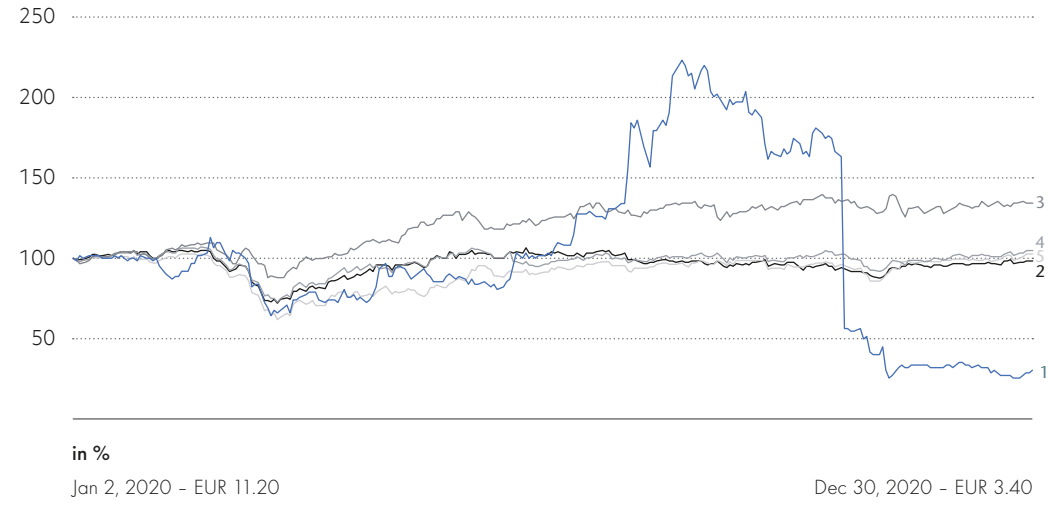
On behalf of the Supervisory Board

Heino von Prondzynski
(Chairman of the Supervisory Board)

OUR STOCK

SHARE PRICE DEVELOPMENT CHARACTERIZED BY CMS'S NEGATIVE REIMBURSEMENT DECISION IN THE U.S.A. AND CAPITAL REDUCTION

SHARE PRICE PERFORMANCE IN 2020



1 Epigenomics AG 2 Prime Pharma Performance-Index 3 Prime Biotech Performance-Index 4 TecDAX Performance-Index 5 DAX Performance-Index

At the Extraordinary General Shareholders' Meeting on November 27, 2020, a capital reduction was resolved upon proposal of the Executive Board of Epigenomics AG, according to which eight old shares (WKN: A11QW5) were combined into one new share (WKN: A3H218). The new shares were traded for the first time on the Frankfurt Stock Exchange on December 11, 2020.

In order to ensure comparability, all share price data as of reporting dates prior to December 11, 2020, have been converted according to the capital reduction in the following.

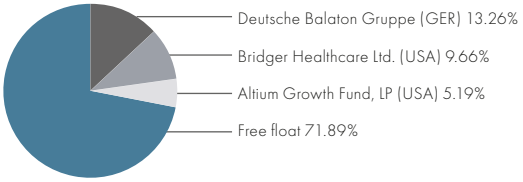
Epigenomics' share price started the year at EUR 11.20 (Xetra) and reached its high for the year in mid-August 2020 at EUR 25.04 ahead of the expected preliminary reimbursement decision by the U.S. Centers for Medicare & Medicaid Services (CMS), which according to the National Coverage Determination (NCD) schedule should have been made for Epi proColon at the end of August. As a consequence of the postponement of the decision by CMS, the share price declined from the end of August and was at EUR 18.40 at the time of the announcement of the negative preliminary reimbursement decision on October 16. Subsequently, Epigenomics' share price dropped sharply and was trading at its low for the year of EUR 2.74 at the close of trading on November 4. At year-end 2020, the stock closed at EUR 3.40.

CHANGES IN SHARE CAPITAL/ CORPORATE ACTIONS

The number of issued Epigenomics shares amounted to 43,527,692 at the beginning of 2020, and was increased to 47,129,846 by the placement of 3,602,154 new shares in connection with a capital increase at the end of March 2020. In December 2021, the number of issued shares then decreased to 5,891,230 as a result of the aforementioned resolution of the Extraordinary General Meeting in the previous month through the cancellation of six shares and a subsequent capital reduction at a ratio of 8:1 in December 2020.The market capitalization at the end of 2020 was around EUR 20.0 million.

SHAREHOLDER STRUCTURE

On February 15, 2022, the following shareholders held each more than 3% of the issued voting rights of Epigenomics AG:



A good 70% of Epigenomics shares are in free float. The largest proportion is held by retail shareholders. Recent voting rights notifications are available on Epigenomics' website under "news & investors".

Key data on Epigenomics' shares

ISIN	DE000A11QW50 (until Dec10, 2020), DE000A3H2184 (from Dec11, 2020)
Security code number (WKN)	A11QW5 (until Dec10, 2020), A3H218 (from Dec11, 2020)
Ticker symbol	ECX
Stock exchange	Frankfurt Stock Exchange Regulated Market (Prime Standard)
Issued shares (December 31, 2020)	5,891,230
Free float (February 15, 2021)	71.89%
Market capitalization (December 31, 2020)	EUR 20.0 Mio
Year-end closing price	EUR 3.40

TRANSPARENT DIALOG WITH SHAREHOLDERS

Epigenomics maintains ongoing and active dialog with investors, analysts and the financial press. Throughout 2020, the Company held regular conference calls for investors and analysts to discuss the financial results and provide updates on developments within the Company. Epigenomics' Executive Board also regularly presented the Company at roadshows and several investor conferences.

At both Epigenomics AG's Annual General Shareholders' Meeting (AGM) on June 12, 2020, and the Extraordinary General Shareholders' Meeting (EGM) on November 27, 2020, both of which were held as virtual events without the physical presence of shareholders due to the COVID-19 pandemic, the shareholders voted in favor of all oft he Boards' proposals by large majorities in each case.

ANALYST RATINGS AND ADR PROGRAM

In 2020, analysts from Pareto Securities, Warburg Research and First Berlin Equity Research followed the development of Epigenomics' shares and regularly published their research notes and their recommendations. The analysts' share price targets are published on Epigenomics' website in the "News & Investors" section.

Epigenomics' ADRs are traded on the OTCQX International in the U.S.A., a segment reserved for high-quality non-U.S. companies. These ADRs are tradable U.S. dollar-denominated certificates representing ordinary shares oft he Company at a ratio of five ordinary shares to one Epigenomics ADR. The Bank of New York Mellon serves as Epigenomics' "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	EPGNY
CUSIP	29428N102 (until Dec 27, 2020), 29428N201 (from Dec 28, 2020)
ISIN	US29428N1028
Depositary bank/PAL	BNY Mellon

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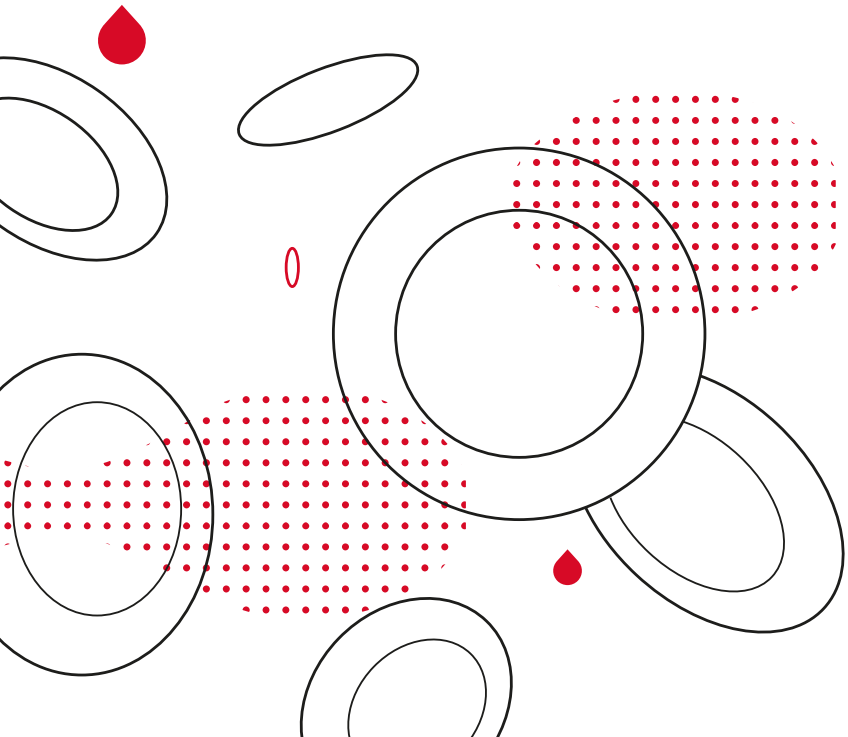

GROUP MANAGEMENT REPORT

FUNDAMENTAL INFORMATION ABOUT THE GROUP – ORGANIZATION, BUSINESS ACTIVITIES AND STRATEGY

GROUP STRUCTURE, BUSINESS ACTIVITIES AND PRODUCTS

Epigenomics AG (the "Company", the "Group" or "we") is 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.

In particular, we are currently developing and commercializing IVD tests for colorectal cancer (CRC) and liver 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.

In 2017 we received CE certification for our second product, Epi proLung, a test used to screen for lung cancer, thus completing its development. 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. At present we are not actively commercializing Epi proLung; instead, we are concentrating our resources on Epi proColon and our HCCBloodTest, which in 2018 became another product in our portfolio to receive the CE mark, thereby opening the door to its commercialization in Europe. The blood test is used to detect liver cancer in patients with cirrhosis of the liver. We are currently working to have the test trialed in relevant studies so that in the medium term we can apply to the healthcare authorities for market approval in the U.S.A.

The primary input factors in developing and manufacturing our products are our qualified employees and intangible assets in the form of intellectual property, i.e., patents and licenses.

Epigenomics AG is headquartered in Berlin, Germany, and operates a wholly owned subsidiary in the U.S.A., Epigenomics, Inc., which is registered in Seattle, WA and primarily operates in San Diego, CA. 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 marketing and distributing our products in North America, and in establishing and developing our activities and business relationships on the international markets outside of Europe.

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 in the medium term.

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.

Jorge Garces, Ph.D. was appointed to the Executive Board of Epigenomics AG in December 2017 as President and Chief Scientific Officer (CSO). Mr. Garces oversees operations, research and development, clinical affairs, regulatory and quality. After the end of the reporting period, Mr. Garces stepped down from the Executive Board and left the Company as of January 31, 2021.

Mr. Albert Weber was appointed to the Company's Executive Board in January 2018 and holds the position of Executive Vice President (EVP) Finance. Mr. Weber is responsible for finance, human resources and IT. Prior to this appointment, Mr. Weber spent 17 years as Senior Vice President with responsibility for Finance, Accounting and Controlling for Epigenomics. Before joining the Company he held various management functions in controlling and accounting in the IT and music industries. He has comprehensive experience across all corporate finance functions, as well as in a range of corporate actions and IPOs in particular.

The Supervisory Board of Epigenomics currently comprises six 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.

GOALS, STRATEGIES AND BUSINESS DEVELOPMENT

Epigenomics AG's primary corporate objective is to develop and commercialize in vitro diagnostic 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 medium-term corporate strategy is to become the global leader in the market for diagnostic tests based on "liquid biopsies". 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. The successfully completed development of Epi proLung and the HCCBloodTest again showcased our expertise in recent years.

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 mostly through product sales and licensing.

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.

In the past, we have successfully demonstrated that patients who refuse a colonoscopy and are subsequently asked to choose between a stool test (FIT) and our blood test to take part in screening overwhelmingly choose the blood test. In reality, however, this choice currently also involves an additional cost burden for the patient. A FIT test comes at little or no cost to the patient, while a blood test means they incur out-of-pocket costs. It is clear that a coverage decision in the U.S.A. is key to the success of such a test. With respect to the reimbursement price, in the summer of 2018 CMS incorporated our Septin9 test in the fee schedule at USD 192.00.

Since then, our business development activities thus primarily focused on activities to support and/or expedite the coverage decision still pending in the reporting period. To this end, we actively sought dialog with decision-makers – the CMS, private insurers, screening guideline groups and, of course, politicians. Our activities in the previous year included announcing the results of a "microsimulation" by renowned experts from Harvard Medical School (HMS). These models are utilized by various screening guideline groups, such as the United States Preventive Services Task Force (USPSTF) and the American Cancer Society (ACS) to aid in the development of screening guidelines. The model developed by the experts at HMS demonstrates good results for the use of Epi proColon in screening programs. It primarily shows the equivalence of different screening methods (colonoscopy, stool- and blood-based tests), as long as the screening frequency is taken into consideration using the criteria and measures (e.g., "life-years gained") also applied by the screening guideline groups. These results were then corroborated in the reporting period by a publication in the Journal of the National Cancer Institute. This related to the results of a study by the Cancer Intervention and Surveillance Modeling Network (CISNET), which is sponsored by the National Cancer Institute (NCI). The study compared the incremental cost effectiveness of four relevant CRC screening alternatives to establish that annual screening with Epi proColon is the most cost-effective. This study adds to the growing body of evidence that Epi proColon administered annually can reduce the incidence and mortality of colorectal cancer as effectively or better than other approved methods. We are still confident that the model will assist us in further discussions with the ACS and USPSTF to have the Septin9 test included in their screening guidelines.

Epi proColon has been available throughout the U.S.A. since it received FDA approval in 2016. The test has since been offered through major laboratory chains there (e.g., LabCorp and ARUP). We and our customers were again unable to gain certainty during the reporting period regarding its approval for coverage by the Centers for Medicare & Medicaid Services (CMS) in the U.S.A. After the end of the reporting period, however, on January 19, 2021 CMS published its negative coverage decision for Epi proColon.

Regrettably, it is now clear that we will have to modify our plans for its commercial success. We disagree with the way it was rejected by CMS and the reasoning behind it, and are at a loss to understand the move. We immediately began to review our legal options to have the decision re-examined. However, should the decision remain in force it will at least provide precisely quantifiable guidelines on getting this type of blood test approved for coverage. While we were working on the CMS application process, we also made good progress in recent years on the next generation of Epi proColon (working title: "Epi proColon Next-Gen"). This will enable us to react to the CMS decision by announcing the existence of this development on the market. The new blood-based test features performance characteristics that meet the latest requirements for sensitivity and specificity outlined in the final NCD issued by CMS. Our key priority will now be to obtain the requisite FDA approval for this new version of our CRC screening test in the medium term and subsequently a coverage decision.

The European market for IVD products is highly fragmented and dominated by national characteristics in each country. 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, France and Spain) and use distribution partners 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. Among other things, we used one such distributor to open up access to the markets on the Arabian Peninsula in the reporting period.

Going forward, we expect increasing interest in our test on the part of physicians and patients across all markets, although we expect that it will only be commercial success in the U.S.A. that will provide a strong impetus for commercialization in Europe. To a large extent, traditional commercialization activities, for example, are not available to us in Germany given the provisions of the German Health Services and Products Advertising Act (Heilmittelwerbegesetz). However, media reports about the availability and success of a blood test for colorectal cancer screening in the U.S.A. would certainly help get the attention of our target groups, namely physicians, patients and laboratories.

RESEARCH AND DEVELOPMENT (R&D)

Our research efforts in fiscal year 2020 focused on discovering new methylation biomarkers for both liver and colorectal cancer, applying innovative PCR technologies, and automation. Our laboratory developed and established a new detection method employing next generation sequencing (NGS) on blood plasma samples. We developed a multi-marker NGS test panel to detect early-stage hepatocellular carcinoma (HCC), the most common type of liver cancer. Our clinical study carried out with this test panel found that, in terms of both sensitivity and specificity, it has the potential to clinically outperform the current standard screening methods using ultrasound. We expect that these results will be published in a peer-reviewed scientific journal in the first half of 2021.

Furthermore, we have developed and validated a next-generation test to screen for colorectal cancer. Building on our expertise in liquid biopsies, PCR technology and DNA methylation biomarkers, the new CRC screening assay features clinical performance characteristics that meet the coverage criteria outlined in the final national coverage determination (NCD) entitled "Decision Memo for Screening for Colorectal Cancer – Blood-based Biomarker Tests (CAG-00454N)", published by CMS on January 19, 2021. The interpretive algorithm for this novel assay was trained in a study with 454 samples comprising CRC patients and clinical controls. Clinical performance was then established using a total of 2,504 plasma specimens, including 136 well-characterized colorectal cancer samples, available from two independent clinical screening trials in the average-risk population. This next-generation multi-target blood test is based on a new proprietary real-time PCR technology to detect DNA methylation. We have filed patents for this new assay in the U.S.A. and the EU. The new CRC screening assay is automated and highly robust, and provides valid results for more than 99% of samples analyzed. The test will be a fast, easy-to-use and affordable option for detecting CRC in a liquid biopsy.

Our product development focused on clinical studies, our post-approval study on Epi proColon, the completion of our liver cancer study, automation methods for DNA isolation, bisulfite conversion and PCR setup methods, and a new multiplex PCR assay to detect colorectal cancer. Our post-approval study, which is required by the FDA in order to establish longitudinal clinical performance data for Epi proColon, is still ongoing although the COVID-19 pandemic has led to delays in patient enrollment. Nevertheless, we exceeded 55% of our enrollment target as of the end of the reporting period.

Our Tecan-based automation platform is already being used in regular laboratory operations. The optimized and validated automated workflow offered by the Tecan Freedom EVO 200 Liquid Handling System enables DNA extraction and bisulfite conversion for 96 plasma samples in less than an eight-hour shift.

We also worked on using recognized scientific methods to demonstrate the clinical benefits of our existing Epi proColon test. A microsimulation is a standard method used by the USPSTF and ACS to assess CRC screening methods. Working with experts from Harvard Medical School and their cooperation partners[1], we had already developed and published microsimulation analysis of methods to prevent CRC (including our Epi proColon test) in the previous year. Further to this, in the reporting period an article was published in a medical journal that reports several key findings relevant to the benefits of Epi proColon. The key statements are briefly presented below.

Benefits of screening: Measured by life-years gained (LYG) and CRC deaths prevented (reduction in mortality), annual screening using Epi proColon offers benefits similar to all other CRC screening strategies currently covered by CMS. Similar results were also reported for CRC cases averted (reduction in CRC incidence) when using Epi proColon annually in comparison with the other methods currently covered by Medicare.

Adverse events caused by screening: Blood collection for Epi proColon is essentially harmless. As in the case of all other CRC screening methods, adverse events are measured based on the overall colonoscopy burden (number of colonoscopies required over a lifetime) associated with the respective strategy. In other words, adverse effects are measured as the total number of colonoscopies resulting from the positivity rate (rate of referral for colonoscopy) reported for a specific screening strategy. This approach is in line with the FDA product risk assessment. The rate of side effects associated with colonoscopy (severe gastrointestinal bleeding and perforation) is directly proportional to the rate of colonoscopies. It was found that the number of adverse events associated with using Epi proColon is lower than those resulting from colonoscopy every ten years as the primary screening method.

[1] D'Andrea E, Ahnen DJ, Sussman DA, Najafzadeh M. Quantifying the impact of adherence to screening strategies on colorectal cancer incidence and mortality. Cancer Med. 2020 Jan;9(2):824-836.

Screening interval: The study found that annual screening with Epi proColon offered more benefits than screening every two or three years, even with a certain increase in adverse events. The burden-to-benefit ratio or efficiency ratio (calculated as the incremental number of colonoscopies divided by the incremental life-years gained) is used to determine the optimal efficiency of various CRC screening strategies. On this basis, annual CRC screening with Epi proColon was determined to be the optimal interval.

We own the Harvard microsimulation model and are able to analyze various clinical performance characteristics and test intervals in order to determine the clinical outcomes (cancer incidence, mortality and adverse events) for various test configurations.

In addition, the scientifically recognized decision modeling methods developed by CISNET are currently being used more broadly to also assess the long-term clinical benefits and risks associated with recommended and newly proposed screening strategies. The CISNET modeling was published in Journal of the National Cancer Institute[1] in August 2020 and shows that Epi proColon has greater clinical benefits than both stool-based FIT testing and Cologuard. The CISNET analysis also concluded that Epi proColon is more cost-effective than Cologuard, and confirmed that annual testing with Epi proColon is the optimal method of CRC screening. The adverse events associated with Epi proColon were lower than those reported for the "gold standard" CRC screening method (colonoscopy every ten years).

QUALITY MANAGEMENT

Our day-to-day work conforms to the strictest regulatory standards. Our well-established, comprehensive quality management system covers the design, development, manufacturing and global distribution of in-vitro diagnostics (IVD), and in doing so meets the specific requirements of 21 CFR 820 and ISO 13485.

ISO 13485 is the internationally recognized quality management standard developed for medical devices by the International Organization for Standardization (ISO), an international association of national standard-setting bodies. The very demanding compliance with this standard is regularly certified and monitored for the Company by an independent notified body for medical devices.

In addition to ISO 13485, our quality management system also fulfills the specific requirements for manufacturers of medical devices laid down in the current Good Manufacturing Practices (cGMP) of U.S. Code of Federal Regulations Title 21 Part 820 on quality systems (21 CFR 820).

Complying with both of these ensures an organization's ability to provide medical devices and associated services that consistently meet customer and applicable statutory requirements.

The implementation of a quality management system compliant with 21 CFR 820 and ISO 13485 expressly demonstrates our ongoing commitment to developing safe and effective diagnostic products. The Company works continuously to improve its quality management system, thereby creating a solid foundation to obtain global regulatory approval for its products.

1 Peterse EFP, Meester RGS, de Jonge L, et al. Comparing the cost-effectiveness of innovative colorectal cancer screening tests. J Natl Cancer Inst. 2020 Aug 6:djaa103. doi: 10.1093/jnci/djaa103.

REPORT ON ECONOMIC POSITION

MACROECONOMIC AND INDUSTRY-SPECIFIC CONDITIONS

Macroeconomic environment in 2020

From midway through the first quarter of 2020, the global macroeconomic environment was dominated by a new type of virus. The pathogen and the disease it causes, COVID-19, first gained public attention towards the end of the previous year in the Chinese city of Wuhan, and from outside this was initially considered to be a national disease control problem in China. By the beginning of 2020 as news emerged of the first deaths and infections in other countries too, it quickly became clear that this was the beginning of a global pandemic on a scale the world had never seen before. Many countries soon faced states of emergency as infections and deaths soared, leading to curfews for the general public and in some cases very severe restrictions on economic and cultural life (lockdowns). All of the leading industrial nations were affected, with the United States, the UK, Italy, Spain, France and of course China hardest hit. What was termed the first wave of the pandemic was followed by a lull in the summer, before the predictions made by many experts were confirmed and a second wave materialized virtually everywhere during the fourth quarter, triggering a return to restrictions in almost every sphere of everyday life.

The impact of the pandemic on the global economy reached previously unimaginable proportions. The individual nation states and supranational organizations found themselves compelled to launch enormous stimulus programs, pushing sovereign debt to unthinkable levels. Some industrial and service sectors collapsed almost completely (such as tourism, transport and the events industry) and others (such as automakers and aerospace manufacturers) suffered massive revenue declines that are expected to be long-lasting and are forcing a rapid rethink of entire business models in the sectors affected. There were also winners, however, such as online retailers and providers of all types of communications services (for instance video conference systems). It was not just a large number of business models around the world that were put to the test. The employment arrangements of many workers were also heavily affected on at least a temporary basis, and in many cases also permanently. In many sectors, the traditional office workplace was replaced or at least supplemented by working from home. Around the world, business travel came to a virtual standstill. Individual business meetings and discussions were shifted into the virtual space, as were entire conventions, conferences, trade fairs and annual general meetings. The assumption is that these developments are here to stay, or at least that there will be only a rudimentary return to how things were.

Given the enormous impact of the pandemic on the global economy (which is only touched on here), the other issues and events of global economic significance are pushed to the sidelines when looking back on 2020. In many cases these were issues that had been of primary importance to the global economy in prior years. They include the Brexit negotiations between the European Union and the United Kingdom, which were finally concluded at the end of the year with a minimal compromise to avoid a no deal Brexit.

There was no further escalation in the international trade disputes between Europe, the U.S.A. and China in 2020. Given the COVID-19 crisis and in the run-up to the U.S. presidential election in November, the issue appeared to have slipped down the agenda for the main protagonists. In Europe and China, the hope following the U.S. elections was that the negotiations could be continued with a new representative of the world's largest economy who would bring to the table not just a shift in negotiation tactics but also a new set of priorities.

For the time being, the pandemic has sidelined the climate debate, which primarily in the western industrialized nations has been growing in significance in recent years. The massive decline in global transport flows and the effects immediately visible (for instance on air quality) could be considered a collateral success, but these will doubtless also spur discussions in the medium term once the acute virus-related crisis appears to be under control.

The pandemic likewise overshadowed economic policy in Germany in 2020. Although the country's efforts to overcome the crisis were more successful than elsewhere in Europe, particularly with respect to the health system (at least during the first wave), economic, fiscal and tax policy was forced to react by continually launching new programs to deal with the many trouble spots, primarily by pumping money into the economy. Despite this, there was an increase in insolvencies, tax defaults, large-scale recourse to the German partial furlough scheme (Kurzarbeit) and rising unemployment. Politicians struggled with the pitfalls of federalism and there were increasingly discussions about the extent to which the business of government was allowed – or even required – to bypass parliament. The political winners were the current Chancellor and her ruling CDU party, who now go into the upcoming 2021 parliamentary elections as clear favorites.

In the U.S.A., the virus surfaced somewhat later than in Europe but the consequences were at least as severe. Here, too, new sovereign debt was incurred to finance large-scale government aid and relief programs, and there were heated discussions in politics and society about the right way to handle the crisis. In the end, the previously beleaguered Democrats and their presidential candidate, Joe Biden, managed to turn the situation to their advantage, winning the presidential election at the end of the year – although President Trump refused to recognize having been ousted.

Overall, the pandemic caused a dramatic slump in global economic output in the second quarter of 2020, which was down almost 8% on the figure for the first quarter – a decline without historical precedent. The markets then managed to recover relatively quickly as the first wave subsided, resulting in growth of around 7.5% in the third quarter. The second wave of the virus prevented this trend from continuing in the fourth quarter, and towards the end of the year leading experts and economic research institutes were putting the decline in global economic output at more than 4% for 2020. According to OECD forecasts, China was the world's only major economy to record net growth in 2020, although the figure of less than 2% falls far short of the growth rates seen in previous years. While the decline in Germany's gross domestic product was estimated at approximately 5.5% and thus better than the eurozone average of approximately 7.5%, the figure for the U.S.A. was lower than 4%. The virus spread ferociously in the United Kingdom, which also had to grapple with the effects of Brexit and consequently saw economic output decline by more than 11%, far more than the majority of other European countries.

Against this backdrop, it goes without saying that global labor market data was also negative. In Germany, the total number of registered unemployed rose by more than half-a-million year on year to approximately 2.7 million in November 2020. Recourse to the German partial furlough scheme (Kurzarbeit) in response to the crisis managed to prevent an even greater increase. Almost 6 million employees were covered by the scheme in April 2020, after which the figure declined constantly through to November but still amounted to 2.0 million. The U.S.A. saw some 22 million jobs lost to the crisis, of which only around half could be recovered by the end of the year.

Consumer prices in the industrialized nations also decreased. In Germany this was due to factors including the temporary reduction in value added tax (VAT) in the second half of 2020 and the sharp drop in prices for energy products. Inflation amounted to roughly -0.2% towards the end of the year. The situation was similar in the eurozone as a whole. By contrast, prices in the U.S.A. rose, albeit only slightly, by just above 1%.

The European Central Bank stuck to its zero interest rate policy in 2020 and left its benchmark rate untouched. It also significantly expanded its asset purchase program once more to combat the economic consequences of the pandemic, and extended it through to March 2022. In the U.S.A., the Federal Reserve also maintained its expansionary monetary policy and rock-bottom interest rates.

Macroeconomic outlook for 2021

The pandemic is both the main influence and a material uncertainty in the forecasts for 2021. The questions are how quickly there will be an end to the second wave, which remains acute at the beginning of the year, and whether and when a third or even fourth wave can be expected. It remains unclear how successful precautions in the form of lockdowns and restrictions on social contact are helping manage the pandemic and avoiding more serious long-term consequences. In addition, there is currently no way of reliably determining when the mass vaccination programs launched in Europe and the U.S.A. at the end of 2020 will achieve herd immunity, let alone on a global scale. Unexpected side-effects of the vaccines or new resistant coronavirus mutations are potential disruptions. If success is achieved in significantly reducing incidence rates, infections and deaths, it also remains to be seen which long-term effects of the pandemic will become part of the "new normal" (for instance in tourism, communication behavior, working from home, digitalization). In terms of health policy, it is not yet possible to predict how much damage will result from the psychological strain many people are experiencing as a result of the pandemic. There could likewise be a temporary spike in global mortality rates due to delayed or canceled treatment or the failure to undergo preventative screening. Last but not least, the extreme situation has also given rise to new socio-political challenges around the world, including social divisions. With this in mind it is difficult to make reliable forecasts for 2021 onwards.

The economic research institutes and experts generally anticipate that the economy will get off to a slow start in the first months of 2021. An economic recovery is not expected until cases drop, there can be a palpable easing of the restrictions imposed on everyday life in the industrialized nations, and the vaccination strategies show measurable success. Nevertheless, the recovery should then be significant. Before such a scenario, with no improvement before the second half of the year, leading economists still expect GDP growth of 3% to 4% calculated for the year as a whole. The experts at the OECD do not expect a return to pre-pandemic economic output levels before the end of 2021. It is also anticipated that the speed at which a new normal will be achieved will vary significantly from region to region. Under these conditions, the forecast is for global growth of approximately 4%. China is expected to post the highest growth and Japan a somewhat weaker rate, with the eurozone roughly on a par with the U.S.A. somewhere in between.

Further forecasts relate to unemployment, which in North America in particular is expected to fall significantly, and inflation rates, which are generally expected to rise slightly. The pandemic aside, the foreign, trade and fiscal policy of the new U.S. administration and the further consequences of Brexit count as uncertainties that could go some way to shaping global economic development going forward.

The euro appreciated significantly against the U.S. dollar in the second half of 2020 as the chances dwindled of President Trump being reelected and a clearer picture emerged of the extent to which the U.S.A. was being hit by the pandemic. The EUR/USD exchange rate leveled out at well over 1.20 as of the end of the year. The euro is expected to appreciate further in 2021. Given no change in the interest rate policies of the ECB and the Fed, for many experts a target rate of EUR 1/USD 1.25 is not out of the question.

Capital market environment

After prices on the global equity markets had experienced a broad-based rise in the previous year, developments in the first quarter of 2020 were shaped by the COVID-19 pandemic. By mid-march, as the global extent of the pandemic and the severity of is consequences became clear, it was already impossible to halt events on the global exchanges. The losses were massive. In Germany, the DAX hit its low for the year of 8,442 points, a decline of some 36% from the beginning of the year. None of the world's leading exchanges were spared. In the U.S.A., the Dow Jones fell 39%.

Nevertheless, after reaching their low points for the year the exchanges rallied at almost the same swift pace. While growth on some exchanges (such as London and Paris) stalled somewhat again in the summer, the upswing in the U.S.A., Japan and Germany continued almost without let-up through to the end of the year. Ultimately, the DAX even managed to hit a new record high in the final trading days, closing the year up roughly 3.5%. The approximate figure for the TecDAX was as high as 6.6%. In a move that was symptomatic for the effects of the pandemic, a reorganization of the DAX during the year saw an airline (Lufthansa) removed and a food delivery service (Delivery Hero) added. The stock market indexes in Japan (Nikkei) and the U.S.A. (Dow Jones) both posted clear gains, closing at 16.0% and 9.7% respectively. The NASDAQ turned in an exceptional performance. Despite losing 23% in the interim, it closed out the full year up almost 45%. This massive lead on other markets was due to the special case of Tesla but also primarily to shares that had benefited from the crisis (such as Amazon, Paypal and NVIDIA), whose concentration in this index is the main factor setting it apart from indexes with more traditional compositions.

2020 was likewise a good to very good year for other assets classes beyond equities. The price of gold climbed by some 24% and the real estate market also escaped the coronavirus crisis almost completely unscathed, with residential properties in some cases seeing higher price rises due to factors including a further shortage of supply, particularly in Germany.

The search for opportunities to invest the high levels of available liquidity around the world was doubtless also one factor that made 2020 a record year for IPOs. Overall, the annual EY study counted well over 1,300 IPOs, up 15% on the figure for 2019. The leaders were again the stock exchanges in China and the U.S.A., where there was increased activity among tech firms successfully listing their shares, with companies from the life sciences sector in second place. Within the European market for IPOs, which lagged far behind in terms of both deal flow and volumes, the German sub-market remained the specific problem spot as expected, with a mere 12 new listings recorded there. In this context, German biotechnology firms in particular – among them vaccine manufacturer Curevac – chose NASDAQ as the venue to go public.

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.

Promising technologies in life sciences include innovative diagnostic and therapeutic methods with improved outcomes for patients and greater benefits for healthcare systems. Nevertheless, the environment in affluent countries around the world continues to be marked by healthcare reform and pressure on cost and price. In the world's biggest market, the U.S.A., cost developments in healthcare (first and foremost drug prices) frequently played a major role in the previous years.

Stock market growth in the healthcare sector again failed to top the rankings either in the U.S.A. or in other key regions. The MSCI World Pharmaceuticals, Biotechnology and Life Sciences index nevertheless grew by some 6% in 2020, with the NASDAQ Biotechnology Index up approximately 26%. The growth trend in this sector has remained very stable in recent years and even continued to record positive development at times when prices were declining elsewhere. The industry also recorded consistently good growth rates on Europe's capital markets, with the MSCI Europe Pharmaceuticals, Biotechnology & Life Sciences index rising by almost 20% for 2020.

As observed in the previous years, the development in the healthcare sector is now also driven by players perceived as being industry outsiders, such as tech giants Alphabet (Google) and Amazon. That trend will remain prevalent as artificial intelligence (AI) continues to grow in importance, including in life sciences. AI is set to become more widespread in diagnostics in particular, where given the demand for precise analysis of large quantities of complex data, new technologies hold the promise of quantum leaps in the development of new tests.

Diagnostics was a lucrative segment of the life sciences industry, particularly in 2020 due to the COVID-19 crisis. Around the world, various biotechnology firms contributed their expertise not just to the search for vaccines against COVID-19 and therapies to treat it but also to the search for new testing methods, for instance involving antibodies or PCR technologies. The significance and image of the industry in general and biotechnology in particular has received a significant boost in this environment.

The diagnostics market as a whole remains fairly consolidated, with competitors ranging from large European players (e.g., Roche, Bayer, Qiagen, BioMerieux), Sysmex from Japan and U.S. companies (e.g. Abbott, Hologic, Becton Dickinson) to small companies like Epigenomics. The push towards consolidation already observed in this sector in recent years continued to be felt. The buy-side interest is mainly focused on manufacturers of R&D instruments and supplies for next generation sequencing or drug discovery, and companies that make new and unique diagnostic tests – among them Epigenomics. At the same time, emerging companies can use the recent influx of private equity and venture capital investments in the biotech market to further develop innovations.

M&As also remain important exit options, particularly for investors in German biotech firms, since the German capital market continues to lag far behind its U.S. counterpart in this segment. There is a trend for German biotech firms to list on the stock exchange in the U.S.A. rather than in Germany (as BioNTech, Centogene and Immunic did in the previous year), which Curevac and Immatics confirmed in the reporting period. The German market continues to lack interest and expertise in biotechnology. Traditional German investors have an eye for dividend potential, not opportunities for substantial gains that involve a higher risk of loss.

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.

BUSINESS DEVELOPMENT 2020

Epi proColon

Coverage decision by the Centers for Medicare & Medicaid Services

For Epigenomics, much of fiscal year 2020 was overshadowed by the expected coverage recommendation relating to colorectal cancer screening for eligible patients in the U.S.A.

In May 2019, we announced that the Centers for Medicare & Medicaid Services (CMS) had accepted our application for a National Coverage Determination (NCD) review of Epi proColon. The NCD is one of two options to obtain CMS coverage for Epi proColon, which would represent a major U.S. market breakthrough for the Company. With this step, no decision had yet been made on coverage, but CMS had officially determined that there was a rationale to initiate an NCD procedure. At the same time, however, CMS stated that the NCD review process could not begin immediately due to limited human resources. Once the CMS had sufficient resources, the NCD would be opened with a 30-day public comment period. This did not happen until the reporting period, on February 28, 2020. As required by statute, CMS then had six months to announce a proposed decision and a further 90 days to then publish a final coverage decision. Consequently, we, our shareholders, the markets and the public expected to be able to gain certainty on this decisive issue in 2020. There was a delay, which we announced on August 31, 2020.

The proposed CMS decision was not published until October 16, 2020 and to everyone's surprise was negative. Not just we as a company but also the majority of advisers, investors and external observers had expected a positive proposal. In its reasoning, the agency revealed first and foremost that its decision-making process had completely ignored key scientific data and study results that we had submitted together with the application (such as those from the HMS microsimulation study). This came as a particular surprise because the leading medical professional societies responsible for drawing up the respective screening guidelines in the U.S.A. (such as the ACS or USPSTF) themselves referred to the results of such simulation studies in drafting their guidelines. The study data from HMS and those from the independent CISNET group, which were known beforehand and also proved the very obvious benefits of using Epi proColon in colorectal cancer screening, played no role for the decision-making body at CMS. This was then also made clear by the public in the context of the 30-day comment period initiated following the proposed decision. The vast number of comments overwhelmingly voiced a clear lack of understanding of the CMS proposal and the reasoning behind it. Well-known experts, physicians, laboratory practitioners and also the ACS criticized both the outcome of the procedure and how CMS had gone about it. This broad and committed feedback from the public and the expert community emboldened us in our efforts to have the agency rethink this preliminary coverage proposal and change it to positive before publishing the final coverage decision. Among other things, we are using the opportunities for further dialog with CMS and other institutions important to this process.

The end of the public comment period was followed by the beginning of an official 60-day period within which CMS was then required to announce a final NCD. This was published after the end of the reporting period, on January 19, 2021, and was also negative.

Epi proColon included in the NCCN screening guidelines

An encouraging development that we reported in 2020 was the inclusion of Epi proColon in the National Comprehensive Cancer Network (NCCN) screening guidelines in April. The NCCN updated its 2020 CRC guidelines to reflect the FDA-approved indications for Epi proColon (Septin9). While the new NCCN guidelines do not recommend the Septin9 blood test for routine screening, it can however be considered for patents who refuse other screening methods. The FDA-approved indications for the use of Epi proColon are worded as follows:

"The Epi proColon test is indicated to screen adults of either sex, 50 years or older, defined as average risk for CRC, who have been offered and have a history of not completing CRC screening. Tests that are available and recommended in the USPSTF 2008 CRC screening guidelines should be offered and declined prior to offering the Epi proColon test. Patients with a positive Epi proColon test result should be referred for diagnostic colonoscopy. The Epi proColon test results should be used in combination with physician's assessment and individual risk factors in guiding patient management."

The inclusion of Epi proColon in the 2020 NCCN guidelines is thus closely based on the FDA-approved indications for the blood test and opens up a significant opportunity to reach the more than 30 million Americans who do not currently participate in CRC screening.

We are confident that future NCCN guidelines will take into account key insights not yet factored in here that can be derived from the outcomes of the recently published microsimulation model (D'Andrea et.al. epub – Nov. 2019 – Cancer Medicine. 2020; 9:824.). These include recommending an annual test interval for blood tests like Epi proColon. The model data demonstrate that annual screening with a Septin9 test (Epi proColon) brings comparable long-term benefits for the health care system and lower the risks compared with the "gold standard" colonoscopy every ten years. The publication in Cancer Medicine was not included in the current 2002 NCCN guidelines since it was published shortly after the deadline for reviewing the relevant literature and the subsequent meeting of the NCCN board.

Clinical studies

Regrettably, there was no major progress to disclose in our ongoing studies during the reporting period. The pandemic conditions that prevailed for much of 2020 affected all of our ongoing projects, some of which came to a standstill or at least continued at a slow pace. This concerned above all the post-approval study for Epi proColon in the U.S.A., which the FDA requires us to complete. It was observed worldwide during the reporting period that the risks surrounding COVID-19 had caused a sharp decline in routine screening, and not just for colorectal cancer. Many patients stayed clear of screening appointments that had become due or put them off indefinitely for fear of infection in general and at doctors' offices and clinics in particular. The crisis also posed a completely different set of priorities for physicians, clinics and laboratories than in normal times, and in many cases their capacities were stretched to the limit.

Effects of the COVID-19 pandemic on Epigenomics

At the beginning of fiscal year 2020, Europe was still looking anxiously to Asia where the novel coronavirus was spreading rapidly with devastating effect. Following the first reported case in Germany at the end of January 2020, the virus began to spread rapidly here, too. Just one month later the threat was widespread in Germany and throughout Europe, too, and Epigenomics also began to make plans for the rest of the fiscal year and how to cope with the new and incredibly difficult situation. Shortly afterwards these plans were expanded to include the San Diego location.

Epigenomics' initial reaction was to focus primarily on the health and safety of all employees. The Company familiarized itself with the new legal rules and regulations, hygiene policies were drawn up and employees were given every possible opportunity to work from home, which was achieved very quickly and smoothly because the Company already had the technical equipment and infrastructure in place. With the exception of traditional laboratory work, all of the employees' other tasks could be carried out virtually hassle-free from home. We also carried out a preventative analysis of our supply chain with respect to the risks posed by the pandemic, and made adjustments where necessary. The storage for our finished products was expanded by an alternative warehouse to ensure continuity of supply in the event of any conceivable quarantine measures. For the rest of the year, the Executive Board and Supervisory Board only met by means of telecommunication or video conference systems.

Despite being as prepared as we could be for the effects of the pandemic, some of the indirect consequences could not be prevented. The first to be affected was our capital market transaction planned as a capital increase in the first quarter: After long having weathered the massive downward price trends around the world, our share price came under intense pressure shortly before the planned implementation date. As late as March 2, when we announced that CMS had commenced the NCD review process for Epi proColon, the share price had hit a three-month high of EUR 1.60. It came under immense downward pressure in the following days without any obvious immediate cause, and within the space of just eight trading days the share price had dived below the EUR 1 mark to drop as low as EUR 0.81 a short time later. The private placement of new shares that had been planned for the beginning of March and was nearing completion had to be postponed temporarily. After the free fall had then been stopped, the share price recovered at the end of the quarter to cross back over the EUR 1 mark, at which time we completed the postponed transaction and placed 3.6 million new shares for EUR 1.11 each. Measured by the share price at the beginning of the month, the gross proceeds were nevertheless more than EUR 1 million lower than had previously been expected.

Other consequences of the pandemic that we were unable to avoid were the significant decline in revenues for our test kits in the U.S.A. due to the lower screening numbers, and the phasing down of our clinical studies in the U.S.A. (see above). All sales and marketing activities in the U.S.A. also ground to a virtual standstill since all relevant trade fairs and conferences were canceled and business travel and face-to-face meetings were rendered practically impossible. In addition, the issue of colorectal cancer screening – like all other preventative health care topics – was pushed to the sidelines in the fight to contain the pandemic.

Due to the above consequences for our operating business and the shortfall in proceeds from the capital increase, in mid-April we resolved to implement cost-cutting measures across the Company as a whole. These included immediately transitioning all employees in Berlin to the German partial furlough scheme (Kurzarbeit), which was still in place as of the end of the year. Employees departing during the year were not replaced. Furthermore, the Executive Board and Supervisory Board chose to forgo a portion of their pay for the duration of these measures. The above-mentioned reduction in sales and marketing activities also contributed to these cost savings, meaning that the revenue declines due to the pandemic were more than offset.

COVID-19 also meant that our Annual General Shareholders' Meeting 2020 did not just take place a month later than originally planned, but was also held in virtual form without the physical presence of the shareholders. We took advantage of the special laws and regulations passed shortly beforehand by the German government, which stipulated that in general, annual general meetings in 2020 no longer had to be held in person. The Annual General Shareholders' Meeting finally took place on June 12, 2020 and went smoothly.

Although the pandemic eased off slightly in the summer months, as the experts had predicted it returned stronger than ever in the fall and kept the world tightly in its grip through to the end of the year and beyond. Consequently, all of the implications and consequences for Epigenomics mentioned above remained just as acute in this period and there was still no significant easing in sight as of the end of the fiscal year.

Corporate announcements in 2020 / 2021

On March 31, 2020 we announced that we had fully completed the share capital increase resolved on the previous day of up to EUR 3,602,154.00 utilizing Authorized Capital 2019/I at an issue price of EUR 1.11 per new share. The Company's share capital was increased accordingly by EUR 3,602,154.00, from EUR 43,527,692.00 to EUR 47,129,846.00 through the issue of up to 3,602,154 new non-par value registered shares against cash contributions. The new shares were fully subscribed by institutional investors in Germany and the U.S.A. by way of a private placement with the exclusion of subscription rights. The gross proceeds from the capital increase amounted to approximately EUR 4.0 million.

On October 26, 2020 we announced that according to our best judgment a loss of more than half the share capital had been incurred. We explained that this expected development was primarily due to budgeted operating losses. In accordance with section 92 (1) of the German Stock Corporation Act (Aktiengesetz – AktG), a loss amounting to half of the share capital triggers a legal obligation to immediately call shareholders to a general shareholders' meeting, which the Executive Board notifies of the loss. Accordingly and within the required deadline, on November 3, 2020 we called our shareholders to a virtual extraordinary General Shareholders' Meeting on November 27, 2020. The key agenda items for this extraordinary General Shareholders' Meeting were the notification of loss in accordance with section 92 (1) AktG, the reduction of the Company's share capital to EUR 5,891,230.00, and a further authorization to issue convertible bonds with a principal amount of up to EUR 5.5 million.

After the end of the reporting period, on January 27, 2021, we announced that Jorge Garces, Ph.D., President and Chief Scientific Officer, would be leaving the Executive Board of Epigenomics AG as of January 31, 2021. Mr. Garces transitioned to an advisory role until the end of 2021 and will help the Company weigh up and implement strategic alternatives for its further development.

OUR STOCK IN THE REPORTING PERIOD

Capital reduction

With regard to the following disclosures on our stock in the reporting period, please note that we implemented a capital reduction shortly prior to the end of the year by means of a reverse stock split in a ratio of 8:1 (in other words, eight "old" shares were consolidated to form one "new" share), on the basis of a resolution of our extraordinary General Shareholders' Meeting on November 27, 2020. The share capital was reduced in accordance with the rules on ordinary capital reduction in accordance with sections 222 et seq. of the German Stock Corporation Act (Aktiengesetz – AktG).

As explained in detail at the above-mentioned extraordinary General Shareholders' Meeting, the focus was firstly on the loss amounting to more than 50% of the subscribed capital of the stock corporation (Aktiengesellschaft) reported in its annual financial statements prepared in accordance with the German Commercial Code (Handelsgesetzbuch – HGB). In its interim balance sheet as of September 30, 2020, the Company reported capital reserves of EUR 54,000,073.87, losses totaling EUR 77,780,245.27 (accumulated losses brought forward of EUR 71,588,874.84 and net loss for the current 2020 fiscal year of EUR 6,191,370.43). Consequently, the loss not covered by capital reserves amounted to EUR 23,780,171.40 and thus more than 50% of the subscribed capital of EUR 47,129,846 at that time.

Secondly, our share price had constantly been well under EUR 1.00 since October 19, 2020. This restricted what for us is the key ability to raise new funds quickly and flexibly, since a capital increase by means of issuing new shares is only possible if the new shares can be sold at a price above their notional value of EUR 1.00.

Following the resolutions of the extraordinary General Shareholders' Meeting, we began by taking the preparatory step of redeeming six individual shares so that the total number of "old" shares could be divided by exactly eight. The six redeemed shares were transferred to us by a single shareholder for no consideration. This reduced the number of outstanding shares to 47,129,840.

The shares were then consolidated so that eight of these "old" shares created one "new" share, reducing our subscribed capital to EUR 5,891,230 (composed of 5,891,230 non-par value registered shares). EUR 23,780,171.40 of the difference between this and the "old" subscribed capital was then used to cover losses, in other words the net accumulated losses in accordance with the HGB were reduced by that amount. The remaining difference of EUR 17,458,438.60 was subsequently transferred to the capital reserves. As a result, there was no change to the Company's equity for accounting purposes. In relation to the subscribed capital, however, after the capital reduction it amounted to a multiple of the subscribed capital that eliminated the "deficit" in accordance with section 92 (1) German Stock Corporation Act (AktG) .

This did not affect the Company's market value on the stock exchange, which following the reduction was now distributed over the new number of shares outstanding (that had been divided by eight). As such, the listed price of the individual shares (adjusted for other effects) rose by a factor of eight and thus clearly exceeded the notional value threshold of EUR 1.00 significant to us. The distribution of share ownership between the shareholders was not affected.

Stock exchange listing and market data

The new shares were traded on the regulated market of the Frankfurt Stock Exchange under ISIN DE000A3H2184 for the first time on December 11. The new shares use the same ticker symbol as the old shares (ECX).

In order to ensure consistency in the following market data from the reporting period, all relevant figures and data for the period prior to the capital reduction have been adjusted or recalculated to reflect their amounts if the capital reduction had been completed as of the beginning of the fiscal year.

Market data (XETRA/Frankfurt)

	Dec 31, 2019	Mar 31, 2020	Jun 30, 2020	Sept 30, 2020	Dec 31, 2020
Number of shares outstanding	5,440,961	5,440,961	5,891,230	5,891,230	5,891,230
Closing price (in EUR)	10.92	8.72	11.28	19.60	3.40
Market capitalization (in EUR)	59,415,294	47,445,180	66,453,074	115,468,108	20,030,182

	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Average daily trading volume	20,927	7,330	8,307	10,456	49,981
Highest closing price (in EUR)	12.04	12.60	11.60	25.04	20.32
Lowest closing price (in EUR)	7.44	7.22	8.00	11.44	2.74

Epigenomics' share price hit its high for 2020 of EUR 25.04 in August. The shares closed 2020 at EUR 3.40 in Xetra trading.

FINANCIAL REPORTING IN THE REPORTING PERIOD

The shares of Epigenomics AG are listed in the Prime Standard segment of the Frankfurt Stock Exchange. The Exchange Rules impose the obligation to prepare interim financial reports. During the reporting period, we published quarterly reports on April 29, 2020 (first quarter) and November 12, 2020 (third quarter), and a half-yearly report on August 13, 2020. All reports can be accessed on our website at https://www.epigenomics.com/news-investors/financial-reports/.

The following section gives an overview of the material financial KPIs in the individual reporting quarters (the figures for the fourth quarter were calculated by subtracting the cumulative nine-month figures from the annual figures):

EUR thousand (except where indicated otherwise)	Q1	Q2	Q3	Q4	2020
Revenue	239	83	219	301	842
Earnings before interest and taxes (EBIT)	-2,966	-3,356	-2,741	-2,564	-11,627
EBIT before depreciation and amortization (EBITDA)	-2,828	-3,220	-2,611	-2,433	-11,092
EBITDA before share-based payment expenses	-2,641	-3,018	-2,430	-2,372	-10,461
Earnings per share (in EUR)[1]	-0,67	-0,57	-0,47	-0,31	-2,02
Net cash flow	79	-2,439	-2,077	-2,149	-6,586
Cash consumption	3,284	2,226	1,981	2,077	9,568
Total liquidity[2] at end of period	10,982	8,662	6,640	4,527	4,527

[1] For reasons of comparability, the figures for Q1–Q3 2020 have been adjusted.
[2] Total liquidity = Cash, cash equivalents and marketable securities.

In the Outlook section of our prior-year Group Management Report we forecast that revenue would amount to between EUR 1.0 million and EUR 2.0 million for fiscal year 2020. This forecast was based on the assumption of a positive coverage decision for Epi proColon in the U.S.A. in the final quarter of the year. In fact no decision whatsoever was issued in 2020, meaning that the desired positive effect from coverage failed to materialize. The revenue situation in 2020 was furthermore affected by the COVID-19 pandemic. First and foremost, screening numbers in the U.S.A. declined since some of the patients eligible for screening missed or postponed their appointments due to the perceived risk of infection.

The global crisis triggered by the virus made itself felt on the cost side. Our activities in relation to clinical studies (and as such the primary payors) fell far short of expectations in 2020, since in the U.S.A. in particular these studies were phased down and in some cases came to a complete standstill (at least temporarily). The lack of a coverage decision also meant that we did not start our planned marketing activities. Over 2020 as a whole, our operating costs declined by more than EUR 4.3 million year-on-year and were approximately EUR 1.2 million below budget. These cost effects more than offset the revenue declines, and our EBIT (EUR -11.6 million) and EBITDA before share-based payment expenses (EUR -10.5 million) were significantly better than had been assumed at the beginning of the year. The forecasts for adjusted EBITDA had referred to a range of between EUR -10.5 million and EUR -12.5 million.

Cash consumption developed in line with the earnings position and was likewise better than forecast. It had amounted to more than EUR 3 million in the first quarter of 2020 then declined significantly in the subsequent quarters to amount to EUR 9.6 million on a cumulative basis over the year as a whole. Here, too, our forecasts had assumed a range of between EUR 10.5 million and EUR 12.5 million. Net cash flow was even slightly positive in the first quarter due to the inflows from our capital increase in March.

The equity ratio amounted to EUR 56.8% at the end of the reporting period after starting at 68.8%. We ended fiscal year 2020 with EUR 6.5 million less in available liquidity than we had begun with (EUR 4.5 million as of 31 December 2019 versus EUR 11.0 at the start of the year).

In conclusion, the developments in the Company's financial situation in the reporting period were weaker than we had budgeted for. The main reason for this was the relatively low level of cash raised from the capital increase in March 2020. The transaction suffered mainly from extremely unfavorable timing: Our share price was under heavy pressure at that point in the context of the dramatic declines on stock markets worldwide and as such the new shares had to be issued at a significantly lower price than would have been the case as little as a week or two earlier. In addition, the liquidity of EUR 4.5 million as of the end of the year was insufficient to cover the expected requirement in fiscal year 2021. To counter this, we had already obtained authorization at the extraordinary General Shareholders' Meeting in November to issue a convertible bond, which we were then able to successfully place after the end of the reporting period, in January 2021.

FINANCIALS

Results of operations

After it became apparent at the beginning of fiscal year 2020 that we would not be able to count on a final CMS coverage decision for Epi proColon until the end of the year (if at all), we were suitably conservative in forecasting revenue volumes and assumed a range of between EUR 1 million and EUR 2 million. From March 2020 onwards, the COVID-19 pandemic then spread around the world and led to restrictions on daily life, including in the sales markets of relevance to us. Since many people also put off doctors' visits temporarily, participation rates for many screening initiatives declined significantly – including for colorectal cancer screening. The revenue generated from our test kits dropped sharply in the second quarter and only gradually recovered in the summer. This decline ultimately caused us to fall short of the bottom end of our forecast range and we reported a mere EUR 842 thousand for the year as a whole (2019: EUR 1.1 million).

These factors caused drops in both product revenue (from EUR 988 thousand in the previous year to EUR 584 thousand in the reporting period) and license revenue (from EUR 137 in the previous year to EUR 34 thousand in the reporting period), the latter primarily due to expired license agreements. However, this was partly offset by EUR 225 thousand in revenue from research and development (R&D) services (previous year: EUR 0).

Despite the declining licensing business, the gross margin increased from 78% in 2019 to 83% in the reporting period, which was attributable to the extraordinarily high contribution to earnings from R&D revenue.

Other income decreased by EUR 1.0 million to EUR 1.5 million in the fiscal year (2019: EUR 2.5 million) and primarily related to foreign exchange rate gains (EUR 1.4 million).

Research and development (R&D) costs declined significantly year on year in 2020, from EUR 7.3 million to EUR 3.7 million. This was also due to the COVID-19 pandemic, which had a severe effect on our clinical studies in the U.S.A. and in some cases brought them to a complete standstill. Particularly hard hit was our post-approval study for Epi proColon following FDA product approval. In many cases patients were no longer included because they did not show up or the clinical test facilities had been closed for safety reasons. The laboratories also increasingly prioritized tests for the virus. In addition, recourse was made to the German partial furlough scheme (Kurzarbeit) at our Berlin location, which affected our entire R&D team and caused their projects to progress slower than planned. During the first lockdown in particular, we also had to temporarily suspend laboratory operations.

Selling, general and administrative (SG&A) costs amounted to EUR 7.3 million (2018: EUR 8.9 million). The decline was due to curbing sales and marketing activities in the U.S.A. For an extended period of time, our commercialization team were either unable to perform their normal tasks or faced severe restrictions in doing so. Travel was completely suspended and many specialist events such as trade fairs and conferences were either canceled or moved online, which resulted in notably lower expenses for delegates. Staff in the administration department were also subject to the partial furlough scheme, which just as in R&D led to lower personnel costs.

Other expenses, which were again due exclusively to foreign exchange rate losses, rose from EUR 1.8 million in 2019 to EUR 2.9 million in 2020. Net foreign exchange gains/losses were negative (net loss of EUR 1.5 million) following the net foreign exchange gains of EUR 0.4 million recorded in the previous year. This decline as against 2019 was due primarily to the euro again appreciating against the U.S. dollar.

Total operating costs declined significantly from EUR 18.3 million in 2019 to EUR 14.0 million in the reporting period – despite the EUR 1.1 million increase in foreign exchange losses – due to the above-mentioned factors, primarily the lower R&D costs. This more than offset the revenue decline as against 2019, and earnings before interest and taxes (EBIT) improved from EUR -14.7 million in the previous year to EUR -11.6 million in 2020. Adjusted for depreciation and amortization, EBITDA amounted to EUR -11.1 million (2019: EUR -14.2 million). Our forecasts for EBITDA before share-based payment expenses had assumed a figure of EUR -10.5 million to EUR -12.5 million as of the beginning of the year. The actual figure of EUR -10.5 million is a slight improvement on that (2019: EUR -13.3 million).

The positive financial result of EUR 0.1 million recorded in 2019 could not be repeated in the reporting period. It the previous year we had benefited from higher average liquidity and a temporary slight increase in the U.S. dollar interest rate. Our interest income declined from EUR 172 thousand to EUR 21 thousand in the reporting period. At the same time our interest expenses from the compounding of long-term leases decreased only slightly (from EUR 63 thousand to EUR 55 thousand), leading to a negative financial result (EUR -36 thousand).

The marginal tax expense of EUR 23 thousand was due to local taxes at the U.S. subsidiary. The prior-year figure of EUR 2.5 million was due to the non-recurring effect of writing off deferred tax assets that had been recognized in the past in respect of our tax loss carryforwards in the U.S.A., which distorts the comparison.

Financial position and cash flow

Our cash consumption decreased to EUR 9.6 million in 2020 from EUR 13.5 million in the prior year. At EUR -9.6 million, the cash flow from operating activities was significantly higher than in the previous year (EUR -13.5 million) due primarily to the rise in EBITDA. This was attributable to lower operating expenses (including due to the sharp decline in clinical studies as a result of the pandemic) and significant effects in working capital.

The cash flow from investing activities was positive and amounted to EUR 3 thousand in the reporting period. This was due to interest income of EUR 24 thousand, which was offset to a limited extent by our very low payments for investments to maintain operating assets. In the previous year, higher interest payments received meant that the cash flow from investing activities was slightly higher, at EUR 47 thousand.

The cash flow from financing activities amounted to EUR 3.0 million in fiscal year 2020 (2019: EUR 7.1 million), calculated as the gross proceeds from our capital increase in March 2020 (EUR 4.0 million) less the associated expenditure (EUR 0.7 million) and payments for leases (EUR 0.3 million).

Liquidity declined to EUR 4.5 million as of the end of 2020 (comprising cash and cash equivalents of EUR 3.5 million and available-for-sale securities of EUR 1.0 million). It was therefore EUR 6.5 million below the figure of EUR 11.0 million recorded at the beginning of the year.

Net asset position

Our equity ratio decreased in the reporting period, from 68.8% at the beginning of the year to 56.8% at the end of the year. Equity declined by EUR 5.7 million from EUR 9.6 million to EUR 3.9 million. The net loss for the year of EUR 11.7 million was partly offset by the capital increase in March. In the November of the reporting period, we called our shareholders to an extraordinary General Shareholders' Meeting to report a loss amounting to half of the equity reported in the financial statements of the German parent company (prepared in accordance with the HGB) pursuant to section 92 (1) AktG. Among other things, that General Shareholders' Meeting resolved a capital reduction by means of a reverse stock split in a ratio of 8:1. For this reason our subscribed capital declined from EUR 43.5 million at the beginning of the year to EUR 5.9 million as of the end of the 2020 reporting period. As well as partly reducing accumulated net losses, this move also strengthened the capital reserves and was the main reason for their growth to EUR 87.4 million (January 1, 2020: EUR 69.3 million). Other comprehensive income rose from EUR -0.3 million to EUR 1.3 million in the reporting period, primarily due to exchange rate gains but also gains on securities held.

Trade payables decreased from EUR 1.4 million to EUR 0.6 million as against the end of the prior-year reporting period, which was attributable solely to effects relating to the reporting date. Within the other liabilities, personnel claims were reduced in the reporting period which caused the respective balance sheet item to decrease from EUR 1.4 million to EUR 0.6 million in that period.

Current liabilities increased slightly from EUR 0.6 million as of the prior-year reporting date to EUR 0.9 million as of December 31, 2020. Provisions for employee bonuses rose disproportionately, while there were significantly lower additions to the other provisions than at the same point in the previous year.

Non-current assets decreased from EUR 1.9 million as of December 31, 2019 to EUR 1.3 million as of December 31, 2020. Intangible assets declined from EUR 0.3 million to EUR 0.1 million over this period due to amortization and impairment, and the carrying amounts of property, plant and equipment decreased from EUR 1.5 million as of the beginning of the year to EUR 1.2 million as of December 31, 2020. As well as depreciation of laboratory and office equipment at our sites, the carrying amounts of right-of-use assets for our leased office and laboratory premises were also reduced by accumulated depreciation.

Current assets decreased by EUR 6.7 million to EUR 5.5 million as of the balance sheet date, which almost fully matched our reduced liquidity position. Slight changes in the other current asset items offset each other.

Total assets declined by EUR 7.2 million to EUR 6.8 million as of December 31, 2020 (December 31, 2019: EUR 14.0 million).

EMPLOYEES

At the end of the reporting year we had 37 employees (December 31, 2019: 41). On average for the year, we employed 39 people (2019: 43). 29 employees are under contract with the German company and the remaining 10 with the U.S. subsidiary. Employee turnover was once again low. Due to the situation in general (COVID-19) and the Company's individual situation in particular (partial furlough scheme), for the meantime there were no short-term moves to replace employees who had left the Company during the fiscal year, which explains the decrease in the headcount.

All of our employees in Germany work at the Company's headquarters in Berlin. Operating activities in the U.S.A. are managed from our location in San Diego, California. The 39 staff as of the end of 2020 included 20 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 19 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.

We comply with all legal requirements regarding our employees, which also applies to compliance with the General Act on Equal Treatment (Allgemeines Gleichbehandlungsgesetz – AGG). Our employees are hired and promoted solely on the basis of their suitability, qualifications, motivation, willingness to perform and willingness to learn. The age structure and gender of our employees remained very well balanced in 2020. The headcount at the end of 2020 was roughly half men and half women.

Epigenomics supports its employees by offering flexible working (time) models, for example to improve work-life balance. Among other things, these include agreements on flexible working hours, part-time work and work from home. Personnel development measures and training opportunities for our employees are also very important to us. The Human Resources department also ensures occupational medical support for all of our employees.

Total personnel costs amounted to EUR 5.3 million in 2020, and were thus down considerably on the prior-year figure of EUR 6.8 million. In addition to the general trend towards a slight decrease in the headcount, the decline was due on the one hand to the German partial furlough scheme, which led to significantly lower wage and salary expenses at the Berlin location from mid-April until the end of the year, and was accompanied by Executive Board members forgoing a portion of their salaries. On the other hand, there was a decline in total expenses for share-based payments and bonuses for the Executive Board and employees in the reporting period. These bonuses reward beneficiaries for achieving individual and collective targets.

In April 2020, we granted a total of 67,731 stock option rights to the Executive Board and Group employees. The rights derive from the Stock Option Plan 19–21 which, like its predecessor, was introduced as an attractive incentive scheme for all employees, in particular senior management. The exercise price of the newly issued rights, which cannot be exercised before April 2024, has been set at EUR 20.00. 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 plan and the stock option programs of previous years can be found in the notes to the consolidated financial statements for 2020.

FINANCIAL AND NON-FINANCIAL PERFORMANCE INDICATORS

Epigenomics' goal is to increase stakeholder 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 payments, 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 as well as the number of tests performed using our products. 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.

OVERALL ASSESSMENT OF THE 2020 FISCAL YEAR

Our expectations at the beginning of fiscal year 2020 were pinned on the long-awaited CMS coverage decision for Epi proColon in the U.S.A. – we had assumed that this decision would be made in our favor. The decision-making process dragged on until after the end of the year due to delays outside of our control. CMS fell short of its own requirements and left it to us, the applicant, to explain this delay to the market and investors. In actual fact, they did manage to publish their preliminary decision in 2020. To our great disappointment this was negative and met with complete incomprehension not just from us but also among specialists, investors and interested members of the public. This can also be seen in the public comments posted in this context on the respective CMS online forum. The final decision that followed shortly after the end of the year was unfortunately no different, and the way in which it was made left many doubts and unanswered questions.

We nevertheless made progress in our R&D work, although we naturally faced severe restrictions due to the global COVID-19 pandemic. The insufficient capital increase in the first quarter and in some cases the complete shutdown of the studies initiated by us in the U.S.A. forced us to work at a slower pace than we would have liked. Despite this, however, we managed to continue developing Epi proColon "Next-Gen" and are now ready to launch the respective approval studies in 2021. In the current situation it is of great importance for us to have such a successor product in our development pipeline whose performance data make us confident that we can meet the minimum standards newly imposed by CMS.

Business development in 2020 fell short of our expectations. Despite the revenue decline and impact of the pandemic, however, we were able to overcompensate through savings on the cost side. The major setback in the fiscal year aside, the strength of our R&D team means we can continue looking to the future with confidence.

REPORT ON EXPECTED DEVELOPMENTS AND ON OPPORTUNITIES AND RISKS

REPORT ON EXPECTED DEVELOPMENTS

Planned strategic direction of Epigenomics in the coming years

As we have publicly announced, the Company is examining all strategic opportunities for 2021. The negative coverage decision issued by CMS in January 2021 prevents the Company from successfully commercializing Epi proColon – unless it is able to have the agency's decision reversed or repealed either by means of an appeal, legal action or through the legislature. The appeals procedure with subsequent legal action generally lasts between 6 and 24 months and there is no guarantee of success. Indeed, in the majority of cases the appeals procedure does not result in the original decision being repealed. Since the Company only has limited access to capital to invest in alternative products over the coming years, we have to seek out strategic options to maximize shareholder value.

We believe that our corporate value lies in the significant technology platform for liquid biopsies that we have built up. Internally, the "next-gen" version of Epi proColon has demonstrated performance data that would meet the CMS criteria for coverage in the U.S.A. Consequently, we can be highly confident that the product will perform well in prospective clinical studies, receive FDA approval and subsequently be accepted for coverage by Medicare. For this purpose, an appropriate amount of capital needs to be invested over three to four years. Furthermore, in its HCCBloodTest and Epi proLung the Company has products with significant future potential and a platform to identify biomarkers from a robust sample database that provides Epigenomics with a valuable technological basis for liquid biopsies.

Should no appropriate strategic opportunities arise, we will seek in parallel to raise additional capital for the future and develop other products like Epi proColon "Next-Gen".

Expected economic environment in the coming years

The current global situation makes it considerably more difficult than normal to formulate expectations as to the macroeconomic conditions and the capital market environment in Europe and the U.S.A. It seems virtually impossible to reliably predict when the global economy will recover from the direct and indirect consequences of the COVID-19 crisis. The first key issue is when the global coronavirus vaccination campaign initiated at the end of 2020 will start bringing about a notable easing of the restrictions imposed on peoples' everyday lives, and what its lasting effect will be. The first uncertainty is the speed at which vaccinations will progress, particularly in poorer and less developed economies. Furthermore, it is currently impossible to predict whether the vaccines now being administered will provide permanent or merely temporary immunity to COVID-19 and the extent to which they also provide protection against further mutations of the virus.

There is also no certainty as to when international herd immunity will be achieved. Until then, however, the now-familiar restrictions will continue to dominate peoples' everyday lives and prevent the economy from returning to normal. Even if vaccinations bring about noticeable success and the restrictions can be eased, it is impossible to predict how long it will take until the consequences and damage caused by the crisis are broadly overcome. The enormous levels of debt that almost all economies around the world have incurred to combat the pandemic (and which continue to mount) will likely be a burden to be shouldered by many generations to come. Nor is it foreseeable what the long-term consequences of changes in the behavior of governments, businesses and households during the crisis will be on the period thereafter. This concerns for example areas such as mobility and tourism. Will there be a universal move back to offices from working at home, or will this only be partial? Will conferences, trade fairs or AGMs go back to being held with the physical presence of delegates, or will the majority of mass events be held in virtual form only going forward?

Given the above considerations, it seems almost impossible to make a reliable forecast for the economy at large over the next two years. By contrast, the specialist environment in which Epigenomics operates constitutes something calculable, since cancer will continue to pose a risk to human health, and the opportunities to fight and treat it will also be limited in the foreseeable future and beyond. The issue of screening will remain of major importance and as such there will continue to be market opportunities for a blood-based product.

After a short and sharp slump at the beginning of the global pandemic, the markets recovered very quickly and returned to their pre-crisis levels at the end of the reporting period. Consequently, we continue to assume that whatever setbacks there may be, life sciences companies with a solid performance record should be able to raise capital going forward. It should also be taken into account that the percentage of GDP spent on healthcare will likely continue growing worldwide (in the U.S.A. in particular).

With the departure of the Trump administration in the U.S.A., the dollar's strength against the euro also seems to have faltered after several years. After having fluctuated at around EUR/USD 1.10 for long periods of the previous year and beforehand, the exchange rate crossed well over the 1.20 mark and stayed there at the end of the reporting period, and the signs are also pointing towards the euro appreciating in the coming months as well. With this in mind, we decided in line with previous years' practice to set our budget rate for 2021 at the effective exchange rate at the time the budget was drawn up (end of November 2021), i.e., at EUR/USD 1.20.

Outlook on earnings

Our business forecast for 2021 is in line with our current revenue potential, at between EUR 0.4 million and EUR 1.0 million. If it does not prove possible to successfully appeal the NCD decision issued by CMS or have it reversed in 2021, we will amend our revenue forecast.

We carried out a successful corporate action in the first quarter of 2021. Having raised these additional funds, we are convinced that we have sufficient liquidity to last us beyond the first quarter of 2022 and to implement a strategic option in 2021. We are not planning to expand or step up our operating activities in 2021, and will continue seeking to minimize our cash consumption in 2021.

For fiscal year 2021 we again assume an operating loss and expect that EBITDA before share-based payment expenses will amount to between EUR -7.0 million and EUR -9.0 million.

Outlook on financial position

Based on our business plans for 2021, we expect cash consumption in line with our EBITDA guidance (before share-based payment expenses). The planned cash expenditures for 2020 are connected with our ongoing R&D activities as well as administrative tasks and obligations. Where R&D is concerned, our post-approval study in the U.S.A. will remain a material factor to the extent the activities can be continued once things return to normal after the pandemic.

We ended the 2020 fiscal year with EUR 4.5 million in cash and marketable securities. Taking into consideration the issuance of a convertible bond after the end of the reporting period in January 2021, which generated a gross cash inflow of EUR 5.5 million, the available financial resources are sufficient at our projected cash consumption to support the Company's operations beyond the first quarter of 2022 in line with our planning projections. We are also contemplating other financing activities and strategic options to secure liquidity beyond that point. It goes without saying that we are dependent on the capital market and its development, but also on the outcome of our efforts to seek out investors and partners who we can convince of the potential offered by our product pipeline in general and our Epi proColon "Next-Gen" test in particular.

The additional funding that we intend to attract will of course primarily be used to finance the approval study for the Next-Gen test.

Outlook on non-financial performance indicators

Our objective for fiscal year 2021 is to evaluate and implement a strategic option that maximizes value for Epigenomics while at the same time seeking to reverse the negative NCD issued by CMS for Epi proColon.

With respect to R&D, we are working on the discovery and validation of further biomarkers to develop and improve existing products, as well as on our NGS portfolio for lung and colorectal cancer to be clinically validated using plasma samples. Our R&D team will also work on designing future clinical studies.

Mid-term opportunities

The market opportunities in the fields of CRC and liver cancer in the U.S.A. and other global markets are considerable. Given our current limited financial opportunities, however, we will concentrate on preparing and then conducting the clinical study for Epi proColon necessary to receive FDA approval for the next generation product in the coming two to three years. We expect to be able to obtain coverage for Epi proColon Next-Gen in the U.S.A. under the new CMS requirements. We have already discussed the resulting market opportunities in sufficient detail elsewhere.

If we are successful in attracting further funding, we will also continue to focus on obtaining market approval for our HCCBloodTest for liver cancer screening in the U.S.A. Based on the study data to be collected for this product, we believe it too will generate rapid revenue growth once approved. We also intend to generate measurable sales during that time in Europe, where the CE marking theoretically makes it possible to market the product already.

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.

For our shareholders there is the opportunity to see the enterprise value increase from catalytic events, primarily the successful marketing of our products 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. We believe that the Company has a valuable technology platform that can be used optimally with a sufficient capital structure and the corresponding resources. In 2021, the Company will examine strategic opportunities to maximize that value.

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 when combined could permanently 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 actively offers two blood-based IVD products in various markets: Epi proColon, an FDA-approved and CE-marked CRC screening test; and HCCBloodTest, a CE-marked test to detect liver cancer. To date, however, the product revenue from Epi proColon has been relatively moderate, and the sales market for the liver cancer test still has to be developed and tapped into. Following our decision to initially focus the organization and its commercial activities on the key U.S. market for our lead product Epi proColon, regulatory approval and the desired reimbursement decision are crucial for us to be able to generate a significant amount of revenue from product sales there.

An important element in being commercially successful remains the availability of reimbursement for Epi proColon testing by insurance carriers including Medicare (CMS). Securing Medicare coverage at an acceptable reimbursement rate is an opportunity for the Company, as the Medicare population is estimated to represent around 40% of our available market in the U.S.A. The negative coverage decision is also likely to affect the decisions of other major payors in the U.S. healthcare system (for instance private insurers) since in many cases they base their own reimbursement decisions on those of CMS and oftentimes simply take them over. Only a positive decision would offer us the opportunity to achieve notable commercial success in our key market. It could also have a positive effect on subsequent reimbursement decisions and commercialization in other countries. The initially negative decision of CMS after the end of the reporting period is now costing us valuable time. Even if we take legal action against the CMS decision and at the same time expect to ultimately receive a coverage decision for the improved "next generation product", it will still take months and even years to do so. The delay naturally diminishes our current competitive advantage as the first firm to bring a blood test of this type to market. However, the improved performance of the new product also creates the opportunity to convince the key decision-makers and the medical

professional societies more easily and quickly of the benefits of our test and to have it included in the relevant CRC screening guidelines. Having Epi proColon included in the guidelines of one of the leading U.S. medical professional societies then offers the chance to send out a signal to comparable bodies in other international markets.

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. We have entered into a commercial partnership with Polymedco, a well-established and experienced U.S. company that has been successfully marketing and selling diagnostics tests in North America for years. 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.

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. Our resources are currently insufficient to directly address and develop the European markets. As a result, there is a risk that our technological advantage over the competition will decrease or vanish altogether.

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.

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.

Another spike in competition for liquid biopsy tests was observed in the reporting period. CRC in particular is high on the agenda of competitors. Highly capitalized competitors with broad investor bases are increasingly pressing forward here too. We view this first of all as evidence that we are on the right track marketing our products in a highly lucrative market. However, the opportunities offered by the growing liquid biopsies market go hand in hand with the risk of increasing competition for exactly this reason. For us, rising competition is thus a constant reminder not to let up in our efforts to develop new and refine existing products. Our microsimulation study from Harvard Medical School shows that even in its current version, Epi proColon is a highly effective product for CRC screening. This effectiveness will only increase in the new version we intend to bring to market. Going forward, each and every competitor product will have to be measured against this degree of effectiveness. However, the large budgets that

are made available in some cases to develop such competitor products will make it difficult for our competitors to manufacture a product that is technically superior but at the same time more cost-efficient. In times of snowballing costs in the healthcare sector, the role played by price must not be underestimated. We therefore continue to see ourselves as well prepared for future competition.

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 sufficient capital in the medium to long term, 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 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. This type of litigation itself can result in substantial costs, delay the commercialization of our products and divert our management's attention and resources. In China, for example, where in 2018 an investigation department at the patent office declared that our Septin9 patent was partially invalid, our patent has since then been rescinded and competitors mimicking and copying us are consequently free to bypass us and develop the market for themselves. The Chinese market – which originally seemed very important for us – is hard to monitor from the outside, whether due to complexity caused by its sheer size or other factors such as language barriers. Thus when intellectual property rights are ultimately found to have been infringed or patents declared invalid, the process of defending and asserting our rights and rejecting and prosecuting infringers can prove drawn-out and costly. It may also happen in the future in other markets 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.

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 competition analyses for our U.S. product, yielding satisfactory results, at least for the time being. Further 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 biomarker) puts Epigenomics in a unique position to provide attractive licensing opportunities for the growing number of commercial players active in DNA methylation and secure a significant increase in the Company's overall value.

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 outgoing Trump administration had a stated goal of repealing and replacing the Affordable Care Act and the first steps had already been taken in doing so. From today's viewpoint it is difficult to predict the position that will be assumed by the Biden Administration, which is set to take office in 2021, the steps it will take and the speed at which it will do so. In general, we continue to believe that the potential consequences will not be harmful for our FDA-approved product since it is difficult to imagine that state-funded cancer screening will become less important. A risk nevertheless remains since regulators can always promote individual concepts or products, or hinder or even prevent them.

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, 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.

In its current version, Epi proColon has received a PMA from the FDA, and therefore passed the highest and most difficult approval hurdle in the U.S.A. We will again have to initiate an approval process with the FDA for the improved next generation product. The experiences we gained in the first approval process will prove beneficial in doing so. Given that the basic functionality of and method of applying the "next generation product" correspond to those of the current product, it can be expected that the FDA will approve it to the extent the agency does not tighten its approval criteria.

It must be assumed that the FDA will require a comprehensive clinical approval study from us to permit the test to be placed on the market. Such a study will firstly require a substantial amount of funding from us. The increase in competition means that demand for patient samples (particularly for CRC) and thus their prices have risen significantly. In addition, there is a limited number of institutions and centers that can provide a sufficient quantity of such samples with the requisite professionalism and care. There is also a risk of delays, meaning that the required study could take longer than initially planned. On the other hand, our opportunity to handle these tasks lies in the high level of experience and expertise in our organization that we have been able to build up and bring together in recent years, as well as the necessary contacts in the academic and clinical communities.

Discussions have been ongoing for some time about potentially tightening the regulatory standards. As in the U.S.A., we have also chosen the regulated path to commercialization of our products. Given the high regulatory and quality standards under which we have routinely operated for years, 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, 2020, our available liquidity (cash, cash equivalents and marketable securities) amounted to EUR 4.5 million. Management is aware of the risk of having limited liquid assets to appropriately sustain the operations of the business. The first step was the convertible bond issue placed after the end of the reporting period in January 2021, which generated gross proceeds of EUR 5.5 million. Without further corporate actions the Company's continuing existence is at risk beyond the beginning of 2022. Assuming continued losses in 2022, it has to be anticipated that – without further corporate actions – half of Epigenomics AG's subscribed capital could be more than half depleted again in the course of 2022. Additional unforeseen costs in connection with the ongoing operating losses of Epigenomics AG and the Group could – without additional, prior corporate actions – lead to negative equity each. Even if exceeding this threshold of Section 92 (1) of the German Stock Corporation Act (AktG) or negative equity has neither operational nor liquidity implications, the required announcements could be likely to be negatively received by investors in the capital market.

In order to extend our financial capabilities, we are therefore looking to raise additional liquidity as soon as possible in fiscal year 2021. The currently limited equity and the situation of further expected losses in the medium term could have a negative impact on our ability to successfully implement further capital measures. In recent years however, we have repeatedly demonstrated that additional financial resources are accessible to us, even under difficult conditions. We will examine all strategic options in the short term, first and foremost the possibility to attract further funding on the capital market.

The negative coverage decision issued by CMS in the U.S.A. means that for the time being we cannot pursue our plans to increase the commercialization of our lead product and the resulting business success. Instead, we now find ourselves in a situation where we must again concentrate on our proven strengths in product development and conducting studies. As such, we will still not be able to finance the Company via increasing capital inflows from the operating business but instead remain dependent on the capital market for funds.

For us as a listed company, the capital market is a constant source of opportunity and risk alike. The opportunity lies in being able to raise fresh capital on the market from time to time, both from existing and new investors. We took advantage of this opportunity each year between 2013 and early 2021, and over those eight years raised more than EUR 93 million in fresh capital via a range of transactions (rights issues, private placements, convertible bond issues). The market environment prior to or during these transactions was not always in our favor. Nevertheless, one obvious risk is that our share price is constantly exposed to the market. This means that the share price will not necessarily react positively even if we report success, for example if negative overall movements in the market cancel out our good news. All the more, a lack of positive communications or even adverse disclosures and declining investor interest can have a considerable impact and exert pressure on our share price. A low and/or declining share price reduces investors' appetite to subscribe for new shares, and the amount of capital raised from issuing the new shares decreases accordingly. Any drop in share price below the notional value of EUR 1.00 per share would completely rule out raising capital in this way. Such a scenario therefore threatens the Company's continued existence and pose the risk of insolvency.

As in the previous year, it is necessary at this point to refer to the specific situation posed by the pandemic, which is still raging around the world with no end in sight, and all of its consequences for the economy, our markets, our Company and our employees. The course of the pandemic continues to pose many imponderable risks, the extent and duration of which still cannot be specified with sufficient precision. We have addressed this risk and its known and possible effects on Epigenomics to the extent possible as at the date of preparing this group management report, and have put corresponding precautions in place. In general it can be stated that at a purely operational level, we have so far weathered the exceptional situation quite well, which also gives us confidence for the period to come. Even if the capital markets in 2020 recovered quickly from their short but intense slump at the onset of the crisis and are currently in no worse position then they were before the virus spread, the question is whether a longer-term crisis will continue to have no adverse effect on investor sentiment. This also poses a risk to the Company's status as a going concern if the corporate actions Epigenomics requires cannot be implemented or their scale is insufficient.

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 addressed this risk by additionally implementing the manufacturing processes with a qualified alternative supplier capable of producing the test kits for us with the same quality in a relatively short amount of time should our primary supplier experience interruptions in production. However, the agreement with this alternative supplier expired shortly after the end of the reporting period and for the meanwhile could not be extended. Going forward, we will ensure that we either extend this agreement with the manufacturer or put in place another backup solution. Smaller production quantities can also continue to be manufactured on an interim basis in house.

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.

We have invested our liquid funds in a small portfolio of available-for-sale securities. This 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 2021 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.

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 those 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

In the coming years, the commercial opportunities and risks arising for our lead product, Epi proColon, in the U.S.A. will likely continue to be dominated by issues surrounding potential reimbursement and inclusion in the screening guidelines issued by medical professional societies. Broad market penetration and therefore commercial success for our product in the U.S.A. depends on inclusion in the corresponding guidelines and a positive reimbursement decision at an appropriate rate. The setback that we suffered in the reporting period did nothing to improve our results of operations, financial position and net assets, or our ability to raise further funds. Nevertheless, we still see a slim chance of the CMS decision being revised in the short term by means of an appeal or legal action. In addition, with a new administration in the White House we see renewed opportunities to achieve coverage by political means after these efforts had come to something of a standstill in the last two years of the Trump Administration. However, attentions will return to healthcare policy and reform under President Biden and we intend to take the necessary steps to ensure that our voice is heard in the debate.

With our limited financial and human resources, we will now focus on further developing our "next generation" product and endeavor to initiate the respective FDA approval procedure for the U.S. market as soon as possible. The associated risks lie in financing the project and the time needed, since the approval study required is not feasible given the funds we currently have available. At the same time, however, the performance we have proven to date meets the new CMS coverage requirements and as such this improved product also represents our greatest opportunity. Following approval of the "next generation" test by the FDA, there would consequently be no need for another protracted NCD application procedure with CMS.

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 2020 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.

2020 DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE PURSUANT TO SECTION 161 (1) OF THE GERMAN STOCK CORPORATION ACT (AKTG)

Pursuant to section 161 (1) 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 2019, Epigenomics AG complied with the recommendations of the German Government Commission on the German Corporate Governance Code (hereinafter also "Code") in the version dated February 7, 2017 (hereinafter also the "2017 Code") until the entry into force on March 20, 2020 of the Code in the version resolved by the German Government Commission on December 16, 2019 (hereinafter the "2020 Code"), with the exceptions set forth below.

Section 3.8 paragraph 3 of the 2017 Code

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 of the 2017 Code, the D&O policy does not provide for a deductible for members of the Supervisory Board. We considered 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.

Sections 4.1.3 Sentence 3 of the 2017 Code

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 deviated from the recommendation pursuant to Section 4.1.3 sentence 3 of the 2017 Code.

Section 5.1.2 paragraph 1 sentence 2 and paragraph 2 sentence 3 and Section 5.4.1 paragraph 2 sentences 1 and 2 and paragraph 4 of the 2017 Code

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 of the 2017 Code, 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 provided for 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 provisions on the composition of the Supervisory Board, as recommended 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, sweeping requirements for the composition of the Supervisory Board also unreasonably impair our shareholders' right to elect the Supervisory Board members. Accordingly, we did not comply with this recommendation of the 2017 Code.

Sections 5.3.1 Sentence 1, and 5.3.3 of the 2017 Code

Due to the size of the company, the Supervisory Board did 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 was 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 in the opinion of the Supervisory Board not necessary. Hence, the recommendations pursuant to Sections 5.3.1 sentence 1 and 5.3.3 of the 2017 Code were not complied with.

Furthermore, the Executive Board and the Supervisory Board of Epigenomics AG hereby declare that Epigenomics AG has complied with the recommendations of the 2020 Code since its entry into force on March 20, 2020, with the exceptions set forth below:

Recommendation A.2 sentence 2 of the 2020 Code

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 Recommendation A.2, sentence 2 (first half-sentence) of the 2020 Code.

Recommendations B.1, B.5, C.1 and C.2 of the 2020 Code

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 Recommendations B.5 and C.2 of the 2020 Code, 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. Accordingly, and contrary to Recommendations B.5 and C.2 of the 2020

Code, we do not disclose such age limits in the Declaration of Governance. In addition, we are convinced that sweeping requirements for the composition of the Executive Board as provided for in Recommendation B.1 constrain the Supervisory Board inadequately in its selection of suitable members of the Executive Board. The same applies to sweeping requirements for the composition of the Supervisory Board, as stipulated in Recommendation C.1 sentences 1 and 2 of the 2020 Code. 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, sweeping requirements for the composition of the Supervisory Board also unreasonably impair our shareholders' right to elect the Supervisory Board members. Accordingly, we did not and will not comply with these recommendations of the 2020 Code. Given the lack of concrete objectives regarding the Supervisory Board, in deviation from Recommendation C.1 sentence 4 of the 2020 Code, we likewise do not publish the progress made in implementing such objectives in the Declaration of Governance.

Recommendations D.2 and D.5 of the 2020 Code

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. By contrast, the implementation of further committees was and is in the opinion of the Supervisory Board not necessary. Hence, Recommendations D.2 first sentence and D.5 of the 2020 Code are not complied with.

Recommendation F.2 of the 2020 Code

The Company did not publish its consolidated financial statements and group management report for fiscal year 2019 until April 29, 2020. In deviation from Recommendation F.2 of the 2020 Code, the consolidated financial statements and group management report were therefore not published within 90 days from the end of the fiscal year. The deviation was made given the general uncertainty that the Company expected as a result of the coronavirus (COVID-19) and the intent was to take into optimal consideration the health and safety of our employees, customers, suppliers and fellow citizens. In the coming years, the Company intends to return to publishing its consolidated financial statements and group management report within 90 days from the end of the fiscal year.

Recommendations G.1, G.3, G.4 and G.11 of the 2020 Code

Section G.I. of the 2020 Code contains new recommendations on Executive Board remuneration. The Company does not fully comply with all of the new recommendations. The deviations concern the following recommendations:

- Recommendation G.1, bullet points 1 and 3 of the 2020 Code: The Company's current remuneration system does not contain any definition of (individual) maximum remuneration for the members of the Executive Board or non-financial performance criteria relevant for the granting of variable remuneration components. The Supervisory Board has agreed a maximum amount with each Executive Board member for each remuneration component. This can be used to calculate the maximum remuneration. To date, the Supervisory Board has not considered it useful to define a maximum amount of remuneration separately. The current remuneration does not contain non-financial performance criteria since given the Company's situation, the top priority is to pursue specific financial and strategic objectives.
- Recommendations G.3 and G.4 of the 2020 Code: No peer group is used and no vertical remuneration comparison is carried out in assessing whether the current Executive Board remuneration is in line with usual levels. Since no peer group is used, its composition is not disclosed either. To date, it has not been considered useful to carry out horizontal and vertical comparisons due to the specific features of the Company and its size.

- Recommendation G.11 sentence 1 of the 2020 Code: The Supervisory Board accounts for extraordinary developments by means of caps on the individual remuneration components. The caps ensure that the variable remuneration is adjusted downwards in the case of extraordinary developments. Conversely, however, in deviation from Recommendation G.11 the Supervisory Board does not have the option of revising upwards remuneration that is inappropriately low due to extraordinary developments. To date, the regulatory framework for the option to make such upwards adjustments has appeared unclear and there is no urgent practical need.
- Recommendation G.11 sentence 2 of the 2020 Code: The Supervisory Board does not currently have the opportunity to retain or reclaim variable remuneration if justified. Such an option has not been implemented to date due to past legal uncertainties. The Supervisory Board will resolve a new Executive Board remuneration system, which it will present for approval to the Annual General Shareholders' Meeting in 2021. The Supervisory Board will also decide on future compliance with these above-mentioned recommendations when designing and resolving the new system.

Berlin, October 2020

On behalf of the Supervisory Board:	On behalf of the Executive Board:		
Heino von Prondzynski	**Greg Hamilton**	**Jorge Garces**	**Albert Weber**
(Chairman of the Supervisory Board)	(CEO)	(COO)	(EVP)

The declarations of conformity have 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/news-investors/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. Regular employee training and internal team meetings ensure that legislative changes are anticipated in good time and implemented in conformity with the rules and regulations.

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" (SOPs) 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.

COMPLIANCE MANAGEMENT

Compliance denotes the lawful conduct of companies, their governing bodies and employees. For the Executive Board, its corporate leadership and culture is based on complying with legal regulations and adhering to internal policies. The aim is to ensure the integrity of employees, customers and business partners and avoid adverse consequences for the Company.

Epigenomics AG's corporate management and oversight is based on the relevant provisions of law, the Company's Articles of Association, and the rules of procedure for the Supervisory Board and the Executive Board. These form the basis of its internal policies, rules and regulations. As well as internal policies, standard operating procedures and work instructions, in sensitive areas in particular this is specifically expressed in the code of conduct, which applies to both management and the employees as a whole, is based on the legal requirements and strengthens employees' personal responsibility.

For preventative purposes, the Compliance department advises employees on specific issues and provides training in selected areas. External legal counsel is sought were required.

Epigenomics has established the principle of separation of functions as far as reasonable in a commercial organization with this 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.

Due to its small size, the Company has not yet established its own Compliance department. Currently, the appropriateness and effectiveness of internal guidelines are systematically guaranteed in discussions between management and the Legal department.

With the help of established compliance activities, the Company is able to monitor compliance with the rules and regulations, carry out the requisite investigative action on a regular basis and ascertain the factual basis in concrete cases of suspicious activity.

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 current service agreement with Mr. Hamilton has a term until December 31, 2021. Mr. Albert Weber joined the Company's Executive Board on January 1, 2018 as Executive Vice President Finance (EVP Finance). His current service agreement has a term until December 31, 2022. During the reporting year, the Executive Board also included Jorge Garces, Ph.D., who joined the Company on December 1, 2017 as its President and Chief Scientific Officer (CSO). Mr. Garces stepped down from the Executive Board and left the Company after the end of the reporting period, on January 31, 2021.

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 component and variable components. The variable components 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/were entitled to reimbursement of their travel expenses from their permanent addresses in San Diego, California to the Company's headquarters in Berlin and the related accommodation costs there. Their package of fringe benefits includes/included 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. The Company pays Mr. Weber contributions towards the cost of his health insurance, nursing care insurance and accident insurance as a fringe benefit.

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 (SOPs), which are described in detail in the notes to the consolidated financial statements for the reporting year.

Following the preliminary negative NCD decision by CMS in October 2020, the Company's Supervisory Board passed a resolution on a special bonus for all three members of the Executive Board in case a final positive NCD would have been issued or a law would have been enacted by February 28, 2021 at the latest, due to which Epi proColon would have been reimbursed in the U.S.A. or a comparable case would have occurred. This so-called "success bonus" amounted to USD 1,296,000 for Mr. Hamilton, to USD 984,000 for Mr. Garces and to EUR 360,000 for Mr. Weber. If the conditions had been met, this bonus would have been payable in equal installments at the end of each of the next four calendar quarters. The Executive Board members would have had to use 50% of each installment to purchase shares in the Company, which would then have had to be held by the beneficiaries for at least four years. The performance bonus would have been eligible for inclusion in the regular variable

bonus payments under the service contracts of the individual Executive Board members. On leaving the Executive Board in January 2021, Mr. Garces lost his entitlement to this special bonus. As none of the triggering events had occurred on February 28, 2021, the special bonus therefore also did not apply to either Mr. Hamilton or Mr. Weber.

The total position of all members of the Executive Board with regard to their stock option rights is shown in the following table:

Executive Board member	Program	Reporting year	Rights held on Jan 1	Rights awarded	Rights held on Dec 31	Exercise price (weighted avg.) in EUR
Greg Hamilton	**SOP 16–18**	**2020**	**28,436**	**0**	**28,436**	**39.54**
		2019	28,436	0	28,436	39.54
	SOP 17–19	**2020**	**20,509**	**0**	**20,509**	**23.74**
		2019	8,009	12,500	20,509	23.74
	SOP 19–21	**2020**	**0**	**12,500**	**12,500**	**20.00**
		2019	0	0	0	n/a
	Total AOP	**2020**	**48,945**	**12,500**	**61,445**	**30.29**
		2019	36,445	12,500	48,945	32.94
Jorge Garces, Ph.D.	**SOP 17–19**	**2020**	**21,250**	**0**	**21,250**	**24.16**
		2019	10,625	10,625	21,250	24.16
	SOP 19–21	**2020**	**0**	**10,625**	**10,625**	**20.00**
		2019	0	0	0	n/a
	Total AOP	**2020**	**21,250**	**10,625**	**31,875**	**22.77**
		2019	10,625	10,625	21,250	24.16
Albert Weber	**SOP 16–18**	**2020**	**3,750**	**0**	**3,750**	**40.80**
		2019	3,750	0	3,750	40.80
	SOP 17–19	**2020**	**17,500**	**0**	**17,500**	**24.16**
		2019	8,750	8,750	17,500	24.16
	SOP 19–21	**2020**	**0**	**8,750**	**8,750**	**20.00**
		2019	0	0	0	n/a
	Total AOP	**2020**	**21,250**	**8,750**	**30,000**	**25.03**
		2019	12,500	8,750	21,250	27.10

All figures, share prices and values are based on the Company's capital structure after the capital reduction in December 2020. For reasons of comparability, the applicable figures for 2019 have been adjusted.

None the Executive Board members' stock option rights expired in the reporting year and none were forfeited or exercised. Moreover, none of the rights that they held on the reporting date were eligible to be exercised.

The exercise prices of the rights held by Mr. Hamilton range from EUR 15.36 to EUR 43.44. The exercise prices of the rights held by Mr. Garces range from EUR 15.36 to EUR 32.96. The exercise prices of the rights held by Mr. Weber range from EUR 15.36 to EUR 40.80.

From 2013 until 2015, Mr. Weber received long-term performance-based remuneration in the form of phantom stock rights (PSRs). No other PSRs have been issued since 2016. All PSRs expired at of September 30, 2020. The total position of Mr. Weber with regard to his PSRs is shown in the following table:

Executive Board member	Program	Reporting year	Rights held as of Jan 1	Rights expired	Rights excersized	Rights owned as of Dec 31	thereof vested	Exercise price (weighted avg.) in EUR
Albert Weber	**PSP 2014**	**2020**	**0**	**0**	**0**	**0**	**0**	**n/a**
		2019	30,000	30,000	0	0	0	n/a
	PSP 2015	**2020**	**10,000**	**10,000**	**0**	**0**	**0**	**n/a**
		2019	10,000	0	0	10,000	10,000	5,05
	Total PSR	**2020**	**10,000**	**10,000**	**0**	**0**	**0**	**n/a**
		2019	40,000	30,000	0	10,000	10,000	5,05

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 Recommendation G.13 of the 2020 German Corporate Governance Code.

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

Benefits granted	**Greg Hamilton, CEO, since July 1, 2016**			
in EUR	**2019**	**2020**	**2020 (min)**	**2020 (max)**
Fixed compensation	384,547	349,301	349,301	349,301
Fringe benefits	192,448	81,548	81,548	81,548
Total	**576,995**	**430,849**	**430,849**	**430,849**
One-year variable compensation	230,728	337,751	0	450,335
Multi-year variable compensation	69,877	37,517	n/a	n/a
share-based compensation	69,877	37,517	n/a	n/a
– SOP 16–18	0	0	n/a	n/a
– SOP 17–19	69,877	0	n/a	n/a
– SOP 19–21	0	37,517	n/a	n/a
non-share-based compensation	0	0	0	0
Total	**877,600**	**806,117**	**430,849**	**881,184**
Service cost	0	0	0	0
Total	**877,600**	**806,117**	**430,849**	**881,184**

Benefits granted	**Jorge Garces, Ph.D., CSO, since Dec 1, 2017**			
in EUR	**2019**	**2020**	**2020 (min)**	**2020 (max)**
Fixed compensation	338,259	303,036	303,036	303,036
Fringe benefits	181,506	78,344	78,344	78,344
Total	**519,765**	**381,380**	**381,380**	**381,380**
One-year variable compensation	156,801	0	0	257,483
Multi-year variable compensation	149,071	31,889	n/a	n/a
share-based compensation	69,024	31,889	n/a	n/a
– SOP 16–18	0	0	n/a	n/a
– SOP 17–19	69,024	0	n/a	n/a
– SOP 19–21	0	31,889	n/a	n/a
non-share-based compensation	80,047	0	0	0
Total	**825,637**	**413,269**	**381,380**	**638,863**
Service cost	0	0	0	0
Total	**825,637**	**413,269**	**381,380**	**638,863**

[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.

Benefits granted	**Albert Weber, EVP Finance, since Jan 1, 2018**			
in EUR	**2019**	**2020**	**2020 (min)**	**2020 (max)**
Fixed compensation	200,000	200,000	200,000	200,000
Fringe benefits	5,355	5,942	5,942	5,942
Total	**205,355**	**205,942**	**205,942**	**205,942**
One-year variable compensation	72,000	108,000	0	120,000
Multi-year variable compensation	50,529	26,206	n/a	n/a
share-based compensation	50,529	26,206	n/a	n/a
– SOP 16–18	0	0	n/a	n/a
– SOP 17–19	50,529	0	n/a	n/a
– SOP 19–21	0	26,206	n/a	n/a
non-share-based compensation	0	0	0	0
Total	**327,884**	**340,148**	**205,942**	**325,942**
Service cost	0	0	0	0
Total	**327,884**	**340,148**	**205,942**	**325,942**

Allocations	**Greg Hamilton, CEO, since July 1, 2016**	
in EUR	**2019**	**2020**
Fixed compensation	384,547	349,301
Fringe benefits	192,448	81,548
Total	**576,995**	**430,849**
One-year variable compensation	296,070	230,728
Multi-year variable compensation	0	0
share-based compensation	0	0
– SOP 16–18	0	0
– SOP 17–19	0	0
– SOP 19–21	0	0
non-share-based compensation	0	0
Total	**873,064**	**661,577**
Service cost	0	0
Total	**873,064**	**661,577**

Allocations	Jorge Garces, Ph.D., CSO, since Dec 1, 2017	
in EUR	**2019**	**2020**
Fixed compensation	338,259	303,036
Fringe benefits	181,506	78,344
Total	**519,765**	**381,380**
One-year variable compensation	248,079	156,801
Multi-year variable compensation	0	0
share-based compensation	0	0
– SOP 16–18	0	0
– SOP 17–19	0	0
– SOP 19–21	0	0
non-share-based compensation	0	0
Total	**767,844**	**538,181**
Service cost	0	0
Total	**767,844**	**538,181**

Allocations	Albert Weber, EVP Finance, since Jan 1, 2018	
in EUR	**2019**	**2020**
Fixed compensation	200,000	200,000
Fringe benefits	5,355	5,942
Total	**205,355**	**205,942**
One-year variable compensation	120,000	72,000
Multi-year variable compensation	0	0
share-based compensation	0	0
– SOP 16–18	0	0
– SOP 17–19	0	0
– SOP 19–21	0	0
non-share-based compensation	0	0
Total	**325,355**	**277,942**
Service cost	0	0
Total	**325,355**	**277,942**

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

		Number of shares				
Executive Board member	Reporting year	held as of Jan 1	acquired in 2020	pro forma (prior to reverse stock split)	effect of reverse stock split	held as of Dec 31
Greg Hamilton	**2020**	**21,250**	**0**	**21,250**	**-18,594**	**2,656**
	2019	2,500	18,750	21,250	n/a	21,250
Jorge Garces, Ph.D.	**2020**	**1,000**	**0**	**1,000**	**-875**	**125**
	2019	1,000	0	1,000	n/a	1,000
Albert Weber	**2020**	**100**	**0**	**100**	**-88**	**12**
	2019	100	0	100	n/a	100
Total Executive Board	**2020**	**22,350**	**0**	**22,350**	**-19,557**	**2,793**
	2019	3,600	18,750	22,350	n/a	22,350

Composition and remuneration of the Supervisory Board

The Supervisory Board of Epigenomics AG consists of six members with broad experience in the pharmaceutical, diagnostics or financial industries. All members are currently appointed until the Company's General Shareholders' Meeting in 2021.

- **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/was a member of comparable boards with supervisory function of the following foreign undertakings:
  – Quotient Ltd., Eysins, Switzerland (Chairman of the Board of Directors);
  – The Binding Site Group Ltd., Birmingham, UK.

- **Dr. Ann Clare Kessler** – Rancho Santa Fe, CA (USA) – 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

  Dr. Ann Clare Kessler is not a member of other mandatory supervisory boards or comparable boards with supervisory function.

- **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.

- **Dr. Helge Lubenow** – Langenfeld (Rhineland) (GER)
  CEO of ProteomediX AG, Zürich (CH) 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 German and foreign undertakings:
  – tesa Labtec GmbH, Hamburg, Germany (Chairwoman of the Advisory Board);
  – Indical TopCo AB, Sweden.

- **Franz Walt** – Flims Dorf (CH)
  CEO of Quotient Ltd., Eysins, Switzerland

  Supervisory Board member since May 2019; Member of the Audit Committee

  Franz Walt is not a member of other mandatory supervisory boards or comparable boards with supervisory function.

- **Alexander Link** – Frankfurt am Main (GER)
  CEO of Deutsche Balaton AG (Heidelberg)

  Supervisory Board member since June 2020

  Alexander Link is a member of comparable boards with supervisory function of the following German undertakings:
  – CornerstoneCapital Beteiligungen GmbH, Frankfurt am Main, Germany (Managing Director);
  – HW Verwaltungs AG, Halberstadt, Germany;
  – PWI Pure System AG, Heidelberg, Germany;
  – Tabalon Mobile Technologies AG, Heidelberg, Germany;
  – Nordic SSW 1000 Verwaltungs AG, Hamburg, Germany;
  – 4basebio AG, Heidelberg, Germany (Chairman of the Supervisory Board);
  – SPK Süddeutsche Privatkapital AG, Heidelberg, 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.

Remuneration of the members of the Supervisory Board (in EUR):

Member of the Supervisory Board	Reporting year	Fixed remuneration	Variable remuneration	Total remuneration
Heino von Prondzynski	**2020**	**76,500**	**9,000**	**85,500**
	2019	90,000	12,000	102,000
Dr. Ann C. Kessler, Ph.D.	**2020**	**34,000**	**9,000**	**43,000**
	2019	40,000	12,000	52,000
Prof. Dr. Günther Reiter	**2020**	**34,000**	**9,000**	**43,000**
	2019	40,000	12,000	52,000
Dr. Helge Lubenow	**2020**	**29,750**	**9,000**	**38,750**
	2019	35,000	12,000	47,000
Franz Walt	**2020**	**29,750**	**9,000**	**38,750**
	2019	20,417	8,000	28,417
Alexander Link	**2020**	**11,467**	**3,000**	**14,467**
	2019	n/a	n/a	n/a
Total Supervisory Board	**2020**	**215,467**	**48,000**	**263,467**
	2019	225,417	56,000	281,417

In addition, the members of the Supervisory Board were reimbursed for expenses totaling EUR 9 thousand in 2020 (2019: EUR 36 thousand).

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

		Number of shares				
Member of the Supervisory Board	Reporting year	held as of Jan 1	acquired in 2020	pro forma (prior to reverse stock split)	effect of reverse stock split	held as of Dec 31
Heino von Prondzynski	**2020**	**535,000**	**65,001**	**600,001**	**-525,001**	**75,000**
	2019[1]	295,000	240,000	535,000	n/a	535,000
Dr. Ann C. Kessler	**2020**	**137,604**	**22,200**	**159,804**	**-139,829**	**19,975**
	2019	63,000	74,604	137,604	n/a	137,604
Prof. Dr. Günther Reiter	**2020**	**0**	**0**	**0**	**0**	**0**
	2019	0	0	0	n/a	0
Dr. Helge Lubenow	**2020**	**17,550**	**0**	**17,550**	**-15,357**	**2,193**
	2019	6,000	11,550	17,550	n/a	17,550
Franz Walt	**2020**	**19,500**	**0**	**19,500**	**-17,063**	**2,437**
	2019	n/a	19,500	19,500	n/a	19,500
Alexander Link	**2020**	**n/a**	**12,000**	**12,000**	**-10,500**	**1,500**
	2019	n/a	n/a	n/a	n/a	n/a
Total Supervisory Board	**2020**	**709,654**	**99,201**	**808,855**	**-707,750**	**101,105**
	2019	364,000	345,654	709,654	n/a	709,654

[1] In the 2019 group management report, an opening balance of shares held of 245,000 and a closing balance of 485,000 was reported here for Mr. von Prondzynski. However, in preparing this table the Company inadvertently overlooked a voting rights notification from Mr. Prondzynski from 2018 concerning the acquisition of 50,000 shares. The actual opening and closing balances for 2019 reported here therefore differ from those reported in the previous year and now correctly amount to 295,000 and 535,000.

The members of the Supervisory Board did not sell any shares of the Company in the reporting period or in the previous year.

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 315A OF THE GERMAN COMMERCIAL CODE (HGB)

In accordance with section 315a 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, Deutsche Balaton AG, Heidelberg held 16.22% of the voting rights in Epigenomics AG as of the balance sheet date. Moreover, there were no additional shareholders with direct or indirect shareholdings of more than 10% of the voting rights.

COMPOSITION OF SHARE CAPITAL, VOTING RIGHTS AND RESTRICTIONS ON VOTING RIGHTS

As of December 31, 2020, the share capital of Epigenomics AG consisted exclusively of ordinary registered shares with non-par value, each such share representing a notional amount of the issued share capital of EUR 1.00. The total number of outstanding shares as of that date was 5,891,230.

The Company's Articles of Association does not place restrictions either on voting rights or on the transfer of shares. The Executive Board is not aware of restrictions on voting rights or the transferability of shares resulting from agreements between the shareholders.

Statutory restrictions on voting rights may arise, for instance under section 71b and 134 (2) AktG, section 44 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) and section 59 of the German Securities Acquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetz – WpÜG). The Executive Board is not aware of restrictions on voting rights pursuant to these provisions. Furthermore, in accordance with section 136 (1) AktG, members of the Executive Board and the Supervisory Board may not exercise voting rights in relation to resolutions ratifying their actions, discharging them from a liability, or concerning the Company asserting a claim against them. Under section 136 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 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/deputies. 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 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).

Only the service agreements of the Executive Board members (please see the section "Composition and remuneration of the Executive Board" of this group management report) are subject to any change of control.

AUTHORIZATION OF THE EXECUTIVE BOARD TO ISSUE AND BUY BACK SHARES

The Company does not have in place any authorization for the Executive Board to acquire and redeem treasury shares.

By a resolution of the Annual General Shareholders' Meeting of the Company dated June 12, 2020, Authorized Capital 2020/I and Authorized Capital 2020/II were newly created in the reporting period.

Authorized Capital 2020/I

The Executive Board is authorized until June 11, 2025, 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 4,712,984.00 against cash and/or in-kind contributions by issuing new non-par value registered shares (Authorized Capital 2020/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 section 186 (3) sentence 4 AktG or pursuant to section 203 in conjunction with section 186 (3) sentence 4 AktG, or which have been sold following a repurchase in accordance with section 71 (1) no. 8 AktG in conjunction with section 186 (3) sentence 4 AktG, 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 or combinations of those instruments 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 a dependent entity of the Company within the meaning of section 17 AktG;
- to the extent necessary to grant subscription rights for new shares to holders or creditors of option rights, convertible bonds or participation rights or combinations of those instruments issued by the Company or a dependent entity of the Company within the meaning of section 17 AktG 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 2020/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 2020/I in accordance with the respective share capital increase or after expiry of the term of the authorization.

Authorized Capital 2020/II

The Executive Board is authorized until June 11, 2025, 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 18,851,939.00 against cash and/or in-kind contributions by issuing new non-par value registered shares (Authorized Capital 2020/II). Subscription rights shall be granted to the shareholders. The Company shall organize stock market trading of the subscription rights. 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 for fractional amounts. 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 2020/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 2020/II in accordance with the respective share capital increase or after expiry of the term of the authorization.

The Company has in place the following conditional capital:

Conditional Capital XI

The 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 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.

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.

Conditional Capital XIII

The 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 XIII). 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, 2021 pursuant to the authorization resolution of the General Shareholders' Meeting dated May 15, 2019 (Stock Option Program 19–21). 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 19–21 by the General Shareholders' Meeting dated May 15, 2019 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 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 XIV

The share capital is conditionally increased by up to EUR 20,564,923.00 by means of issuing up to 20,564,923 new non-par value registered shares (Conditional Capital XIV). The conditional capital increase serves to grant shares to the holders or creditors of bonds or participation rights, such shares being issued by the Company, or a Group company within the meaning of section 18 AktG in which the Company directly and/or indirectly holds an interest of at least 90%, until June 11, 2025 on the basis of the authorization resolution of the General Shareholders' Meeting dated June 12, 2020 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 authorization resolution of the Annual General Shareholders' Meeting dated June 12, 2020.

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 June 12, 2020, 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 commencement 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.

Berlin, March 12, 20211

The Executive Board

KEY FIGURES

– in accordance with the consolidated financial statements –

TEUR thousand (unless indicated otherwise)	2016	2017	2018	2019	2020
Statement of Profit or Loss					
Revenue	4,201	1,864	1,533	1,125	842
Gross profit	2,567	1,618	1,093	872	697
EBIT	-12,312	-10,289	-12,895	-14,673	-11,627
EBITDA	-11,956	-9,946	-12,587	-14,160	-11,092
EBITDA before share-based payment expenses	-9,670	-9,369	-11,436	-13,287	-10,461
Net loss for the period	-11,161	-10,235	-12,692	-17,020	-11,686
Balance Sheet					
Non-current assets	3,019	2,914	3,553	1,866	1,328
Investments in non-current assets	379	548	106	122	21
Current assets	15,203	16,859	18,274	12,123	5,469
Non-current liabilities	89	43	47	741	496
Current liabilities	3,709	9,153	3,167	3,619	2,437
Equity	14,424	10,577	18,613	9,629	3,864
Equity ratio (in %)	79,2	53,5	85,3	68,8	56,8
Total assets	18,222	19,773	21,827	13,989	6,797
Statement of Cash Flows					
Cash flow from operating activities	-13,283	-9,576	-10,351	-13,506	-9,571
Cash flow from investing activities	-379	-548	724	47	3
Cash flow from financing activities	17,422	11,499	13,274	7,120	2,982
Net cash flow	3,760	1,375	3,647	-6,339	-6,586
Cash consumption	-13,662	-10,124	-9,627	-13,459	-9,568
Cash and cash equivalents at the end of the year	11,531	12,826	16,487	10,155	3,566
Stock[1]					
Weighted average number of shares issued	2,533,977	2,895,203	3,377,019	4,659,071	5,778,663
Earnings per share (basic and diluted, in EUR)	-4.40	-3.54	-3.76	-3.65	-2.02
Share price as of the balance sheet date (in EUR)	36.40	34.00	14.16	10.96	3.40
Number of employees as of the reporting date	45	46	44	41	37

[1] For reasons of comparability, the figures for 2016–2019 have been adjusted.

CONSOLIDATED FINANCIAL STATEMENTS 2020

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

CONTENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME)

FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31

EUR thousand	Note	2020	2019
Revenue	1	842	1,125
Cost of sales	3	-145	-253
Gross profit		**697**	**872**
Gross margin (in %)		*82.8*	*77.5*
Other income	2	1,507	2,488
Research and development costs	3	-3,659	-7,340
Selling, general and administrative costs	3	-7,301	-8,935
Other expenses	3; 6	-2,871	-1,758
Operating result/earnings before interest and taxes (EBIT)	7	**-11,627**	**-14,673**
Interest income	8	*21*	*172*
Interest expenses	8	-55	-63
Other financial result	8	-2	-2
Net loss for the year before taxes on income		**-11,663**	**-14,566**
Taxes on income	9	-23	-2,454
Net loss for the year		**-11,686**	**-17,020**
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations	23	1,528	-147
Changes in fair value of financial instruments measured at fair value through other comprehensive income	23	81	228
Other comprehensive income for the year		**1,609**	**81**
Total comprehensive income for the year		**-10,077**	**-16,939**
Earnings per share (basic and diluted, in EUR)[1]	10	**-2.02**	**-3.65**

[1] For reasons of comparability, the figure for 2019 was adjusted to reflect the reverse stock split carried out in December 2020.

CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31

ASSETS EUR thousand	Note	31.12.2020	31.12.2019
Non-current assets			
Intangible assets	11	144	333
Property, plant and equipment	12	1,184	1,533
Deferred taxes	14	0	0
Total non-current assets		**1,328**	**1,866**
Current assets			
Inventories	15	122	313
Trade receivables	16	251	89
Marketable securities	17	961	880
Cash and cash equivalents	18	3,566	10,155
Other current assets	19	569	686
Total current assets		**5,469**	**12,123**
Total assets		**6,797**	**13,989**

EQUITY AND LIABILITIES EUR thousand	Note	31.12.2020	31.12.2019
Equity			
Subscribed capital	20	5,891	43,528
Capital reserve	21	87,419	69,251
Retained earnings	22	-79,046	-85,807
Net loss for the year		-11,686	-17,020
Other comprehensive income	23	1,286	-323
Total equity		**3,864**	**9,629**
Non-current liabilities			
Lease liabilities		460	697
Provisions	25	36	44
Total non-current liabilities		**496**	**741**
Current liabilities			
Trade payables	26	629	1,430
Lease liabilities		223	216
Deferred income		80	5
Other liabilities	27	627	1,368
Provisions	25	878	600
Total current liabilities		**2,437**	**3,619**
Total equity and liabilities		**6,797**	**13,989**

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

EUR thousand	Note	2020	2019
Cash and cash equivalents at the beginning of the year		**10,155**	**16,487**
Operating activities			
Net loss for the year		**-11,686**	**-17,020**
Adjustments for:			
Stock option expenses	4	631	873
Depreciation of property, plant and equipment	5; 11	342	319
Amortization of intangible assets	5; 12	193	194
Loss from the disposal of non-current assets	6	0	1
Foreign currency exchange results		0	25
Financial income	8	-21	-172
Financial expenses	8	56	65
Taxes	9	23	2,454
Operating result before changes in operating assets and liabilities		**-10,462**	**-13,261**
Inventories	15	185	45
Trade receivables	16	-159	84
Other assets	19	108	-77
Non-current and current provisions	25	286	-364
Trade payables and other liabilities	26; 27	420	118
Deferred income		74	-17
Tax paid		-23	-34
Cash flow from operating activities	30	**-9,571**	**-13,506**

EUR thousand	Note	2020	2019
Investing activities			
Payments to acquire intangible assets		-11	-47
Payments to acquire property, plant and equipment		-10	-75
Interest received	8	24	169
Cash flow from investing activities	31	**3**	**47**
Financing activities			
Proceeds from the issue of new shares	20; 21	3,998	8,332
Payments for the issue of new shares	21	-725	-983
Payments for capital reduction		-23	0
Payments for leases		-268	-229
Cash flow from financing activities	32	**2,982**	**7,120**
Net cash flow		**-6,586**	**-6,339**
Currency translation effects		-3	7
Cash and cash equivalents at the end of the year		**3,566**	**10,155**

As of the balance sheet date, EUR 81 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, 2018		**36,022**	**68,802**	**-73,115**	**-12,692**	**-404**	**18,613**
Total comprehensive income 2019	23	**0**	**0**	**0**	**-17,020**	**81**	**-16,939**
Transfer of net loss for the year 2018 to retained earnings		0	0	-12,692	12,692	0	0
Capital increase with subscription rights	20	7,506	0	0	0	0	7,506
Premium from the capital increase with subscription rights	20; 21	0	826	0	0	0	826
Costs for the creation of new shares	21	0	-1,250	0	0	0	-1,250
Stock option expenses	4; 21	0	873	0	0	0	873
December 31, 2019		**43,528**	**69,251**	**-85,807**	**-17,020**	**-323**	**9,629**
Total comprehensive income 2020	23	**0**	**0**	**0**	**-11,686**	**1,609**	**-10,077**
Transfer of net loss for the year 2019 to retained earnings		0	0	-17,020	17,020	0	0
Capital increase with subscription rights	20	3,602	0	0	0	0	3,602
Premium from the capital increase with subscription rights	20; 21	0	397	0	0	0	397
Costs for the creation of new shares	21	0	-295	0	0	0	-295
Reverse stock split (8:1)	19; 21	-41,239	17,458	23,781	0	0	0
Costs for the reverse stock split		0	-23	0	0	0	-23
Stock option expenses	4; 21	0	631	0	0	0	631
December 31, 2020		**5,891**	**87,419**	**-79,046**	**-11,686**	**1,286**	**3,864**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2020

BASIC INFORMATION, PRINCIPLES AND METHODS

DESCRIPTION OF BUSINESS ACTIVITY

Epigenomics ("Epigenomics", the "Group" 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 Local Court 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, 2020 balance sheet date, as adopted by the European Union (EU).

The Company has incurred accounting losses (after the simplified reduction of capital in 2020) of EUR 90,732 thousand since being founded. The Company generated a net loss of EUR 11,6856 thousand for 2020 (2019: EUR 17,020 thousand). The "going concern" principle in accordance with IAS 1.25 Presentation of Financial Statements was applied. The Company had liquid funds (cash, cash equivalents and marketable securities) of EUR 4.5 million as of the end of 2020.

After the end of the reporting period, in January 2021, the Company successfully placed a EUR 5.5 million mandatory convertible bond with its shareholders. After receiving the gross proceeds, the Company's liquidity amounted to well in excess of EUR 9 million as of the beginning of February 2021. The first cost-cutting measures were also introduced at that time. According to internal projections, the Company's continued existence as a going concern is secured beyond the beginning of 2022, although it must subsequently be considered at risk, at the latest by the end of the first quarter of 2022 (material uncertainty), unless the negative coverage decision issued by the U.S. Centers for Medicare and Medicaid Services (CMS) in January 2021 can be successfully appealed or rescinded in the coming months or further capital measures are successfully implemented. The Company is currently evaluating its legal options. However, the chances of this succeeding must be regarded as slim at best, and as such various strategic alternatives are also being examined to secure the Company's continued existence. Building on its expertise in blood testing and DNA methylation biomarkers, Epigenomics AG has already developed and validated a new test for CRC screening with clinical performance that meets the new coverage criteria laid down by CMS. Based on our experience in recent years and given the considerable market potential of this new test, we are confident being able to find one or more financially solid partners in 2021 who share our opinion and are prepared to make sufficient capital available to leverage its potential.

The Consolidated Statement of Comprehensive Income (Consolidated Statement of Profit or Loss and Other Comprehensive Income) has been prepared using the cost of sales method.

REPORTING PERIOD, REPORTING CURRENCY, AND ROUNDING

The reporting period (comparative period) as defined in these consolidated financial statements is the period from January 1 to December 31, 2020 (2019). 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., as its sole subsidiary during the reporting period. The subsidiary is registered in the U.S. state of Washington and since the reporting year has based its operations out of San Diego (11055 Flintkote Ave, Suite A, San Diego, CA 92121). Epigenomics AG held 100% of the share capital and the voting rights of Epigenomics, Inc. between January 1, 2020 and December 31, 2020.

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 AND EFFECTS ON THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEAR 2020

In the reporting year, the Group for the first time applied the following new and 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, 2020. Generally, the new standards and amendments mentioned below require prospective application.

Mandatory application for fiscal years beginning on or after January 1, 2020:

Amendments to IFRS 3 Definition of a Business (endorsed by the EU on April 21, 2020)

The Amendments to IFRS 3 are intended to resolve the problems that arise when an entity determines whether it has acquired a business or a group of assets. Such problems may arise due to the fact that the accounting requirements for goodwill, acquisition costs and deferred taxes differ on the acquisition of a business and on the acquisition of a group of assets.

Applying the Amendments to IFRS 3 did not have any effect on the Company's financial statements in fiscal year 2020. Nor are any effects currently expected in future fiscal years.

Amendments to IAS 1 and IAS 8 Definition of Material (endorsed by the EU on November 29, 2019)

The Amendments to IAS 1 and IAS 8 clarify the definition of "material" and align the definition used in the Conceptual Framework and the standards themselves.

Applying the Amendments to IAS 1 and IAS 8 did not have any effect on the Company's financial statements in fiscal year 2020. Nor are any effects currently expected in future fiscal years.

Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform (endorsed by the EU on January 15, 2020)

The amendments to IFRS 9, IAS 39 and IFRS 7 were necessitated by capital market developments that have brought into question the long-term viability of the established interest reference rates currently in use (e.g., LIBOR). Firstly, they modify specific hedge accounting requirements so that entities apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. Secondly, the amendments will be mandatory for all hedging relationships that are affected by the interest rate benchmark reform. In addition, they require specific disclosures about the extent to which entities' hedging relationships are affected by the amendments.

Applying the Amendments to IFRS 9, IAS 39 and IFRS 7 did not have any effect on the Company's financial statements in fiscal year 2020. Nor are any effects currently expected in future fiscal years.

Revisions to Conceptual Framework for Financial Reporting in accordance with IFRSs (endorsed by the EU on November 29, 2019)

The new Conceptual Framework includes revised definitions of an asset and a liability as well as new guidance on measurement and derecognition, presentation and disclosure. These revisions result in amendments to multiple standards and interpretations that refer to the Conceptual Framework.

Applying the revised Conceptual Framework for Financial Reporting in accordance with IFRSs did not have any effect on the Company's financial statements in fiscal year 2020. Nor are any effects currently expected in future fiscal years.

Amendments to IFRS 16 COVID-19-Related Rent Concessions (endorsed by the EU on October 9, 2020)

The practical expedient proposed at short notice due to the COVID-19 pandemic provides lessees with an exemption in calendar year 2020 from assessing whether a COVID-19-related rent concession is a lease modification, subject to certain conditions. This enables lessees to account for such rent concessions as if there were no lease modification, in other words without applying the rules on lease modifications.

Applying the Amendments to IFRS 16 did not have any effect on the Company's financial statements in fiscal year 2020 since the Company has not taken advantage of any rent concessions.

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

Amendments to IFRS 4 Insurance Contracts (endorsed by the EU on December 16, 2020)

Concurrent to the IASB's publication of its final amendments to IFRS 17 on the accounting treatment of insurance contracts, an associated amendment was made to IFRS 4 that extended the existing option to defer initial application of IFRS 9 until the new effective date of IFRS 17.

The Company does not expect that the application of the Amendments to IFRS 4 will have any effect on its financial statements for fiscal years from 2021 onward.

Amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (endorsed by the EU on January 13, 2021)

The further planned amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 16 cover practical expedients in connection with the reform of international interest rate benchmarks. These relate to hedge accounting, which does not generally have to be discontinued because of the interest rate benchmark reform. Any hedge ineffectiveness must continue to be recognized through profit or loss.

The Company does not apply hedge accounting, and as such does not expect that the application of the Amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 16 will have any effect on its financial statements for fiscal years from 2021 onward.

Mandatory application for fiscal years beginning on or after January 1, 2022:

Amendments to IFRS 3 Reference to the Conceptual Framework (not yet endorsed by the EU)

The proposed amendments to IFRS 3 concern references to the 2018 Framework as opposed to the 1989 Framework, which has been referenced to date. A requirement is also being added to the standard that, for transactions and other events within the scope of IAS 37 or IFRIC 21, an acquirer applies IAS 37 or IFRIC 21 (instead of the Conceptual Framework) to identify the liabilities it has assumed in a business combination. In a further supplement to the standard, clarification was added that an acquirer is prohibited from recognizing contingent assets acquired in a business combination.

The Company does not expect that the application of the Amendments to IFRS 3 will have any effect on its financial statements for fiscal years from 2022 onward.

Amendments to IAS 16 Property, Plant and Equipment – Proceeds before Intended Use (not yet endorsed by the EU)

The proposed amendments to IAS 16 introduce a prohibition on deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

The Company does not expect that the application of the Amendments to IAS 16 will have any effect on its financial statements for fiscal years from 2022 onward.

Amendments to IAS 37 Onerous Contracts – Cost of Fulfilling a Contract (not yet endorsed by the EU)

The amendments to IAS 37 stipulate that, going forward, the costs a company must include as the cost of fulfilling a contract when assessing whether a contract is onerous cover the incremental costs of the contract as well as other costs that relate directly to fulfilling the contract, however not general administrative costs.

The Company will apply the amendments to IAS 37 to contracts for which not all of the obligations have been fulfilled as of the date of initial application. However, it appears very unlikely that any potential impact will be significant.

Annual Improvements to IFRS Standards (2018–2020 Cycle) (not yet endorsed by the EU)

The annual improvements (2018–2020 cycle) contain amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases and IAS 41 Agriculture.

The amendments to IFRS 1 concern translation differences at subsidiaries upon the parent's transition to IFRSs. The amendments to IFRS 9 concern the fees an entity includes when it derecognizes financial liabilities in accordance with paragraph B3.3.6 of the standard.

The amendments to IFRS 16 remove an illustrative example from the standard concerning the reimbursement of leasehold improvements by the lessor.

The amendments to IAS 41 remove the requirement in force to date for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique. This serves to ensure consistency with the requirements in IFRS 13.

The Company does not expect that the application of the Annual Improvements to IFRS Standards (2018–2020 Cycle) will have any effect on its financial statements for fiscal years from 2022 onward.

Mandatory application for fiscal years beginning on or after January 1, 2023:

IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts (not yet endorsed by the EU)

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.

The Company does not expect that the application of the Amendments to IFRS 17 will have any effect on its financial statements for fiscal years from 2023 onward.

Amendments to IAS 1 Classification of Liabilities as Current or Non-current (not yet adopted by the EU)

The planned amendments to IAS 1 more precisely define the classification of liabilities as current or non-current. Classifying liabilities as current depends on the entity's rights at the end of the reporting period to defer settlement by at least twelve months after the end of the reporting period. If such rights are substantial, the liabilities must be recognized as non-current. If certain conditions must be fulfilled to exercise such rights, these must be fulfilled at the end of the reporting period, otherwise the liability is classified as current. The recognition as current or non-current is unaffected by management's intention or expectation as to whether the liabilities will actually be settled within twelve months following the end of the reporting period.

The Company does not expect that the application of the Amendments to IAS 1 will have any effect on its financial statements for fiscal years from 2023 onward.

The Company does not intend to early adopt the aforementioned new or amended accounting standards that are required to be applied from or after January 1, 2022.

Management's judgment, assumptions and expectations

The management of the Company has made several judgments in the process of applying the entity's accounting policies that have a significant effect on the amounts recognized in the financial statements. Those judgments concern the capitalization of development costs and the recognition of deferred taxes. The judgments 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. Given global developments in connection with the COVID-19 pandemic, it remains almost impossible to estimate the future economic conditions and the consequences of this crisis. Nevertheless, the Company has played out various scenarios in its planning for 2021 and developed corresponding alternatives and objectives. The assumptions made are based on factors including the estimated potential impact of the restrictions and rules imposed in response to COVID-19 on the expected behavior of the CRC screening population (which has an indirect impact on the Company's revenues) and on the continuation or resumption of the clinical studies commissioned by Epigenomics in the U.S.A.

Another factor affecting the Company's business activities in the reporting period was that its key clinical studies are primarily being carried out in the U.S.A. The pandemic has brought the majority of studies being conducted there to a virtual standstill. Firstly, it was of course generally difficult to impossible for the researchers to recruit patients, and secondly the pandemic meant that the laboratories involved faced a change in how their work is prioritized. To the extent that a notable and permanent return to normal operations fails to materialize in 2021, the Company will continue to face severe restrictions on its R&D work here. The pandemic also affected product revenue in 2020, with both the U.S.A. and Europe recording a significant drop in patients participating in routine screening. In this respect, it remains to be seen when there will be a noticeable increase in patients' willingness to undergo general preventive health care.

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 heavily dependent on the reimbursement decisions by the payors in the U.S. healthcare system with regard to its lead product – Epi proColon, and subsequently on the commercial success of this product. Previously, the Company's strategy for the future had assumed positive reimbursement decisions in 2020 and the years to come. In its efforts to obtain approval for reimbursement, however, the Company suffered a setback shortly after the end of the reporting period that has forced it to rethink its strategy. At the current time the Executive Board and Supervisory Board have not yet finalized their discussions on the new strategy. However, the Company's primary goal remains to develop and commercialize tests for cancer detection. As of now, the focus will be on registering at highest priority the advanced version of the colorectal cancer test – Epi proColon NextGen – with the FDA for market approval in the U.S.A. This will require a larger clinical study that is expected to last two to three years. The expectation remains that the Company will finance this study either by finding investors who are convinced that the project will succeed or by joining forces with a strategic partner.

The COVID-19 pandemic will continue to dominate the economic conditions in Germany and the U.S.A. in 2021 and well beyond. It must also be expected that there will be additional effects on fiscal policy in these countries, although it is impossible at present to forecast either their nature and extent or their relevance to Epigenomics. With respect to regulatory requirements in the Company's primary export markets, there are currently no signs of significant changes that would affect the Company in the coming fiscal year.

All of the Company's 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 Company expects the EUR/USD exchange rate to hover around the rate at the end of 2020, although it will remain susceptible to more pronounced fluctuations as a reaction to key global economic and geopolitical events. Management's plans for 2021 are based on an average exchange rate of EUR/USD 1.20. It also took note of the predictions of financial experts and banks as of the date on which the budget was drawn up.

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 comprehensive income (consolidated statement of profit or loss and 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),
- the incremental borrowing rate to be applied in calculating the present values of lease liabilities,
- assessing the possible exercise of contractual extension options,
- determining the terms of in-licensed intellectual property rights,
- determining if deferred taxes are realizable,
- determining whether financial instruments are to be classified as measured at amortized cost, fair value through other comprehensive income, or 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 contracts with customers is recognized for the sale of goods and property rights (e.g., patents) or the rendering of other services when the customer obtains the control of the distinct goods or service and the customer has the ability to direct the use of and obtain the benefits from the goods or services received. The revenue recognized is the amount of the consideration that the entity would expect to be entitled to in exchange for these goods or services. If a contract includes a series of distinct goods or services, the transaction price is allocated to each performance obligation on the basis of the stand-alone selling price. If a stand-alone selling price is not directly observable, the entity reasonably estimates the stand-alone selling price. Revenue is recognized for each performance obligation either at a specific point in time or over a specific period of time.

Non-refundable prepayments received for delivering goods or performing services in the future are deferred and subsequently recognized as revenue when the goods are delivered or the services performed. Optional prolongation terms are considered individually in accordance with the underlying exercise conditions and anticipated likelihood of their exercise.

License revenue is generated by granting third parties exclusive and non-exclusive licenses in technologies and biomarkers that the Company has patented or has itself licensed. For each instance in which a license is granted, it must be determined whether the license transfers to the customer at a point in time or over time. License revenue is recognized on an accrual basis in accordance with the substance of the underlying contract. License revenue determined over time is recognized on a straight-line basis over the term of the contract. License revenue that is based on product sales and/or other reference values is recognized on the basis of the underlying contract, to the extent that those reference values can reliably be determined.

In the case of sales with a right of return, the revenue is only recognized in full when the right of return expires. At this date, the revenue is only recognized at cost less any costs of return. There were no sales with a right of return in the reporting period.

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 costs, 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. 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, redemption obligations could arise which have not been recognized yet.

Research and development costs

Research and development costs (R&D costs) include the personnel costs 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 comprehensive income (consolidated statement of profit or loss and 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.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually. In addition, assets or groups of assets are tested for impairment if there are any indications at the measurement date that they may be impaired. 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.

Right-of-use assets and leases

The Company has opted not to recognize short-term leases or leases for which the underlying asset is of low value. Instead, the associated lease payments are recognized as an expense. The material leases entered into by the Company are recognized and measured using a uniform model. The right-of-use assets representing the right to use the underlying assets are measured at cost less accumulated depreciation and are regularly tested for impairment. The right-of-use assets are depreciated on a straight-line basis over the term of the underlying leases.

At the commencement date, the lease liabilities arising from the leases are recognized at the present value of the lease (rent) payments to be made over the term of the lease. The Company calculates the present value using an incremental borrowing rate valid as of that date.

For leases with terms exceeding 12 months as of the measurement date, the corresponding lease liabilities are divided into and recognized as current liabilities (due in less than 12 months) and non-current liabilities (due after 12 months).

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 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 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.

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 comprehensive income (consolidated statement of profit or loss and comprehensive income) under other income/other expenses.

If, based on external or internal sources of information, there are indications that the carrying amount at the balance sheet date of an item of property, plant or equipment measured as described above exceeds its recoverable amount upon disposal, the asset is tested for impairment and, if necessary, written down. The amount of the impairment is determined on the basis of the fair value of the item of property, plant and equipment less costs to sell or – if higher – the net present value of future cash flows estimated from the value in use of the item of property, plant and equipment. 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

A financial instrument is a contract that gives rise to a financial asset for one contracting party and a financial liability or equity instrument for another contracting party.

At initial recognition, trade receivables without significant financing components are measured at their transaction price. All other financial assets and liabilities are initially measured at fair value.

When the Company first recognizes a financial asset, it assigns it to one of the following measurement categories:

- at amortized cost;
- debt instruments at fair value through other comprehensive income (FVOCI);
- equity instruments at fair value through other comprehensive income (FVOCI);
- at fair value through profit or loss (FVTPL).

In the case of assets not at fair value through profit or loss, these are measured at initial recognition on the basis of the transaction costs directly attributable to their acquisition or issue.

Financial assets are only reclassified following initial recognition when the Company changes its business model for managing financial assets.

A financial asset is measured at amortized cost if it is not designated as at fair value through profit or loss and both of the following conditions are met:

- it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at fair value through other comprehensive income if it is not designated as at fair value through profit or loss and both of the following conditions are met:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At initial recognition of an investment in an equity instrument that is not held for trading, the Company can make the irrevocable election to present in other comprehensive income subsequent changes in the fair value of that investment. The Company makes this election on a case-by-case basis for each investment.

All financial assets not measured at amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. This includes all derivative financial assets. The Company may, at initial recognition, irrevocably designate as measured at fair value through profit or loss financial assets that would otherwise have fulfilled the criteria for measurement at amortized cost or fair value through other comprehensive income, if doing so eliminates or significantly reduces a measurement or recognition inconsistency (accounting mismatch).

The Company assesses the objectives of the business model within which the financial asset is held. It does so at portfolio level since this is the best way to reflect how the business is managed and how information is passed on to management. The information to be taken into consideration includes:

- the disclosed policies and objectives of the portfolio and the practical implementation of those policies;
- how the portfolio's performance is measured and reported to management;
- the risks to which the performance of the business model (and the financial assets held under that business model) is exposed and how those risks are managed;
- the frequency, extent and timing of sales of financial assets in prior periods and expectations in respect of future sales activities.

Financial assets held or managed for trading whose performance is assessed on the basis of fair value are measured at fair value through profit or loss.

In order to determine whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding, “principal” is defined as the fair value of the financial asset at initial recognition. "Interest" consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g., liquidity risk and administration costs), as well as a profit margin. In determining whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding, the Company takes into consideration the contractual terms underlying the instrument. This includes determining whether the financial asset includes a contractual term that could change the timing or amount of the contractual cash flows and thus cause this condition to no longer be met. In its assessment, the Company takes into consideration:

- specific events that would trigger a change in the timing or amount of the cash flows,
- terms that would cause the interest rate (including variable interest rate) to be adjusted,
- options for early repayment or extensions, and
- terms that limit the Company's claim to the cash flows from a specified asset.

A prepayment option fulfills the criterion of solely payments of principal and interest on the principal amount outstanding if the prepayment amount substantially represents only unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for the early termination of the contract.

Financial liabilities are classified and measured at amortized cost or at fair value through profit or loss. A financial liability is classified at fair value through profit or loss if it is held for trading, is a derivative or is designated as such at initial recognition. Measuring financial liabilities at fair value through profit or loss means that they are carried at fair value and any net gains or losses, including interest expenses, are recognized through profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expenses and foreign exchange gains or losses are recognized through profit or loss. Gains or losses on derecognition are likewise recognized through profit or loss.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the right to receive the cash flows as part of a transaction in which substantially all of the risks and rewards of ownership of the financial asset are also transferred. Derecognition also applies if the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and does not retain control of the transferred asset. The Company executes transactions in which it transfers the recognized assets but retains either all or substantially all of the risks and rewards of ownership of the transferred asset. In these cases, the transferred assets are not derecognized. Write-downs are generally recognized on trade receivables if they are more than one year overdue and are not subject to enforcement action.

The Company derecognizes a financial liability if the obligations specified in the contract are discharged or canceled or expire, or if the terms of the contract have been amended and the cash flows from the modified liability are significantly different. In this case, a new financial liability is recognized at fair value on the basis of the modified contractual terms. When derecognizing a financial liability, the difference between the carrying amount of the repaid liability and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized through profit or loss.

The Company invoices its customers in accordance with the individual contractual arrangements or the valid general terms and conditions of business. The invoices are generally payable net within 30 days. Prepayment is generally a condition for new customers. In the case of license receivables, the payment terms are determined on the basis of the underlying licensing agreements. The resulting payments are either payable on demand or within a period of up to 90 days.

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 have a remaining term of less than three months. They are measured at amortized cost.

Prepaid expenses

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

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 (cost-to-cost 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.

ALTERNATIVE PERFORMANCE INDICATORS

The operating result, or rather earnings before interest and taxes (EBIT), is defined as the total comprehensive income for the year/period before other comprehensive income for the year/period, income taxes, the other financial result, interest expenses and interest income. EBITDA is defined as EBIT before depreciation and amortization. Share-based payment is defined as the expenses resulting from the change in the total fair value of all stock options and phantom stock rights granted over the fiscal year/the period. EBITDA before share-based payment expenses is defined as EBITDA before expenses resulting from share-based payment.

EBIT, EBITDA and EBITDA before share-based payment expenses are all non-IFRS measures used and defined by Epigenomics that are standard practice in global capital market communication and are sought after by analysts and investors.

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.

The functional and reporting currency of our U.S. subsidiary is 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 assets and liabilities of the subsidiary are translated into the Group's reporting currency (euros) at the end of each reporting period using the closing rate. Equity components that are measured in terms of historical cost in U.S. dollars are translated using the exchange rate at the date of the transaction. The resulting translation differences are accounted for separately within equity.

Foreign currency exchange rates applied in the reporting period:

Closing rates	Dec 31, 2020	Dec 31, 2019
EUR/USD	1.2271	1.1234

Average rates	2020	2019
EUR/USD	1.1470	1.1195

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

1 REVENUE

Revenue by type:

	2020		2019	
	EUR thousand	in %	EUR thousand	in %
Product sales (own and third-party)	584	69.3	988	87.8
License revenue	33	4.0	137	12.2
R&D revenue and reimbursements	225	26.7	0	0
Other revenue	0	0.0	0	0
Total revenue	**842**	**100.0**	**1,125**	**100.0**

License revenue 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 revenue 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:

	2020		2019	
	EUR thousand	in %	EUR thousand	in %
Europe	290	34.,4	267	23.8
North America	531	63.1	714	63.4
Asia	21	2.5	135	12.0
Rest of the world	0	0.0	9	0.8
Total revenue	**842**	**100.0**	**1,125**	**100.0**

In the reporting year, 51% of total revenue (2019: 46%) was generated by the Company's three largest customers.

2 OTHER INCOME

EUR thousand	2020	2019
Foreign exchange rate gains	1,358	2,187
Income from the reversal of provisions	70	94
Recoveries and refunds	51	156
Correction of deferred liabilities	26	31
Third-party research grants from public authorities	1	17
Other	1	3
Total other income	**1,507**	**2,488**

3 COST ALLOCATION BY FUNCTION

	2020				
EUR thousand	Cost of sales	R&D costs	SG&A costs	Other expenses	Total
Materials and consumables	137	264	221	0	622
Depreciation, amortization and impairment	0	254	281	0	535
Personnel costs	5	1,768	3,553	0	5,326
Other costs	3	1,373	3,246	2,871	7,493
Total	**145**	**3,659**	**7,301**	**2,871**	**13,976**

	2019				
EUR thousand	Cost of sales	R&D costs	SG&A costs	Other expenses	Total
Materials and consumables	239	1,010	15	0	1,264
Depreciation, amortization and impairment	0	267	246	0	513
Personnel costs	0	2,596	4,166	0	6,762
Other costs	14	3,467	4,508	1,758	9,747
Total	**253**	**7,340**	**8,935**	**1,758**	**18,286**

4 PERSONNEL COSTS

EUR thousand	2020	2019
Wages and salaries	4,018	5,081
Share-based payment expenses	631	873
of which expenses for issuing stock options (SO) to members of the Executive Board	231	310
Expenses for issuing SO to G. Hamilton (CEO)	108	175
Expenses for issuing SO to Jorge Garces (CEO)	74	59
Expenses for issuing SO to Albert Weber (EVP Finance)	49	76
Social security expenses	677	808
of which employer's contribution to a national pension fund (Germany)	92	127
of which employer's contribution to a 401(k) savings plan (U.S.A.)	93	90
Total personnel costs	**5,326**	**6,762**

The Group employed an average of 39 employees in 2020 (2019: 43). The 37 employees as of the end of 2020 included 18 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 19 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.

Measurement of the stock options granted gave rise to share-based payment expenses amounting to EUR 631 thousand (2019: EUR 873 thousand).

5 DEPRECIATION AND AMORTIZATION

EUR thousand	2020	2019
Amortization of intangible assets	193	194
of which amortization of capitalized development costs	119	119
Depreciation of property, plant and equipment	342	319
of which depreciation of right-of-use assets	234	202
Total depreciation and amortization	**535**	**513**

6 OTHER EXPENSES

EUR thousand	2020	2019
Foreign exchange rate losses	2,871	1,757
Losses from the disposal of assets	0	1
Total other expenses	**2,871**	**1,758**

7 OPERATING RESULT (EBIT) AND EBITDA

EUR thousand	2020	2019
Operating result/earnings before interest and taxes (EBIT)	**-11,627**	**-14,673**
Total depreciation and amortization	535	513
EBIT before depreciation and amortization (EBITDA)	**-11,092**	**-14,160**
Share-based payment expenses	631	873
EBITDA before share-based payment expenses	**-10,461**	**-13,287**

8 FINANCIAL RESULT

Net gains and losses on all financial instruments:

EUR thousand	2020	2019
Interest from available-for-sale financial assets	18	18
Interest on time deposits	3	154
Interest and related income	**21**	**172**
Total financial income	**21**	**172**
Other interest expenses	-55	-63
of which from leases	-55	-63
Interest and related expenses	**-55**	**-63**
Other finance costs	-2	-2
Total financial expenses	**-57**	**-65**
Total financial result	**-36**	**107**

9 TAXES ON INCOME

The reported taxes on income in the amount of EUR 23 thousand (2019: EUR 2,454 thousand) consist solely of taxes relating to the Company's U.S. subsidiary.

EUR thousand	2020	2019
Current tax expenses	23	34
Deferred tax income due to loss carryforwards	0	-732
Valuation allowance	0	3,152
Total taxes on income	**23**	**2,454**

For the calculation of deferred taxes of the U.S. subsidiary, a local tax rate of 21% was applied there.

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

in %	2020	2019
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	2020	2019
Net loss for the year before taxes on income	-11,663	-14,566
Expected tax income	**3,522**	**4,399**
applicable tax rate for the Group	30.2%	30.2%
permanent differences	-40	-40
other foreign taxes	-23	-34
effect of foreign taxes	-297	-415
unrecognized tax loss carryforwards	-3,185	-3,944
allowance on deferred tax assets from prior periods	0	-2,420
Effective tax income/(expense)	-23	**-2,454**
Effective tax rate	-0.2%	**-16.9%**

The expected tax income/expense for the reporting year is calculated by applying the individual tax rates for the Group companies to the net results before taxes on income. The allowance on deferred tax assets from prior periods means that the effective tax rate for the reporting period is of little informational value. 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. For reasons of comparability given the capital reduction with the reverse stock split carried out in December 2020, the number of shares outstanding was adjusted retrospectively with a corresponding effect on the earnings per share reported for prior periods. 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 5,891,230 (December 31, 2019: 5,440,961).

	2020	2019
Net loss for the year (in EUR thousand)	-11,686	-17,020
Weighted average number of shares issued	5,778,663	4,659,071
Earnings per share (basic and diluted, in EUR)	-2.02	-3.65

NOTES TO THE CONSOLIDATED BALANCE SHEET

NON-CURRENT ASSETS

11 INTANGIBLE ASSETS

EUR thousand		Software	Licenses/patents	Development costs	Total intangible assets
Jan 1, 2019	**Cost**	**426**	**1,038**	**3,639**	**5,103**
	Additions	52	0	0	52
	Disposals	0	-17	0	-17
	Currency translation	0	0	0	0
Dec 31, 2019	**Cost**	**478**	**1,021**	**3,639**	**5,138**
	Additions	5		0	5
	Disposals	0	-1,021	0	-1021
	Currency translation	0	0	0	0
Dec 31, 2020	**Cost**	**483**	**0**	**3,639**	**4,122**
Jan 1, 2019	**Accumulated amortization and impairment**	**294**	**1,026**	**3,308**	**4,628**
	Additions	63	12	119	194
	Disposals	0	-17	0	-17
	Currency translation	0	0	0	0
Dec 31, 2019	**Accumulated amortization and impairment**	**357**	**1,021**	**3,427**	**4,805**
	Additions	74	0	119	193
	Disposals	0	-1,021	0	-1021
	Currency translation	0	0	0	0
Dec 31, 2020	**Accumulated amortization and impairment**	**431**	**0**	**3,546**	**3,977**
Dec 31, 2019	**Carrying amounts**	**121**	**0**	**212**	**333**
Dec 31, 2020	**Carrying amounts**	**52**	**0**	**93**	**145**

The capitalized development costs for Epi proColon and Epi proLung are assumed to have a useful life of ten years. The annual amortization for these assets amounted to EUR 111 thousand (Epi proColon) and EUR 8 thousand (Epi proLung).

12 PROPERTY, PLANT AND EQUIPMENT

EUR thousand		Fixtures/ leasehold improvements	Technical equipment	Other property, plant and equipment	Right-of-use assets resulting from leases	Total property, plant and equipment
Jan 1, 2019	**Cost**	**569**	**1,281**	**86**	**0**	**1,936**
	Additions	0	62	8	1,078	1,148
	Disposals	0	-19	-2	0	-21
	Currency translation	0	1	1	0	2
Dec 31, 2019	**Cost**	**569**	**1,325**	**93**	**1,078**	**3,065**
	Additions	0	10	0	0	10
	Disposals	0	-46	0	0	-46
	Currency translation	0	-5	-2	-33	-40
Dec 31, 2020	**Cost**	**569**	**1,284**	**91**	**1,045**	**2,989**
Jan 1, 2019	**Accumulated depreciation and impairment**	**227**	**962**	**47**	**0**	**1,236**
	Additions	44	64	8	202	318
	Disposals	0	-19	-1	0	-20
	Currency translation	0	0	0	-1	-1
Dec 31, 2019	**Accumulated depreciation and impairment**	**271**	**1,007**	**54**	**201**	**1,533**
	Additions	44	55	8	234	341
	Disposals	0	-46	0	0	-46
	Currency translation	0	-3	-2	-18	-23
Dec 31, 2020	**Accumulated depreciation and impairment**	**315**	**1,013**	**60**	**417**	**1,805**
Dec 31, 2019	**Carrying amounts**	**298**	**318**	**39**	**877**	**1,532**
Dec 31, 2020	**Carrying amounts**	**254**	**271**	**31**	**628**	**1,184**

Subsidies received in previous years reduced the cost of individual items of property, plant and equipment. 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.

The right-of-use assets were recognized in relation to the Group's leases for office and laboratory premises at the Berlin and Seattle locations that were subject to initial recognition in 2019 as part of the mandatory initial application of IFRS 16 *Leases*. On initial application, the Company exercised the practical expedient to apply a single discount rate to a portfolio of leases with reasonably similar characteristics. The lease for the Berlin site currently has a term until April 2023. The Company has an option to extend the lease by three years until April 2026. In the valuation, the Company assumed that it will exercise the extension option. The lease for the

San Diego site currently runs until December 2021. As of the date of initial application, the Group did not have any leases with a remaining term of less than 12 months. In accordance with the recognition exemption, leases of low-value assets were not recognized. Instead, an expense of EUR 27 thousand was recognized through profit or loss. Short-term leases were likewise not recognized, with EUR 15 thousand instead being recognized as an expense.

13 ASSETS SCHEDULE

EUR thousand		Intangible assets	Property, plant and equipment	Total intangible assets and property, plant and equipment
Jan 1, 2019	**Cost**	**5,103**	**1,936**	**7,039**
	Additions	52	1,148	1,200
	Disposals	-17	-21	-38
	Currency translation	0	2	2
Dec 31, 2019	**Cost**	**5,138**	**3,065**	**8,203**
	Additions	5	10	15
	Disposals	-1,021	-46	-1,067
	Currency translation	0	-40	-40
Dec 31, 2020	**Cost**	**4,122**	**2,989**	**7,111**
Jan 1, 2019	**Accumulated depreciation/ amortization and impairment**	**4,628**	**1,236**	**5,864**
	Additions	194	318	512
	Disposals	-17	-20	-37
	Currency translation	0	-1	-1
Dec 31, 2019	**Accumulated depreciation/ amortization and impairment**	**4,805**	**1,533**	**6,338**
	Additions	193	341	534
	Disposals	-1,021	-46	-1,067
	Currency translation	0	-23	-23
Dec 31, 2020	**Accumulated depreciation/ amortization and impairment**	**3,977**	**1,805**	**5,782**
Dec 31, 2019	**Carrying amounts**	**333**	**1,532**	**1,865**
Dec 31, 2020	**Carrying amounts**	**145**	**1,184**	**1,329**

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	
EUR thousand	Dec 31, 2020	Dec 31, 2019	Dec 31, 2020	Dec 31, 2019
Intangible assets and property, plant and equipment	0	0	165	227
Current assets	0	0	30	0
Non-current liabilities	0	0	139	164
Current liabilities	0	0	25	34
Total	**0**	**0**	**359**	**425**
Total after offsetting	**0**	**0**	**359**	**425**

Overview of tax loss carryforwards (2020 estimated):

EUR thousand	2020	2019
Tax loss carryforwards in Germany (corporate income tax)	218,719	210,874
Tax loss carryforwards in Germany (trade tax)	217,025	209,180
Tax loss carryforwards in the U.S.A. (corporate income tax)	17,504	15,976
R&D tax credits in the U.S.A.	3,424	3,641

Reconciliation of deferred tax assets (2020 estimated):

EUR thousand	Dec 31, 2020	Dec 31, 2019
Deferred tax assets due to German tax loss carryforwards	66,053	63,388
Deferred tax assets due to U.S. tax credits	3,424	3,641
Deferred tax assets due to U.S. tax loss carryforwards	3,676	3,355
Total deferred tax assets due to tax loss carryforwards	**73,153**	**70,420**
Deferred tax position (net) from temporary differences	-359	-425
Total deferred tax assets	**72,794**	**69,995**
Allowance on deferred tax assets	-72,794	-69,995
Recognized deferred tax assets	**0**	**0**

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, 2019, the Company's tax loss carryforwards in Germany amounted to EUR 211 million for corporate income tax and to EUR 209 million for trade tax. Furthermore, the Company estimates that the accumulated tax loss carryforwards in both aforementioned tax categories will increase by more than EUR 8 million when it files its tax returns for 2020. 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 359 thousand as of December 31, 2020. 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 17,854 thousand (2019: EUR 16,137 thousand).

The R&D tax credits in the U.S.A. expire on various dates beginning in 2022 through to 2040.

CURRENT ASSETS

15 INVENTORIES

EUR thousand	Dec 31, 2020	Dec 31, 2019
Consumables, raw materials, supplies	42	42
Semi-finished goods	19	47
Finished goods	61	224
Total inventories	**122**	**313**

The cost of inventories recognized as R&D costs through profit or loss in 2020 amounted to EUR 155 0 thousand (2019: EUR 352 thousand)

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, 2020	Dec 31, 2019
Trade receivables	251	89
of which not yet due	186	21
of which past due (up to 90 days)	19	19
of which not yet invoiced (assets from contractual relationships)	46	49

No allowances for doubtful accounts had been recognized as of the balance sheet date.

17 MARKETABLE SECURITIES

The marketable securities in the amount of EUR 961 thousand as of December 31, 2020 (December 31, 2019: EUR 880 thousand) are so-called "Trust-preferred Securities" issued by a wholly owned subsidiary of Deutsche Bank AG. At the issuer's discretion, they are redeemable at any time in one payment. In prior periods they had been held as "available-for-sale" financial instruments in accordance with IFRS 9 *Financial Instruments*: Since the Company does not intend to trade them, they are classified as measured at fair value through other comprehensive income.

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 and cash equivalents decreased to EUR 3,566 thousand as of the balance sheet date (December 31, 2019: EUR 10,155 thousand). 80.3% 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.

At the balance sheet date, an amount of EUR 81 thousand of bank deposits was restricted cash.

19 OTHER CURRENT ASSETS

EUR thousand	Dec 31, 2020	Dec 31, 2019
Prepaid expenses	314	268
Receivables from tax authorities	141	294
Receivables from the Federal Employment Office (Bundesagentur für Arbeit)	45	0
Claims under enforcement proceedings	28	0
Security deposit	20	22
Interest receivables	9	12
Claims under insurance contracts	0	78
Other	12	12
Total other current assets	**569**	**686**

EQUITY

20 SHARE CATEGORIES AND CAPITAL STRUCTURE

As of December 31, 2020, the share capital of Epigenomics AG consisted exclusively of non-par value ordinary registered shares with equal rights. The reverse stock split approved by the extraordinary General Shareholders' Meeting on November 27, 2020 was carried out on the Company's shares in a ratio of 8:1 in the December of the reporting period. As a result, eight old Epigenomics shares (securities identification number: A1K051) were combined to form one new Epigenomics share (securities identification number: A3H218). This reduced the share capital from EUR 47,129,846 to EUR 5,891,230, composed of 5,891,230 non-par value ordinary registered shares. The table below shows the Company's equity structure on December 31.

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

EUR	Dec 31, 2020	Dec 31, 2019
Subscribed capital	**5,891,230**	**43,527,692**
Authorized Capital	**23,564,923**	**10,504,618**
Authorized Capital 2019/I	0	3,602,154
Authorized Capital 2019/II	0	6,902,464
Authorized Capital 2020/I	4,712,984	0
Authorized Capital 2020/II	18,851,939	0
Conditional Capital	**23,564,923**	**17,989,705**
Conditional Capital IX	0	521,095
Conditional Capital X	0	14,468,610
Conditional Capital XI	1,000,000	1,000,000
Conditional Capital XII	1,000,000	1,000,000
Conditional Capital XIII	1,000,000	1,000,000
Conditional Capital XIV	20,564,923	0

By a resolution of the Annual General Shareholders' Meeting of the Company dated June 12, 2020, Authorized Capital 2020/I and Authorized Capital 2020/II were newly created and Authorized Capital 2019/II, which had partly been utilized in 2019 in the context of a rights issue and had consequently amounted to up to EUR 6,902,464.00 until the above Annual General Shareholders' Meeting, was revoked. Authorized Capital 2019/I was fully utilized in the reporting period due to a capital increase conducted as a private placement of new shares.

By a resolution of the Annual General Shareholders' Meeting of the Company dated June 12, 2020, Conditional Capital IX and Conditional Capital X were revoked and Conditional Capital XIV was newly created.

Authorized Capital 2020/I

The Executive Board is authorized until June 11, 2025, 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 4,712,984.00 against cash and/or in-kind contributions by issuing new non-par value registered shares (Authorized Capital 2020/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:

- or 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 section 186 (3) sentence 4 AktG or pursuant to section 203 in conjunction with section 186 (3) sentence 4 AktG, or which have been sold following a repurchase in accordance with section 71 (1) no. 8 AktG in conjunction with section 186 (3) sentence 4 AktG, 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 or combinations of those instruments 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 a dependent entity of the Company within the meaning of section 17 AktG;
- to the extent necessary to grant subscription rights for new shares to holders or creditors of option rights, convertible bonds or participation rights or combinations of those instruments issued by the Company or a dependent entity of the Company within the meaning of section 17 AktG 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 2020/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 2020/I in accordance with the respective share capital increase or after expiry of the term of the authorization.

Authorized Capital 2020/II

The Executive Board is authorized until June 11, 2025, 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 18,851,939.00 against cash and/or in-kind contributions by issuing new non-par value registered shares (Authorized Capital 2020/II). Subscription rights shall be granted to the shareholders. The Company shall organize stock market trading of the subscription rights. 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 for fractional amounts. 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 2020/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 2020/II in accordance with the respective share capital increase or after expiry of the term of the authorization.

Conditional Capital XI

The 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 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 is authorized to do so.

Between 2016 and 2018 the maximum permitted number of share options were issued based on Conditional Capital XI. In accordance with the terms and conditions of the stock option program, since October 2020 it has been possible to create new shares upon exercise of these stock options. However, no option rights have been exercised under this program to date.

Conditional Capital XII

The 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 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 is authorized to do so.

Between 2017 and 2019 the maximum permitted number of share options were issued based on Conditional Capital XII. 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 April 2022.

Conditional Capital XIII

The 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 XIII). 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, 2021 pursuant to the authorization resolution of the General Shareholders' Meeting dated May 15, 2019 (Stock Option Program 19–21). 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 19–21 by the General Shareholders' Meeting dated May 15, 2019 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 is 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.

With relation to Conditional Capital XIII, 62,803 stock options were still outstanding as of the end of the reporting period. 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 April 2024.

Conditional Capital XIV

The share capital is conditionally increased by up to EUR 20,564,923.00 by means of issuing up to 20,564,923 new non-par value registered shares (Conditional Capital XIV). The conditional capital increase serves to grant shares to the holders or creditors of bonds or participation rights, such shares being issued by the Company, or a Group company within the meaning of section 18 AktG in which the Company directly and/or indirectly holds an interest of at least 90%, until June 11, 2025 on the basis of the authorization resolution of the General Shareholders' Meeting dated June 12, 2020 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 authorization resolution of the Annual General Shareholders' Meeting dated June 12, 2020.

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 June 12, 2020, 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.

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 initially increased in the reporting period from EUR 69,251 thousand as of December 31, 2019 to EUR 69,922 as of September 30, 2020. An increase of EUR 396 thousand was attributable to the capital increase in the March of the reporting period through issuing new shares from authorized capital. At the same time, however, the amount of the reserve decreased by EUR 295 thousand due to the costs of creating the new shares as part of this transaction. An increase of EUR 570 thousand was attributable to the issuance of stock options to Executive Board and staff members (2019: EUR 873 thousand).

The capital reduction resolved by the extraordinary General Shareholders' Meeting in November was carried out in the fourth quarter of 2020 (see note 20 "Share Categories and Capital Structure"). A portion of the reduction amounting to EUR 17,458 thousand was transferred to the capital reserve. This ultimately increased as of the end of the reporting period from EUR 61 thousand to EUR 87,419 thousand, including the issue of stock options to Executive Board and staff members in the fourth quarter.

22 RETAINED EARNINGS

The net loss of EUR 17,020 thousand for 2019 initially added to the retained earnings of EUR -85,807 thousand reported as of December 31, 2019. In the context of the capital reduction in November (see note 20 "Share Categories and Capital Structure"), a EUR 23,781 thousand portion of the overall reduction was used to top up retained earnings, which consequently fell to EUR -79,046 thousand as of the end of the reporting period.

23 OTHER COMPREHENSIVE INCOME

The other comprehensive income includes unrealized gains and/or losses on marketable 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	Dec 31, 2020	Dec 31, 2019
January 1	**-323**	**-404**
Remeasurement of marketable securities	81	228
Exchange rate differences	1,528	-147
December 31	**1,286**	**-323**

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 marketable securities 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 period, the Group's equity ratio declined from 68.8% as of December 31, 2019 to 56.8% as of December 31, 2020.

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, 2019	**50**	**879**	**20**	**60**	**1,009**
of which non-current	0	0	0	47	47
Utilizations	0	-879	0	-11	-890
Reversals	-50	-19	-20	-8	-97
Additions	0	84	0	538	622
Dec 31, 2019	**0**	**65**	**0**	**579**	**644**
of which non-current	0	0	0	44	44
Utilizations	0	-50	0	-314	-364
Reversals	0	-15	0	-55	-70
Additions	0	613	0	92	705
Dec 31, 2020	**0**	**613**	**0**	**302**	**915**
of which non-current	0	0	0	36	36

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). All phantom stock rights expired in 2020 and as such the provisions were fully reversed in the reporting period.

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 629 thousand as of the balance sheet date (December 31, 2019: EUR 1,430 thousand) are all non-interest-bearing. The total amount comprises exclusively non-derivative financial liabilities that are due in full within two months following the reporting date.

27 OTHER LIABILITIES

EUR thousand	Dec 31, 2020	Dec 31, 2019
Payables due to staff	430	1,089
Accrued audit fees	138	127
Payables due to tax authorities	33	69
Payables due to Supervisory Board members	22	31
Advance payments	0	46
Other	4	6
Total other liabilities	**627**	**1,368**

The reported other liabilities are exclusively non-interest-bearing. They comprise non-derivative financial liabilities amounting to EUR 201 thousand that are due exclusively within two months following the reporting date.

28 MATURITIES OF FINANCIAL LIABILITIES

The table below shows the maturities of the Company's liabilities as of the end of the reporting period based on undiscounted contractual payments.

EUR thousand	up to 3 months	3 to 12 months	1 to 5 years	over 5 years	Total
Trade payables	629	0	0	0	629
Lease liabilities	65	195	483	42	785
Other financial liabilities	168	0	0	0	168
Total	**862**	**195**	**483**	**42**	**1,582**

29 FINANCIAL INSTRUMENTS AND FINANCIAL LIABILITIES FROM FINANCING ACTIVITIES

Primary financial instruments

EUR thousand	Measure-ment principle	Fair value hierarchy level	as of Dec 31, 2020 Carrying amount	as of Dec 31, 2020 Fair value	as of Dec 31, 2019 Carrying amount	as of Dec 31, 2019 Fair value
Assets						
Marketable securities	FVOCI	1	961	961	880	880
Cash and cash equivalents	AC		3,566	3,566	10,155	10,155

AC = measured at amortized cost

FVOCI = measured at fair value through other comprehensive income

Net liabilities from financing activities

EUR thousand	Note	Jan 1, 2020	Non-cash changes: Reclassification (current/non current)	Non-cash changes: Additions	Non-cash changes: Interest expenses	Non-cash changes: Other effects	Cashflows	Dec 31, 2020
Prepayments for financial projects	19	0	0	-100	0	0	0	-100
Trade payables	26	431	0	100	0	0	-431	100
Non-current lease liabilities	28	697	-278	0	55	-14	0	460
Current lease liabilities	28	216	278	0	0	-3	-268	223
Total		**1,344**	**0**	**0**	**55**	**-17**	**-699**	**683**

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.

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 3,998 thousand in the reporting year (2019: EUR 8,332 thousand) related to the Company's capital increase from authorized capital in 2020. The cash outflow from financing activities amounted to EUR 748 thousand in 2020 (2019: EUR 983 thousand) and related to the above-mentioned capital increase and for the capital reduction. EUR 268 thousand was paid out for leases (2019: EUR 229 thousand).

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	2020	2019
Cash flow from operating activities	-9,571	-13,506
Cash flow from investing activities	3	47
Net proceeds from transactions in securities	0	0
Cash consumption	**-9,568**	**-13,459**

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 2020.

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. This risk is due on the one hand to the fact that the German parent company purchases some goods and services in U.S. dollars. On the other hand, Epigenomics markets its primary product – Epi proColon – in the U.S.A., and revenue is generated by the Group's U.S. subsidiary, Epigenomics, Inc., in U.S. dollars, while the kits are manufactured and billed to the contract manufacturer 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, 2020**			**Dec 31, 2019**		
EUR thousand	Total	of which in USD	in %	Total	of which in USD	in %
Trade receivables	251	232	92,4	89	78	88,2
Marketable securities	961	0	0,0	880	0	0,0
Cash and cash equivalents	3,566	700	19,6	10,155	3,099	30,5
Other current assets	114	19	16,7	124	21	16,6
Non-current lease liabilities	-460	0	0,0	-696	-154	22,1
Trade payables	-629	-269	42,8	-1,430	-717	50,2
Current lease liabilities	-223	-141	63,1	-216	-141	65,4
Other current liabilities	-627	-303	48,3	-1,126	-247	21,9
Total net position	**2,953**	**238**	**8,1**	**7,779**	**1,939**	**24,9**
of which in third currencies	0			0		

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	**2020**	**2019**
10% increase in the EUR/USD rate	Total comprehensive income	-18	-157
	Equity	1,566	1,425
10% decrease in the EUR/USD rate	Total comprehensive income	22	192
	Equity	-1,914	-1,741

The table shows that exchange rate fluctuations had a stronger impact on equity in the reporting year than in fiscal year 2019, although the impact on total comprehensive income was weaker over the same period.

37 CREDIT RISK

Credit risk is the risk that a counterparty will fail to meet its obligations under a financial instrument or customer contract, resulting in a financial loss. The Company is routinely exposed to credit risk arising in its business and investment activities. It also affects deposits at banks and other financial institutions, and other financial instruments.

The Company holds its liquid assets at three different banks, thereby reducing the credit risk with respect to bank deposits.

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 crises in recent years have 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.

Customer-related credit risk is managed both centrally and at the level of the respective Group entity responsible for managing the relevant customer relationships. Monitoring covers receivables outstanding from customers and the order volume. The Group currently assesses risk concentrations in relation to trade receivables and receivables due under contracts as low, since on the one hand these are mainly due from well-known business partners with impeccable credit ratings, and on the other only immaterial volumes are due from small clients (primarily laboratories, clinics and universities). Whenever possible, payments are collected upfront. The Company maintains a long-standing, good contractual relationship with its major partners.

To estimate potential credit losses, trade receivables and open order backlogs are grouped together according to common credit risk characteristics (e.g., existing default in days).

The expected rates of loss are based on customers' payment profiles, as measured by sales over a period of at least 12 months before the end of each reporting period and the corresponding historical credit losses that have arisen during that period. Historical rates of loss are adjusted where necessary to reflect current and forward-looking information about macroeconomic factors affecting customers' ability to pay debts as they fall due. Based on these criteria, the Company's customer base exhibits extremely low credit risk and the Company assumes that the economic situation in the U.S.A., China and Europe will remain robust, particularly with regard to the healthcare sector. The expected default rate for trade receivables and contract assets currently amounts to 0%.

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 currently not exposed to any interest rate risks from its cash and cash equivalents item.

INFORMATION ON SHARE-BASED PAYMENT PLANS[1]

39 DESCRIPTION OF STOCK OPTION PROGRAMS

As of the balance sheet date, the Company had the following 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 or from SOP 16–17 and SOP 17–19.

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 have issued the maximum number of stock options, a total of 125,000, which entitle the beneficiaries to subscribe for no more than 125,000 non-par value registered shares of the Company.

The beneficiaries were 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).

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%.

[1] With respect to the stock option programs, all figures, share prices and values are based on the Company's capital structure after the capital reduction in December 2020. For reasons of comparability, the applicable figures for 2019 have been adjusted. No adjustment was made in respect of the phantom stock program since all programs had expired as of the end of the reporting period.

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 125,000 stock options which entitle the beneficiaries to subscribe for no more than 125,000 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 85,000 stock options
- Group 2 all beneficiaries: max. 32% or 40,000 stock options

The subscription rights may only be exercised outside the blackout periods.

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.

Otherwise, the same terms of SOP 16–18 apply to the term, exercise and expiration of the subscription rights under the SOP 17–19.

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).

On May 15, 2019, the General Shareholders' Meeting resolved to implement a new stock option program (SOP 19–21) based on the new Conditional Capital XIII (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, 2021, 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 125,000 stock options which entitle the beneficiaries to subscribe for no more than 125,000 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 19–21, the distribution shall be as follows:

- Group 1 all beneficiaries: max. 68% or 85,000 stock options
- Group 2 all beneficiaries: max. 32% or 40,000 stock options

Stock options from the SOP 19–21 may still be issued as of April 1, 2020, October 1, 2020 and April 1, 2021. The subscription rights may only be exercised outside the blackout periods.

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.

Otherwise, the same terms of SOP 16–18 and SOP 17–19 apply to the term, exercise and expiration of the subscription rights under the SOP 19–21.

For further details on SOP 19–21, please see the invitation to the General Shareholders' Meeting on May 15, 2019 and the amended resolution proposals of the Executive Board and Supervisory Board. These documents are available on the Company's website.

40 STOCK OPTION PROGRAMS – OUTSTANDING RIGHTS

No rights under SOP 16–18, 17–19 and 19–21 expired or were exercised with in the reporting year or in the previous year.

SOP 16–18	Options outstanding	Issued	Forfeited	Options outstanding	Options exercisable
Option holder	as of Jan 1, 2020 (2019)	Options in 2020 (2019)		**Dec 31, 2020** (2019)	
Greg Hamilton (CEO)	28,436	0	0	28,436	11,447
	(28,436)	(0)	(0)	(28,436)	(0)
Albert Weber (EVP Finance)	3,750	0	0	3,750	0
	(3,750)	(0)	(0)	(3,750)	(0)
Other option holders	80,021	0	2,578	77,443	17,655
	(86,272)	(0)	(6,251)	(80,021)	(0)
All option holders	**112,207**	**0**	**2,578**	**109,629**	**29,102**
	(118,458)	(0)	(6,251)	(112,207)	(0)
Average exercise price (in EUR)	38.77	0	33.20	38.90	43.44
	(38.88)	(0)	(34.92)	(38.77)	(n/a)

SOP 17–19	Options outstanding	Issued	Forfeited	Options outstanding	Options exercisable
Option holder	as of Jan 1, 2020 (2019)	Options in 2020 (2019)		**Dec 31, 2020** (2019)	
Greg Hamilton (CEO)	20,509	0	0	20,509	0
	(8,009)	(12,500)	(0)	(20,509)	(0)
Jorge Garces (COO)	21,250	0	0	21,250	0
	(10,625)	(10,625)	(0)	(21,250)	(0)
Albert Weber (EVP Finance)	17,500	0	0	17,500	0
	(8,750)	(8,750)	(0)	(17,500)	(0)
Other option holders	62,722	0	4,127	58,595	0
	(21,838)	(44,518)	(3,634)	(62,722)	(0)
All option holders	**121,981**	**0**	**4,127**	**117,854**	**0**
	(49,222)	(76,393)	(3,634)	(121,981)	(0)
Average exercise price (in EUR)	23.00	n/a	16.03	23.25	n/a
	(34.64)	(15.36)	(19.52)	(23.00)	(n/a)

SOP 19–21	Options outstanding	Issued	Forfeited	Options outstanding	Options exercisable
Option holder	as of Jan 1, 2020 (2019)	Options in 2020 (2019)		Dec 31, 2020 (2019)	
Greg Hamilton (CEO)	0	12,500	0	12,500	0
	(0)	(0)	(0)	(0)	(0)
Jorge Garces (COO)	0	10,625	0	10,625	0
	(0)	(0)	(0)	(0)	(0)
Albert Weber (EVP Finance)	0	8,750	0	8,750	0
	(0)	(0)	(0)	(0)	(0)
Other option holders	0	35,853	4,925	30,928	0
	(0)	(0)	(0)	(0)	(0)
All option holders	**0**	**67,728**	**4,925**	**62,803**	**0**
	(0)	(0)	(0)	(0)	(0)
Average exercise price (in EUR)	n/a	20.00	20.00	20.00	n/a
	(n/a)	(n/a)	(n/a)	(n/a)	(n/a)

As of the end of the reporting period, contractual commitments to a total of 55,000 further rights were made to members of the Executive Board and contractual commitments to 4,375 further rights were made to other option holders for award to them in 2021, provided they are available from the SOPs active at that time.

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, 2020		Dec 31, 2019	
2023	43.44	29,102	43.44	29,103
2024	40.80	54,444	40.80	54,531
2025	32.96	74,290	32.96	76,953
2026	15.36	69,647	15.36	73,621
2027	20.00	62,803	20.00	0
Total	**28.45**	**290,286**	**25.73**	**234,208**

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, 2020	Dec 31, 2019
Total number of outstanding options	109,629	112,207
of which vested until end of term	82,821	56,363
of which exercisable	29,102	0
Exercise prices (in EUR)	32.96–43.44	32.96–43.44
Weighted average term of outstanding rights in years	3.65	4.67
Weighted average fair value per option (EUR)	20.24	20.13
Applied share price volatility in %	84.31	84.31
Risk-free interest rate in %	-0.05	-0.04
Assumed staff turnover in %	2.59	4.63
Expiry dates	Oct.1, 2023 – Apr 1, 2025	Oct 1, 2023 – Apr 1, 2025

SOP 17–19	Dec 31, 2020	Dec 31, 2019
Total number of outstanding options	117,854	121,981
of which vested until end of term	45,116	14,726
of which exercisable	0	0
Exercise prices (in EUR)	15.36–40.80	15.36–40.80
Weighted average term of outstanding rights in years	4.80	5.82
Weighted average fair value per option (EUR)	10.86	10.78
Applied share price volatility in %	80.46	80.38
Risk-free interest rate in %	-0.12	-0.12
Assumed staff turnover in %	6.54	8.18
Expiry dates	Oct 1, 2024 – Apr 1, 2026	Oct 1, 2024 – Apr 1, 2026

SOP 19–21	Dec 31, 2020	Dec 31, 2019
Total number of outstanding options	62,803	0
of which vested until end of term	0	0
of which exercisable	0	0
Exercise prices (in EUR)	20.00	n/a
Weighted average term of outstanding rights in years	6.25	n/a
Weighted average fair value per option (EUR)	26.07	n/a
Applied share price volatility in %	76.01	n/a
Risk-free interest rate in %	-0.61	n/a
Assumed staff turnover in %	10.6	n/a
Expiry dates	Apr 1, 2027	n/a

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

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 "Exer-Sale" 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

No rights under the Company's PSPs were issued in the reporting year or in the previous year.

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

At the beginning of the previous year, other beneficiaries still held 20,000 rights under PSP 03–15 with an average base value of EUR 2.51 per right. All 20,000 rights expired in 2019. The program was thereby terminated.

Phantom stock program 2013 (PSP 2013)

At the beginning of the previous year, other beneficiaries still held 23,000 rights under PSP 2013 with an average base value of EUR 6.19 per right. All 23,000 rights expired in 2019. The program was thereby terminated.

Phantom stock program 2014 (PSP 2014)

No previously issued rights under PSP 2014 were forfeited or exercised either in the reporting year or in the previous year. The rights still outstanding as of the beginning of the previous year expired in 2019. The program was thereby terminated.

Beneficiaries	Reporting year	Rights held as of Jan 1	expired	Rights held as of Dec 31
Albert Weber (EVP Finance)	**2020**	**n/a**	**n/a**	**n/a**
	2019	30,000	30,000	n/a
Other beneficiaries	**2020**	**n/a**	**n/a**	**n/a**
	2019	224,833	224,833	n/a
Total	**2020**	**n/a**	**n/a**	**n/a**
	2019	254,833	254,833	n/a
Average base value (EUR/right)	**2020**	**n/a**	**n/a**	**n/a**
	2019	3.23	3.23	n/a

Phantom stock program 2015 (PSP 2015)

No previously issued rights under PSP 2015 expired or were exercised either in the reporting year or in the previous year. All rights still outstanding as of the beginning of the reporting year expired in 2020. The program was thereby terminated.

Beneficiaries	Reporting year	Rights held as of Jan 1	expired	Rights held as of Dec 31
Albert Weber (EVP Finance)	**2020**	**10,000**	**10,000**	**n/a**
	2019	10,000	0	10,000
Other beneficiaries	**2020**	**88,400**	**88,400**	**n/a**
	2019	88,400	0	88,400
Total	**2020**	**98,400**	**98,400**	**n/a**
	2019	98,400	0	98,400
Average base value (EUR/right)	**2020**	**5.05**	**5.05**	**n/a**
	2019	5.05	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 2015	Dec 31, 2020	Dec 31, 2019
Total number of outstanding PSRs	0	98,400
of which vested until end of term	0	98,400
of which exercisable	0	98,400
Base value of PSR (in EUR)	n/a	5.05
Aggregate adjusted fair value of PSRs (in EUR thousand)	n/a	0
Aggregate maximum payments if PSRs are exercised (in EUR thousand)[1]	n/a	375
Weighted average term of outstanding rights (in years)	n/a	0.76
Weighted average fair value (EUR/PSR)	n/a	0.00
Applied share price volatility in %	n/a	38.58
Risk-free interest rate in %	n/a	-0.67
Assumed staff turnover in %	n/a	0.00
Expiry dates	n/a	Oct 1, 2020

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

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 0 thousand as of December 31, 2020 (December 31, 2019: EUR 0 thousand).

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 Chief Executive Officer, Jorge Garces, Ph.D., as Chief Scientific Officer and Albert Weber as Executive Vice President Finance.

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 compensation in the form of 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 2020.

In 2020, total remuneration of the members of the Executive Board based on the benefits granted amounted to EUR 1,560 thousand (2019: EUR 2,031 thousand) and comprised:

EUR thousand	2020	2019
Fixed remuneration	1,019	1,302
One-year variable remuneration	446	460
Multi-year variable remuneration	95	269
Total remuneration (granted benefits)	**1,560**	**2,031**

The multi-year variable compensation of the Executive Board members in 2020 comprised 31,875 stock options (2019: 31,875).

Based on the allocations (cash payments), the total remuneration of the members of the Executive Board amounted to EUR 1,478 thousand (2019: EUR 1,966 thousand) and comprised:

EUR thousand	2020	2019
Fixed remuneration	1,018	1,302
One-year variable remuneration	460	664
Multi-year variable remuneration	0	0
Total remuneration (allocations)	**1,478**	**1,966**

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 Recommendation G.13 of the German Corporate Governance Code 2020.

The Supervisory Board of the Company comprised the following members in the reporting period: Heino von Prondzynski, Einsiedeln (Switzerland) as Chairman, Dr. Ann Clare Kessler, Rancho Santa Fe, CA (U.S.A.), and Prof. Günther Reiter, Pfullingen (Germany) as Deputy Chairpersons, Dr. Helge Lubenow, Langenfeld/Rheinland (Germany), Franz Thomas Walt, Flims-Dorf (Switzerland) and, from June 2020, Alexander Link, Frankfurt am Main (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 2020, total remuneration of the members of the Supervisory Board amounted to EUR 263 thousand (2019: EUR 281 thousand) and comprised:

EUR thousand	2020	2019
Fixed remuneration	215	225
Variable remuneration	48	56
Total remuneration	**263**	**281**

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 2020.

46 OTHER FINANCIAL OBLIGATIONS

EUR thousand	Term < 1 year	Term 1–5 years
Financial obligations from operating rental, lease, maintenance and service agreements	29	23
Financial obligations from manufacturing orders, inventories	354	0
Financial obligations from the purchase of goods and services	507	27
Total financial obligations	**890**	**50**

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

At the Company's Annual General Shareholders' Meeting in June 2020, Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft was engaged to audit the Company's annual financial statements and consolidated financial statements for fiscal year 2020. During the reporting year, a total amount of EUR 143 thousand (2019: EUR 198 thousand) was expensed for miscellaneous services of this auditing firm for Epigenomics AG. Details are shown in the following table:

EUR thousand	2020	2019
Costs for audit services	143	118
Costs for other assurance services	0	80
Total	**143**	**198**

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. The costs for other assurance services were incurred in connection with the Company's capital increase in November 2019.

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 2020, 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 2 thousand December 31, 2019: EUR 472 thousand) and liabilities due to members of its Supervisory Board amounted to EUR 22 thousand (December 31, 2019: EUR 32 thousand). There were no other transactions with related parties during the reporting year.

50 REPORT ON POST-BALANCE SHEET DATE EVENTS

Announcement dated January 7, 2021

After the end of the reporting period, on January 7, 2021, we announced that the Executive Board, with the consent of the Supervisory Board, had resolved a subordinate mandatory convertible bond issue with an aggregate principal amount of up to EUR 5.5 million. The bonds may be converted into a total of up to 5 million registered no-par value shares of the Company representing a total interest in the Company's share capital of up to EUR 5 million.

The mandatory convertible bond issue (comprising up to 500,000 bonds with a principal amount of EUR 11.00 each) will initially be offered for subscription to existing Epigenomics AG shareholders by means of a rights offering at an issue price of EUR 11.00 per bond. The subscription period for the Company's shareholders began on January 13, 2021 and ended on January 27, 2021. The bonds are zero-coupon bonds and will mature on February 29, 2024. The bond terms include conversion rights for bondholders, as well as the obligation to convert all outstanding bonds not yet converted on February 29, 2024. Subject to any antidilutive adjustments, the conversion price will be EUR 1.10 per share and the conversion ratio 1:10. In other words, each bond can be converted into ten no-par value registered shares, each representing an interest in the Company's share capital of EUR 1.00.

Furthermore, we announced our plans to use the proceeds from the mandatory convertible bond issue to finance the Company's business operations. The primary purpose was to ease the sense of financial urgency following the final decision by the U.S. Centers for Medicare & Medicaid Services (CMS), which was pending at that time in connection with the reimbursement process for the Epi proColon colorectal cancer screening test in the U.S.A. (national coverage determination, NCD) and to reduce the short-term dependency on the capital market environment. The proceeds were also aimed at providing financial security should there be any delay in announcement of the CMS decision.

Announcement dated January 19, 2021

After the end of the reporting period, on January 19, 2021, we announced that CMS had issued a negative reimbursement decision in connection with the national coverage determination (NCD) for Epi proColon, Epigenomics' blood test for colorectal cancer screening. The Company is currently weighing up various options, including launching an appeal, taking legal action and/or pursuing other alternatives to secure CMS reimbursement. In a subsequent press release we also announced that – building on our expertise in blood testing and DNA methylation biomarkers – we have developed and validated a new test for CRC screening with clinical performance that meets the new coverage criteria specified in the final NCD.

Announcement dated January 27, 2021

After the end of the reporting period, on January 27, 2021, we announced that Jorge Garces, Ph.D.,President and Chief Scientific Officer, would be leaving the Executive Board of Epigenomics AG as of January 31, 2021. Mr. Garces transitioned to an advisory role until the end of 2021 and will help the Company weigh up and implement strategic alternatives for its further development.

51 APPROVAL FOR PUBLICATION

On March 12, 2021, the Executive Board cleared the consolidated financial statements for submission to the Supervisory Board. The Supervisory Board is tasked with reviewing the consolidated financial statements and stating whether it approves them. The consolidated financial statements and annual financial statements of Epigenomics AG, and the annual report, were approved at the Supervisory Board meeting on March 25, 2021 and published following the approval at the Supervisory Board meeting on March 24, 2021.

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable accounting principles, the consolidated financial statements for 2020 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 material opportunities and risks associated with the expected development of the Group.

Berlin, March 12, 2021

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, 2020, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year from January 1, 2020 through December 31, 2020 as well as the notes to the consolidated financial statements, including a summary of significant accounting methods. Furthermore, we have audited Epigenomics AG's group management report for the fiscal year from January 1, 2020 through December 31, 2020. In accordance with German legal requirements, we have not audited the statement on corporate governance and the compliance statement contained in the management report's section "Corporate Governance".

In our opinion, on the basis of the knowledge obtained in 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, 2020, and of its financial performance for the fiscal year from January 1, 2020 through December 31, 2020; 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. Our audit opinion on the group management report does not cover the content of the aforementioned statement on corporate governance and the compliance statement.

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 opinions

We have 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 the Audit of Financial Statements issued by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer "IDW"). Our responsibilities under these requirements and principles are further described in our audit opinion's section "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report". We are independent of the Group entities in accordance with the requirements pursuant to European law as well as German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 Sec. 2 lit. f of the EU Audit Regulation, we declare 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 in order to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Material uncertainty in connection with the continuation as a going concern

Facts and problems

We refer to the disclosures "General Principles" in the notes to the financial statements and the disclosures in the section "Financial opportunities and risks" of the management report, where the legal representatives state that with a liquidity of EUR 4.5 million at the balance sheet date and a convertible bond in the amount of EUR 5.5 million placed in January 2021, the Company's continued existence as a going concern is ensured beyond the first quarter of 2022. Furthermore, it is stated that the Company's ability to continue as a going concern beyond this date is at risk without further capital measures. As stated in the disclosures in the management report's section "Financial opportunities and risks", these events and circumstances indicate the existence of a material uncertainty as it may cast significant doubt on the Company's ability to continue as a going concern and represents a going concern risk pursuant to Art. 322 Sec. 2 sentence 3 HGB. We have not modified our audit opinions with regard to this matter.

In our opinion, the corporate planning required and the clear and appropriate reporting in this respect present a high risk of material misstatement, which is why in our opinion this issue is of particular importance.

Audit approach and findings

As part of our audit, we considered whether the preparation of the consolidated financial statements on a going concern basis and the disclosures risks jeopardizing the Group's continued existence as a going concern in the notes to the consolidated financial statements and the group management report are appropriate. The corporate planning presented to us has been approved by the Supervisory Board. We have checked the plausibility of this planning against the Company's development in recent years and the current cost structure. We also checked the planning for consistency and possible inconsistencies and discussed and critically reviewed the planning parameters with the Management Board. According to the results of our audit, the corporate planning is coherent and plausible and the planning parameters are realistic.

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, 2020 through December 31, 2020. 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 express a separate audit opinion on these matters.

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

- Revenue recognition
- Stock options

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 financial year, the Company recognized sales revenues in the amount of about EUR 0.84 million. Sales revenues are one of the most significant financial performance indicators in the capital market communication. These sales revenues include sales of the only main product in the amount of EUR 0.58 million, R&D revenues of EUR 0.23 million and license revenues in the amount of EUR 0.03 million. 51% of product sales are realized by sales to few major customers. To some extent, there are framework agreements with these customers which can 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 of material misstatements, which is why we believe this matter is of particular importance.

2. We have convinced ourselves of the correct recognition of sales by means of 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 consolidated financial statements' notes' section "Notes to the consolidated statement of comprehensive income (consolidated statement of profit and loss and other comprehensive income) – 1 Revenue".

Stock options:

1. As of the balance sheet date, stock option programs (AOP – "Equity settled share based payments") have been recognized in the Company's consolidated financial statements. During the reporting year, further commitments for AOPs have been granted to employees and board members. The AOPs are presented in the consolidated financial statements under the relevant expense positions (cost of sales, research and development costs as well as distribution and administration costs) as well as equity. An amount of EUR 0.6 million of AOPs has been recognized through profit and loss. The Company uses an external expert for the valuation of AOPs. From our perspective, share-based remuneration programs were of particular importance as the valuation depends to a major extent on the legal representatives' assessments and estimates and are thus afflicted by uncertainties.
2. Based upon 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 rate 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 statement of profit and loss and other comprehensive income) 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 is contained in the notes to the consolidated financial statements in section "Notes on share-based remuneration programs", "Stock-option programs – description", "Stock option programs – outstanding rights" and "Stock option programs – valuation parameters".

Other information

The executive directors are responsible for the other information. Other information comprises the following documents obtained by us prior to this audit opinion's date:

- Compliance statement in the section "Corporate Governance" of the 2020 Group Management Report,
- declaration on corporate governance in the section "Corporate Governance" of the 2020 Group Management Report,
- section "Epi proColon®" in the 2020 annual report,
- the section "Foreword by the Executive Board" in the 2020 annual report,
- the section "Our stock" in the 2020 annual report and
- section "Responsibility statement by the legal representatives" in the 2020 annual report.

The Supervisory Board is responsible for the following other information:

- section "Report of the Supervisory Board" in the 2020 annual report.

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

In connection with our audit, our responsibility is to read the other information and, in doing so, 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 seems to have been materially misstated.

Legal representatives' and the Supervisory Board's responsibilities 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 net assets, liabilities, financial position, and profit situation. Furthermore, the legal representatives are responsible for such internal controls they have deemed necessary in order to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

When preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility to disclose, as applicable, matters related to the going concern principle. Furthermore, they are responsible for financial reporting on a going concern basis unless they intend to liquidate the Group or to discontinue business operations or in case 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 Company'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 considered necessary in order to enable the preparation of a group management report in accordance with the applicable German legal requirements and in order to be able to provide sufficient appropriate evidence for the statements made in the group management report.

The Supervisory Board is responsible for monitoring the Group's financial reporting process for the preparation of the consolidated financial statements and the group management report

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

Our objective is to obtain reasonable assurance as to whether the consolidated financial statements as a whole are free from 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 our audit, complies with German legal requirements and appropriately presents the opportunities and risks of the Group's future development, as well as to issue an audit 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 the Audit of Financial Statements promulgated by 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.

We exercise professional judgment and maintain professional skepticism throughout the entire audit. 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 misstatements resulting from fraud is higher than for those 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 under the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems;
- evaluate the appropriateness of accounting methods applied 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 going concern principle applied by the legal representatives and, based on the audit evidence obtained, whether there is a material uncertainty 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 there is a material uncertainty, we are required to draw attention in the audit certificate to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our respective audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit certificate. 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, in compliance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Art. 315e Sec. 1 HGB, provide a true and fair view of the Group's net assets, financial position and profit situation;
- obtain sufficient 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 group management report's consistency 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 sufficient 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 assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements and discuss with them all relationships and other matters that may reasonably be expected to affect our independence and, where applicable, the applied safeguards.

From the matters discussed with those charged with governance, we determine those matters that were of most importance in the audit of the current reporting period's consolidated financial statements and are therefore the key audit matters. We describe these matters in our audit certificate unless the matter's public disclosure should be precluded by any law or other regulation.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on the assurance in accordance with section 317 (3b) HGB on the electronic reproduction of the consolidated financial statements on the management report prepared for publication purposes

Audit opinion

Pursuant to Art. 317 Sec. 3b HGB, we have performed an audit in order to determine with reasonable assurance whether the reproductions of the consolidated financial statements and the group management report (hereinafter also referred to as the "ESEF documents") contained in the attached file 12-03-2021-09-12_xbrl_file.zip (SHA256-Hashwert: 7134E10C4872A44C929DB7E75D855779E3CA9760CAEE1604DA-7147D0977AD10B) and prepared for disclosure purposes comply in all material respects with the requirements pursuant to Art. 328 Sec. 1 HGB regarding the electronic reporting format ("ESEF format"). In accordance with German legal requirements, such audit extends only to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore neither to the information contained in these reproductions nor to any other information contained in the aforementioned file.

According to our assessment, the reproductions of the consolidated financial statements and the group management report contained in the aforementioned attached file and prepared for disclosure purposes comply, in all material respects, with the electronic reporting format requirements pursuant to Art. 328 Sec. 1 HGB. We do not express an audit opinion on the information contained in these reproductions or on the other information contained in the above-mentioned file beyond the scope of this audit opinion and our audit opinions on the attached consolidated financial statements and the attached group management report for the fiscal year from January 1, 2020 to December 31, 2020 contained in the preceding "Report on the audit of the consolidated financial statements and the group management report".

Basis for our audit opinion

We conducted our audit of the reproductions of the consolidated financial statements and the group management report contained in the above-mentioned attached file in accordance with Art. 317 Sec. 3b HGB and in compliance with the draft IDW Auditing Standard: Audit of Electronic Reproductions of Financial Statements and Management Reports Prepared for the Purpose of Disclosure pursuant to Art. 317 Sec. 3b HGB (IDW EPS 410). Our responsibility in accordance with such standard is further described in the section "Auditor's Responsibility for the Audit of the ESEF Documents". Our auditing practice complies with the quality assurance system requirements of the IDW Quality Assurance Standard: Requirements to Quality Assurance in Auditing Practice (IDW QS 1).

Legal representative's and Supervisory Board's responsibilities for the ESEF documents

The Company's legal representatives are responsible for the preparation of the ESEF documents containing the electronic reproductions of the consolidated financial statements and the group management report in accordance with Art. 328 Sec. 1 sentence 4 no. 1 HGB and for the certification of the consolidated financial statements in accordance with Art. 328 Sec. 1 sentence 4 no. 2 HGB.

Furthermore, the legal representatives are responsible for such internal controls they have deemed necessary in order to enable the preparation of the ESEF documents that are free from any material non-compliance, whether due to fraud or error, with the provisions pursuant to Art. 328 Sec. 1 HGB regarding the electronic reporting format.

The Company's legal representatives are also responsible for submitting the ESEF documents together with the audit certificate and the attached audited consolidated financial statements and audited group management report as well as other documents to be disclosed to the operator of the Federal Gazette.

The Supervisory Board is responsible for monitoring the preparation of the ESEF documents as part of the reporting process.

Auditor's responsibilities for the audit of the ESEF documents

Our objective is to obtain reasonable assurance as to whether the ESEF documents are free from any material non-compliance, whether due to fraud or error, with the requirements pursuant to Art. 328 Sec. 1 HGB. We exercise professional judgment and maintain professional skepticism throughout the entire audit. We also:

- identify and assess the risks of material non-compliance with the requirements pursuant to Art. 328 Sec. 1 HGB, 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 opinion;
- obtain an understanding of the internal controls relevant for the audit of the ESEF documents in order to plan audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these controls;
- assess the technical validity of the ESEF documents, i.e. whether the file containing the ESEF documents complies with the requirements of Delegated Regulation (EU) 2019/815 as amended at the reporting date regarding the technical specification for this file;
- assess whether the ESEF documents allow a consistent XHTML reproduction of the audited consolidated financial statements and the audited group management report;
- assess whether the markup of ESEF documents with inline XBRL technology (iXBRL) provides an adequate and complete machine-readable XBRL copy of the XHTML reprodcution.

Further information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditors by the Annual General Meeting on June 12, 2020. We were engaged by the Supervisory Board on July 27, 2020. We have served as Epigenomics AG's group auditors without interruption since the fiscal year 2015.

We declare that the audit opinions contained in this audit certificate are consistent with the additional report to the audit committee pursuant to Article 11 EU Audit Regulation (audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The auditor responsible for the audit is Andreas Weissinger.

Munich, dated March 12, 2021

Baker Tilly GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
(Düsseldorf)

Hund
German CPA

Weissinger
German CPA

DISCLAIMER

This publication expressly or implicitly contains certain forward-looking statements concerning Epigenomics AG and its business. Such statements involve certain known and unknown risks, uncertainties and other factors which could cause the actual results, financial position, performance or achievements of Epigenomics AG to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Epigenomics makes this statement as of the date of this publication and does not intend to update the forward-looking statements contained herein as a result of new information, future events or otherwise.

Berlin, March 12, 2021

The Executive Board

ABBREVIATIONS

ADR	American Depositary Receipts
AktG	German Stock Corporation Act
ARUP	ARUP Laboratories
CMS	Centers for Medicare & Medicaid Services
CUSIP	Committee on Uniform Security Identification Procedures
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortization
ERP	Enterprise Resource Planning
EU	European Union
ECB	European Central Bank
FDA	Food and Drug Administration
Fed	Federal Reserve System
FIT	Faecal Immunochemical Test
GDP	Gross Domestic Product
GMP	Good Manufacturing Practice
HGB	German Commercial Code
HPV	Human Papilloma Virus
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IDW	Institute of Public Auditors in Germany
IFRS	International Financial Reporting Standards
IPO	Initial Public Offering
ISIN	International Securities Identification Number
ISO	International Organization for Standardization
IVD	In Vitro Diagnostic
KonTraG	German Corporate Control and Transparency Act
LDT	Laboratory Developed Test
NCD	National Coverage Determination
NGS	Next Generation Sequencing

OECD	Organisation for Economic Co-operation 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 Right
R&D	Research & Development
Septin9	DNA methylation biomarkers, intellectual property by Epigenomics
SOP	Stock Option Program
SOPs	Standard Operating Procedures
USPSTF	United States Preventive Services Task Force
WKN	Security Code Number
WpÜG	German Securities Acquisition and Takeover Act

FINANCIAL CALENDAR

Report on first quarter 2021 . . . . . Wednesday, May 12 2021

Annual General Meeting 2021 . . . . . Wednesday, June 16, 2021

Report on second quarter/first half 2021 . . . . . Wednesday, August 11, 2021

Report on third quarter 2021 . . . . . Wednesday, November 10, 2021

PICTURE CREDITS

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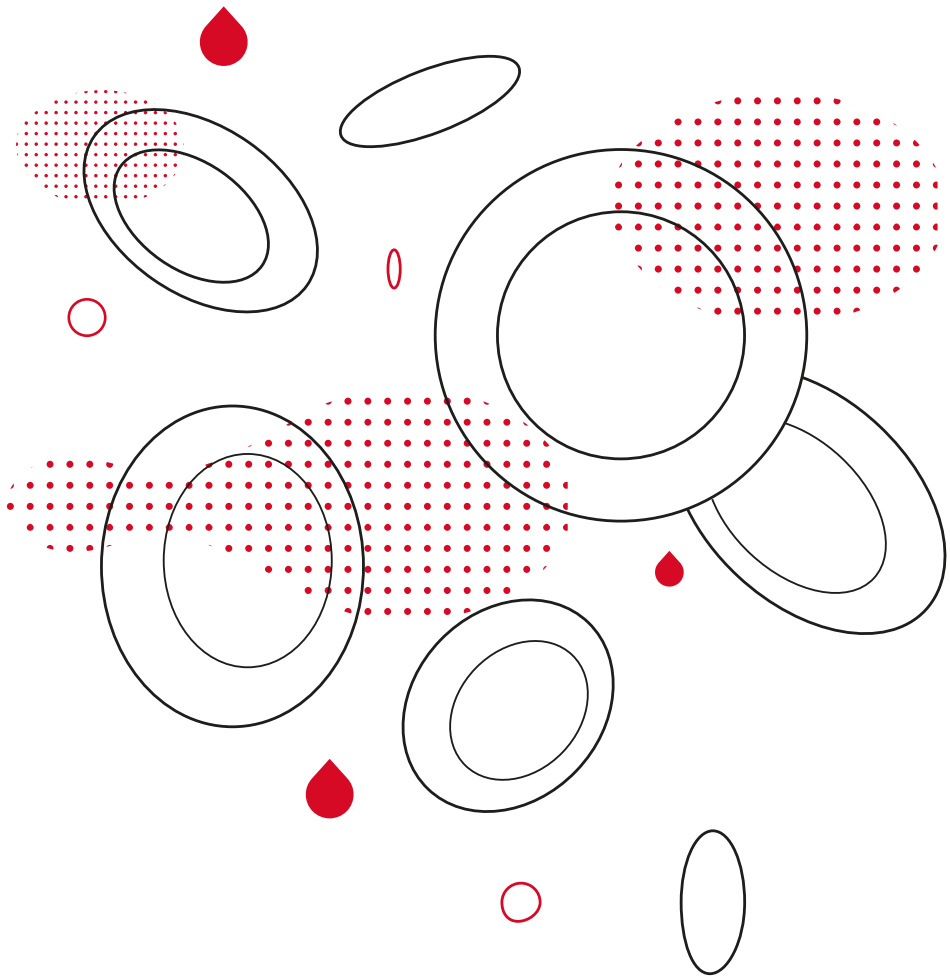

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