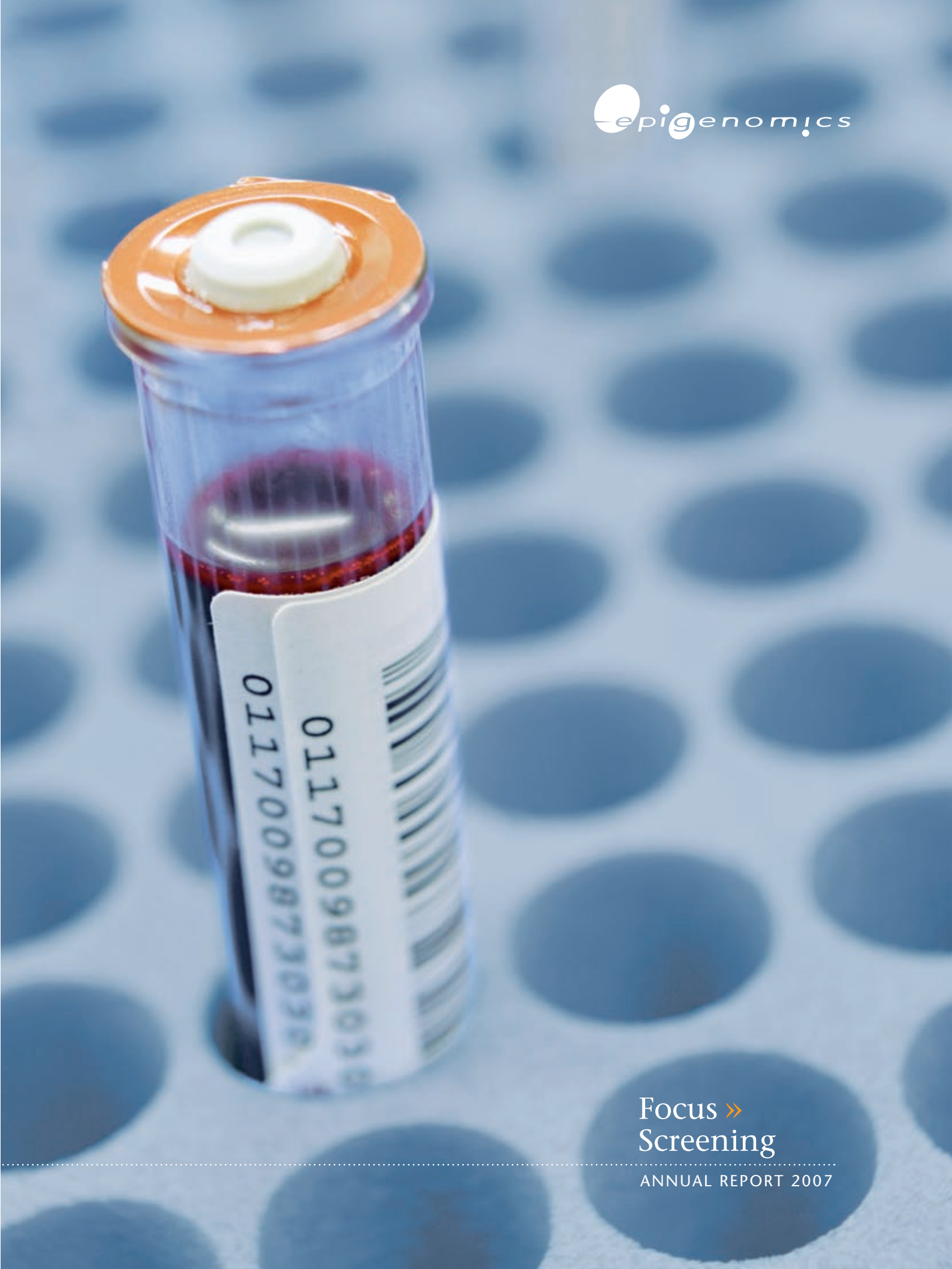
epigenomics



Focus » Screening

ANNUAL REPORT 2007

Highlights 2007/2008

February 2007

- Geert Walther Nygaard, formerly Managing Director of Abbott Germany, joins Epigenomics AG as new CEO.

May 2007

- We successfully raise EUR 4.86 million in cash in a PIPE financing transaction with institutional investors in the U.S. and in Europe.
- Heino von Prondzynski, formerly CEO of Roche Diagnostics, joins our Supervisory Board.
- Qiagen GmbH takes expanded license to IVD use of our sample processing technologies.

June 2007

- We achieve first clinical proof of concept for a blood test for lung cancer screening.

July 2007

- We successfully optimize and streamline the assay procedure for cancer screening tests for routine clinical use and automation.

September 2007

- Abbott Molecular Inc. takes a worldwide nonexclusive license for our colorectal cancer blood test.
- We confirm the feasibility of a urine test for prostate cancer screening and identified novel proprietary biomarker that may improve the test panel.

October 2007

- Patent authorities grant key patents for our product technologies in major markets.

December 2007

- We form a high-profile Medical Advisory Board for our colorectal cancer screening test and have our first FDA meeting on the clinical development of this test.

January 2008

- OncoMethylome Sciences S.A. licenses several of our key technologies and we sign a strategic cross licensing agreement with DxS Ltd.

February 2008

- We raise gross proceeds of about EUR 13.5 million by successfully placing 8,458,062 new shares in a capital increase.
- Quest Diagnostics Inc. licenses our colorectal cancer biomarker for the commercialization of a laboratory-developed test.

»Our mission: to build a world-leading cancer molecular diagnostics company based on DNA methylation.«

Epigenomics focuses on the development and commercialization of molecular diagnostic products for the early detection of cancer based on DNA methylation.

Epigenomics' products in development combine drug-sized market opportunities with the favorable development and regulatory risk profile of diagnostics.

Content

Group Key Figures

» Additional liquidity strengthens our balance sheet and gives us further flexibility to execute our revised strategy. «

EUR thousand (unless stated otherwise)	2007	2006
Revenue	2,567	3,504
Research and development costs	-10,471	-8,702
Earnings before interest and taxes (EBIT)	-13,504	-15,761
Earnings before interest, taxes, depreciation and amortization (EBITDA)	-12,259	-14,193
Net loss for the year	-13,151	-15,402
Weighted-average number of shares issued (notional par value: EUR 1)	17,807,258	16,686,707
Earnings per share (basic and diluted) in EUR	-0.74	-0.92
Cash flow from operating activities	-11,516	-14,378
Cash flow from investing activities	1,049	2,610
Cash flow from financing activities	4,547	807
Cash flow total (incl. currency adjustments)	-5,920	-10,953

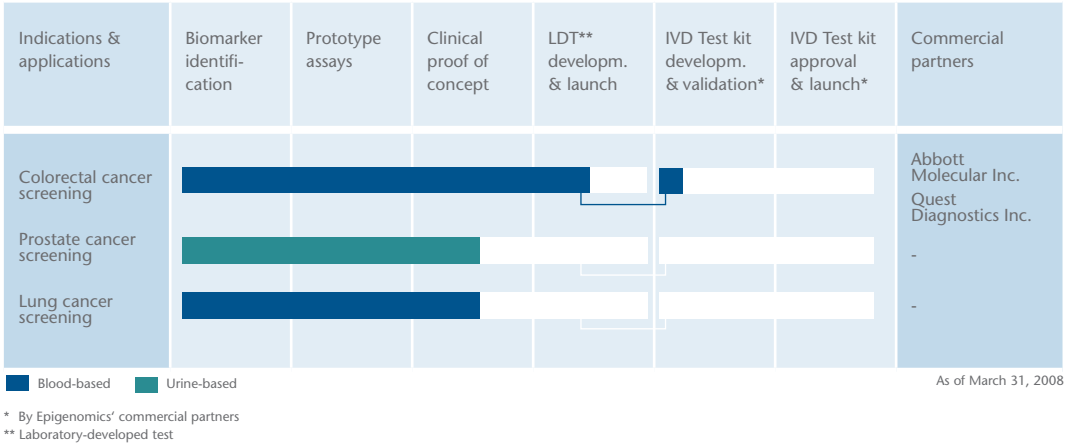
EUR thousand (unless stated otherwise)	Dec 31, 2007	Dec 31, 2006
Liquid assets at balance sheet date (incl. marketable securities)	10,016	17,341
Total equity at balance sheet date	17,821	26,198
Equity ratio in %	77.8	86.9
Total assets at balance sheet date	22,914	30,134
Share price at balance sheet date in EUR (Xetra)	1.95	3.50
Number of employees at balance sheet date	112	145

- Strategic partnership with Abbott Molecular Inc. secures up-front payment, milestone payments and significant royalties on product sales
- Successful PIPE financing transaction raising EUR 4.86 million
- Restructuring in 2006 and strict financial discipline throughout 2007 took a positive effect on cash consumption and operating result

Products under Development

»Our focus is on the development and commercialization of our most advanced products.«

Our product pipeline



As of March 31, 2008

* By Epigenomics' commercial partners
** Laboratory-developed test

Letter to Shareholders

Dear shareholders,

The year 2007 has been an eventful and exciting one for Epigenomics. When I joined the Company in February of 2007, we realigned our strategy in order to secure maximum focus on our main value drivers. Our focus has been on driving the product development for our leading programs, to find the first commercial collaboration partner in line with our new nonexclusive licensing strategy and to secure financing of our future activities.

In our product development, we have made significant progress during 2007. We have optimized our colorectal cancer screening test by significantly simplifying the assay procedure and in the process we have taken out more than 70% of the cost of goods of the test. We have also shown significant progress in our lung cancer program where we have achieved the first clinical proof of concept by showing that our lead marker detects lung cancer in blood. In our prostate cancer screening program, we have successfully identified additional biomarkers. These markers will now be evaluated in further clinical studies. The development of our first tissue-based product, the prostate cancer molecular classification test for risk stratification for patients with confirmed prostate cancer, is progressing under the appropriate quality standards for medical devices.

In September 2007, we signed a nonexclusive worldwide licensing agreement for our proprietary Septin 9 biomarker for blood-based colorectal cancer testing with Abbott Molecular Inc. With this agreement we have now secured a clear route to market for our lead product, the colorectal cancer screening test. Abbott Molecular plans to launch the test on their *m*2000 platform in Europe as early as 2009 and expects to submit a regulatory filing for U.S. approval in 2010. Abbott Molecular is an emerging leader in molecular diagnostics with a significant installed base of *m*2000 platforms.

In spite of a very challenging capital market environment in 2007, we have succeeded in securing commitment from a leading U.S. investor, which has enabled us to execute on a rights issue in early 2008. With the capital increase, we have now secured financial resources sufficient for the execution of our business plan for the next couple of years.

Looking back on 2007, virtually all of the objectives set out at the beginning of the year have been achieved. We have shown solid development progress on all of our product programs, we now have our first committed commercial partner, Abbott Molecular, for the worldwide launch of our lead product, and have secured financing to execute on our business plan. With Quest Diagnostics, we additionally found the ideal partner to commercialize in the U.S. a laboratory-developed blood test for colorectal cancer applications based on Septin 9. Epigenomics is now very well positioned to fulfill its mission of bringing innovative early cancer detection tests to the market, for the benefit of cancer patients throughout the world.

Geert Walther Nygaard

CEO (47)

Geert Walther Nygaard has been Chief Executive Officer of Epigenomics AG since February 2007. Having an academic background in chemical engineering from the Technical University Copenhagen, Denmark, he received marketing and management training at INSEAD in Fontainebleau, France. Before he joined Epigenomics, Geert Nygaard held a position as managing director and member of the management board of Abbott GmbH & Co. KG in Wiesbaden, Germany. In this capacity, he was responsible for the Abbott Diagnostics Division in Germany, including the legal responsibility for the Abbott GmbH & Co. KG organization in Germany. Before heading the German operation of Abbott, he held several senior positions with increasing responsibility in marketing and business development in Abbott's organizations in Denmark and Germany. Geert Nygaard started his career in diagnostics in Denmark, working for the diagnostics companies Beckman Instruments A/S, and Dako A/S, in national and international positions including the position as managing director of DAKO AG in Switzerland.

The year 2008 will be another defining year in the process of turning Epigenomics into a product-driven molecular diagnostics company. It will be a year in which we anticipate launching our first product in the market: We expect to see the launch of the Septin 9 biomarker as a laboratory-developed assay in the U.S. by Quest Diagnostics. We further intend to launch selected biomarker assays and reagents to the research market segment in Europe. It will be a year of intensive clinical development: We will continue to support our current and future strategic partners for the colorectal cancer screening test by substantial clinical development on our Septin 9 biomarker. In our prostate and lung cancer programs, further clinical studies will be dedicated to turning them into products and partnering opportunities similarly attractive as our colorectal cancer program. It will be a continued effort of partnering as we expect to deliver on our nonexclusive licensing strategy for our colorectal cancer biomarker and setting an industry standard in DNA methylation technology. But with the financial framework given by our recent capital increase, it will also be a year of continuous focusing: We intend to keep up the financial discipline demonstrated in 2007 and will continuously review our operations and all options to leverage assets outside our cancer screening focus. To this end, we have decided to leverage the value of our tissue-based prostate cancer molecular classification test through partnering or licensing rather than through own IVD commercialization after completion of its clinical development. We have already licensed monitoring applications of our colorectal cancer biomarkers to Quest Diagnostics as part of our agreement in early 2008.

On behalf of the Executive Board, I would like to thank our employees, our partners, customers, and in particular our shareholders for their commitment and trust in our organization. I am convinced that 2008 will turn out to be a very rewarding year for Epigenomics.

Yours sincerely,
Geert W. Nygaard

Report of the Supervisory Board

Dear shareholders,

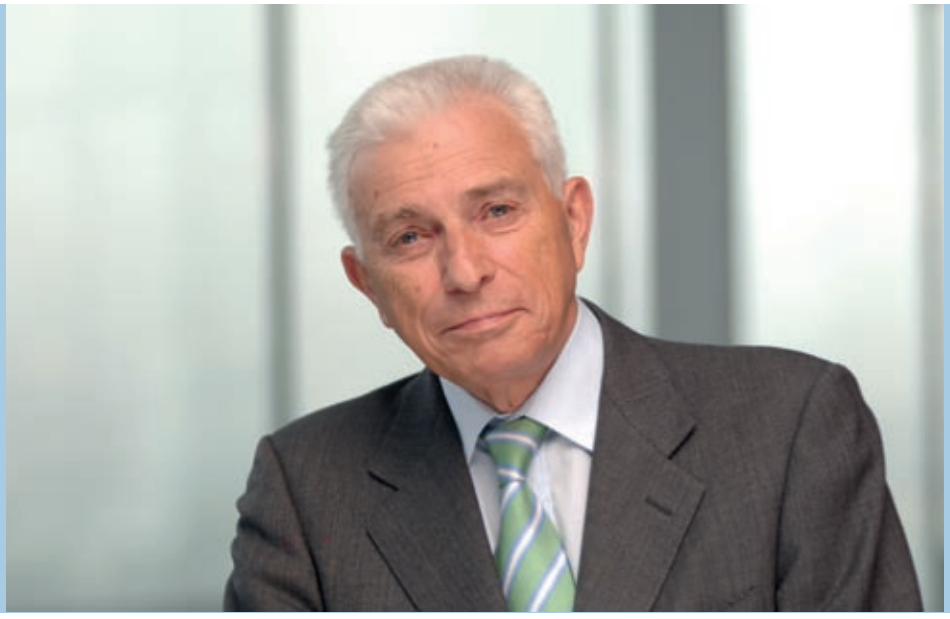
During the fiscal year 2007, the Supervisory Board fulfilled all its duties assigned to it by law, the Articles of Association and the Rules of Procedure. The Supervisory Board advised and monitored the Executive Board in managing the Company. Based on detailed written and oral reports of the Executive Board and intensive discussion of relevant issues concerning financial and operational business aspects as well as the Company's strategy during the Supervisory Board meetings, such advice was given to further Epigenomics shareholders' best interests. Due to the appointment of Geert Walther Nygaard as the Company's new CEO effective February 1, 2007, the dialog between all members of the Supervisory Board and the Executive Board was further intensified and, in addition to the plenary meetings, frequent conference calls as well as individual discussions were held. Thus, the Supervisory Board was kept continuously informed about the Company's business strategy, especially changes made to the business strategy moving from an exclusive to a nonexclusive licensing of Epigenomics' key value driver, the colorectal cancer screening test. The Supervisory Board was also apprised of all corporate planning including financial, capital expenditure and human resources planning, as well as the general performance of the business and the product development progress. This included especially all steps taken to optimize the workflow and assay procedure for Epigenomics' lead product, the colorectal cancer blood test.

To the extent that German corporate law or existing Executive Board Rules of Procedure require approval for certain decisions or actions to be taken by the Executive Board, such approvals were given by the Supervisory Board after a detailed examination of the documentation provided and intensive discussions.

Work of the Supervisory Board

During 2007, six plenary meetings of the Supervisory Board with the Company's Executive Board took place (on January 22; March 1; May 29; June 27; September 17; November 15). These meetings were held in Berlin and Frankfurt am Main to minimize expenses and maximize efficiency. Also, six conference calls between the Supervisory Board and the Executive Board were held at regular intervals throughout 2007 to discuss in addition to relevant questions related to the Company's business strategy all important aspects of the ongoing strategic and tactical financing transactions. Furthermore, the Chairman of the Supervisory Board and the members of the Executive Board were in regular contact between Supervisory Board meetings and conference calls. Thus, the Supervisory Board was kept up to date on the Company's current business situation and key events, such as the capital increase and the PIPE (Private Investment in Public Equity) placement of new shares in spring 2007 as well as the closing of the strategic nonexclusive in vitro diagnostic partnership with Abbott Molecular Inc. in September 2007.

At all of its meetings, the Supervisory Board specifically discussed the Company's corporate and financial situation, its operations for all product development programs, its business development activities as well as the Company's business strategy and important risks. Important topics of the Supervisory Board



Professor Dr. Dr. h.c. Rolf Krebs
Chairman of the Supervisory Board

meetings in 2007 were the approval and adoption of the annual financial statements, the move from an exclusive to a nonexclusive licensing strategy, the PIPE transaction out of authorized capital, the Company's business development issues as far as approvals for terms and conditions of new collaboration contracts were required, the budget for 2008 and finally the preparation of the share issue out of the remaining authorized capital. At its meetings in September and November 2007, the Supervisory Board considered in detail the operational budgets, financial planning and resource allocations for the year 2008.

Due to the Company's difficult financial situation, key focus of the Supervisory Board's supervising and monitoring activity was the Company's financing process. Whilst in spring of 2007, prime emphasis was put on monitoring the successful completion of the PIPE placement, later in 2007, the Supervisory Board interacted very closely with the Executive Board and the Company's bankers and advisors regarding the preparation of the share issue out of the remaining authorized capital. The Supervisory Board sought direct advice from the Morgan Stanley banking team supporting the entire process and whenever appropriate received detailed documents on the current development of the capital markets and the particulars of the proposed Epigenomics transaction from it. The Supervisory Board focused on striking a balance between securing funding for the Company at acceptable terms on the one hand, and on the other hand seeking to ensure key corporate milestones, such as the strategic Abbott licensing deal were achieved prior to such a financing, to maximize the likelihood of successful completion of the rights issue.

For each Supervisory Board meeting, all members of the Supervisory Board received extensive written reports well in advance of the individual meetings, prepared by the Executive Board with the input of the respective departments. These documents were sufficiently comprehensive to substantially analyze and discuss the relevant topics of the agenda of the Supervisory Board meetings and to pass all required resolutions. Between meetings, the Supervisory Board was informed in detail by means of written documents about all ongoing projects and plans of particular importance to the Company. Whenever necessary, resolutions were passed by written vote in compliance with the Company's Articles of Association.

The Supervisory Board closely coordinated with the Executive Board and the Company's legal counsel during the lawsuit filed by an individual shareholder in July 2007 and supported the Executive Board during another lawsuit, which had been filed in August 2006 by the same individual. The Supervisory Board was kept abreast of the Company's defense against the claims all the way to a verdict in favor of the Company in the first lawsuit, and the subsequent withdrawal of the second lawsuit by the plaintiff.

Committees

The work of the Supervisory Board was supported by its two committees: the Audit and Corporate Governance Committee chaired by Prof. Dr. Reiter as well as the Personnel and Compensation Committee chaired by Prof. Dr. Dr. h.c. Krebs.

Both committees held several meetings in 2007. The Audit and Corporate Governance Committee held one face to face meeting and three via conference call in 2007. In its sessions, the committee dealt mainly with accounting issues, the quarterly financial statements, the annual financial statements, and other topics relating to the area of responsibility of the Committee. The auditors attended all of these meetings. The Audit and Corporate Governance Committee further advised and monitored the Executive Board in questions relating to the Company's risk management and ensured compliance with the German Corporate Governance Code with the purpose to enhance trust of the shareholders in the management of the Company. The Personnel and Compensation Committee had two conference calls in 2007 in order to discuss matters related to the compensation of the Executive Board as well as strategic personnel issues. Reports of the meetings of the committees were presented at the plenary sessions of the Supervisory Board.

Changes in the Composition and Chairs of the Supervisory Board

Bruce Carter, Ph.D., resigned as a member of the Supervisory Board with effect of March 30, 2007. An important aspect for the Supervisory Board was its new composition following the Annual General Shareholders' Meeting on May 29, 2007, at which Heino von Prondzynski, the former CEO of Roche Diagnostics, was elected by the shareholders to the Supervisory Board. The Supervisory Board greatly appreciates the benefit of his diagnostics industry experience in the Board.

At the Supervisory Board meeting immediately after the Annual General Shareholders' Meeting 2007, Professor Dr. Dr. Uwe Bicker was again unanimously elected deputy chairman and Professor Dr. Dr. h.c. Rolf Krebs confirmed as chairman of the Supervisory Board.

Corporate Governance

The Supervisory Board, advised by the Audit and Corporate Governance Committee, also continuously reviewed all issues of legal compliance and adequate risk management given the difficult financial situation of the Company, particularly in late 2007, as well as compliance to corporate governance principles by Epigenomics. Both, the Executive Board and the Supervisory Board regard the commitment to good corporate governance an important measure for enhancing the confidence of current and future shareholders, corporate partners and employees. In December 2007, the Executive Board and the Supervisory Board issued a new declaration of conformity pursuant to section 161 of the German Stock Corporation Act (AktG), which is included in the corporate governance report of this annual report and is also permanently made available to shareholders on Epigenomics' website. In its declaration, the Company has committed itself to the German Corporate Governance Code, and only in some cases adopted company-specific principles deviating from these recommendations. For more detailed information regarding corporate governance issues, please refer to the corporate governance and remuneration reports of this annual report.

Audit of the Annual Financial Statements

The independent auditing company UHY Deutschland AG Wirtschaftsprüfungsgesellschaft, Berlin, has audited the annual financial statements and the related management report of Epigenomics AG for

fiscal 2007 in compliance with the regulations of the German Commercial Code (HGB) as well as the consolidated financial statements and the consolidated management report for fiscal 2007 according to International Financial Reporting Standards (IFRSs). UHY did not raise any objections for both financial statements and approved them with unqualified audit opinions. The consolidated financial statements and the consolidated management report were prepared in accordance with § 315a of the HGB using international accounting standards IFRSs. UHY's audit was conducted in accordance with German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW, Institute of Public Auditors in Germany) and the International Standards of Auditing (ISA).

The above-mentioned documents were submitted to the Supervisory Board by the Executive Board in a timely manner. The Audit and Corporate Governance Committee discussed these documents in detail at their meeting on February 11, 2008. The UHY audit reports were presented to all members of the Supervisory Board and were reviewed carefully at the plenary meeting on March 25, 2008, in the presence of the independent auditors, who reported on the main findings of their audit. At this meeting, the Executive Board explained in detail the annual and consolidated financial statements as well as the Company's risk management system. UHY also provided a report on scope, focal points and important results of the audit.

Regarding the existing risk management system as the Company's early warning system, the auditors stated that in their opinion the system is suitable to meet all legal requirements. Both the Audit and Corporate Governance Committee and the entire Supervisory Board ensure that appropriate risk management and risk mitigation strategies were implemented during 2007 in light of a difficult capital market environment in combination with the reduced financial resources of Epigenomics prior to its capital increase.

As a result of the definitve findings of the examination by the Audit and Corporate Governance Committee and the entire Supervisory Board, the Supervisory Board raised no objections, but accepted and confirmed the results of the audit. The Supervisory Board formally approved the annual financial statements and the consolidated financial statements as of December 31, 2007, without exception and modification in its meeting of March 25, 2008, in the presence of the auditors. In view of the Supervisory Board's approval, the annual financial statements of Epigenomics AG are thus adopted as submitted in accordance with section 172 of the German Stock Corporation Act (AktG).

The Supervisory Board would like to thank the Executive Board, the senior management as well as all employees for their commitment, dedication and efforts during the difficult and challenging year 2007.

The Supervisory Board would like to thank its former member Bruce Carter, Ph.D., for his valuable contributions over many years.

Berlin, March 2008

For the Supervisory Board
Professor Dr. Dr. h.c. Rolf Krebs
Chairman of the Supervisory Board

Potential

Cancer screening tests have a potential that is unique in diagnostics. Potential for cancer patients to save lives by early diagnosis. Potential for our diagnostics industry partners, as they address up to 300 million men and women aged 50 years and older that should be screened regularly. Cancer screening tests thus will be the key drivers of future growth in molecular diagnostics.

Market Potential Colorectal Cancer Screening >USD 3 billion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Our Focus:

An Innovative Blood Test for Colorectal Cancer Screening

We expect to make our most advanced colorectal cancer blood test and key value driver available first through licensing of the underlying biomarker to a centralized reference laboratory in the U.S. in 2008 followed by a broader market launch as IVD test kits in 2009 first in Europe and starting from 2010 in the U.S. and further geographies through our diagnostics industry partners. This test uniquely combines a huge "drug-sized" product opportunity with the favorable risk profile of diagnostics.

The colorectal cancer dilemma

Colorectal cancer is highly curable. More than 90% of patients survive if the cancer is diagnosed at an early stage when it is still localized. This may be a surprising fact as this dreaded disease is among the most frequent causes of death in the industrialized world. In the U.S. – for which statistical data is most easily available – about 154,000 people are diagnosed with the disease every year and about 52,000 people die of this cancer in the same period. This makes colorectal cancer one of the most frequent and most deadly cancers. The dilemma: The majority of colorectal cancers are diagnosed in advanced stages when they already show symptoms lowering the chances of survival to less than 10% once the cancer has already spread to distant organs. These numbers clearly show that early diagnosis can potentially save more lives than any new drug for this cancer ever could.

Convenient cancer screening tests are needed

But catching colorectal cancer in its earliest stages requires systematic screening of the asymptomatic average risk population with suitable diagnostic procedures. Screening guidelines in the U.S. recommend an annual fecal occult blood test (FOBT) – a laboratory test that is performed on stool samples usually taken at home and sent in by each patient to check for blood – and an invasive colonoscopy requiring extensive bowel preparation every five to ten years for the average risk population aged 50 years and older. Other countries have similar screening guidelines.

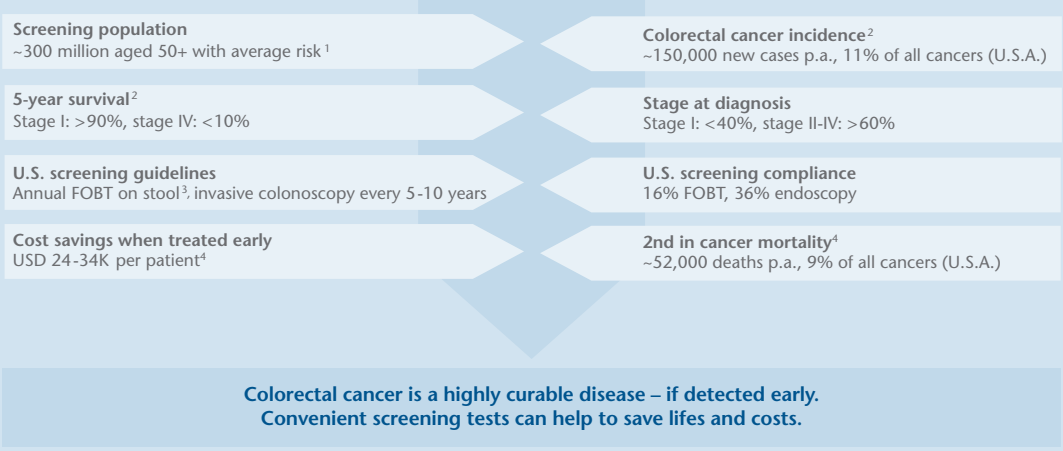
Despite these guidelines, only a minority of the target population participates in regular colorectal cancer screening. Thus, annual FOBT tests are only performed by 16% of the individuals aged 50 years and older and only 36% attend a colonoscopy every five to ten years. The most widely accepted reason for this low compliance is the lack of convenience. The American Cancer Society identified screening compliance as the

major issue in colorectal cancer and is committed to drive compliance up to 75% by 2015. Reaching this goal will require novel screening tests that are competitive with the best available noninvasive test in the discrimination between cancer patients and healthy individuals but convenient enough to ensure broad acceptance in the target group.

Epigenomics' colorectal cancer blood test: Competitive performance and unmatched convenience

Our colorectal cancer screening test in development is ideally positioned to address this need. The test relies on measuring the methylated DNA of the gene Septin 9 as a biomarker in blood plasma. In numerous prospective case control studies with about 3,000 clinical samples from cancer patients, matched healthy individuals and other critical control samples we have created an unprecedented body of evidence that this DNA methylation biomarker indicates the presence of colorectal cancer of all stages and in all locations. As early as 2006, we demonstrated that with a research assay optimized for detecting minute amounts of methylated Septin 9 DNA in plasma, we can correctly identify up to 70% of the patients with stage I-III colorectal cancer (i.e. 70% sensitivity) at a specificity of 90% (i.e. 10% false positive test results). If further optimized for a low false positive rate of only 3%, we could identify 63% of the cancer cases correctly.

Colorectal cancer screening test: The medical need



Colorectal cancer is a highly curable disease – if detected early. Convenient screening tests can help to save lifes and costs.

[1] U.S.A., Europe, Japan; [2] Cancer Facts & Figures 2007 (ACS); [3] FOBT: Fecal Occult Blood Test (stool test); [4] American Gastroenterological Association (AGA) website

Our colorectal cancer screening test: A very competitive product

	Colonoscopy [1] (Gold Standard)	Fecal occult blood test [2] (Hemoccult)	Stool DNA test [3]	Epigenomics CCS [4]	
Sensitivity	97%	37%	52%	63% [5]	70% [5]
Specificity	98%	98%	94%	97%	90%
Price to payor (USD)	~1,600	~5	595-695	100-150	
Availability	through GI specialists	IVD test kit	LDT	from H2/2008: LDT [6, 7] from 2009: IVD test kit [6]	
Sample	n/a (invasive visual inspection)	Stool	Stool	Blood	
Convenience	very low	low	low	high	

[1] Davies. RJ et al. (2005). Nat Rev Cancer 5:199-209; [2] Allison, JF et al. (1996). N Eng J Med 334:155-159; [3] Imperial, TF et al. (2004). N Engl J Med. 351:2704-14
[4] Lofton-Day, C et al. (2007) AACR Annual Meeting 2007; 5 Stage I-III; [6] Epigenomics management's estimate for earliest possible product launch (as of March 31, 2008); [7] Laboratory-developed test

This performance outcompetes standard FOBTs by far and is highly competitive with or potentially superior to more advanced screening tests on the market like immunological FOBTs (iFOBT) and tests designed to detect cancer DNA in stool.

While performance is highly competitive, we believe that its convenience is unparalleled. All our test requires is a simple routine blood draw taken in the doctor's office. While stool tests for colorectal cancer screening gained little acceptance in the target group, clinical experts believe that a blood test has the potential to drive compliance. Typically, diagnostic blood tests therefore achieve compliance in the 90% range when prescribed or recommended by the doctor. This harbors the opportunity to substantially increase the number of colorectal cancers diagnosed at early stages and eventually reduce mortality from this cancer.

Colorectal cancer screening is a huge "drug-sized" business opportunity…

While the medical need may be obvious, what is the business case for our colorectal cancer screening test? In an overall rather mature diagnostics market, molecular diagnostics sticks out with estimated annual growth rates in the 10% to 20% range. In particular, cancer screening is widely considered the future key driver of the overall molecular diagnostics business. For good reasons: A colorectal cancer test addresses the average risk population aged 50 years and older, i.e. almost 300 million people in the major markets U.S.A., Europe, and Japan. Even when based on the rather conservative assumption of one test performed every 24 months, 50% compliance in the target group and a competitive price to payor of about USD 100 to 150 (of which about 50% goes to the diagnostics company providing the test), the market size for a colorectal cancer screening test is well above USD 3 billion and thus comparable with markets of blockbuster drugs.

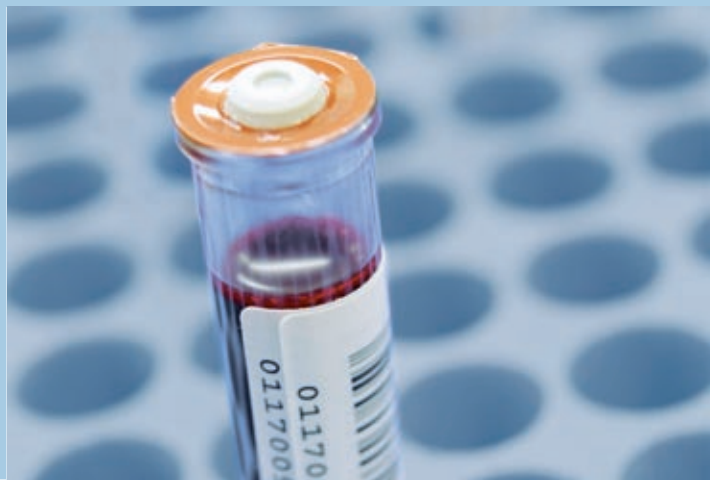
…with a much more favorable risk profile

Market sizes for cancer screening diagnostics are comparable to drugs, but their development and regulatory approval risks are much lower. While more than 90% of all drugs fail in clinical development and approval, the comparable attrition rate for in vitro diagnostics is estimated rather in the 20% to 25% range. This has several reasons: foremost, biomarkers are discovered and confirmed on human clinical samples the diagnostic test will eventually be performed on. As the test is performed on a patient sample in a diagnostic laboratory, there are usually no safety concerns due to the actual testing procedure. Not surprisingly, the regulatory hurdles for in vitro diagnostic tests are much lower than those for drugs. Thus, only one clinical trial is required for the approval of in vitro diagnostic tests as compared to multiple trials in phase I to III of drug development.

How do our cancer screening tests work?

Diagnostic tests for early cancer detection that can be applied to population-wide first-line screening, need to be performed on conveniently obtainable samples such as blood or urine.

Our cancer screening tests rely on a rather simple biological phenomenon: Even at the earliest stages tumors shed DNA into body fluids they are exposed to. Thus, tumor DNA in blood or urine is a formidable indicator – or "biomarker" – for the presence of a tumor. But how can we detect this tumor DNA? With a vast excess of DNA derived from healthy cells in the same body fluids, it is a "needle in the haystack" problem. At Epigenomics, we have solved this problem by using our DNA methylation approach. DNA methylation provides a unique "fingerprint" in certain genes – such as our colorectal cancer biomarker Septin 9 – that is specific not only for cancer but also for the organ in which the cancer resides and thus allows the development of diagnostic tests that are specific for different cancer indications. We have developed the technologies to read this DNA methylation fingerprint and use it for the sensitive detection of tumor DNA in a blood or urine sample. With this technology, we can detect minute amounts of DNA derived from as few as two tumor cells in a routine blood plasma sample.



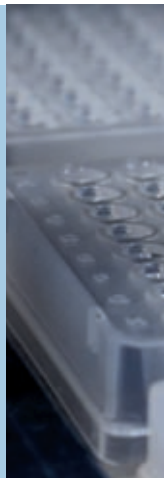
Epigenomics has a viable colorectal cancer screening test

There are two important prerequisites for the successful commercialization of a cancer screening test: First, an assay procedure that is suitable for routine high-throughput testing and second, clinical data that support the utility of the test in a true screening population with regard to benefit to the patient and health economic benefit.
In 2007, we dedicated much of our work to optimizing the assay procedure to measure our biomarker Septin 9 under clinical routine conditions. Improvements included a simplified sample handling, reduction in the cost of goods by more than 70% and a considerable shortening of the total processing time. In addition, the throughput of patient samples that can be processed in parallel by a laboratory technician was doubled. Most importantly, DNA extraction and the biomarker assay are now compatible with widely available laboratory automation solutions. This allows to further increase the throughput for mass screening applications.

This improved assay procedure has not only cleared the way for licensing the Septin 9 biomarker to diagnostic industry partners and reference laboratories, but enables us to perform a multi-center study to characterize Septin 9 clinical performance and health economic benefit in a U.S. colorectal cancer screening guideline-eligible population. The study is planned to start in 2008 and will be run by an independent principal investigator. Study protocol and design have been developed together with our recently established Medical Advisory Board of leading U.S. clinicians. For this study, we will collect blood plasma samples from several thousand individuals attending routine screening colonoscopies at several clinical sites. In these samples we – potentially in collaboration with a U.S. reference laboratory – will measure the Septin 9 DNA methylation biomarker and correlate the results with the colonoscopy finding as a gold standard for definitive colorectal cancer diagnosis.

How will our colorectal cancer screening test be applied?

Our colorectal cancer screening test is designed to be as convenient and patient-friendly as possible. All it will take for the patient is giving a blood sample in the doctor's office as part of the regular check-up. The sample will then be shipped to a local or regional diagnostic laboratory where it is analyzed for methylated Septin 9 DNA. The Septin 9 test will be performed using automated molecular diagnostic equipment fitted with test kits supplied by our diagnostics industry partners to the diagnostic laboratories. The test result is provided to the doctor who can discuss it with the patient within a few days after the blood sample was taken. If the test is positive, a colonoscopy would typically be performed to confirm the test result and localize the tumor as a first step towards cancer therapy.

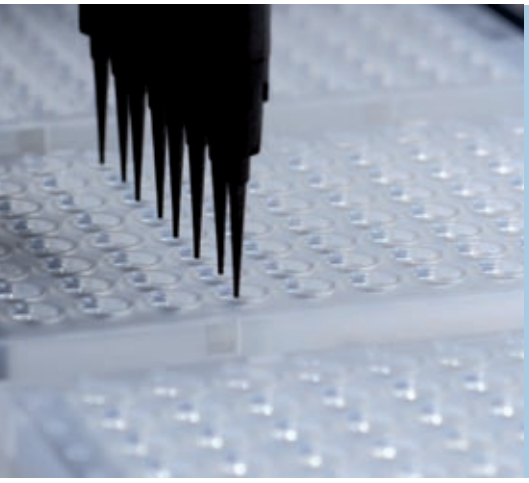


Our path to commercialization

Addressing the huge cancer screening markets needs potent diagnostics industry partners. We have adopted a nonexclusive licensing strategy for the commercialization of our cancer screening tests directed at IVD companies for test kit development and broad worldwide commercialization as well as reference laboratories for early market introduction in selected geographies.

As a first IVD partner, Abbott Molecular obtained a nonexclusive worldwide license to our Septin 9 biomarker for early detection of colorectal cancer in blood in September 2007. We expect that Abbott Molecular now adapts the Septin 9 test to its *m*2000 molecular diagnostics instrument platform, develops the test kit and runs the necessary clinical trial. Also, Abbott Molecular will seek regulatory approval for the combination of the Septin 9 colorectal cancer test and its *m*2000 platform. A market launch of a CE-marked test kit in Europe is anticipated for 2009 followed by filing for regulatory approval for a test kit launch in the U.S. in 2010. While Abbott Molecular is spearheading the market introduction of the Septin 9 colorectal cancer IVD test, we expect to close further licensing agreements for this test in the future.

For fast market access we also started licensing the Septin 9 biomarker and the underlying technology to reference laboratories in the U.S. and in Europe for the commercialization laboratory-validated tests (LDT) which could be offered starting from this year. This will give patients and doctors first access to our colorectal cancer test and provide the first commercial proof of concept. As a first reference laboratory, Quest Diagnostics Inc., the leading provider of diagnostic testing, information and services in the U.S., obtained nonexclusive rights to Septin 9 in February 2008.



Meeting the Expert:

Heino von Prondzynski on the Future of the Diagnostics Industry

Heino von Prondzynski is one of the most distinguished experts in the diagnostics industry. After a career of over 30 years in the pharmaceutical and diagnostics industry, he retired from his position as CEO of Roche Diagnostics in early 2006. He was elected into Epigenomics' Supervisory Board at the Annual General Shareholders' Meeting in May 2007.

Mr. von Prondzynski, the diagnostics industry has recently seen a number of spectacular takeovers. What is driving this?

Presently, we see a consolidation trend in the diagnostics industries as growth is possible through innovation only. The larger global companies in this field try to execute on new, partially different strategies to ensure their future growth. Siemens – that bought DPC, Bayer Diagnostics, and recently Dade Behring – believe that this growth can come from a stronger integration of laboratory diagnostics and diagnostic imaging such as x-ray, computer tomography with overarching IT. Roche Diagnostics sees the future in a stronger integration of pharma and diagnostics and just acquired Ventana that offer laboratory equipment and kits for stratifying tissue tests in oncology. All are moving stronger towards Integrated Healthcare and Personalized Medicine.

Personally, what do you think will be the growth drivers of the future?

No matter what strategy we look at, future growth in diagnostics will be highly dependent on innovation, especially novel content. In the past, competition and growth in laboratory diagnostics focused very much on technology and automation. Instruments on which the tests were run became easier to handle, throughput was increased and the workflow got more automated. The competitors in the market differentiated themselves via features of their instrument platforms as a large number of diagnostic tests were not proprietary and could be offered by many providers. But the technology out there is rather mature, even in more modern technology segments. Future growth will depend on proprietary content, new, better, more specific and sensitive diagnostic tests that address unmet medical needs. This is particularly true for molecular diagnostics.

Why is molecular diagnostics so important?

Molecular diagnostics, the analysis of DNA or RNA to identify and classify diseases, is the area with the highest future growth projections in diagnostics. Today, molecular diagnostics is a USD 2.5 billion market worldwide mainly concerned with infectious disease testing such as HIV, HCV and HPV. Estimates for the future market size for the years 2015-2020 range from USD 15 to 30 billion, mainly in early detection and screening of common cancers such as colorectal, breast, lung, and prostate. Screening and stratification for cardiovascular diseases also play a significant role. What is needed to support this growth are innovative tests beyond the infectious disease testing, based on modern technology such as PCR, RT PCR, and array platforms.

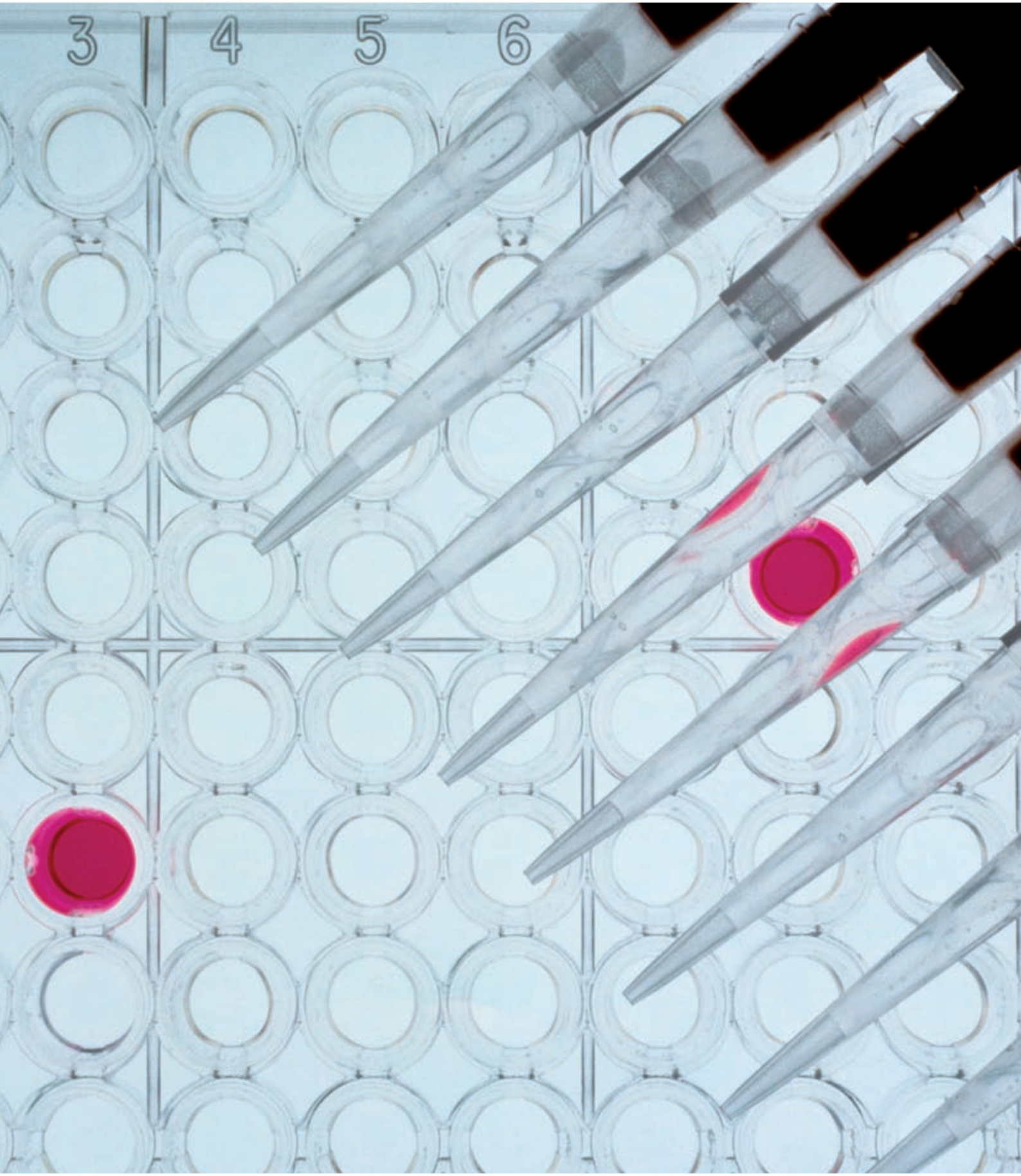
What makes cancer molecular diagnostics such an attractive area?

It is the unique combination of medical need and market size: The medical need for better cancer diagnostics is huge. Many lives could be saved if cancer would be detected earlier through systematic screening of the population. But today, there are only very few diagnostic tests for cancer available and they either have an insufficient performance or are inconvenient and therefore not well accepted by the patients. At the same time, the markets are highly attractive for the diagnostics industry as the eligible patient population for cancer screening, which is basically everybody aged 40 or older, is several hundred million people worldwide and demographics play in favor. While today, molecular diagnostics revenue from cancer tests are perhaps between USD 150 and 300 million, mainly from niche products, they are expected to reach a couple of billions in a ten-year time frame.

What is the role of companies like Epigenomics in the bigger picture?

Although the global diagnostics companies invest significant amounts of money into own research, the innovative content required to support future growth cannot come from the inside alone. What's happening is comparable to the pharma industry. Pharma companies are trying to fill their drying internal pipelines through in-licensing of candidate drugs from smaller biotech companies or even through acquisitions of complete companies. This is getting more and more expensive. Epigenomics is today positioned like one of these smaller biotechs. Take for example Epigenomics' Septin 9 biomarker for colorectal cancer screening: It can be conveniently tested on a simple blood draw and has an outstanding performance compared to FOBT, the current gold standard IVD test in colorectal cancer. At the same time, it is a proprietary biomarker based on DNA methylation that can be measured with most molecular diagnostics instrument platforms available in the market today. Companies like Epigenomics will act as diagnostic content providers to global instrument players like Abbott Molecular, Siemens or Roche and will participate significantly in their partners' commercial success with diagnostic products based on new content. Validated content is a goldmine based on which profitable growth can be built.

Mr. von Prondzynski, thank you very much for this insight into the dynamics shaping the diagnostics industry.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Convenience

Our cancer screening tests are designed to ensure convenience of use. Convenience for people screened – all it takes is a standard blood draw or a urine sample as part of a general check-up at their doctor's office. Convenience for the diagnostic laboratories performing the tests as our technology is compatible with many automated molecular diagnostic instruments.

simple blood draw

Our Product Strategy:

Focus on Fast and Broad Market Access

Cancer molecular diagnostics provide product opportunities comparable to blockbuster drugs but with a much more favorable risk profile in development and regulatory approval. Based on our unique and proprietary DNA methylation approach, we strive to set a new standard in the industry. With biomarkers identified and confirmed in numerous clinical studies on thousands of patient samples in several cancer indications, our strategy now focuses on turning these into diagnostics products that may reach the market starting in 2008.

Cancer screening: Big markets require big partners

Addressing the huge cancer screening markets needs big diagnostics industry players. Molecular diagnostic tests are performed on specialized instruments, which are very costly to develop. Diagnostics companies place them into diagnostic laboratories using "reagent rental" contracts in exchange for the guaranteed purchase of reagents to perform the diagnostic test over a period of time. As the test can only be run in laboratories that have the instrument for which the test is developed and approved, access to a large installed base of diagnostics platforms is a prerequisite for the commercial success of any new test. Cancer screening tests need to be mass-marketed to health insurance and doctors. Test sales will be driven by positive reimbursement decisions of health care providers and inclusion into screening guidelines, which needs extensive lobbying by the diagnostics company.

To meet these challenges, we have adopted a nonexclusive licensing strategy for the commercialization of our cancer screening tests. Such nonexclusive strategy is common in the diagnostics industry as it maximizes market penetration on the installed base of instruments of several partners and facilitates quick market uptake and higher peak sales due to the joint marketing efforts. In this model, the diagnostic tests are licensed to three or four diagnostics industry partners per geography. These partners have the responsibility of transferring the tests onto their respective molecular diagnostics platforms, develop test kits that can be shipped to diagnostics laboratories to perform the test, run the necessary clinical trials and seek regulatory approval for the combination of the test kits and the instrument by the authorities responsible. Once approved, the partners can market and distribute the test and lobby for reimbursement and guideline inclusion. In addition to upfront licensing fees and development-related

milestone payments, Epigenomics participates in the commercial success of the test through sales-related milestone payments and significant royalties. In September 2007, as a first partner, Abbott Molecular obtained a nonexclusive worldwide license to Epigenomics' Septin 9 biomarker for early detection of colorectal cancer in blood and we anticipate closing further licensing agreements for this test in the future.

Early market access through reference laboratories

Through partnerships with reference laboratories in particular in the U.S. we want to provide doctors and patients early access to our screening biomarkers before the launch of FDA-approved IVD test kits and to address niche markets of our specialty diagnostics. These reference laboratories will commercialize laboratory-developed tests (LDT) for our biomarkers to their customers as a centralized testing service. Based on this strategy, we expect to make our colorectal cancer biomarker for screening and monitoring applications as well as our prostate cancer molecular classification biomarker available for the first time in late 2008. In return for the necessary biomarker and technology licenses, we obtain upfront and milestone payments and participate significantly in the success of our commercial partners by royalties on test sales.

With Quest Diagnostics, the leading provider of diagnostic tests, information and services in the U.S., we could win the ideal partner for the execution of this strategy in February 2008.

Success factors of our colorectal cancer screening test

Screening population: ~300 million aged 50+[1] ▶ **Market potential**[2]**:** >USD 3 billion total market size

Competitive test features
- Exceptional performance
- High convenience
- Competitive pricing

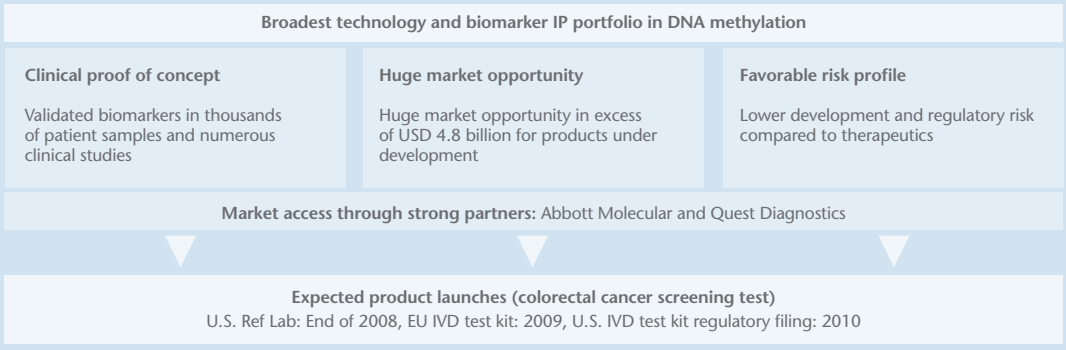
Favorable risk profile
- Biomarker validated in ~3,000 patients
- Inherent low attrition in IVD development
- Compatible with all real-time PCR platforms

Nonexclusive licensing model
- No investment in platform, manufacturing, sales force etc.
- High market penetration on multiple IVD platforms
- High net margin on royalty income

Public support
- Recognized high need
- Established screening test case
- Strong health economic case

[1] U.S.A., Europe, Japan
[2] Combined for all IVD companies in target population; assumes 50% overall screening compliance; testing every 24 months; price to payor: USD 100–150

Clear path to market for our screening tests



Towards an integrated diagnostics provider

As part of the early marketing and launch strategy, we also strive to make available "Research-Use-Only" (RUO) DNA methylation kits and assays for selected biomarkers to customers wishing to build in-house methylation testing expertise. At the same time, we are forward-integrating along the value chain with the goal to eventually develop and commercialize IVD test kits on our own. Throughout 2007, we have continued to build the necessary expertise, organizational structure, and quality systems and advanced the development for our prostate cancer molecular classification biomarker PITX2 within this framework. To finalize clinical development of this test is expected within 2008. We anticipate to commercialize RUO products by a mix of direct marketing and sales as well as working with distributors and partners and expect the first RUO products to reach the market in spring of 2008.

With an increasing focus on our body-fluid-based cancer screening tests, we have decided to leverage the value of our tissue assay for the PITX2 test through partnering or licensing rather than through own IVD commercialization.

Setting a standard: Licensing and R&D services

As a leader in DNA methylation, we are continuously committed to set a unified technology standard in the industry. To this end, pharmaceutical, diagnostics, and biotechnology partners can access our portfolio of proprietary DNA methylation technologies through biomarker services and licensing. Both, R&D services and licensing, have a positive short-term cash impact, but also upside potential in the mid to long term. Thus we expect to benefit from other companies' molecular diagnostics success in the form of royalties on their products based on DNA methylation technologies licensed from us.

Future Growth:
Our Product Pipeline

All diagnostic tests in our pipeline are based on our proprietary DNA methylation technology and biomarkers and address a combined cancer molecular diagnostics market potential of several billion U.S. dollar. Our cancer screening programs in prostate and lung cancer offer attractive product and partnering opportunities beyond colorectal cancer screening.

Cancer screening

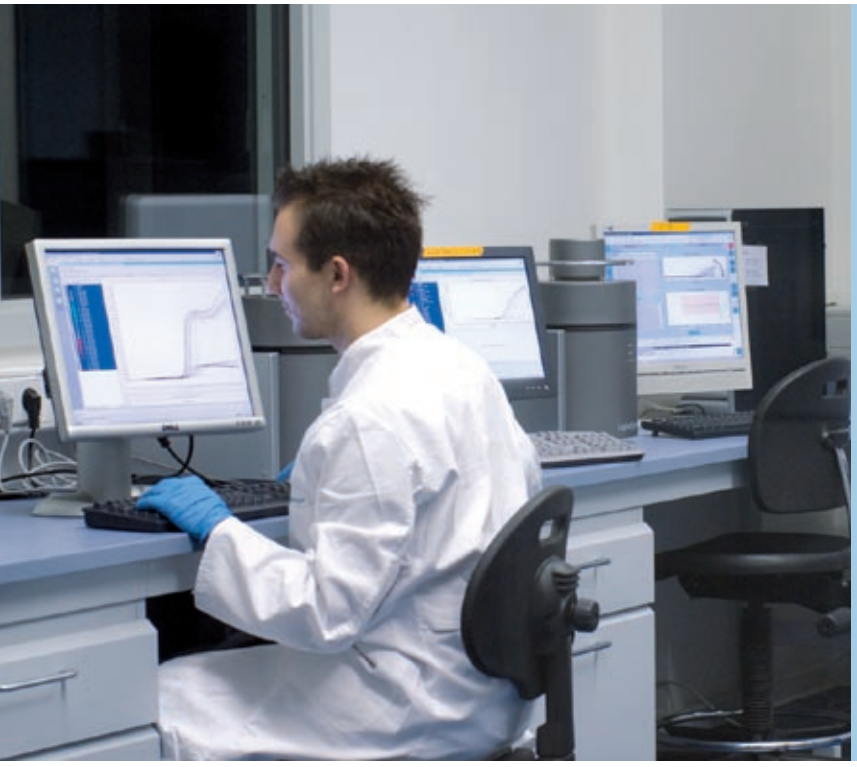
Screening products in prostate and lung cancer complement our key value driver colorectal cancer screening test. Using the same assay procedure and addressing the same high-volume market segment as colorectal cancer screening, they will leverage our partners' initial investments in instrument adaptation for DNA methylation testing, marketing, and sales. Thus, they are not only attractive partnering opportunities in their own right, but also increase the value of our colorectal cancer screening test.

As with our colorectal cancer screening program (see page 10 et seq.), our tests in lung and prostate cancer have the potential to fundamentally change early cancer detection in these major indications.

In prostate cancer, the most common cancer in men, we aim at developing a test that addresses a fundamental shortcoming of the currently most widely used screening biomarker, Prostate Specific Antigen (PSA): PSA is also elevated in a number of benign prostate conditions and three out of four men who go through anxiety and costly, painful biopsies after repeatedly being tested positive for PSA, do not show any sign of cancer. We aim at developing a convenient urine test that better distinguishes between prostate cancer and benign prostate conditions than PSA and can be used as a follow-on test to elevated PSA and eventually as a first-line screening test.

For lung cancer, no convenient screening tests are available today. Diagnosis mostly relies on X-ray, CT or PET scans once a patient shows symptoms – with fatal consequences: More than 80% of the patients are diagnosed in stages too advanced for effective treatment and three out of four patients die within two years after diagnosis.

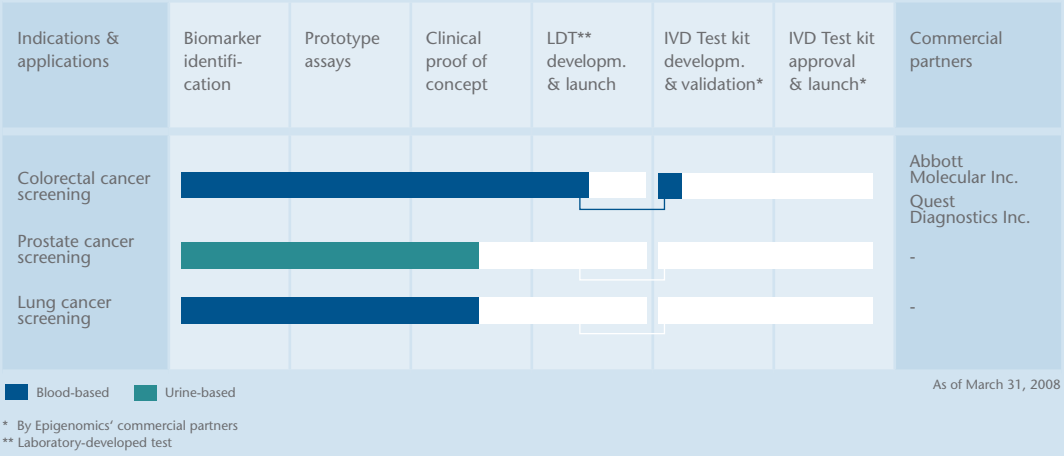
In both programs, we achieved clinical proof of concept by demonstrating that prostate and lung cancer can be detected with high sensitivity and high specificity in blood plasma and urine, respectively, using our DNA methylation biomarkers. We are currently optimizing the biomarker panels and expect to run further clinical studies in both indications in 2008. We estimate the market potential for prostate and lung cancer screening tests in the major markets to be in the USD 1.0 billion to USD 2.8 billion range, respectively.



What is DNA methylation?

DNA methylation is a fundamental biological mechanism that serves the regulation of genes. Cells add chemical methyl groups to the regulatory regions of genes that are not required shutting them off permanently. As different cell types require different genes to be activated, the pattern of methyl groups on the DNA provides a unique “fingerprint” that differs between different healthy tissues but also changes specifically in diseases such as cancer. DNA methylation therefore provides a rich source of biomarkers, that are applicable to a large variety of diagnostic questions. Equally important, DNA methylation is as robust as the DNA molecule itself and lends itself ideally to routine applications in diagnostics.

Our product pipeline



* By Epigenomics' commercial partners
** Laboratory-developed test

Cancer specialty diagnostics

As part of our initiative to increasingly focus on body-fluid-based cancer screening tests, in particular the colorectal cancer screening test, we have decided to evaluate options to leverage the value of our cancer specialty diagnostics programs in alternative ways to own commercialization. To this end, we have already nonexclusively licensed in early 2008 the rights monitoring applications of our colorectal cancer biomarkers to Quest Diagnostics Inc. for the commercialization of a laboratory-developed test and consequently discontinued our own colorectal cancer surveillance test program.

In our prostate cancer molecular classification program, we intend to finalize the clinical development of an assay for our biomarker PITX2 and eventually license or partner the validated assay for commercialization. PITX2 can add significant information to established prognostic clinical and pathological parameters. It may help to better predict which prostate cancer patients may experience an early relapse after prostatectomy and could potentially benefit from closer follow-up and more radical treatment.

For further details and up-to-date information on our product development programs, please visit our website at www.epigenomics.com.

Our Licensing Strategy:

Setting a Unified Industry Standard in DNA Methylation

Our research has made us a leader in DNA methylation. While our R&D efforts are focused on bringing products to the market, we continue to leverage our extensive patent portfolio and expertise in DNA methylation through biomarker services and licensing. Since the beginning of 2007, we have made considerable progress in achieving our goal of setting a unified industry standard in DNA methylation.

R&D focus

Through the entire year 2007, our R&D activities focused on progressing the development of the cancer diagnostic products of our pipeline, particularly our leading colorectal cancer screening test. Having optimized the clinical performance of this test in 2005 and 2006, we dedicated much of 2007 to the development of an assay procedure applicable to all of our screening tests that is compatible with routine clinical use and automation. We continued to improve our core DNA methylation technologies and to add new technologies to maintain and expand our leadership in the field. Upon specific request by some of our biomarker service partners in the pharmaceutical industry, we extended our DMH (differential methylation hybridization) biomarker discovery platform to applications in mice, by far the most widely used animal model for human diseases in drug development. A substantial part of our research was supported by public grants.

Patent portfolio

Our intellectual property (IP) position in DNA methylation is unmatched. It provides a solid basis for the commercialization of our products and puts us into the position to set a unified standard in DNA methylation technology throughout the industry. Our patent estate further matured in 2007. Key technology patents including our HeavyMethyl® and microarray technologies that are fundamental to our products in development, were granted in major market regions. In an effort to optimize cost effectiveness of our patent protection, we consolidated our patent portfolio concentrating on strategically important core technologies and disease areas. It now comprises over 150 patent families, 61 of which have granted patents in at least one geography. This includes eight new applications for biomarker and technology patents in 2007.

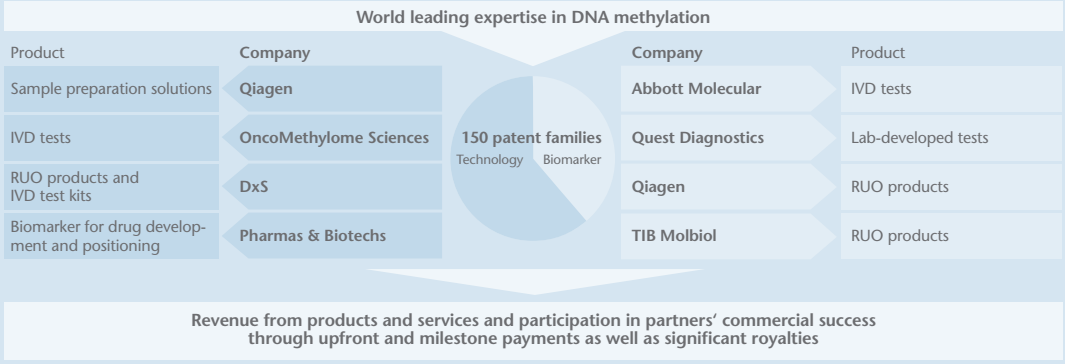
Licensing

Since the beginning of 2007, Epigenomics continued to execute on its nonexclusive "open access" out-licensing strategy to leverage its IP portfolio. This strategy aims at setting a unified DNA methylation technology standard that is based on our proprietary core technologies for preanalytical sample preparation and DNA methylation detection. After the very successful launch of a first product based on our technology in the research market, our partner Qiagen GmbH expanded its license to applications of our sample technologies for use in applied testing and in vitro molecular diagnostics. Our core technologies for DNA methylation detection including the MethyLight and HeavyMethyl® technologies, we recently licensed nonexclusively to our competitor OncoMethylome Sciences S.A. as well as the Scorpions® probe detection technology for methylation, which we cross-licensed with the UK-based diagnostics company DxS Ltd. Through these agreements, we not only received considerable upfront payments but also stand to participate via royalties, significantly in our licensees' or their respective commercialization partners' future commercial success with diagnostic products based on our technology.

Biomarker R&D services and collaborations

In our collaborations with pharma and biotech partners, we aim at supporting the development of new drugs and their positioning on the market by DNA methylation biomarkers. In the majority of these collaborations, we work with our partners to find novel biomarkers for identifying patients that have a higher likelihood of responding to a particular drug. These biomarkers can be used to select patients in clinical trials and may eventually be used by oncologists to take more individualized treatment decisions thereby potentially improving treatment success. In 2007, we closed seven new R&D collaboration agreements with companies such as Centocor, Inc., Myriad Genetics, Inc., Merck & Co., Inc., and Johnson & Johnson. To further broaden our customer base, we entered into an agreement with Cogenics, Inc. in April 2007. Under this agreement, Cogenics will promote to its customers our portfolio of DNA methylation services. It also gives us the opportunity to offer to our customers DNA methylation analyses in Cogenics' laboratories in the U.S. under Good Laboratory Practice ("GLP") standard that is compliant with the U.S. FDA regulations.

Leveraging our leading patent portfolio through partnerships



Precision

In a disease that is complex, we strive for precision for our cancer screening tests. Precision to benefit cancer patients by finding cancer reliably in early stages when cancer is still curable. Precision to the benefit of health care systems by minimizing false positives avoiding unnecessary expensive follow-up procedures.

up to 97% specificity


6419-2E075-EXP-DEC93

Our Stock

The year 2007 has been a challenging one for the German biotech sector. Several set backs in product development throughout the industry eroded investor confidence in German biotech. In addition, the international banking crisis led to a rather risk adverse sentiment in the investment community. In this environment, the Epigenomics share price remained depressed although we made solid fundamental progress and delivered on major milestones in our corporate strategy leading to buy recommendations from all analysts covering Epigenomics.

A challenging year for German biotechnology shares

The year 2007 has been a challenging one for the entire industry and the performance of 2006 could not be repeated in 2007. The German biotechnology market was exposed to significant volatility. Disappointing news flow from several German biotech companies had a negative impact on the entire sector.

Solid fundamentals but stock remains depressed

Despite improved clinical data and solid fundamental progress, the announcement of new cooperation partners and the successful progress in the development of our colorectal cancer screening product, there has not been any positive impact on our share price. The biotechnology sector trading lower, as well as certain expectations about a pending capital increase for Epigenomics have also put continuous pressure on our stock price.

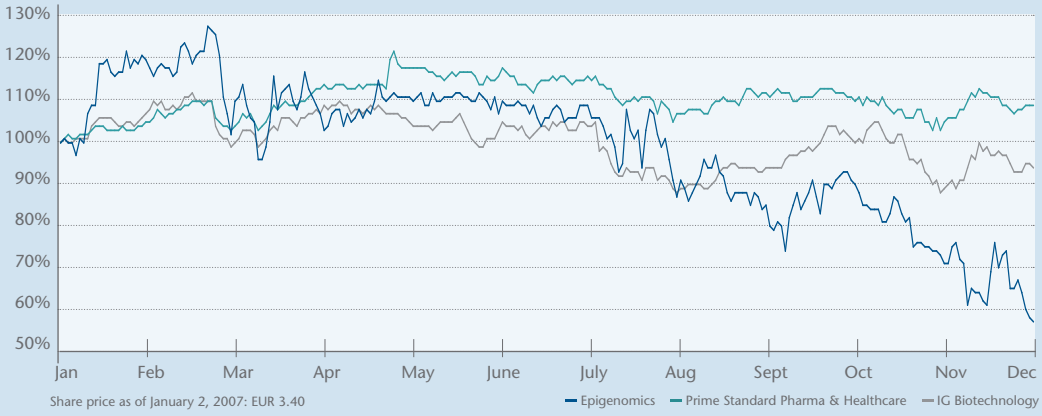
As a result, on December 28, 2007, our stock closed at EUR 1.95 (Xetra), a fall of 44.3% compared to the previous year-end price of EUR 3.50. In general, trading volumes in Epigenomics stock (ticker symbol: ECX) have decreased during 2007. The first quarter average was at around 33 thousand shares traded per day, in the second quarter averaged at 14 thousand and third quarter at 25 thousand per day, the fourth quarter of 2007 saw an average of 26 thousand shares traded per day plus significant block-trading off market.

Key data on Epigenomics' stock

ISIN	DE000A0BVT96
Security code number	A0BVT9
Stock exchange abbreviation	ECX
Reuters	ECXG.DE
Stock exchange	Frankfurter Wertpapierbörse, Amtlicher Markt (Prime Standard)
1st day of trading	July 19, 2004
Designated sponsor	Close Brothers Seydler AG Wertpapierhandelsbank
Number of shares (Feb 29, 2008)	26,710,886*
Free float (Dec 27, 2007)	65.70%
Market capitalization (Dec 27, 2007)	EUR 52.1 million
Year-end closing price	EUR 1.95
Highest price	EUR 4.36
Lowest price	EUR 1.95

*After capital increase on February 7, 2008

Epigenomics' stock price development from January 2 to December 28, 2007



Stable shareholder structure

As of December 31, 2007, a total number of 18,252,824 shares was issued and the following major shareholder groups controlled more than 3% of Epigenomics' total shares outstanding:

Voting rights treshold	Shareholder
> 15%	Deutsche Bank AG
> 10%	Abingworth Management Holdings Ltd.
> 5%	Omega Funds
	BB Biotech AG
	MPM Group
> 3%	Wellcome Trust

All analysts recommend to "buy"

Four analysts regularly maintained coverage of Epigenomics' stock to date providing updates on their views and recommendations. DZ Bank's Patrick Fuchs, Morgan Stanley's Karl Bradshaw, Ph.D., First Berlin's Christian Orquera and analyst Thomas Schiessle (Midas Research) all had "buy" recommendations and price targets significantly above year-end trading prices.

Sustained corporate communications

In 2007 as in the previous years, we continuously provided all our shareholders with timely, accurate and comprehensive information giving them the best possible basis for making informed investment decisions in Epigenomics' stock. We invited to an annual press conference and an analyst meeting in Frankfurt am Main at the end of Q1 2007, hosted our Annual General Shareholders' Meeting in Berlin on May 29, 2007, with a participation of approximately 58% of the share capital and offered conference calls on important Company updates such as the signing of our deal with Abbott Molecular.

Our investor relations team is happy to respond to your questions and comments. Please contact:

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Vice President Corporate Communications
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Consolidated Management Report

Business Development and Strategy

Economic environment

High energy prices; a significantly stronger euro; U.S. subprime lending crisis; difficult economic environment.

The year 2007 was characterized by continued increases in energy prices as well as a significant increase in value of the euro versus the U.S. dollar. Interest rates stopped to increase and towards the end of 2007, first moves by the U.S. Federal Reserve Bank reducing key interest rates in the United States indicated a willingness to support the overall economy which was critical in the light of a severe crisis in the U.S. mortgage and subprime lending markets. This crisis had major ripple effects throughout the global banking world with significant liquidity shortages in the interbanking lending market as well as heavy global price pressure on many bank-related securities and fund products.

Whilst the first half of 2007 had shown a solid performance in global stock markets as well as in the biotechnology industry in particular, both in the United States and in Europe, the second half of 2007 showed significant pressure on stock prices and biotechnology companies' valuations on both sides of the Atlantic. These macroeconomic effects were compounded in Germany by sector-specific events and news that had a significant negative impact not only on individual biotechnology stocks but also on the sector in general.

This dampened the IPO and follow-on financing activity in the capital markets in general and in the higher-risk sectors and technology companies in particular. The second half of 2007 could be described as a "flight into security and blue-chips" with massive amounts of funds being withdrawn from perceived higher-risk investment fields such as biotech and healthcare and put into perceived lower-risk areas such as industrial blue-chips, energy, and precious metals.

Throughout 2007, the euro has appreciated by over 15% from its level of around 1.30 USD/EUR at the end of 2006 to almost 1.50 USD/EUR in late 2007. This had a significant positive impact on our U.S. dollar cost base but again intensified pricing pressure on our research & development (R&D) collaborations that are contracted for in euro.

Economic growth was solid and stable in 2007 especially in Germany with consumer and industry confidence levels having improved markedly. This positive development was, however, coupled with increased inflationary pressure and the dilemma of central banks of whether to reduce interest rates to continue to support economic growth into 2008 and onwards versus curbing inflation by tightening monetary policies. Overall outlook for 2008 capital markets are moderately positive and the biotechnology industry in particular is expecting consolidation via M&A as well as reasonably solid IPO and follow-on financing markets. However, discussions about the potential for the U.S. economy slipping into a recession put capital markets on edge late 2007, and early 2008 has seen significant downward trends in global stock prices.

Analysis of our business – a review

Major events: new CEO joins Epigenomics; strategy realigned with key value drivers; focus on colorectal cancer screening product; Abbott deal signed; successful PIPE financing; financials in line with expectations.

Epigenomics is a molecular diagnostics company focusing on the development, licensing and commercialization of in vitro diagnostic (IVD) tests for cancer screening, and cancer speciality diagnostics applications based on DNA methylation. In our product development efforts, we are focused on developing novel molecular diagnostics tests, i.e. products that shall provide significant benefit to patients in terms of accuracy, convenience and ultimately acceptance of these tests.

Our mission is "To build a world-leading cancer molecular diagnostics company based on DNA methylation."

In 2007, we adjusted our strategy from being a technology-driven company to a product-driven company. The commercialization strategy has been changed towards a nonexclusive partnering model from a business model of concentrating on one exclusive strategic partner. Our Clinical Solutions team is working closely with pharmaceutical and biotechnology partners to find novel biomarkers aimed at identifying patients that have a higher likelihood of responding to a particular drug. Via outlicensing, we aim to leverage our DNA methylation technologies to set an international standard in the molecular diagnostics industry.

The year 2007 was the start of a new era at Epigenomics. On February 1, 2007, Geert Walther Nygaard joined the Company as its new CEO from a position as Managing Director at Abbott in Germany. Geert Nygaard brings more than 20 years of operational and commercial diagnostics industry experience and expertise to the Epigenomics team. Heino von Prondzynski, former CEO of Roche Diagnostics, was elected into the Supervisory Board of Epigenomics AG at the Annual General Shareholders' Meeting on May 29, 2007. He replaced Bruce Carter, Ph.D., who decided to step down in order to allow further strengthening of the commercial diagnostics expertise of the Board. Heino von Prondzynski is one of the recognized leaders in the global diagnostics industry and further strengthens the diagnostics industry expertise in our Company.

All product development programs in our streamlined pipeline progressed along their development paths as planned. Considerable improvements were made regarding simplicity, processing time and cost of goods as well as automation potential. According to these criteria, a technical comparison study of the old versus the new workflow for colorectal cancer screening met all its objectives as did a small clinical study finalized at the end of 2007. This revised assay procedure and workflow is also the basis for future IVD test kit development together with IVD industry partners.

We have entered into a new strategic collaboration and license agreement with Abbott Molecular Inc. ("Abbott"). This partnership provides for the nonexclusive development and potential nonexclusive worldwide commercialization of a blood-based in vitro diagnostic test for colorectal cancer based on our Septin 9 methylation biomarker.

On October 4, 2007, Epigenomics announced that key patents covering Epigenomics' core technology HeavyMethyl® for the sensitive detection of methylated DNA have been granted by the patent authorities in a wide range of market regions including Europe and the U.S. These grants complete the patent protection of the workflows for Epigenomics diagnostics tests on body fluids and tissue and will enhance the overall competitive position.

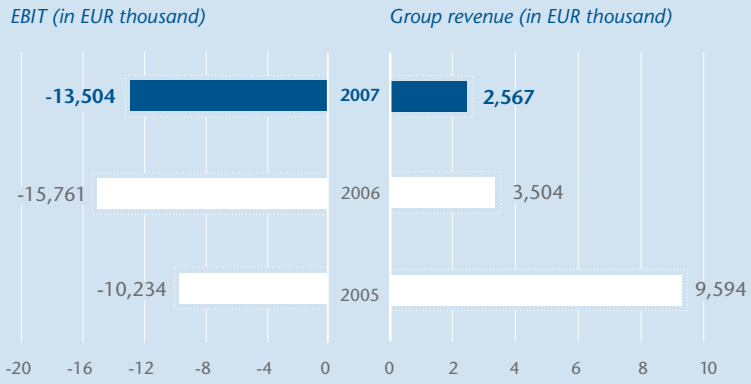
On October 10, 2007, Epigenomics announced that they formed a Medical Advisory Board (MAB) for colorectal cancer screening. The Board advises Epigenomics on important aspects of the clinical development and commercialization process of our key product, the colorectal cancer screening test. The members of the Board include: Douglas Rex, M.D., Chancellor's Professor and Professor of Medicine at Indiana University School of Medicine; Philip S. Schoenfeld, M.D., M.Ed., M.Sc., Associate Professor, Department of Internal Medicine, University of Michigan School of Medicine; Deborah Fisher, M.D., MHS, Assistant Professor of Medicine, Duke University, and Scott Ramsey, M.D., Ph.D., Associate Professor of Medicine and Health Services, Associate Member, Cancer Prevention Research Program, Fred Hutchinson Cancer Research Center.

In 2007, we have completed a first clinical proof of concept of detecting lung cancer from blood plasma. The novel biomarker demonstrated a sensitivity of 69% at a specificity of 91% in detecting non-small-cell lung cancer. Additional clinical studies using this lead marker as well as other marker candidates are underway in collaboration with the Charité in Berlin and have yielded encouraging and positive interim results.

In addition to our cancer screening tests, we are also developing cancer speciality diagnostics such as our prostate cancer molecular classification test. In 2007, we successfully enrolled highly respected U.S. and European clinical sites for the patient sample collection and were able to obtain specimens and clinical data of sufficient quality and quantity to satisfy the requirements of our established sample collection protocol in compliance with internal quality procedures and GCP (Good Clinical Practices). This prognostic prostate cancer tissue test aims at predicting the likelihood of recurrence after radical prostatectomy. We expect to launch it in Europe in 2008.

Our financial position including marketable securities showed liquidity amounting to about EUR 10.0 million at year-end 2007. This decrease compared to the previous year (EUR 17.3 million) was due to the continued net operating cash consumption that was only partially mitigated by cash inflows from financing. In the second quarter of 2007, we successfully closed a EUR 4.9 million PIPE (Private Investment in Public Equity) financing transaction. Hence, our liquidity could be strengthened significantly during 2007.

Revenue was down by 27% to EUR 2.6 million, compared to previous year's EUR 3.5 million. This was almost solely due to no corresponding revenue from R&D funding from Roche Diagnostics as in the previous year.



Controlling system

The Company's controlling system is primarily based on miscellaneous planning, monitoring and reporting tools. Qualitative information derives from a self-developed project documentation database and quantitative information is processed by common ERP (Enterprise Resource Planning) software. Our accounting and controlling department reports to the CFO. It provides all relevant controlling information to the Executive Board on a monthly basis.

For internal control purposes, we set up an annual budget developed from the actual mid- to long-term business planning of the Company. The budget is developed bottom-up from all cost centers and our R&D projects. A final approval of the annual budget by our Supervisory Board is mandatory.

The focus of the monthly and quarterly internal management reporting lies on actual versus budget comparisons for the specific set of numbers, which comprises the external quarterly reports. It is supplemented with additional data requested by the Executive Board and the Supervisory Board as well as the controlling team. Each quarterly report is accompanied by an internal forecast, which provides us with an up-to-date estimate of expected full-year numbers.

Marketing and business development

In 2007, all our offerings were marketed in a business-to-business model driven by strategic R&D and commercialization collaborations. The sole focus has been on our oncology programs. Our commercialization strategy was changed towards a nonexclusive partnering model from a business model of concentrating on one exclusive strategic IVD partner in the past. We have expanded the universe of commercial partners to include molecular diagnostics, biotechnology and pharmaceutical. As a result of the more focused and targeted approach after the reorganization, total expenses of our marketing and business development activities amounted to EUR 1.3 million (2006: EUR 2.7 million).

On September 25, 2007, we have entered into a collaboration and license agreement with Abbott Molecular Inc. This new collaboration provides for the nonexclusive development and potential non-exclusive worldwide commercialization of a blood-based IVD test for colorectal cancer based on our Septin 9 methylation biomarker. Furthermore, the collaboration and license agreement already includes terms and provisions for the evaluation of selected proprietary biomarkers of Epigenomics for certain other indications. Abbott paid to Epigenomics an upfront license fee and will reimburse certain R&D costs, pay milestone payments, e.g. for reaching regulatory approvals or sales targets, as well as running royalties on all of Abbott's sales of a Septin-9-based product worldwide.

Business Report

First nonexclusive IVD partnership with Abbott; Qiagen deal expanded; several new partnerships closed.

At the beginning of 2007, all operating activities and business units have been consolidated. After the reorganization in October 2006 and the end of the Roche Diagnostics partnership, a continuing classification of the Company in segments was not adequate anymore. All activities in diagnostics, biomarker collaborations, and licensing are aligned with the new mission and support the notion of becoming a cancer molecular diagnostics company. Accordingly, this was accompanied by an internal reallocation of responsibilities.

Our revenue in 2007 in the amount of EUR 2.6 million was attributable to upfront payments, R&D funding, reimbursements for incurred cost, milestone payments, and licensing payments.

Our cost of sales for the execution of existing partnerships were lower compared to 2006. The main reason for that was that all of our product development was managed and funded internally whereas in previous years, the Roche Diagnostics collaboration had been a major part of cost of sales.

In 2007, our diagnostics business generated revenue in the amount of EUR 0.6 million, which apart from our new Abbott partnership was attributable to the last revenue recognition under the Roche collaboration. The Clinical Solutions business increased its revenue by almost 50% compared to the previous year from EUR 0.6 million to EUR 0.9 million. Our Clinical Solutions business closed seven new R&D collaboration agreements with companies such as Centocor, Inc., Myriad Genetics, Inc., Merck & Co., Inc., Pfizer Inc., and Johnson & Johnson.

In 2007, the licensing business contributed the major share of revenue adding up to EUR 1.1 million. This was mainly due to the expansion of the existing collaboration agreement with Qiagen in the second quarter of 2007.

After the launch of the EpiTect® Research-Use-Only (RUO) kit for preanalytics by Qiagen in 2006, both parties have expanded their successful partnership in 2007. Qiagen GmbH acquired a worldwide exclusive license to Epigenomics' preanalytics solution for the IVD market and is its preferred partner for preanalytics. However, by means of a nonexclusive back-license from Qiagen, Epigenomics has retained rights to these technologies for use in its own or partnered development projects and for commercialization of in vitro molecular diagnostic products via a nonexclusive back-license from Qiagen.

In 2007, cost of sales of our Clinical Solutions business for the execution of our partnered biomarker research programs were slightly higher at EUR 0.7 million compared to EUR 0.6 million in the previous year. Due to increased revenue and moderate costs, gross profit rose to EUR 0.2 million, with a gross margin of 27% compared to previous year's EUR 0.02 million and 3%, respectively.

Five-year Overview

EUR thousand (unless stated otherwise)	**2007**	2006	2005	2004	2003
Income statement					
Revenue	2,567	3,504	9,594	7,931	10,778
Gross profit	1,693	-1,516	1,904	1,509	5,438
R&D costs	-10,471	-8,702	-8,121	-7,336	-7,642
EBIT	-13,504	-15,761	-10,234	-10,351	-6,306
EBITDA	-12,259	-14,193	-8,560	-8,907	-4,953
Net loss for the year	-13,151	-15,402	-8,788	-10,975	-6,745
Earnings per share in EUR (basic and diluted)	-0.74	-0.92	-0.54	-0.80	-0.80
Balance sheet					
Non-current assets	9,070	10,559	9,471	9,677	8,430
Current assets	13,844	19,575	35,526	43,607	22,877
Total assets	22,914	30,134	44,997	53,284	31,307
Equity	17,821	26,198	39,375	47,739	17,713
Equity ratio (in %)	77.8	86.9	87.5	89.6	56.6
Non-current liabilities	0	0	4	41	6,375
Current liabilities	5,093	3,935	5,618	5,504	7,218
Cash flow statement					
Cash flow from operating activities	-11,516	-14,378	-7,501	-8,885	-6,338
Cash flow from investing activities	1,049	2,610	-1,689	-10,214	-1,763
Cash flow from financing activities	4,547	807	228	32,757	20,446
Net cash flow (currency-adjusted)	-5,920	-10,953	-8,647	13,747	11,858
Cash and cash equivalents at year-end	6,646	12,566	23,519	32,166	18,419
Other information					
Investments in tangible and intangible assets	65	2,920	1,007	964	946
Number of employees at year-end	112	145	141	146	143
Share price at year-end (in EUR)	1.95	3.50	6.45	8.67	n/a

Financials

Operating costs reduced significantly compared to 2006; revenue somewhat below last year; earnings significantly better than 2006.

Financial position and cash flow

At the end of the reporting year, the Company had cash, cash equivalents and marketable securities of EUR 10.0 million. The financial position was mainly affected again by the continued cash consumption by operations, especially for our product development.

Total net cash flow (currency-adjusted) was EUR -5.9 million compared to a cash flow of EUR -11.0 million in the previous year. Cash outflow from operating activities amounted to EUR 11.5 million and was significantly lower than the cash outflow of 2006 (EUR 14.4 million).

Our operating expenditures were reduced by EUR 3.8 million against the previous year, which was significantly better than expectations of EUR 2.0 million to EUR 3.0 million.

Our net cash flow from investing activities was positive at EUR 1.1 million. The reduction of our securities overcompensated our payments for non-current assets. In 2006, cash inflow from investing activities had amounted to EUR 2.6 million. The net cash inflow for investments in tangible and intangible assets totaled EUR 0.03 million compared to a net cash outflow of EUR 1.3 million in 2006. This positive effect in 2007 was due to inflows from investment grants, which overcompensated our investments, and investment activities remaining at a minimal level. Net cash inflow from financing activities amounted to EUR 4.6 million. This was due to the PIPE financing in the second quarter of 2007, compared to EUR 0.8 million in 2006, which was mainly the result of inflows from stock option exercises.

At the Annual General Shareholders' Meeting on May 29, 2007, new authorized capital of EUR 8,458,062 was created. As of the end of 2007, preparations for additional financing to be raised in the first half of 2008 were successfully completed. On January 16, 2008, the Executive Board and the Supervisory Board of Epigenomics AG decided to increase the share capital by at least 5.75 million shares and up to a maximum of 8.46 million shares at a price of EUR 1.60 per share (see also Supplementary Report).

Results of operations

In 2007, we recognized total revenue of EUR 2.6 million, a decrease of almost 27% from the previous year's EUR 3.5 million. This decrease was exclusively attributable to the terminated Roche collaboration and the nonexclusive nature of the Abbott deal signed not before late in the third quarter of 2007. Therefore, revenue recognition from diagnostic deals dropped by EUR 1.7 million to EUR 0.6 million. Whereas our Clinical Solutions business could grow its revenue by half from EUR 0.6 million to EUR 0.9 million, our licensing activities contributed with EUR 1.1 million the highest proportion to our total revenue, mainly due to additional new partnerships closed in 2007.

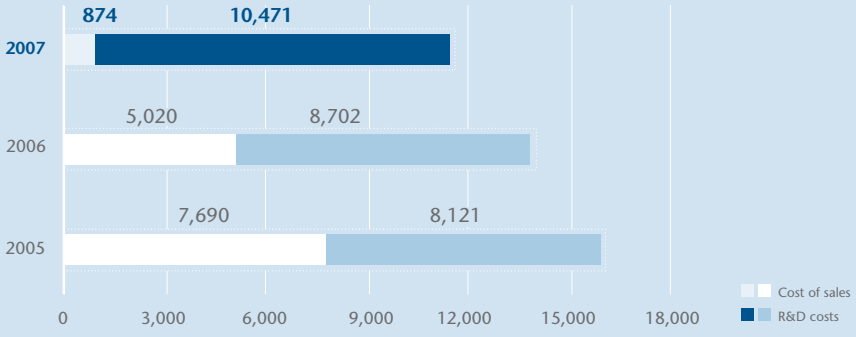
Cost of sales from the execution of partnered programs decreased by EUR 4.1 million to EUR 0.9 million compared to 2006 as our diagnostics R&D projects were no longer externally partnered. Expenses incurred in our internal R&D projects and were therefore categorized as R&D costs. The gross margin was positive at 66%.

Other income dropped to EUR 1.4 million against EUR 1.9 million in 2006. The decrease was mainly due to the completion of some granted projects at the end of 2006, which were funded by research grants.

In 2007, EBIT added up to EUR -13.5 million, a significant improvement compared to previous year's EUR -15.8 million. Stringent financial discipline and the reorganization in fall of 2006 have led to a reduction of the operating cost basis by EUR 3.8 million.

R&D costs increased from EUR 8.7 million in 2006 to EUR 10.5 million because our R&D activities were no longer partnered and as a result of our new focus on product development projects.

Cost of sales/R&D costs (in EUR thousand)



Marketing and business development costs fell from EUR 2.7 million in 2006 to EUR 1.3 million. This decrease was partly attributable to a more focused utilization of external market research services and the streamlining of our overall strategy.

Our general and administrative costs amounted to EUR 4.3 million – slightly above previous year's figure (EUR 4.1 million), mainly because of higher stock option expenses.

Other expenses decreased by EUR 0.2 million from EUR 0.7 million in 2006 to EUR 0.5 million in 2007.

As mentioned before, our operating costs decreased sharply in 2007. This was largely attributable to the reorganization, focussed product pipeline, but it also resulted from our strict financial discipline. Almost all cost categories showed a year-on-year decrease. Particularly the reduced amount spent for tissue samples (-45%) and consumables (-30%) led to cost savings. Staff costs were reduced by 9%, travel costs by 36%, legal and consulting costs by 14% as well as marketing costs by 39%. Those decreases over-compensated for the increase in external R&D costs (40%).

At EUR 13.2 million, net loss for the full year 2007 showed a substantial improvement over the previous year's figure (EUR 15.4 million).

Net asset position

As of December 31, 2007, Epigenomics' balance sheet total decreased to EUR 22.9 million from EUR 30.1 million as of December 31, 2006. Key driver was once again the net cash consumption of liquidity by our operations.

Total non-current assets fell by EUR 1.5 million to EUR 9.1 million and included goodwill of EUR 2.6 million, which did not reveal an impairment upon its annual testing. Overall, the decrease was primarily driven by our strict investment policy keeping capital expenditures at a minimal level.

Tangible assets dropped from EUR 2.1 million as of December 31, 2006, to EUR 1.2 million as of December 31, 2007. Some minor investments were overcompensated by depreciation and amortization.

Current assets decreased from EUR 19.6 million to EUR 13.8 million, primarily because of the net cash outflow from operations. Deferred financing costs amounted to EUR 1.4 million, due to services rendered to the Company in 2007 in preparation of our financing transaction, which we closed after the fiscal year 2007.

As of December 31, 2007, our subscribed capital increased by 1,336,699 shares at a notional par value of EUR 1.00 each compared to the previous balance sheet date. This increase was almost exclusively due to the PIPE financing transaction, successfully completed in May 2007, with the remainder resulting from the exercise of stock options. Capital reserves decreased by EUR 11.6 million from EUR 25.3 million to EUR 13.7 million at the end of 2007, mainly due to the net loss of the previous financial year.

Including the net loss for the reporting year of EUR 13.2 million, the equity ratio decreased from 86.5% at the end of 2006 to 77.8 % as of December 31, 2007.

The balance sheet is free of long-term debt. Current liabilities increased by EUR 1.2 million. Our trade payables increased from EUR 1.3 million as of December 31, 2006, to EUR 1.6 million, and our other liabilities rose by EUR 1.4 million to EUR 2.4 million, mainly due to the prepared financing transaction mentioned before.

Employees

	Berlin	Seattle	Total
Number of employees as of Dec 31, 2007	**78**	**34**	**112**
Number of employees as of Dec 31, 2006	106	39	145
Employees on average 2007	**85**	**36**	**121**
Employees on average 2006	106	39	145

The Epigenomics Group employed a total staff of 112 as of December 31, 2007, a sharp decrease compared to the number of 145 a year ago. The average number on a monthly basis of employees during 2007 amounted to 121. During 2007, at Epigenomics AG in Berlin, we employed an average of 85 people and 36 in our Epigenomics, Inc. subsidiary in Seattle (2006: Berlin 106 and Seattle 39). The sharp decrease against 2006 was attributable to our restructuring process, which was started in fall of 2006 and successfully completed in spring of 2007. The number of employees in Berlin also includes two apprentices.

Overall personnel costs totalled EUR 8.2 million in 2007, compared to the previous year's cost of EUR 8.9 million. This decrease by 9% is attributable to our aforementioned reorganization. The decrease would have been even higher if it had not partially been overcompensated by increased stock option expenses in 2007.

Research and Development

In 2007, our R&D activities were primarily focused on bringing our screening test products to the market as fast as possible. We shifted our R&D activities on further advancing the development of our cancer screening test products ourselves and prepared these products for a transfer into a reference laboratory and handover to a new diagnostics industry partner such as Abbott for IVD test kit development. To that end, the main focus was shifted towards improving our assay procedure and workflow for body-fluid-based cancer screening tests and primarily the blood-based colorectal cancer screening test. Our goal was to improve the compatibility with automation solutions, reduce the time needed from DNA extraction to test result as well as cut the cost of the assay procedure. We succeeded in reaching these goals and established an optimized assay procedure in 2007. Thus, the colorectal cancer screening test is now ready for transfer to a reference laboratory for routine testing of patient samples. Our cancer screening products in colorectal, prostate, and lung cancer were progressed along their respective development timelines.

Supplementary Report

Epigenomics AG places maximum number of new shares in capital increase

On February 6, 2008, Epigenomics successfully completed the placement of 8,458,062 new ordinary bearer shares within a rights offering representing the entire authorized capital available. The new shares were placed at the subscription price of EUR 1.60 per new share resulting in gross proceeds of about EUR 13.5 million. The rights offering was started on January 24, 2008.

The subscription rate in the transaction was 39.2% equalling 3,314,657 new shares. The remaining 5,143,405 unsubscribed new shares and such new shares for which the subscription rights have been excluded were sold at the subscription price to two mutual funds in the same family who had committed themselves to such purchase prior to the commencement of the subscription offer.

Morgan Stanley Bank AG (Frankfurt am Main, Germany) acted as subscription agent and sole underwriter; Trout Capital LLC (New York, NY, U.S.A.) acted as placement agent to Epigenomics in the U.S.

The registration of the implementation of the capital increase with the commercial register (*Handelsregister*) and the admission of the new shares to the regulated market (*Regulierter Markt*), subsegment *Prime Standard*, of the Frankfurt Stock Exchange were on February 7, 2008. Trading in the new shares began on February 8, 2008.

With the registration of the implementation of the capital increase, the total issued share capital of Epigenomics increases from EUR 18,252,824 to EUR 26,710,886.

Epigenomics intends to use the net issue proceeds to support the ongoing and new product development in its screening and cancer specialty diagnostic test business, for the enhancement and strengthening of capabilities in connection with regulatory affairs and clinical trials, and for the further enhancement of Epigenomics' DNA methylation technology, additional in-licensing agreements, the strengthening of its IP portfolio, building and strengthening its commercialization capabilities through dedicated marketing and sales support functions and a distributor network, as well as for general corporate purposes.

Epigenomics AG licenses several key technologies to OncoMethylome Sciences S.A.

On January 14, 2008, Epigenomics announced the signing of a broad technology licensing agreement with OncoMethylome Sciences S.A. Under the terms of the agreement, OncoMethylome obtained worldwide nonexclusive rights to several of Epigenomics' proprietary core technologies such as its MethyLight portfolio for the sensitive and quantitative detection of DNA methylation for in vitro diagnostic product development and commercialization. Further, OncoMethylome obtained rights to the HeavyMethyl® technology, plus certain microarray-based technologies for DNA methylation analysis. In return for the licenses, Epigenomics will receive an upfront payment and is eligible for royalties to be paid on any eventual commercial exploitation of the technologies by OncoMethylome and any of its partners who choose to sublicense such technologies.

Epigenomics AG and DxS Ltd. enter into strategic cross-licensing agreement

On January 14, 2008, Epigenomics AG and DxS Ltd. announced the signing of a strategic cross-licensing agreement. Under the terms of the agreement, Epigenomics obtains worldwide nonexclusive rights to DxS' proprietary Scorpions® technology for R&D use and research kits as well as an option to expand the license to the in vitro diagnostics (IVD) field. Epigenomics intends to use this technology both in certain research kits as well as potentially in its cancer specialty diagnostic products. DxS in return received an option for a worldwide nonexclusive license and further options to certain Epigenomics IP covering the use of Scorpions® technology for DNA methylation applications. Both Epigenomics and DxS have acquired options to sublicensing rights for the respective technologies.

Expansion of Medical Advisory Board

On January 21, 2008, Epigenomics AG announced the expansion of its Colorectal Cancer Medical Advisory Board with the appointment of Richard Wender, M.D., Alumni Professor and Chair of the Department of Family and Community Medicine at Thomas Jefferson University in Philadelphia, PA.

The Board advises Epigenomics on important aspects of the clinical development and commercialization process of the colorectal cancer screening test in the United States.

Corporate Governance

To the Executive Board and the Supervisory Board, corporate governance lies at the heart of responsible and ethical management at Epigenomics. The very interactive dialog and regular communication with the Supervisory Board and its committees aimed at generating long-term value to our shareholders are central to good corporate governance. Openness and transparency in our corporate communications with all shareholder groups, employees, the general public, and other stakeholders are the overarching principle.

As in previous years, corporate governance was important for all of us at Epigenomics. We fully welcome the German Corporate Governance Code and its most recent amendments. We systematically and regularly monitor compliance with the German corporate governance principles making amendments wherever possible to ensure fair and responsible corporate management according to the new and amended version of the German Corporate Governance Code.

Epigenomics' corporate governance principles in certain aspects go well beyond legal requirements and recommendations of the German Corporate Governance Code. For example, we have established binding internal guidelines on insider trading and made these part of all employment agreements. We have appointed a Corporate Governance Compliance Officer to ensure, adherence to the corporate governance principles. The Compliance Officer is required to submit regular compliance reports to the Executive Board which are then passed on to the Supervisory Board. All 2007 reports of the Compliance Officer confirmed Epigenomics to be in line with corporate governance principles.

There are punctual notable exceptions based on certain company specifics and peculiarities we chose to deviate from the German Corporate Governance Code. These exceptions are detailed below. There is a clear commitment to adhere to the Code going forward to the greatest extent possible.

Financial market reporting

In line with fair and open disclosure and the requirements of the Prime Standard segment of the Frankfurt Stock Exchange, quarterly financial reports are made available within 60 days of a quarter's end and annual financial statements within 90 days of year-end. All information is made available simultaneously on our website *www.epigenomics.com*. All material news are announced following the latest guidelines and legal requirements on ad hoc notification.

Declaration of compliance with the German Corporate Governance Code

The governmental committee "Regierungskommission Deutscher Corporate Governance Kodex" appointed by the Ministry of Justice in September 2001 has approved the German Corporate Governance Code (the "Code") on February 26, 2002, as well as the latest amendments thereto on June 14, 2007. The Code contains recommendations and suggestions for the management and supervision of German listed companies. The Code is based on international and national recognized standards of good and responsible management. The Code also includes recommendations (so-called Soll-Vorschriften) and suggestions (so-called Sollte- or Kann-Vorschriften) on corporate governance with respect to shareholders, general meetings, executive board and supervisory board, transparency, accounting and auditing.

Compliance with the Code is not mandatory. Pursuant to Sec. 161 of the German Stock Corporation Act (Aktiengesetz), it is required that the executive board and the supervisory board of a listed company explain each year, which recommendations were or were not complied with. This statement must be provided to shareholders in writing. With respect to the suggestions of the Code, non-compliance must not be disclosed.

In its declaration of compliance with the Code pursuant to Sec. 161 of the German Stock Corporation Act (Aktiengesetz) as of December 2007, the Executive Board and the Supervisory Board declared that since the last statement of compliance in December 2006, the Company has complied with the recommendations of the Government Commission on the German Corporate Governance Code in the version of June 12, 2006, and June 14, 2007, respectively, and will comply with the recommendations of the Government Commission on the Code in the version of June 14, 2007, with the following exceptions, partly due to specific corporate particularities:

Sec. 3.8 Para. 2

The D&O (directors' & officers') liability insurance taken out by Epigenomics for its Executive Board and Supervisory Board members includes a deductible. However, the Company thinks a deductible is not a precondition for responsible management; responsible management rather is a self-evident duty of all board members.

Therefore, the "adequacy" of the amount of a deductible is not of particular importance. Accordingly, the Company did not and will not comply with the recommendation in Sec. 3.8. Para. 2 of the Code regarding the adequacy of the deductible.

Sec. 4.2.3 Para. 3

The stock options granted to Executive Board members in the past were not related to relevant comparison parameters. With regard to existing stock option programs, a retroactive change of performance targets is not excluded, and for extraordinary, unforeseen developments a possibility of limitation (cap) has not been agreed upon. The Company thinks that the responsibility and motivation of Executive Board members are not improved by referring to comparison parameters and that a possibility of limitation (cap) is not necessary due to the

structure of the existing stock option programs. Therefore, the aforementioned recommendations pursuant to Sec. 4.2.3 Para. 3 of the Code were not adhered to with regard to stock options granted in the past and with regard to existing stock option programs and will not be complied with.

Sec. 5.1.2 Para. 2 An age limit for members of the Executive Board has not been specified. Such a general limit could restrict the members of the Supervisory Board in their selection of particularly qualified and experienced candidates. From the Company's point of view, age is not necessarily an adequate criterion for the disqualification of candidates. Furthermore, the age structure of the Executive Board does not suggest the adoption of an age limit within the foreseeable future. Accordingly, the Company did not and will not comply with the recommendation in Sec. 5.1.2 Para. 2 of the Code regarding an age limit for members of the Executive Board.

Sec. 5.3.3 The Supervisory Board takes the view that the requirement to form a nomination committee composed exclusively of shareholder representatives which proposes suitable candidates to the Supervisory Board for recommendation to the Annual General Shareholders' Meeting is with regard to the Company's size not necessary. Furthermore, this task is already been addressed by the Supervisory Board's Personnel and Compensation Committee.

Sec. 5.4.1 Sent. 2 Due to the aforementioned reasons, an age limit for members of the Supervisory Board has neither been specified. An age limit would inappropriately narrow the shareholders' right to elect the members of the Supervisory Board. Accordingly, the Company did not and will not comply with the recommendation in Sec. 5.4.1 Sent. 2 of the Code regarding an age limit for members of the Supervisory Board.

Sec. 5.4.7 Para. 1 The Company adheres to the recommendations in Sec. 5.4.7 Para. 1 of the Code concerning compensation for committee work with the exception that there will be no separate compensation for the mere membership in committees apart from presidency. Since the committee work is evenly distributed among the members of the Supervisory Board, a differentiated compensation appears not necessary regarding the bare membership in committees.

Sec. 5.4.7 Para. 2 The compensation of the Supervisory Board members contains no performance-related component. A performance-related compensation would not lead to an additional increase in incentive or motivation. The adoption of performance-related compensation components in the future shall be subject of a future decision of the Annual General Shareholders' Meeting, as the case may be.

Berlin, December 2007
The Supervisory Board and the Executive Board

Directors' dealings and directors' share ownership

According to Sec. 15a of the German Securities Trading Act (Wertpapierhandelsgesetz) and Sec. 6.6 Para. 1 of the German Corporate Governance Code, persons discharging managerial responsibilities within an issuer of financial instruments are required to disclose their personal transactions in shares of the issuer and financial instruments based on them, especially derivatives, to the issuer and to the German Federal Financial Supervisory Authority (BaFin). The duty to disclose applies to the members of the Executive Board and of the Supervisory Board. Moreover, the duty of disclosure now also applies to persons who have regular access to insider information about the Company and are empowered to make significant managerial decisions. The duty to disclosure also applies to persons and certain legal entities closely associated with a person discharging managerial duties at the Company. The duty to disclose does not apply if the purchase and sale transactions do not exceed EUR 5 thousand in a calendar year.

During 2007, there were no reported directors' dealings.

Additional Mandatory Disclosures for Listed Companies Pursuant to Sec. 315 Para. 4 of the German Commercial Code (HGB)

Composition of share capital

The share capital of Epigenomics AG comprises exclusively common shares with equal rights and a par value of EUR 1.00 each as of December 31, 2007. During the reporting year the number of shares increased from 16,916,125 to 18,252,824 shares.

Legislation and provisions of the Articles of Association applicable to the appointment and withdrawal of members of the Executive Board and governing amendments to the Articles of Association

The appointment and withdrawal of members of the Executive Board is subject to the provisions of Sec. 84 and Sec. 85 of the German Stock Corporation Act (Aktiengesetz).

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 chairperson of the Executive Board and one or more members of the Board as his deputy(ies). Deputy members of the Executive Board may be appointed.

The statutory provisions regarding the amendment of the Articles of Association are governed in Sections 179-181 of the German Stock Corporation Act (Aktiengesetz). Pursuant to Sec. 14 of the Articles of Association, the Supervisory Board is entitled to adopt amendments and completions to the statutes which only involve the version thereof.

Shareholders with direct or indirect shareholdings with more than 10% of the voting rights

	Shareholdings in %
VCG Venture Capital Gesellschaft mbH	16.57
Abingworth Management Holdings Ltd.	10.89

Authority of the Executive Board to issue shares

The share capital shall be conditionally increased to EUR 26,258.00, divided into 26,258 bearer shares of common stock with a calculatory par value of EUR 1.00 each (Conditional Capital I). This conditional capital increase shall only be implemented to the extent that the option rights from the share option plan of the Company set up according to the resolution of the Annual General Shareholders' Meeting dated August 3, 2000, amended according to the resolutions of the Annual General Shareholders' Meeting dated April 27, 2001, August 1, 2003, and June 22, 2004, is exercised. The new shares shall participate in the profit from the beginning of the financial year in which the respective option rights were exercised.

The share capital shall be increased conditionally by up to EUR 139,625.00, divided into 139,625 of bearer shares of common stock with a calculatory par value of EUR 1.00 each (Conditional Capital III). The conditional capital increase shall only be carried out to the extent that option rights were issued on the basis of the share option program 01-05 of the Company, amended according to the resolution of the Annual General Shareholders' Meeting dated August 1, 2003, resolved at the Annual General Shareholders' Meeting on April 27, 2001, and the holders of these share options exercise their right to subscribe to shares of the Company and the Company does not transfer its own shares in fulfillment of these option rights. The new shares shall participate in the profit from the beginning of the financial year in which they are issued. The Supervisory Board is authorized to lay down the further details regarding the implementation of the conditional capital increase as far as the granting of options to members of the Executive Board is concerned. In other cases, the Executive Board is authorized to lay down the further details. The Supervisory Board is authorized to amend the wording of Sec. 5 Paras. 1, 2 and 5 of the Articles of Association in accordance with the volume of the capital increase from Conditional Capital.

The share capital shall be increased conditionally by up to EUR 617,426.00, divided into 617,426 of bearer shares of common stock with a calculatory par value of EUR 1.00 each (Conditional Capital IV). The conditional capital increase shall only be carried out to the extent that option rights were issued on the basis of the share option program 03-07 of the Company, amended according to the resolution of the Annual General Shareholders' Meeting dated August 1, 2003, and the holders of these share options exercise their right to subscribe to shares of the Company and the Company does not transfer its own shares in fulfillment of these option rights. The new shares shall participate in the profit from the beginning of the financial year in which they are issued. The Supervisory Board is authorized to lay down the further details regarding the implementation of the conditional capital increase as far as the granting of options to members of the Executive Board is concerned. In other cases the Executive Board is authorized to lay down the further details. The Supervisory Board is authorized to amend the wording of Sec. 5 Paras. 1, 2 and 6 of the Articles of Association in accordance with the volume of the capital increase from Conditional Capital.

The share capital shall be conditionally increased by up to EUR 647,679.00, divided into up to 647,679 registered common shares with a par value of EUR 1.00 each (Conditional Capital V). The conditional capital increase shall only be carried out to the extent that option rights are issued to the shareholders on the basis of the Company's share option program 06-10, which was resolved by the Annual General Shareholders' Meeting of July 10, 2006, and the holders of these share options avail themselves of their right to acquire shares in the Company and the Company does not grant any shares of its own to fulfil these option rights. The new shares shall participate in the profit as of the beginning of the financial year

in which they were issued. The Supervisory Board shall be empowered to establish the further details of the execution of the conditional capital increase as far as the granting of subscription rights to Executive Board members is concerned. In all other respects, the Executive Board shall be empowered to establish such details. The Supervisory Board shall be empowered to amend the version of Sec. 5 Paras. 1 and 8 of the Articles of Association to reflect the conditional capital increase.

The Executive Board is authorized until May 28, 2012, to increase the share capital of the Company with the consent of the Supervisory Board one or several times by a total of up to EUR 8,458,062.00 against contributions in cash and/or in kind by issuing new no-par value bearer shares (Authorized Capital 2007). In case of capital increases in cash, the shareholders shall on principle have a subscription right. The new shares may also be offered to one or several financial institutions for acquisition along with the obligation to offer them to the shareholders for subscription (indirect subscription right). However, the Executive Board will also be permitted to exclude the shareholders' statutory subscription right with the consent of the Supervisory Board in the following cases:

- for fractional amounts;
- if the new shares are issued at an issue price which does not fall substantially below the stock exchange price of shares of the same class and with the same terms; however, this authorization to exclude the subscription right shall only apply to the extent that the calculatory par value of the new shares together with the calculatory par value of any other shares that may have been issued by the Company since May 29, 2007, excluding the subscription right pursuant to or in accordance with Sec. 186 Para. 3 Sent. 4 of the Stock Corporation Act, on the basis of an ordinary capital increase or authorized capital or following reacquisition, or for which – excluding the subscription right in accordance with Sec. 186 Para. 3 Sent. 4 of the Stock Corporation Act – an exchange or subscription right by means of convertible or warrant-linked bonds has been granted since May 29, 2007, does not exceed ten percent (10%) of the share capital at the time of entry of this authorization into the commercial register or – in case it falls below this value – at the respective time when the authorization is exercised;
- for capital increases against contributions in kind for the granting of shares for the purpose of acquiring companies, parts of companies, interests in companies or other economic assets.

The Supervisory Board is authorized to amend the wording of the Articles of Association after implementation of the capital increase out of the Authorized Capital 2007, in whole or in part, or after the expiration of the authorization period corresponding to the amount of the capital increase out of the Authorized Capital 2007.

With the registration of the conduct of the capital increase in the commercial register as of February 7, 2008, the Company's Authorized Capital (Authorized Capital 2007) has been fully utilized.

Compensation agreements with the Executive Board members in the event of a takeover bid

In case of a change of control, Mr. Nygaard is entitled to terminate his service agreement and would in such case be entitled to receive payment of the fixed compensation amount for the time remaining until his service agreement would have anyhow be terminated.

Compensation Report

The Executive Board of Epigenomics AG consists of the four members Geert Walther Nygaard (CEO), Dr. Kurt Berlin (CSO), Christian Piepenbrock (COO), and Oliver Schacht, Ph.D., (CFO). The Executive Board is responsible for independently managing and running operations, developing and implementing corporate strategy and budgetary planning, appointing and guiding senior management and overseeing 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 would require Supervisory Board approval.

Compensation of the Executive Board

The compensation of the members of the Company's Executive Board is composed of a fixed and a variable amount. The variable amount is determined on the basis of a variety of criteria, including the achievement of individual performance goals and performance goals by the Company, which are set by the Supervisory Board on a yearly basis and put into context of national and international comparables. Compensation takes into account the economic and financial situation as well as size and complexity of international operations and responsibilities. Apart from a fixed and a variable component, there is a third component for their compensation; a long-term performance-based compensation in the form of stock option grants.

In 2007, the aggregate compensation of the members of the Executive Board amounted to EUR 1.3 million. It consisted of EUR 0.8 million in fixed salary and the remainder of EUR 0.5 million in variable and other salary components.

Effective February 1, 2007, the Supervisory Board of Epigenomics AG appointed Geert Walther Nygaard as the Company's Chief Executive Officer with a three-year service contract. Under the terms of his contract, he is entitled to an annual fixed cash compensation of EUR 380 thousand. The contract contains a change of control provision in line with industry standards, allowing him to resign in case of a change of control and entitling him to the remainder of his cash compensation for the duration of the three-year contract as well as immediate vesting of all granted options.

Mr. Nygaard was further entitled to receive weekly flights home for the duration of the first six months of his contract and the reimbursement of his relocation expenses. In addition, he was entitled for the term of the first six months of his contract to privately use an apartment, which was rented by the Company.

To compensate for the forfeiture of the stock option rights granted by his former employer, Mr. Nygaard received a lump sum payment in the amount of EUR 45 thousand by the Company.

The service agreements of all members of the Executive Board contain post-contractual non-compete clauses, each for a period of two years after the service agreement has ended. During such period, Mr. Nygaard is entitled to 100% of his last basic salary as a compensation payment (Karenzentschädigung), whilst the other members of the Executive Board during this period are entitled to 50% of their last base salary.

For Oliver Schacht, Ph.D., Chief Financial Officer, Epigenomics paid rent due to his activity as CEO for Epigenomics, Inc. (Seattle, U.S.A.) in monthly installments for his apartment in Berlin and reimbursed other apartment expenses.

For its Chief Scientific Officer, Dr. Kurt Berlin, Epigenomics paid a life insurance, a casualty insurance and made capital forming payments.

As of December 31, 2007, the members of the Executive Board held a total of 632,589 stock options and 336,600 shares.

The individual compensation is shown below, whereby "other compensation" consists of payments for vacation days not taken and other reimbursed components as mentioned before.

Compensation of the members of the Executive Board

in EUR	Fixed compensation 2007 (2006)	Variable compensation 2007* (2006)	Other compensation 2007 (2006)	**Total compensation 2007 (2006)**
Geert Walther Nygaard (since February 1, 2007) Chief Executive Officer, Berlin (D)	**348,333** (0)	**68,500** (0)	**76,513** (0)	**493,346** (0)
Dr. Kurt Berlin Chief Scientific Officer, Stahnsdorf (D)	**170,319** (135,641)	**97,500** (60,000)	**11,746** (4,500)	**279,565** (200,141)
Christian Piepenbrock Chief Operating Officer, Berlin (D)	**170,000** (135,000)	**93,750** (60,000)	**2,500** (5,000)	**266,250** (200,000)
Oliver Schacht, Ph.D. Chief Financial Officer, Seattle, WA (U.S.A.)	**169,922** (158,501)	**123,750** (59,549)	**11,116** (0)	**304,788** (218,050)
Total compensation 2007	**858,574**	**383,500**	**101,875**	**1,343,949**

* The variable compensation indicated for 2006 shows the effective bonuses earned in 2006 but finally paid out in the following year. The compensation report for 2006 had shown as variable compensation the bonuses, which had been paid out in 2006 but were earned in the year before.

In accordance with Sec. 6.6 Para. 2 of the German Corporate Governance Code, the ownership of shares in the Company or related financial instruments by the Executive Board and the Supervisory Board will be reported if these directly or indirectly exceed 1% of the shares issued by the Company. As of December 31, 2007, the members of the Executive Board held the following numbers of our shares and stock options:

Members of the Executive Board	Owned shares as of Dec 31, 2007 (Dec 31, 2006)	Stock options as of Dec 31, 2007 (Dec 31, 2006)	Exercised options in 2007 (2006)
Geert Walther Nygaard (since February 1, 2007) Chief Executive Officer, Berlin (D)	**0** (0)	**180,000** (0)	**0** (0)
Dr. Kurt Berlin Chief Scientific Officer, Stahnsdorf (D)	**114,750** (114,750)	**146,613** (56,613)	**0** (0)
Christian Piepenbrock Chief Operating Officer, Berlin (D)	**117,300** (117,300)	**146,613** (56,613)	**0** (0)
Oliver Schacht, Ph.D. Chief Financial Officer, Seattle, WA (U.S.A.)	**104,550** (104,550)	**159,363** (69,363)	**0** (0)

Details of stock-based compensation for the Executive Board:

	Options issued as of Dec 31, 2006	Weighted-average exercise price in EUR as of Dec 31, 2006
Geert Walther Nygaard	0	0
Dr. Kurt Berlin	56,613	4.53
Christian Piepenbrock	56,613	4.53
Oliver Schacht, Ph.D.	69,363	4.02
Total Executive Board	**182,589**	

	Options issued on Feb 27, 2007	Total fair value of options granted in 2007 until vesting	Fair value at time at grant in EUR	Weighted-average exercise price in EUR of granted options in 2007	Stock based compensation of all options held in 2007
Geert Walther Nygaard	180,000	205,620	1.14	4.50	111,428
Dr. Kurt Berlin	90,000	102,810	1.14	4.50	62,703
Christian Piepenbrock	90,000	102,810	1.14	4.50	62,703
Oliver Schacht, Ph.D.	90,000	102,810	1.14	4.50	62,703
Total Executive Board	**450,000**	**514,050**			**299,536**

	Options issued as of Dec 31, 2007	Weighted-average exercise price in EUR as of Dec 31, 2007	Vested options as of Dec 31, 2007	Range of exercise price in EUR	Weighted-average exercise price in EUR of vested options as of Dec 31, 2007
Geert Walther Nygaard	180,000	4.50	0	0	0
Dr. Kurt Berlin	146,613	4.51	44,113	4.53	4.53
Christian Piepenbrock	146,613	4.51	44,113	4.53	4.53
Oliver Schacht, Ph.D.	159,363	4.29	56,863	1.76-4.53	3.91
Total Executive Board	**632,589**		**145,089**		

Compensation of the Supervisory Board

Epigenomics AG's Supervisory Board consists of six members. All members have extensive experience in the pharmaceutical, diagnostics and financial industries. Elections of the members of the Supervisory Board took place at the Annual General Shareholders' Meetings held on July 10, 2006, and May 29, 2007.

The Supervisory Board of Epigenomics AG has established two committees: first, an Audit and Corporate Governance Committee, assisting the Supervisory Board in approving all financial statements, commissioning the auditors, choosing appropriate topics for the main focus of the audit, determining the audit fees, and ensuring the independent status of the auditors as well as all aspects of compliance and corporate governance. Second, a Personnel and Compensation Committee, dealing with all aspects of the nomination of Executive Board members, their compensation as well as preparing other compensation-related decisions that require Supervisory Board approval.

The Supervisory Board, upon discussion with the Executive Board, also sets the strategic, financial and business goals for each fiscal year that form the basis for measuring performance of each member of the Executive Board as pertains to the respective variable compensation component.

Members of the Supervisory Board in 2007*

Prof. Dr. Dr. h.c. Rolf Krebs, Mainz (D), Chairman
Former speaker of the Executive Board of Boehringer Ingelheim Pharma GmbH & Co. KG
- Other supervisory board mandates as of Dec 31, 2007: Air Liquide S.A., Ganymed Pharmaceuticals AG, Merck KGaA, Merz GmbH & Co. KGaA, Merz Pharma GmbH & Co. KGaA
- Mandates terminated in 2007: none

Prof. Dr. Dr. Uwe Bicker, Bensheim-Auerbach (D), Deputy Chairman
Associated professor at University of Heidelberg
- Other supervisory board mandates as of Dec 31, 2007: Dade Behring Marburg GmbH (Chairman), Definies AG, Future Capital AG
- Mandates terminated in 2007: none

Bruce Carter, Ph.D., Seattle, WA (U.S.A.) (until March 30, 2007), President & CEO of ZymoGenetics, Inc.
- Other supervisory board mandates as of March 30, 2007: ARK Therapeutics Group plc, QLT Inc., Renovis Inc.
- Mandates terminated in 2007: none

Günter Frankenne, Berg/Neumarkt (D), Managing partner of STRATCON Strategy Consulting
- Other supervisory board mandates as of Dec 31, 2007: 4SC AG, Concentro AG (Chairman), KeyNeurotek AG (Chairman), LCG LifeSciences Consulting Group International AG, November AG (Chairman), Verbena AG
- Mandates terminated in 2007: none

Ann Clare Kessler, Ph.D., San Diego, CA (U.S.A.), Independent consultant
- Other supervisory board mandates as of Dec 31, 2007: MedGenesis Therapeutix, Inc., The Vaccines Company Ltd.
- Mandates terminated in 2007: none

Heino von Prondzynski, Einsiedeln (CH) (since May 29, 2007), Independent consultant
- Other supervisory board mandates as of Dec 31, 2007: BB Medtech AG, Koninklijke Philips Electronics N.V., Qiagen N.V.
- Mandates terminated in 2007: Tecan Group AG

Prof. Dr. Günther Reiter, Pfullingen (D), Professor at European School of Business, Reutlingen
- Other supervisory board mandates as of Dec 31, 2007: Deltoton AG
- Mandates terminated in 2007: none

* The "other supervisory board mandates" indicate memberships in other supervisory boards or domestic and international control boards according to Sec. 125 Para.1 Sent. 3 German Stock Corporation Act.

Compensation of the members of the Supervisory Board

in EUR	Annual retainer compensation 2007	Meeting fees 2007	Compensation as committee chairman 2007	**Total compensation 2007**
Prof. Dr. Dr. h.c. Rolf Krebs	30,000	6,000	5,000	**41,000**
Prof. Dr. Dr. Uwe Bicker	20,000	10,000	0	**30,000**
Bruce Carter, Ph.D.	2,500	0	0	**2,500**
Günter Frankenne	10,000	12,000	0	**22,000**
Ann Clare Kessler, Ph.D.	10,000	12,000	0	**22,000**
Heino von Prondzynski	5,833	8,000	0	**13,833**
Prof. Dr. Günther Reiter	10,000	12,000	5,000	**27,000**
Total compensation 2007	**88,333**	**60,000**	**10,000**	**158,333**

In addition, the members of the Supervisory Board were reimbursed for expenses totaling EUR 25 thousand in 2007.

The compensation approved by the Annual General Shareholders' Meeting has been based on an annual cash retainer, meeting-related fees plus additional payments for committee chairing work. The compensation did not comprise any equity-linked elements or long-term incentive components.

During the reporting year, the members of the Supervisory Board held neither shares nor stock options nor any other convertible instrument nor any other equity-linked compensation entitlement of the Company.

Opportunities and Risks

Partnering risk decreased in screening; clinical risk reduced; clinical and regulatory risks well under control in tissue test development; financing risks significantly decreased by commitment to capital increase;
opportunities through new collaborations.

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 "Corporation Sector Supervision and Transparency Act" ("Gesetz zur Kontrolle und Transparenz im Unternehmensbereich" – KonTraG), Epigenomics has an established, comprehensive and effective system to identify early, assess, communicate and manage risks across all of its functions and operations. The underlying principles and guidelines have been documented in a groupwide "Risk Management Policy". The goal of this policy and all related systems 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 has been regularly discussed and is being developed further at the Executive Board and the Supervisory Board levels.

Core principle is a transparency of risks across functions and businesses, interactive evaluation of these risks and a culture of accepting risks as integral part of doing business in cancer molecular diagnostics, but doing so responsibly and seeking an optimal balance of opportunities and risks. Every risk has a clearly identified "Risk Owner" whose responsibility it is to continuously monitor and control it as well as manage implementation of any countermeasures. At quarterly intervals, these risk owners report to the corporate "Risk Manager" who in turn communicates the risks to the Executive Board and 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.

Hence, our management structure, our organizational forums for identifying and assessing risks, the monthly internal as well as external reporting and our controlling systems all form an integral part of the overall risk management system in a standardized fashion across all functions and locations. All of these tools are regularly monitored for effectiveness and optimized as well as reviewed by our auditors and the Audit and Corporate Governance Committee of our Supervisory Board.

There are a number of major risks that Epigenomics faces, which individually or in combination could severely impact our revenue, earnings and financial position as well as our stock price. These are described below:

Business-related opportunities and risks

We are dependent on our partners, who are partially funding our research and development costs. This is the way we already generate revenue prior to product sales and royalty income. With the end of our Roche collaboration in 2007, we were facing a challenge to find suitable development and commercialization partners for our main IVD products in early cancer detection.

Although we have entered into a nonexclusive partnership with Abbott Molecular Inc. to commercialize a blood-based in vitro diagnostic test for our colorectal cancer, we are still subject to certain risks.

Due to our newly generated collaborations, we could broaden our revenue basis, but all of our partnerships are early-stage and they need to deliver their full commercial potential in the future.

The DNA methylation field has seen significantly intensified competition over the past years. Several competitors have made progress to enter the DNA methylation market or have indicated to be working on DNA-methylation-based research products.

OncoMethylome Sciences S.A., our closest competitor, has independently validated our concept and clearly shown the significant opportunity that lies in a blood-based test for colorectal cancer screening in an early-stage research study.

Epigenomics negotiates with strategic partners to collaborate and license its body-fluid-based early detection tests. The first nonexclusive collaboration agreement with Abbott is a significant step in that direction. It significantly reduces the development and commercialization risk for our key value driver and lead product.

To further mitigate the risk we have also followed a strategy to identify a suitable reference laboratory partner to provide early access to the clinical opinion leaders and the homebrew testing market for our blood-based colorectal cancer tests.

Delays or failure to develop these tests or to continue to have timely and sufficient access to large numbers of high-quality patient samples, failure to obtain regulatory approval, lack of market acceptance and penetration, payor resistance to reimburse our tests would all have material impact on our revenue, earnings, financial position and our ability to raise further capital and can lead to a total loss. Similar risks exist in all other partnered programs as well and might also make the entering into additional alliances harder.

IP-related opportunities and risks

Our business relies heavily on commercializing our intellectual property in the form of know-how as well as licenses to patents and patent applications. Therefore, any negative impact on scope, duration, depth and breadth of claims granted, regional coverage, competing IP that we could depend on, difficulties in enforcing the protection, inadvertently infringing other IP, preventing others from infringing our IP, our ability to inlicense key IP etc., would negatively impact our cost base, our ability to compete as well as to commercialize our products and to close alliances, our revenue and ultimately our earnings and overall commercial success.

At the same time, the progress made in expanding our IP portfolio and getting several key patents for cancer testing (such as our HM technology) granted puts Epigenomics in a unique position to provide attractive licensing opportunities for the growing number of commercial players active in DNA methylation. This opportunity has been underscored by the recent strategic licensing agreements with OncoMethylome Sciences S.A. and DxS Ltd. Epigenomics stands to benefit from upfront licensing fees, minimum annual royalty payments as well as running royalties on product sales mid to long term.

Opportunities and risks related to the regulatory environment

The regulatory environment in cancer molecular diagnostics is evolving rapidly and this could significantly impact the timing, cost and our ability to meet such regulatory standards. In parts, the regulatory frameworks are not fully established or clarified as evidenced by a recent warning letter by the U.S. FDA sent to Exact Sciences. This in turn could negatively impact on revenue generation and put a burden on our cost base, earnings and financial position as well as ability to compete effectively. To mitigate this risk, we have established a corporate function dealing with quality systems as well as clinical and regulatory affairs. Besides this, we will be supported by experienced advisors to prepare the organization for any potential issues. Seeking an early dialog with the U.S. FDA and other relevant authorities is an integral part of our risk management policies.

To that end, we have made excellent progress in establishing a productive dialog with the regulatory bodies including a very successful early collaboration meeting held jointly by our partners and Epigenomics with the U.S. FDA in late December 2007. The opportunity to take a first DNA-methylation-based molecular diagnostic test through large clinical trials lies before Epigenomics and its partners.

Financial opportunities and risks

As of December 31, 2007, our available liquidity amounted to EUR 10.0 million. To ensure availability of sufficient liquidity for our current and expected future cash consumption, the need to augment our financial position is obvious. With the successful completion of the capital increase on February 7, 2008, yielding gross proceeds of EUR 13.5 million, the financing risk has been substantially reduced.

Operating in Germany as well as in the United States means we are subject to a foreign exchange rate risk even though it is almost exclusively limited to the euro/U.S. dollar relation. We monitor this risk on a regular basis and evaluate as the cases arise whether hedging transactions could minimize the exposure. We also take advantage of the opportunities that lie in higher interest rates in the U.S. dollar compared to the euro wherever possible within our investment policies.

Our portfolio of securities faces price risks in the form of interest rate, issuer and impairment risks. Our investment policy stipulates to open only positions with an “investment grade” rating. In close cooperation with our banks, advisors, the Audit and Corporate Governance Committee of the Supervisory Board we aim continuously at finding an appropriate balance between exposure to these risks, obtaining a sufficient interest yield and minimizing our U.S. dollar currency exposure whilst benefiting from opportunities within these confines.

Further, all investments in marketable securities have been made under the Company’s investment policy, which is approved by the Supervisory Board. The securities must be nominated in euro currency to limit currency risks, and an “investment grade” rating for the issuer or the security itself is mandatory to limit credit risks.

Other opportunities and risks

We continuously monitor all applicable environmental, health and safety, operational as well as other applicable statutory or 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 manifold 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 external as well as internal experts in each of these areas. Wherever appropriate and indicated, we set aside provisions to cover any potential liability.

There are risks particularly associated with our stock: the large holdings of a small number of institutional shareholders in Epigenomics shares; comparatively low levels of liquidity in the stock; very high volatility based on all of the above-described factors, as well as external influences and negative perceptions by others of any share sale. However, at the same time, the existing shareholdings in Epigenomics' stock provide the opportunity to have a very interactive dialog with key shareholders on a regular basis.

There could potentially be other risks as well as significant opportunities beyond the ones described here that we currently either deem insignificant or are not aware of at the time of this report.

Prognosis Report

In the reporting year, we have entered into a nonexclusive collaboration and license agreement with Abbott Molecular Inc. for the development of a blood-based colorectal cancer test based on Septin 9. This agreement also includes options for developing a number of nonvalidated and validated markers in different cancer indications. The agreement is our first collaboration agreement for the commercialization of our blood-based Septin 9 colorectal cancer test and we continue looking for partnerships with other diagnostics companies. In January 2008, we have signed a license agreement for MethyLight, HeavyMethyl® and other technologies with OncoMethylome Sciences S.A. and we are presently in discussions with several potential future IVD partners as well as reference laboratory partners. These discussions cover all our current cancer screening programs.

As part of our early marketing, we also strive to make available RUO versions of selected biomarkers, DNA methylation kits and assays to customers wishing to build in-house methylation testing expertise. We expect to do so by a mix of direct marketing and sales activities as well as working with distributors and other partners.

Over the next two years, we expect to see the completion of our large, prospective clinical study in colorectal cancer screening with an expected number of samples to be collected in excess of 5,000. This study if executed as planned is expected to allow Abbott to progress its product development for a CE-marked kit for a European launch in 2009 as well as a PMA filing with the FDA in the United States in 2010.

We also expect our reference laboratory partner to begin running and to make available the blood-based Septin 9 assay in late 2008. Similarly, we anticipate the launch of our tissue-based prostate cancer molecular classification test (PCMCT) not before the second half of 2008 after completion of the currently running clinical studies. First moderate revenue from sales of our RUO kits as well as royalties on reference laboratory test sales are expected not before 2009. Significant revenue and royalty income on IVD product sales is not expected before 2010 when the first partner(s) get their IVD test kits launched and commercially accepted and see significant revenue growth.

With a continued growth of ageing populations in all major markets there is very little dependency on macroeconomic cycles. However, reimbursement decisions by healthcare providers, early detection guideline inclusion and national support and initiatives for early cancer screening will be paramount to drive acceptance and ultimately commercial success of our products. And further extensions of our non-exclusive IVD collaborations should substantially contribute to that.

For 2008 as well as 2009, we expect modest increases in revenue due to additional partnerships and licensing agreements being closed as well as initial RUO test kit sales as described above. With a more commercially focused approach, we anticipate other income from research grants to be at lower levels compared to previous years and to remain at such lower levels over the next few years. Given an expected stringent financial discipline and continued organizational development towards becoming a development- and market-driven cancer molecular diagnostics company, we would expect EBIT and net loss to be improving in the next 24 months. Cash burn from operating activities will continue to be a prevailing theme for 2008 and 2009 albeit at somewhat lower levels compared to 2007. In order for Epigenomics to reach a sustainable and profitable business, we would require the IVD products of our partner Abbott as well as of other future partners to have been launched successfully and to have gained significant traction.

Consolidated Financial Statements

Group Income Statement

for the period from January 1 to December 31, 2007

EUR thousand	Notes	2007	2006
Revenue	1	**2,567**	**3,504**
Cost of sales	2	-874	-5,020
Gross profit	2	**1,693**	**-1,516**
Other income	3	1,355	1,938
Research and development costs	4, 5	-10,471	-8,702
Marketing and business development costs	4, 6	-1,286	-2,719
General and administrative costs	4, 7	-4,315	-4,076
Other expenses	9	-480	-686
Operating result (EBIT)	10	**-13,504**	**-15,761**
Financial result	11	601	674
Net loss for the year before taxes on income		**-12,903**	**-15,086**
Taxes on income	12	-248	-316
Net loss for the year		**-13,151**	**-15,402**
Earnings per share (basic and diluted) in EUR	13	**-0.74**	**-0.92**

Group Balance Sheet

as of December 31, 2007

ASSETS EUR thousand	Notes	Dec 31, 2007	Dec 31, 2006
Non-current assets			
Intangible assets	15	6,084	6,524
thereof: goodwill	15	*2,625*	*2,625*
Tangible assets	16	1,208	2,050
Financial assets	17	1,000	1,000
Deferred taxes	19	778	985
Total non-current assets		**9,070**	**10,559**
Current assets			
Inventories	20	237	199
Trade and other receivables	22	439	319
Marketable securities	23	3,370	4,775
Cash and cash equivalents	24	6,646	12,566
Other current assets	25	3,152	1,715
Total current assets		**13,844**	**19,575**
Total assets		**22,914**	**30,134**

EQUITY AND LIABILITIES EUR thousand	Notes	Dec 31, 2007	Dec 31, 2006
Equity	26		
Subscribed capital	26	18,253	16,916
Capital reserve	27	13,712	25,294
Net loss for the year		-13,151	-15,402
Other comprehensive income	28	-993	-610
Total equity		**17,821**	**26,198**
Current liabilities			
Trade payables		1,562	1,255
Liabilities from leasing contracts		0	4
Deferred income	30	637	912
Other liabilities	31	2,354	951
Provisions	32	540	813
Total current liabilities		**5,093**	**3,935**
Total equity and liabilities		**22,914**	**30,134**

Group Cash Flow Statement

for the period from January 1 to December 31, 2007

EUR thousand	Notes	2007	2006
Operating activities	33		
Net loss for the year before taxes on income		**-12,903**	**-15,086**
Corrections for:			
Depreciation on tangible assets	16	788	1,107
Amortization of intangible assets	15	458	461
Losses (2006: gains) from the disposal of assets		16	-1
Stock option expenses	8	457	85
Foreign currency exchange losses		68	53
Price losses of securities		0	128
Other financing expenses		0	6
Interest income	11	-629	-897
Interest expenses	11	30	33
Taxes		-259	-158
Operating result before changes in net current assets		**-11,974**	**-14,269**
Increase (2006: decrease) in trade receivables and other current assets		-1,670	453
Increase (2006: decrease) in inventories		-38	9
Increase (2006: decrease) in current liabilities		1,580	-1,517
Liquidity earned from operating activities		**-12,102**	**-15,324**
Interest received		586	946
Cash flow from operating activities		**-11,516**	**-14,378**
Investing activities	34		
Payments for investments in tangible assets		-37	-1,211
Proceeds from the sale of non-current assets		1	0
Proceeds from investment grants	14	93	139
Payments for investments in intangible assets		-29	-234
Proceeds from the sale of marketable securities		1,021	4,913
Payments for the purchase of marketable securities		0	-997
Cash flow from investing activities		**1,049**	**2,610**
Financing activities	35		
Payments for the creation of new shares		-316	-85
Payments for lease financing		0	-40
Proceeds from the issue of new shares	26	4,861	0
Proceeds from the exercise of stock options	41	2	932
Cash flow from financing activities		**4,547**	**807**
Cash flow		**-5,920**	**-10,961**
Cash and cash equivalents at the beginning of the year		**12,566**	**23,519**
Currency adjustments		0	8
Cash and cash equivalents at the end of the year	24	**6,646**	**12,566**

Statement of Changes in Group Equity

as of December 31, 2007

EUR thousand	Notes	Subscribed capital	Capital reserve	Retained earnings	Net loss for the year	Other compreh. income	**Group equity**
Dec 31, 2006		**16,916**	**25,294**	**-15,402**	**0**	**-610**	**26,198**
Net loss for the year 2007		0	0	0	-13,151	0	-13,151
Fair value adjustments of securities	28	0	0	0	0	-383	-383
Total comprehensive income		**0**	**0**	**0**	**-13,151**	**-383**	**-13,534**
Capital increase from the issue of shares	26	1,336	0	0	0	0	1,336
Premium from the issue of shares	26	0	3,526	0	0	0	3,526
Financing costs		0	-164	0	0	0	-164
Exercise of stock options	41	1	1	0	0	0	2
Stock-based compensation	8	0	457	0	0	0	457
Deduction of net loss for the year 2006		0	-15,402	15,402	0	0	0
Transfer of net loss for the year 2007 to retained earnings		0	0	-13,151	13,151	0	0
Dec 31, 2007		**18,253**	**13,712**	**-13,151**	**0**	**-993**	**17,821**

EUR thousand	Notes	Subscribed capital	Capital reserve	Retained earnings	Net loss for the year	Other compreh. income	**Group equity**
Dec 31, 2005		**16,403**	**32,072**	**-8,788**	**0**	**-312**	**39,375**
Net loss for the year 2006		0	0	0	-15,402	0	-15,402
Fair value adjustments of securities	28	0	0	0	0	-298	-298
Total comprehensive income		**0**	**0**	**0**	**-15,402**	**-298**	**-15,700**
Capital increase from the issue of shares		305	0	0	0	0	305
Premium from the issue of shares		0	1,286	0	0	0	1,286
Financing costs		0	-85	0	0	0	-85
Exercise of stock options		208	725	0	0	0	933
Stock-based compensation	8	0	85	0	0	0	85
Deduction of net loss for the year 2005		0	-8,788	8,788	0	0	0
Dec 31, 2006		**16,916**	**25,294**	**0**	**-15,402**	**-610**	**26,198**

Notes to the Consolidated Financial Statements

Basic Information, Principles and Methods

Description of business activity

Epigenomics ("Epigenomics" or the "Company") was founded as a limited liability company (GmbH) in 1998 and has its headquarters in Berlin, Germany. In 2000, the Company was converted into a stock corporation (AG) and entered into the commercial register ("Handelsregister") Charlottenburg under HRB 75861. Since July 19, 2004, it is listed in the Prime Standard segment of the Frankfurt Stock Exchange (ticker symbol: ECX).

In accordance with its Articles of Incorporation, 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. The focus of the Company lies on the development of novel diagnostic products for cancer.

General principles

The consolidated financial statements of Epigenomics AG have been prepared according to Article 315a of the German Commercial Code ("HGB") and the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB), London, in effect at the closing date December 31, 2007, as mandatorily applicable in the European Union. Further, these statements are in accordance with the German Accounting Standards (GAS).

The going concern principle according to IAS 1.23 has been considered.

The reporting period as defined in these consolidated financial statements is the period from January 1, 2007, to December 31, 2007. The reporting currency is the euro.

The income statement has been prepared using the cost of sales method.

New and revised IFRS standards and interpretations effective in the reporting period

In the reporting year, Epigenomics (the "Group") has adopted the new standard IFRS 7 *Financial Instruments*: *Disclosures* which is effective for annual reporting periods beginning on or after January 1, 2007, and the consequential amendments to IAS 1 *Presentation of Financial Statements*. The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital.

In 2007, five new interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) became effective for the reporting period (IFRIC 7, IFRIC 8, IFRIC 9, IFRIC 10 and IFRIC 11). None of those interpretations has led to any changes in the Group's accounting policies.

The Group has elected not to adopt IAS 23 (revised) *Borrowing Costs*, IFRS 8 *Operating Segments* and the interpretations IFRIC 12, IFRIC 13 and IFRIC 14 in advance to their mandatory effective dates (January 1, 2008, July 1, 2008, and January 1, 2009, respectively) as those standards and interpretations would have no impact on its accounting policies.

Management's judgment 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 valuation of goodwill, 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 based on a scenario of moderate economic growth in the major countries (G-8 countries and Australia) over the next three to five years. The euro currency is expected to remain stable and strong vis-à-vis the U.S. dollar. Major changes in the legislation of the major countries that could significantly affect the biotechnological industries are not assumed. Changes in the tax laws of Germany and the U.S.A. are also not anticipated. All future scenarios further assume an essentially unchanged access to relevant clinical and biological data and resources for the execution of the Company's commercial projects.

Consolidation group

The consolidated Group includes Epigenomics AG as the parent company (principal office: Kleine Präsidentenstrasse 1, 10178 Berlin, Germany) and Epigenomics, Inc. (principal office: Suite 300, 1000 Seneca Street, Seattle, WA 98101, U.S.A.), its wholly owned subsidiary.

For the reporting year, the two companies have submitted individual audited financial statements independent of their consolidation.

Principles of consolidation

In the consolidation of capital, the acquisition values of the investment are balanced with the share of equity capital of the subsidiary applicable to them on the date of acquisition. A resulting difference is added to the assets and liabilities in the amount in which their current market value deviates from their carrying value. An amount in excess is capitalized as goodwill.

All intercompany transaction results, revenue, expenses, profits, receivables and payables are eliminated in full on consolidation.

Accounting and valuation principles

Goodwill

Goodwill arising on acquisition is initially recognized as an asset at cost and subsequently measured at cost less any accumulated impairment losses. Therefore, the goodwill has to undergo an impairment test at least once a year according to IFRS 3 *Business Combinations* in connection with IAS 36 *Impairment of Assets*. The regular application of this impairment test is scheduled by the end of each calendar year, subsequent to the annual budgeting process of the Company. The recorded goodwill has been allocated to the Group's screening business as cash-generating unit (CGU). The impairment test compared the net carrying value of the assets of the screening business to their value in use. The value in use has been defined as the discounted future cash flows of this business.

Management's expectations regarding the future cash flows of the screening business were based on the most recent business plans and are, however, subject to risks and uncertainty. In previous years, expectations were based on the Company's collaboration with its former key customer Roche and on the assumption that new product developments would be started within this cooperation. In December 2006, the collaboration with Roche was terminated, but in 2007 the Company's main value driver – the colorectal cancer IVD test – has been licensed for its further development and its worldwide commercialization to Abbott Molecular Inc. Based on this new collaboration, the product development plans of the Company's screening business have been amended accordingly and now present the fundament of the capitalized goodwill (for the generally underlying assumptions to the aforementioned business plan see also "Management's judgments and expectations"). All of those assumptions are key sources of estimation uncertainty and bear a significant risk of causing a material adjustment to the carrying amounts of the capitalized goodwill. However, no impairment of the capitalized goodwill has been determined in 2007.

Intangible assets

Other intangible assets than goodwill are valued at acquisition cost less scheduled amortization on a straight-line basis. Depending on the investment, useful life will be defined between three years (software) and twenty years (patents). For patents, the useful life in individual cases depends on the term of the patent protection. Amortization of intangible assets is allocated 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 financial advantage is associated with the use of such asset and that its cost can be reliably determined.

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 according to IAS 38.57 have been fulfilled:

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

The amount initially recognized for the capitalization of development costs is the sum of expenditure incurred from the date when the intangible assets first meet 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.

Tangible assets

Tangible assets are measured at acquisition or production cost, less scheduled depreciation caused by usage. Apart from directly attributable costs, pro rata overhead cost and depreciation are also included in the production costs of internally produced equipment. Public and governmental investment grants lower acquisition or production cost. Interest on third-party capital is not included in production cost. Repair costs are immediately calculated as an expense. Depreciation for leasehold improvements is applied on a straight-line basis over the remaining term of the underlying leases. Mobile fixed assets are depreciated in principle on a straight-line basis. The useful life is three to eight years for technical and electronic equipment and five to ten years for operational and office equipment.

In the “Assets schedule” (item 18), fully depreciated tangible assets are shown under acquisition/production cost and accumulated depreciation until the assets in question are decommissioned. In the case of disposal, assets and related depreciation are eliminated from the accounts. Income or expense resulting from the disposal of assets (proceeds less residual carrying value) is shown in the statement of operations under other income/other expenses.

Investment grants and subsidies are offset directly against the subsidized assets, i.e. the asset value is reduced. The grant is thus liquidated by depreciation of the reduced investment over the remaining term.

If the value of the tangible capital assets calculated according to the above principles exceeds the fair value of these assets on the closing date, it will be taken into account by means of an unplanned depreciation. The amount to be adjusted is determined by sale proceeds or – if higher – the net present value of future cash flows estimated from value in use of the asset. An impairment test will be done annually for assets or groups of assets for which an unplanned decrease in value is assumed. If there is no longer any reason for unplanned depreciation, an appreciation will take place.

Deferred taxes

Deferred taxes are calculated according to the rules of IAS 12 *Income Taxes* and are recognized for temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax balance sheets of the companies involved. Further, deferred tax assets are recognized from tax loss carryforwards to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future. If such a realization is not probable, a valuation allowance is recognized against the tax loss carryforwards.

Deferred tax assets and liabilities are measured at the local tax rates enacted or the rates, which are expected to apply at the time of realization. Deferred tax assets and liabilities are offset only if they are subject to compensation with regard to the same tax authority and if the Group intends to settle its current tax assets and liabilities on a net basis.

Inventories

Inventories comprise mainly of cell tissue samples and low-value consumables and materials. They are valued at the lower of acquisition cost and net realizable value. For the balance sheet date, a physical inventory of all consumables and materials was taken.

Primary financial instruments

The reported primary financial instruments comprise of cash and cash equivalents, marketable securities, trade receivables, trade payables and other liabilities. Those instruments are initially recognized at acquisition costs or at fair value and then at amortized acquisition costs or at their fair value.

Financial assets held to maturity

Financial assets held to maturity are shown under non-current financial assets, recognized at their amortized cost, using the effective interest method less any impairment losses. If such financial assets are disposed of or are determined to be impaired, the realized differentials are recognized through profit or loss. Impairment is determined when the fair value of a financial asset falls significantly below its amortized acquisition cost and the resulting differential is expected to be permanent.

Marketable securities

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

Derivative financial instruments

Derivative financial instruments are carried at fair value and accounted for at trade date. As a matter of principle, the fair values of derivative financial instruments correspond to the market values. For unlisted derivatives the fair values are determined by individual settlement quotes from the Company's house banks. Changes in the fair value of derivative financial instruments are recognized through profit or loss.

Impairment of financial assets

At the balance sheet date, a financial asset, other than those at FVTPL, is measured whenever there is an indication that the asset might be impaired. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

The carrying amount of a financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

Cash equivalents

A cash equivalent is defined as a financial instrument being readily convertible on a short-term basis to a known amount of cash and carrying an insignificant risk of changes in value (IAS 7.6). Financial instruments generally qualify as cash equivalents when they are more closely related to the money markets than to the bond markets (for example: money market funds) and are issued by a debtor rated "investment grade". All such cash equivalents must be convertible into primary cash at any time.

Prepaid expenses
Payments before the balance sheet date, which will be expenses for a specific period after that date, are deferred and reported as prepaid expenses in other current assets.

Current liabilities
Liabilities are classified as current when certain criteria in accordance with IAS 1.60 are met. Basically, the Company's normal operating cycle according to this definition is twelve months. Liabilities are measured at amortized costs which are basically equivalent to their fair values.

Trade payables
Trade payables are derecognized if the obligation on which this liability is based is fulfilled or cancelled. Foreign currency liabilities are recognized at market rates at the reporting date.

Deferred income
Deferred income is recognized for grants and research and development payments ("R&D payments") received in advance. Grants received in advance that were provided by governmental or comparable central, regional or local authorities, are recognized through profit or loss over the subsidized terms of each project according to its progress of fulfillment. R&D payments received in advance from customers are deducted and recognized through profit or loss over the term of the contract according to the progress of fulfillment.

Provisions
In accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, a provision is recognized if a present obligation as a result of a past event exists, if it is probable that an outflow of resources embodying benefits will be required to settle this obligation and if a reliable estimate of the amount of the obligation can be made. 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. Where 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.

Revenue recognition
Revenue from research and development collaboration agreements is recorded and recognized in accordance with the applicable performance requirements and terms of the respective contracts as contract research costs are incurred, using the percentage of completion method.

Milestone payments are recognized as revenue according to the milestone payment method. Revenue under the milestone payment method is recorded and recognized when acknowledgement of having achieved applicable performance requirements is received from the partner.

Nonrefundable upfront payments are deferred and recognized on a straight-line basis over the contractual collaboration term. Optional prolongation terms are considered individually according to the underlying exercise conditions and anticipated likelihood of their exercise.

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

Revenue from the sale of products and the rendering of other services is recognized when delivery has taken place, transfer of risk has been completed, the amount of future returns can be reasonably estimated and collection of the receivable is probable.

Stock option expenses
The fair value of granted stock options is calculated using the Black-Scholes option pricing model and is expensed over the expected option term of up to four years against the capital reserve. According to IFRS 2.11, the valuation date is the grant date.

Management judgments in the application of accounting policies/assumptions and estimates
The preparation of the consolidated financial statements in compliance with International Financial Reporting Standards requires, in the case of several items, that assumptions or estimates be made that affect the valuation in the Group's balance sheet and/or income statement. This also applies to the listing of contingent assets and liabilities. The actual amounts may vary from these assumptions and estimates.

In particular, assumptions and estimates are required for:
- determining, if the criteria for the capitalization of development costs are met and the recoverability of internally generated intangible assets;
- testing a potential impairment of assets (especially regarding intangible assets like goodwill and licenses);
- determining the terms of inlicensed intellectual property rights;
- determining the useful lives of tangible and intangible non-current assets;
- determining, if deferred taxes are realizable;
- determining, if securities classify as "held to maturity", "available for sale" or "at fair value through profit or loss";
- determining the fair value of financial instruments;
- setting the parameters regarding the valuation of stock option grants and
- accounting for provisions (especially the determination of the likelihood of occurrence).

Segment reporting

As a consequence of the Company's reorganization in fall of 2006 and following changes in its business model, the management of the Company had decided to give up the distinction into separate strategic business units and accordingly the segment reporting with the annual report of 2006. Further explanations to this decision can be found in the relevant section of the annual report 2006. Therefore, no segment report is included in the present annual report for 2007.

Currency translation

In the individual financial statements, receivables and liabilities in foreign currencies are valued using the corresponding euro reference rate issued by the European Central Bank on the last business day prior to the closing date. Items that are hedged by forward transactions are valued at the forward price.

For consolidation purposes, the reporting currency of the U.S.-based Epigenomics, Inc. is the euro as well. Therefore, the translation risk from Epigenomics, Inc.'s functional currency (U.S. dollar) to the Group's presentation currency (euro) lies completely in the separate financial statements of this subsidiary and not in its consolidation.

Exchange rate differences are recognized through profit or loss.

The exchange rate of the U.S. dollar, the only major foreign currency in the consolidated financial statements, changed during the reporting year as follows:

EUR/USD	Dec 31, 2007	Dec 31, 2006
Reporting date rates	1.4721	1.3170

EUR/USD	2007	2006
Average rates	1.3797	1.2630

Notes to the Group Income Statement

1. Revenue

Total revenue in 2007 decreased to EUR 2,567 thousand from EUR 3,504 thousand in the previous year. Of total revenue, 79% was generated from European customers and 21% from customers in North America.

in % of total revenue	2007	2006
R&D payments	54	62
Royalty income	27	2
Reimbursements	14	22
Milestone revenue	5	0
Other	0	14
Total	**100**	**100**

2. *Cost of sales/gross profit*

Cost of sales include the material and personnel expenses, IP costs and depreciation that can be directly allocated to the sales revenue, as well as pro rata overheads.

Due to a significantly higher share of revenue from licensing – with low direct costs – than in the previous year, gross profit increased to EUR 1,693 thousand (2006: EUR -1,516 thousand). This translates into an increased gross margin of 66% (2006: -43%).

3. *Other income*

EUR thousand	2007	2006
Third-party research grants	744	1,250
Income from liquidation of provisions	230	235
Exchange gains from currency conversion	138	292
Various refunds	77	42
Income from subleasing	46	3
Income from the sale of assets	37	2
VAT refund for previous years	27	0
Insurance recoveries	25	55
Income from option exercises	0	45
Other	31	14
Total	**1,355**	**1,938**

4. *Cost analysis*

2007

EUR thousand	Materials/ consumables	Depreciation and amortization	Personnel costs	Other costs	Capitalized development costs	Total
Cost of sales	197	42	184	451	0	874
R&D costs	1,433	1,093	5,156	2,794	-5	10,471
M&BD costs	0	2	753	531	0	1,286
G&A costs	0	109	2,058	2,148	0	4,315
Total costs	**1,630**	**1,246**	**8,151**	**5,924**	**-5**	**16,946**

2006

EUR thousand	Materials/ consumables	Depreciation and amortization	Personnel costs	Other costs	Capitalized development costs	Total
Cost of sales	1,142	275	1,803	1,800	0	5,020
R&D costs	1,393	918	4,605	1,786	0	8,702
M&BD costs	0	159	915	1,645	0	2,719
G&A costs	1	216	1,619	2,240	0	4,076
Total costs	**2,536**	**1,568**	**8,942**	**7,471**	**0**	**20,517**

5. *Research and development costs (R&D costs)*

The following are recorded as research and development costs:

- the direct personnel and material expenses of the R&D divisions;
- the depreciation and amortization of the R&D divisions;
- the other direct expenses of the R&D divisions;
- the pro rata overheads of the R&D divisions.

6. *Marketing and business development (M&BD costs)*

The following are recorded as marketing and business development costs:

- the direct personnel and material expenses of the M&BD divisions;
- the depreciation and amortization of the M&BD divisions;
- the other direct expenses of the M&BD divisions;
- the pro rata overheads of the M&BD divisions.

7. *General and administrative costs (G&A costs)*

The following are recorded as general and administrative costs:

- the direct personnel and material expenses of the administrative divisions;
- the depreciation and amortization of the administrative divisions;
- the other direct expenses of the administrative divisions;
- the pro rata overheads of the administrative divisions;
- the Company's statutory costs,

if the costs listed are not carried forward as internal services. The administrative divisions comprise the business departments and the systems administration.

8. *Personnel costs*

EUR thousand	2007	2006
Personnel remuneration	6,742	7,611
Stock option expenses	457	85
Social security expenses	952	1,246
Total personnel costs	**8,151**	**8,942**
Employees (average)	121	145
Personnel costs/employee	67.4	61.7

Social security expenses include the employer's contribution to the national German pension fund (EUR 318 thousand) and contributions to a 401(k) savings plan in the U.S.A. (EUR 88 thousand).

9. Other expenses

EUR thousand	2007	2006
Exchange losses from currency conversion	363	595
Expenses related to former periods	58	90
Write-downs of doubtful receivables	52	0
Other	7	1
Total	**480**	**686**

10. Operating result (EBIT)

In the reporting year, the recorded operating loss before interest and taxes (EBIT) of EUR 13,505 thousand was significantly lower than the loss before interest and taxes in 2006 (EUR 15,761 thousand). In 2007, the operating loss before interest, taxes, depreciation and amortization (EBITDA) decreased by approximately 14% from EUR 14,193 thousand to EUR 12,259 thousand.

11. Financial result

EUR thousand	2007	2006
Interest and related income	**629**	**897**
interest from held-to-maturity investments	4	16
interest from available-for-sale financial assets	205	267
Dividends from available-for-sale financial assets	0	70
Interest from cash and cash equivalents	390	524
Interest from receivables	30	0
Interest from derivative instruments	0	20
Interest expenses	**-30**	**-33**
Interest expenses for derivative instruments	-30	-30
Other interest expenses	0	-3
Other financial income	**30**	**42**
Fair value adjustment for available-for-sale financial assets	4	42
Fair value adjustment for derivative instruments	26	0
Other financial expenses	**-28**	**-232**
Fair value adjustment for available-for-sale financial assets	0	-117
Fair value adjustment for derivative instruments	0	-71
Premium paid on cash equivalents	-25	-24
Other finance costs	-3	-20
Financial result	**601**	**674**

12. Income taxes

The income taxes in the amount of EUR 248 thousand (2006: EUR 316 thousand) comprise taxes recorded by the Company's U.S. subsidiary in Seattle.

EUR thousand	2007	2006
Current tax expenses	40	43
Deferred tax expenses	208	273
Total taxes on income	**248**	**316**

Deferred tax expenses in the amount of EUR 8 thousand were calculated for the reporting period for Epigenomics, Inc., resulting from temporary valuation differences between IFRSs and U.S. tax law. Deferred taxes due to tax loss carryforwards led to deferred tax expenses of EUR 200 thousand.

Since the reporting year, Epigenomics, Inc. utilizes the deferred tax assets capitalized in the year 2005. Deferred tax income was calculated on the basis of its tax loss carryforwards as a consequence of the existing transfer price agreement between the German Epigenomics AG and its U.S. subsidiary. The usage of the cost plus method according to this agreement leads to a guaranteed annual profit for Epigenomics, Inc., so that a utilization of its tax loss carryforwards in the foreseeable future is sufficiently probable. A tax rate of 34% was applied.

For the reporting period, deferred tax expenses in the amount of EUR 619 thousand were calculated for Epigenomics AG resulting from temporary valuation differences between IFRSs and German tax law. Those differences are mainly related to the valuation of securities, payroll provisions and exchange rate differences. In this connection, the total tax rate of 39% as applied in previous years was replaced by the new rate of 30% as a consequence of the German corporation tax reform which became effective in 2008.

For the reporting period, deferred tax income in the amount of EUR 162 thousand was calculated for Epigenomics AG resulting from temporary valuation differences between German trade law and German tax law. Those differences are mainly related to the valuation of payroll provisions, exchange rate differences and interest income. In this connection, the total tax rate of 39% as applied in previous years was replaced by the new rate of 30% as a consequence of the German corporation tax reform which became effective in 2008. Because of the valuation allowances made on the deferred tax assets this reduction of the applicable tax rate had no further impact.

Since its inception through December 31, 2006, the Company's tax loss carryforwards in Germany have built up to approximately EUR 65 million (for corporate taxation) and to approximately EUR 64 million (for trade taxation). In addition, the Company expects to increase its cumulated tax losses significantly with the filing of its tax returns for 2007. As the deductibility of the tax loss carryforwards has been partly challenged by the German tax authorities in the past, it is not certain to which extent these carryforwards will lead to deferred tax income in the future.

Since all the aforementioned matters must be settled with the same fiscal authority, in accordance with IAS 12.71 et seq., a balancing of the respective income and expenses has been performed. The deferred net tax income resulting from this balancing amounts to EUR 1,680 thousand. As the current forecasts of the Company with regard to achieving the breakeven point are still subject to significant uncertainty, valuation allowances have been recognized for all of the net deferred tax assets.

The relationship between income taxes and the net loss before taxes on income leads to an effective tax ratio of 2%.

13. Earnings per share

The earnings per share (basic) are calculated by dividing the Group's net loss for the year by the weighted-average number of shares issued.

	2007	2006
Net loss for the year in EUR thousand	-13,151	-15,402
Weighted-average number of shares issued	17,807,258	16,686,707
Earnings per share (basic and diluted) in EUR	-0.74	-0.92

The outstanding stock options granted by the Company are antidilutive according to IAS 33.41 and 33.43. Therefore, the earnings per share (diluted) equal the earnings per share (basic). The number of shares issued as of the balance sheet date amounts to 18,252,824.

Notes to the Group Balance Sheet

Non-current assets

14. Investment subsidies

In the reporting period, investment subsidies affecting the carrying values were received by Epigenomics AG in Germany in the amount of EUR 93 thousand (2006: EUR 139 thousand). This relates to a government investment grant for investments in tangible assets ("Investitionszulage").

15. Intangible assets

EUR thousand		Software	Licenses/patents	Goodwill	Development costs	**Total intangible assets**
Jan 1, 2007	Acquisition costs	652	5,236	3,351	0	9,239
	Additions	14	0	0	5	19
	Disposals	0	0	0	0	0
Dec 31, 2007	**Acquisition costs**	**666**	**5,236**	**3,351**	**5**	**9,258**
Jan 1, 2007	Accumulated amortization	410	1,580	726	0	2,716
	Additions	143	315	0	0	458
	Disposals	0	0	0	0	0
Dec 31, 2007	**Accumulated amortization**	**553**	**1,895**	**726**	**0**	**3,174**
Dec 31, 2007	**Carrying values**	**113**	**3,341**	**2,625**	**5**	**6,084**
Dec 31, 2006	Carrying values	243	3,656	2,625	0	6,524

The licenses and patents listed represent mainly acquisition costs for acquired patents and exclusive rights of use to property rights of third parties. Those acquisition costs are usually caused by upfront payments. The majority of the licenses require the Company to pay additional annual minimum fees that are expensed immediately. The license contracts may usually be cancelled at short notice. However, some of those licenses are vital for the Company's business model.

In December 2007, the capitalized goodwill was tested for impairment in order to comply with IFRS 3 and IAS 36. It had originated in the acquisition of Orca Biosciences (now: Epigenomics, Inc.) in 2001 and is assigned in content to the Company's screening business as the relevant cash-generating unit. The Company's current business plan projections for the screening business were used for the test. According to this plan, future cash inflows will be generated in a partnering model from milestone payments, R&D payments and royalty income. All future cash flows are measured by the net present value method. Following the termination of the Roche collaboration, the appropriate discount rate, which has been applied in the reporting year, was 25%. No impairment had to be recognized.

16. Tangible assets

EUR thousand		Fixtures/leasehold improvements	Technical equipment	Other fixed assets	**Total tangible assets**
Jan 1, 2007	Acquisition costs	821	6,600	77	7,498
	Additions	28	-81	-1	-54
	Disposals	-3	-900	-1	-904
Dec 31, 2007	**Acquisition costs**	**846**	**5,619**	**75**	**6,540**
Jan 1, 2007	Accumulated depreciation	675	4,722	51	5,448
	Additions	90	691	7	788
	Disposals	-3	-900	-1	-904
Dec 31, 2007	**Accumulated depreciation**	**762**	**4,513**	**57**	**5,332**
Dec 31, 2007	**Carrying values**	**84**	**1,106**	**18**	**1,208**
Dec 31, 2006	Carrying values	146	1,878	26	2,050

Investment subsidies ("Investitionszulage") amounting to EUR 108 thousand for capital expenditures in 2006 have been claimed in the reporting period.

17. Financial assets

EUR thousand		Securities held to maturity	**Total financial assets**
Jan 1, 2007	Acquisition costs	1,000	1,000
	Additions	0	0
	Disposals	0	0
Dec 31, 2007	**Acquisition costs**	**1,000**	**1,000**
Jan 1, 2007	Accumulated depreciation	0	0
	Additions	0	0
	Disposals	0	0
Dec 31, 2007	**Accumulated depreciation**	**0**	**0**
Dec 31, 2007	**Carrying values**	**1,000**	**1,000**
Dec 31, 2006	Carrying values	1,000	1,000

The financial assets in the amount of EUR 1,000 thousand (Dec 31, 2006: EUR 1,000 thousand), reported as securities held to maturity, represent exclusively a promissory note issued by a German special branch bank. Due date of this note is March 2011. At the balance sheet date, this note was quoted at 98.74%. Using the effective interest method, no impairment loss had to be recognized.

18. Assets schedule

EUR thousand		Intangible assets	Tangible assets	Financial assets	Total assets
Jan 1, 2007	Acquisition costs	9,239	7,498	1,000	17,737
	Additions	19	-54	0	-35
	Disposals	0	-904	0	-904
Dec 31, 2007	**Acquisition costs**	**9,258**	**6,540**	**1,000**	**16,798**
Jan 1, 2007	Accumulated depreciation/ amortization	2,716	5,448	0	8,164
	Additions	458	788	0	1,246
	Disposals	0	-904	0	-904
Dec 31, 2007	**Accumulated depreciation/ amortization**	**3,174**	**5,332**	**0**	**8,506**
Dec 31, 2007	**Carrying values**	**6,084**	**1,208**	**1,000**	**8,292**
Dec 31, 2006	Carrying values	6,524	2,050	1,000	9,574

19. Deferred tax assets

In 2005, deferred tax assets had been capitalized due to tax loss carryforwards of Epigenomics, Inc. (see under "Income taxes"). At the balance sheet date, these deferred tax assets were valued at EUR 778 thousand. Due to taxable profits of the U.S. subsidiary in the reporting year, a utilization of EUR 208 thousand has been recognized.

Current assets

20. Inventories

The stock in trade basically consists of chemical and biological materials and consumables, mainly tissue samples and oligonucleotides.

21. Categories of financial instruments

Carrying values in EUR thousand	Dec 31, 2007	Dec 31, 2006
Financial assets		
Held-to-maturity investments	1,000	1,000
Receivables	3,591	2,034
Cash and cash equivalents	6,646	12,566
Available-for-sale financial assets	3,370	4,775
Financial liabilities		
Derivative instruments held for trading	71	98
Trade payables at amortized costs and other liabilities	3,845	2,112

Available-for-sale financial assets are recognized at fair value. As this category exclusively comprises of marketable securities, the fair value of these instruments is determined with reference to the quoted market prices.

The category "derivative instruments held for trading" includes an interest rate swap. It is measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates. The reported carrying values correspond to the fair values at balance sheet date.

22. Trade and other receivables

Trade and other receivables listed in the amount of EUR 439 thousand (Dec 31, 2006: EUR 319 thousand) are comprised almost exclusively of trade receivables towards domestic and international customers, thereof EUR 417 thousand maturing within one year. A specific bad debt allowance of EUR 49 thousand has been recorded for one debtor as the recoverability of this amount appears doubtful.

23. Marketable securities

The marketable securities listed in the amount of EUR 3,370 thousand (Dec 31, 2006: EUR 4,775 thousand) include marketable corporate bonds, mortgage bonds and debt certificates of various maturities. All securities are recognized as financial instruments available for sale according to IAS 39.9.

Under the investment policy of the Company, each investment in securities underlies certain strict criteria. These include amongst others the limitation to securities nominated in euro currency only and an official capital market rating of the issuer or the securities not below "investment grade". All reported securities are underlying the usual market and interest risks. The interest rate risks are mostly price risks but for some securities there also is an interest rate cash flow risk. Currency risks are minimized by avoiding investments in securities nominated in currencies other than the euro. However, some of the investments are indirectly subject to currency risks as they might be linked or might partially refer to non-euro nominations.

The fair value of all marketable securities is identified by their stock exchange quotations at each relevant balance sheet date.

EUR thousand	Dec 31, 2007	Dec 31, 2006
Corporate bonds	2,325	2,542
Mortgage bonds	613	612
Debt certificates	432	569
Bond fund shares	0	1,052
Total	**3,370**	**4,775**

The investment strategy of the Company provides for an allocation of the various securities to different remaining maturities.

EUR thousand	Fair value Dec 31, 2007	in %	Fair value Dec 31, 2006	in %
Time to maturity of marketable securities				
< 1 year	613	18.2	0	0
1-2 years	490	14.5	612	12.8
2-5 years	811	24.1	494	10.4
> 5 years	1,024	30.4	2,048	42.9
Unlimited	432	12.8	1,621	33.9
Total	**3,370**	**100.0**	**4,775**	**100.0**

24. Cash and cash equivalents

Cash and cash equivalents decreased to EUR 6,646 thousand at the balance sheet date (Dec 31, 2006: EUR 12,566 thousand). Approximately 79% of those funds were denominated in euro currency at the balance sheet date. The remainder is denominated in U.S. dollar currency. The total amount is allocated to three different banks.

EUR thousand	Dec 31, 2007	Dec 31, 2006
Time deposits	6,290	7,324
Bank accounts, petty cash, cheques	356	585
Asset-backed securities fund shares	0	4,657
Total	**6,646**	**12,566**

The remaining maturities of the time deposits were shorter than three months as of the balance sheet date.

25. Other current assets

EUR thousand	Dec 31, 2007	Dec 31, 2006
Deferred financing costs	1,414	0
Receivables from tax authorities	877	848
Prepaid expenses	364	282
Claims based on granted projects	320	379
Interest receivables	95	125
Other	82	81
thereof with a prospective maturity > 1 year	*38*	*38*
Total	**3,152**	**1,715**

The costs in connection with the Company's capital increase in February 2008 have been partially deferred as of December 31, 2007, to the extent the services have been rendered to the Company before the balance sheet date. These deferred costs will be offset against the capital reserve after the successful execution of the capital increase. A matching liability has been recognized simultaneously at the balance sheet date.

Equity

26. Notes to share categories and capital structure

As of December 31, 2007, the share capital of Epigenomics AG comprises exclusively common shares with equal rights and a par value of EUR 1.00 each. During the reporting year, the number of shares issued increased from 16,916,125 to 18,252,824 shares. A total of 1,335,526 new no-par value bearer shares were created by a capital increase using the Authorized Capital III with a PIPE (Private Investment in Public Equity) transaction in May 2007 at a price of EUR 3.64 each. This capital increase was registered with the commercial register Berlin-Charlottenburg on May 22, 2007. A total of 1,173 new shares were created by the exercise of employee stock options.

Capital structure of Epigenomics AG as of December 31:

EUR	Dec 31, 2007	Dec 31, 2006	Variance
Share Capital	**18,252,824**	**16,916,125**	**1,336,699**
Conditional Capital	**1,430,988**	**1,432,161**	**-1,173**
Conditional Capital I	26,258	27,431	-1,173
Conditional Capital III	139,625	139,625	0
Conditional Capital IV	617,426	617,426	0
Conditional Capital V	647,679	647,679	0
Authorized Capital	**8,458,062**	**5,695,209**	**2,762,853**
Authorized Capital III	0	5,695,209	-5,695,209
Authorized Capital 2007	8,458,062	0	8,458,062

Conditional Capital I, III and IV cannot be used anymore to grant stock options as the underlying granting timeframe has expired. However, new shares can still be created upon exercise of options from these older programs.

Conditional Capital V can be used to create new shares upon the exercise of stock options granted under the latest stock option program (06-10) of the Company. In 2007, a total number of 604,000 stock options have been granted to members of the Company's Executive Board and to its employees out of this stock option program. Conditional Capital V has been registered with the commercial register on February 27, 2007, following a court ruling on a motion for expedited registration (Freigabeverfahren). The lawsuit with regard to the resolution of the Annual General Shareholders' Meeting (AGM) upon Conditional Capital V has been dismissed by the regional court (Landgericht) of Berlin on August 29, 2007.

In the reporting year, the decrease in Conditional Capital I was due to stock option exercises out of the underlying stock option program. This decrease was registered with the commercial register Berlin-Charlottenburg on September 13, 2007.

In 2007, Authorized Capital III was partly used by the Executive Board to increase, with the consent of the Supervisory Board, the Company's share capital within the aforementioned PIPE transaction. The remaining amount of Authorized Capital III after this transaction (EUR 4,359,683) was abolished by the AGM on May 29, 2007, which was registered with the commercial register on June 14, 2007. In the same AGM, the shareholders of the Company resolved upon an authorized capital (Authorized Capital 2007) and the corresponding amendment of Sec. 5 Para. 7 of the Company's Articles of Association. The Executive Board is authorized to increase, with the consent of the Supervisory Board, the share capital at any time or from time to time on or before May 28, 2012, by up to EUR 8,458,062.00 by issuing up to 8,458,062 new no-par value bearer shares in return for contribution in cash and/or in kind, whereby, in case of a capital increase against contribution in cash, shareholders have, in principle, a subscription right. The new shares can be offered to a financial institution or several financial institutions with the obligation to offer the shares to the shareholders for subscription (indirect subscription right). However, with the consent of the Supervisory Board, the Executive Board is authorized to exclude fractional amounts from the subscription rights of existing shareholders. Further, with the consent of the Supervisory Board, the Executive Board may also exclude the entire subscription rights of existing shareholders if the new shares are issued at a subscription price which does not fall substantially below the stock exchange price of shares of the same category and with the same terms of issue. However, this authorization to exclude the shareholders' subscription rights applies only as far as the proportionate amount of the new shares out of the share capital combined with the proportionate amount of miscellaneous shares in the share capital which – if applicable – have been issued by the Company since May 29, 2007, by excluding the shareholders' subscription rights according or corresponding to Sec. 186 Para. 3 Sent. 4 of the German Stock Corporation Act (Aktiengesetz) based on an ordinary capital increase, an authorized capital or after a repurchase or for which an exchange right or a subscription right has been granted according to Sec. 186 Para. 3 Sent. 4 German Stock Corporation Act (Aktiengesetz) since May 29, 2007, by convertible or option bonds and by excluding the shareholders' subscription rights, does not exceed 10% of the share capital at the time of the registration of this authorization with the commercial register or, if less, at the respective time of the exercise of the authorization. Furthermore, with the consent of the Supervisory Board, the Executive Board may also exclude the entire subscription rights of existing shareholders in order to be able to grant shares in return for contribution in kind and in order to grant shares for acquisitions of enterprises or parts thereof, participations in enterprises or other assets. The Authorized Capital 2007 and the corresponding amendment of our Articles of Association was registered with the commercial register on June 14, 2007. The registration was corrected ex officio on June 22, 2007.

27. Capital reserve

In the reporting year, the capital reserve decreased from EUR 25,294 thousand (Dec 31, 2006) to EUR 13,712 thousand mainly due to the deduction of the net loss for the year 2006 (EUR 15,402 thousand). Offsetting effects came from the aforementioned (item 26) capital increase through the PIPE transaction (EUR 3,526 thousand gross), from the current stock option expense accounting according to IFRS 2 (EUR 457 thousand) and from the paid-in surplus of exercised employee stock options (EUR 1 thousand). Financing costs of EUR 164 thousand arose in connection with the capital increase. No deferred tax assets were recognized due to the existing valuation allowances.

28. Other comprehensive income

The other comprehensive income arises from the revaluation of financial assets available for sale. The effective sale of revaluated financial assets available for sale leads to a realization of the cumulated differences and their recognition through profit or loss of the period.

EUR thousand	2007	2006
Other comprehensive income		
Balance as of January 1	**610**	**312**
- adjustments from the sale of financial instruments available for sale	30	-104
- value allowances not effecting profit or loss from available for sale financial instruments	353	402
Balance as of December 31	**993**	**610**

29. 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 capital structure of the Group consists of current debt, cash and cash equivalents, instruments available for sale and equity attributable to equity holders, comprising subscribed capital, capital reserve (including offset retained earnings) and other comprehensive income.

In 2007, the Group's equity ratio decreased from 86.9% as at December 31, 2006, to 77.8% as at December 31, 2007. This decrease is mainly attributable to the increase in current liabilities, especially the temporary increase in Other liabilities (see also item 31) at the balance sheet date.

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

Current liabilities

30. Deferred income

Payments received in advance for services still to be rendered by Epigenomics AG in the future are recorded as deferred income. Payments received for commercial collaborations are recognized as revenue over the respective contractual terms. Payments received for granted projects are recognized as other income according to the percentage of completion method. There is no repayment obligation for Epigenomics.

EUR thousand	Dec 31, 2007	Dec 31, 2006
Payments for commercial collaborations	543	696
Payments for granted projects	94	216
Total	**637**	**912**

31. *Other liabilities*

EUR thousand	Dec 31, 2007	Dec 31, 2006
Liabilities from financing activities	1,190	0
Payables due to staff	731	398
Payables due to tax authorities	170	177
Accrued audit fees	93	113
Liabilities from derivative instruments	71	98
Accrued Supervisory Board fees	46	138
Payables due to social security institutions	11	11
Other	42	16
Total	**2,354**	**951**

Liabilities from financing activities are related to the Company's capital increase which took place after the balance sheet date in February 2008. They must be seen in connection with the deferred financing costs which are capitalized as "Other current assets" at the balance sheet date (see item 25).

Liabilities from derivative instruments reflect the net present value of an interest swap at the balance sheet date with a remaining term until April 2010.

32. *Provisions*

EUR thousand	Dec 31, 2007	Dec 31, 2006
Royalty provisions	209	177
Payroll provisions	206	466
Provisions for granted projects	57	30
Provision for Annual General Shareholders' Meeting	40	55
Provision for onerous lease contract	0	11
Provisions for milestone payments	0	55
Other	28	19
Total	**540**	**813**

Notes to the Group Cash Flow Statement

33. *Operating activities*

Cash flow from operating activities is derived indirectly from the net loss for the year before taxes on income. Cash comprises bank deposits and cash in hand. Cash equivalents are defined as instruments being convertible on a short-term basis to a known amount of cash and carrying a very low risk of changes in value.

34. Investing activities

Cash flow from investing activities is ascertained in respect of payment.

For information on the reported proceeds from investment grants please refer to “Investment subsidies”.

35. Financing activities

Cash flow from financing activities is ascertained in respect of payment.

Risks and Risk Management

36. Liquidity risk

The liquidity risk of Epigenomics results from the Group’s potential inability to meet its financial liabilities, i.e. not paying its suppliers, creditors or lenders.

To secure the Group’s liquidity, Epigenomics constantly monitors the capital markets and undertakes all necessary efforts to raise fresh capital early before the Group runs out of liquidity.

Epigenomics has a strict cost management in place to avoid unnecessary spending. On the procurement side it always tries to reduce and minimize purchase prices by closing favorable contracts and negotiating all relevant conditions.

37. Foreign currency exchange risk

The Group constantly faces a foreign currency exchange risk through the fluctuations between the euro and the U.S. dollar and always tries to mitigate or to eliminate this risk as far as possible. The Group mainly uses derivative financial instruments like forward contracts and call options to minimize this risk. These instruments are recognized at fair value on the consolidated balance sheet as current assets or current liabilities. Changes in fair value are charged to profit or loss.

38. Credit risk

The Company’s overall credit risk is low. Securities have only been acquired under careful observation of the Company’s investment policy, i.e. a strict selection by the credit ratings of the issuers has been conducted. Trade receivables basically concern renowned commercial partners with acceptable ratings. Whenever possible payments are collected upfront. The maximum amount at risk can be derived in all cases from the carrying values.

Information on Stock Option Programs

39. Expired stock option programs

As of the balance sheet date, the Epigenomics Group (via Epigenomics AG) had four fixed stock option programs in place. Details of the three programs 2000, 01-05 and 03-07 can be found in the Company's IPO prospectus and the consolidated financial statements 2003, respectively. Both documents are available on the Company's website. Those three programs are all expired at the balance sheet date, i.e. no stock options can be granted in the future from those programs. In general, the rights under all three programs are such that option holders can obtain shares in the Company by exercising their options once all exercise hurdles have been surpassed. In order for options to be exercisable, the stock price must have appreciated by at least 10% versus the stock price at grant date and the statutory waiting period of two years as well as vesting must have been completed. If employees leave the Company before the options are vested these expire without compensation.

40. Current stock option program

A fourth stock option program ("06-10") was introduced in 2006 and approved by the Annual General Shareholders' Meeting on July 10, 2006. The Company's share capital was therefore conditionally increased by up to 3.95% of the share capital registered before the capital increase, i.e. by up to EUR 647,679.00 by issuance of up to 647,679 bearer shares of common stock with a calculatory par value of EUR 1.00 each (Conditional Capital V). The Executive Board of the Company is authorized until the expiration (December 31, 2010) to issue subscription rights with respect to shares out of the stock option program 06-10 in one or more annual tranches in favor of beneficiaries according to the conditions of this program, once the Conditional Capital V becomes effective by registration in the commercial register. In case of Executive Board members being beneficiaries, only the Supervisory Board can grant such options. Each individual subscription right entitles the beneficiary to subscribe to one bearer share of common stock of the Company with a par value of EUR 1.00 each against payment of the exercise price. Beneficiaries of the program are the Company's Executive Board members ("group 1"; 69.5% of the total volume) and its employees ("group 2"; 30.5% of the total volume).

The subscription rights in every tranche shall vest for the group 2 beneficiaries as follows: one-third of the subscription rights issued in one tranche shall vest one year after the issuance of the subscription rights of such tranche; a further one-third of the subscription rights issued in one tranche shall vest two years after the issuance of the subscription rights of such tranche; the final one-third of the subscription rights issued in one tranche shall vest three years after the issuance of the subscription rights of such tranche.

The subscription rights of every tranche shall vest completely or partially for group 1 beneficiaries, if and to the extent that the Supervisory Board of the Company declares such vesting of subscription rights vis-à-vis a group 1 beneficiary in compliance with the rules set out hereafter. The declaration of vesting of subscription rights vis-à-vis a group 1 beneficiary by the Company's Supervisory Board requires a corresponding prior resolution by the Supervisory Board. The Supervisory Board adopts its decision regarding the "if" and the extent of the vesting of subscription rights of a group 1 beneficiary at its free discretion taking into account the individual services of the individual beneficiary and the development of the Company. The Supervisory Board can declare the complete or partial vesting of subscription rights issued

in one tranche in favor of group 1 beneficiaries at any time after the issuance of these subscription rights. In case that the Supervisory Board does not decide on the vesting vis-à-vis one or more of the group 1 beneficiaries, the subscription rights of every tranche shall vest for group 1 beneficiaries in the same way as for group 2 beneficiaries (see above).

Subscription rights of each tranche can be exercised for the first time after their vesting as described before and after expiration of the statutory waiting period. The statutory waiting period starts with the issuance of the subscription rights of a tranche and ends two years after the issuance of the subscription rights of such tranche. The restriction of the exercise of the subscription rights to certain exercise periods and the subscription rights being subject to the compliance with all exercise conditions remain unaffected by the expiration of the waiting period.

The term of the subscription rights of every tranche begins with the issuance of the subscription rights of such tranche and ends with the expiration of seven years after the issuance of the subscription rights of such tranche.

The subscription rights can only be exercised against payment of the exercise price to the Company. The exercise price corresponds to the average stock exchange closing price, increased by 10%, of the 20 stock exchange trading days preceding the issuance of the subscription rights in the Exchange Electronic Trading (Xetra) system, in no case, however, less than the final stock exchange price of the share on the day the subscription rights were issued ("market value" or "fair market value"). Furthermore, the subscription rights regarding a tranche can only be exercised in case the price of the Company's share has reached or surpassed the payable exercise price at least once within the period between the issuance of the subscription rights of this tranche and the exercise of these subscription rights (performance target).

Any subscription rights of a beneficiary that have not yet vested expire without compensation in any case upon termination of the employment or work contract with the beneficiary, irrespective of the reason for such termination. The expiration date is the day on which the employment or work contract ends.

The subscription rights granted to the beneficiaries under the stock option program 06-10 are nontransferable. In case that subscription rights are not or cannot be exercised until the end of their term, they expire without compensation. The same applies for vested subscription rights.

The new shares shall participate in the profit from the beginning of the fiscal year in which they are issued.

41. Development of stock options in the reporting year

In 2007, a total number of 43,000 stock options were granted under the Company's stock option program 03-07 and 604,000 stock options under the stock option program 06-10 (thereof 450,000 stock options to the members of the Company's Executive Board). Each option right entitles the holder to subscribe to one bearer share of common stock with a par value of EUR 1.00 each in return for payment of the exercise price. The exercise price for each of the new rights was fixed at the average closing price of the 20 trading days before the grant date. The aggregate proceeds to the Company if these options were exercised and shares were issued would amount to EUR 2,899 thousand.

Details of stock options granted in 2007

Expiry date	Jan 2, 2014	Feb 26, 2014	Feb 26, 2014	Total 2014
Number	25,000	18,000	604,000	647,000
Share price at grant date (in EUR)	3.64	4.09	4.09	4.07
Exercise price (in EUR)	4.01	4.50	4.50	4.48
Historical volatility at grant date	58.6%	58.6%	58.6%	58.6%
Risk-free interest rate	3.90%	4.02%	3.87%	3.88%
Aggregate proceeds if shares are issued (in EUR)	100,250	80,982	2,717,396	2,898,628

A total number of 75,679 stock options can still be granted to the Company's employees from the stock option program 06-10.

	Options issued as of Dec 31, 2006	Options issued in 2007	Options forfeited in 2007	Options exercised in 2007	**Options issued as of Dec 31, 2007**
Option holder					
Geert Walther Nygaard	0	180,000	0	0	180,000
Dr. Kurt Berlin	56,613	90,000	0	0	146,613
Christian Piepenbrock	56,613	90,000	0	0	146,613
Oliver Schacht, Ph.D.	69,363	90,000	0	0	159,363
Total Executive Board	**182,589**	**450,000**	**0**	**0**	**632,589**
Other option holders	396,792	197,000	129,542	1,173	463,077
Total options	**579,381**	**647,000**	**129,542**	**1,173**	**1,095,666**
Average exercise price (in EUR)	5.00	4.48	5.21	1.94	4.66
Average share price at exercise (in EUR)				3.63	

The number of options issued as of December 31, 2007, includes 294,275 exercisable subscription rights (December 31, 2006, adjusted: 235,345).

Terms of outstanding options:

Term	Weighted-average exercise price in EUR as of Dec 31, 2007	Options issued as of Dec 31, 2007	Weighted-average exercise price in EUR as of Dec 31, 2006	Options issued as of Dec 31, 2006
2008	3.20	27,655	3.23	32,632
2009	4.53	21,772	4.53	30,910
2010	4.53	47,334	4.53	47,334
2011	4.58	246,005	4.57	272,605
2012	7.31	26,020	7.41	26,020
2013	5.57	121,880	5.88	169,880
2014	4.48	605,000	0	0
Total		**1,095,666**		**579,381**

Other Information

42. Information on the Executive Board and the Supervisory Board of the Company and their remuneration

Members of the Executive Board of the Company during the reporting year were:

- Geert Walther Nygaard, Berlin (D), Chief Executive Officer (since February 1, 2007)
- Dr. Kurt Berlin, Stahnsdorf (D), Chief Scientific Officer
- Christian Piepenbrock, Berlin (D), Chief Operating Officer
- Oliver Schacht, Ph.D., Seattle (U.S.A.), Chief Financial Officer; Chief Executive Officer of Epigenomics, Inc.

In 2007, the total remuneration of the members of the Executive Board amounted to EUR 1,344 thousand (2006: EUR 854 thousand)*, comprising EUR 859 thousand in fixed compensation (2006: EUR 609 thousand), EUR 383 thousand in bonus payments (2006: EUR 235 thousand) and EUR 102 thousand in other compensation payments (2006: EUR 10 thousand). In addition, stock options were granted to the members of the Executive Board in 2007 with a fair value at grant date of EUR 514 thousand (2006: EUR 0 thousand).

Members of the Supervisory Board of the Company during the reporting year were:

- Prof. Dr. Dr. h.c. Rolf Krebs, Mainz (D), Chairman
- Prof. Dr. Dr. Uwe Bicker, Bensheim-Auerbach (D), Deputy Chairman
- Bruce Carter, Ph.D., Seattle (U.S.A.) (until March 30, 2007)
- Günter Frankenne, Berg/Neumarkt (D)
- Ann Clare Kessler, Ph.D., San Diego (U.S.A.)
- Heino von Prondzynski, Einsiedeln (CH) (since May 29, 2007)
- Prof. Dr. Günther Reiter, Pfullingen (D).

In 2007, total remuneration of the members of the Supervisory Board amounted to EUR 158 thousand (2006: EUR 158 thousand) plus out-of-pocket expenses amounting to EUR 25 thousand (2006: EUR 31 thousand).

Further details to the composition of the Executive Board and the Supervisory Board and their compensation in the reporting year can be found in the "Compensation Report" section of the consolidated management report 2007.

* The numbers indicated for 2006 are not completely comparable to the numbers in the Consolidated Financial Statements 2006. Please refer to the "Compensation Report" of the consolidated management report 2007 for further explanation.

43. Other financial obligations

For the Epigenomics AG, other financial obligations arise from a total of two leases at the Berlin and Seattle locations:

a) For the Berlin location at Kleine Präsidentenstrasse 1, there is a fixed-term lease with term expiring on February 28, 2010. Until this date, a total rent of approximately EUR 610 thousand (undiscounted) has to be paid.
b) For the Seattle location, there is a fixed-term lease with term expiring on November 30, 2009. Until this date, a total rent of USD 875 thousand (undiscounted) has to be paid.

In the reporting period and in previous years, Epigenomics acquired numerous exclusive licenses to third-party intellectual property. This means that there are some obligations to pay minimum license fees in years to come. Additionally, Epigenomics has the obligation to reimburse most of those third parties for costs incurred in connection with the maintenance and the prosecution of the license rights. Those costs are mainly charges for patent attorneys or patent office actions and are difficult to forecast regarding their amounts and timing. The expected amounts due to various licensors (including reimbursements for patent prosecution) stands at approximately EUR 550-600 thousand for the years 2008 and 2009. However, most of these agreements could be terminated by Epigenomics at short notice. There is only one case in which Epigenomics is under a fairly long-term binding obligation. However, this payment obligation will not exceed EUR 20 thousand per year.

Once Epigenomics starts to generate product revenue with third parties, which is generated with the help of this licensed intellectual property, then in some cases license fees that are above and beyond the normal license fees and which correspond to a percentage of such revenue must be paid to the licensors. Consequently, the potential amount of the obligations is difficult to quantify, since a significant share of the variable license fees is dependent on the type and composition of future revenue.

After his retirement as Epigenomics' CEO in August 2006, Alexander Olek entered into a consulting agreement with the Company for the calendar years 2007 and 2008. Under the terms of this agreement, Mr. Olek offered in 2007 his expertise and services to the Company in strategic matters on at least eight consulting days per month for a total amount of EUR 200 thousand (i.e. at a net rate of EUR 2,083 per day). At the end of 2007, the Company and Mr. Olek amicably decided to annul this consulting agreement for 2008 against a compensation payment from the Company to Mr. Olek in the amount of EUR 130 thousand. This amount was paid after the balance sheet date, thus satisfying all mutual claims of both parties.

Due to contracts with third parties, Epigenomics had payment obligations at the balance sheet date of EUR 45 thousand for services and goods to be received in 2008. Additional payment obligations of up to EUR 676 thousand could arise from various contracts with providers of tissue samples. However, as delivery dates and effective delivery quantities are to some extent uncertain, the future payments resulting from those contracts could also be significantly lower.

44. Information on the auditors of the Company

As in the previous years, UHY Deutschland AG had been chosen as the Company's auditing firm for the financial year 2007. During the reporting year, a total amount of EUR 299 thousand has been expensed for miscellaneous services of this auditing firm for Epigenomics AG. Details are shown in the following table:

EUR thousand	2007	2006
Costs for audit and review services	123	123
Other confirmation and valuation services	176	13
Total	**299**	**136**

The costs disclosed for the annual audits are related to the audits on the individual financial statements of Epigenomics AG according to German GAAP as well as on the individual financial statements of Epigenomics, Inc. and on the consolidated financial statements for the Epigenomics Group, both according to IFRSs. Other confirmation services occurred mainly for services in connection with a letter of comfort and partially in connection with granted projects and have in these latter cases been reimbursed by the sponsor.

45. Statement of the Executive Board and the Supervisory Board of Epigenomics AG pursuant to Sec. 161 of the German Stock Corporation Act (AktG) with respect to the German Corporate Governance Code

In December 2007, the Executive Board and the Supervisory Board of the Company issued the declaration of conformity in accordance with Sec. 161 of the German Stock Corporation Act (Aktiengesetz). The declaration has been published on the Company's website (*www.epigenomics.com*) and can also be taken from the consolidated management report 2007.

46. Information on other transactions with related parties

In 2007, Epigenomics, Inc. has paid an amount of USD 14 thousand to its former Chief Executive Officer, R. Gary Schweikhardt, resulting from his retirement agreement. There are no further payment obligations for the Company towards Mr. Schweikhardt in the future.

During the reporting year, the Company recognized revenue from outlicensing to Epiontis GmbH, Berlin, in a total value of EUR 75 thousand. At the balance sheet date, the Company held a minority stake in Epiontis.

At the reporting date, the Company's liabilities due to its Executive Board members amounted to EUR 384 thousand (Dec 31, 2006: EUR 186 thousand) and the liabilities due to its Supervisory Board members amounted to EUR 177 thousand (Dec 31, 2006: EUR 152 thousand).

47. Information on material events after the end of the reporting period

For material nonadjusting events after the balance sheet date reference is made to the supplementary report of the consolidated management report 2007.

Responsibility Statement

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

Berlin, February 15, 2008

The Executive Board

Auditors' Report

"We have audited the consolidated financial statements prepared by the Epigenomics AG, Berlin, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2007. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and supplementary provisions of the articles of incorporation are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and supplementary provisions of the articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Furthermore, not intended to qualify our opinion, we point out that the financial statements are prepared on a going concern basis of the Group. The Executive Board derives the positive prognosis for the Group's continued existence from a detailed financial and earnings plan for the business years 2008 and 2009 with the result that the Group will most probably be able to continue its business activity during the present and coming business year, with adherence to the payment obligations.

In this regard, we refer to the explanations regarding financial risks in the consolidated management report, in particular to the section "Financial Opportunities and Risks". The Group will be reliant on the allocation of financial resources in the future, since the resulting annual deficits in 2008 and 2009 will, according to plan, exceed the liquid resources on December 31, 2007. However, due to a successful completion of a capital increase before preparation of the consolidated financial statements, the Group received fresh liquid resources, so that the uncertainties with regard to the maintenance of the ability to pay have been substantially reduced."

Berlin, February 18, 2008
UHY Deutschland AG
Wirtschaftsprüfungsgesellschaft

(Stoeber)	(Dr. Peters)
Wirtschaftsprüfer	Wirtschaftsprüferin
[German Public Auditor]	[German Public Auditor]

Profit and Loss Statement 2007 of Epigenomics AG

(according to HGB)

	2007 EUR	2006 EUR thousand
Total income	**4,439,441.48**	**5,201**
Sales revenue	2,340,555.43	3,018
Changes in inventories	226,493.87	0
Other operating income	1,872,392.18	2,183
Cost of materials	-1,163,236.16	-4,102
a) Expenses for raw materials, supplies and purchased goods	-943,669.77	-1,511
b) Expenses for purchased services	-219,566.39	-2,590
Personnel costs	-5,306,153.45	-6,963
a) Wages and salaries	-4,706,240.20	-6,083
b) Social security contributions	-599,913.25	-880
Depreciation and amortization	-1,060,751.34	-1,283
a) On tangible and intangible assets	-1,060,751.34	-1,283
Other operating expenses	-12,029,555.02	-10,678
Other interest and similar income	902,591.40	1,269
thereof from affiliated companies	*209,604.26*	*139*
Write-down of securities held as current assets	-354,750.00	-394
Interest and similar expenses	-30,484.49	-38
Result from ordinary business activities	**-14,602,897.58**	**-16,988**
Net loss for the year before taxes	**-14,602,897.58**	**-16,988**
Net loss for the year	**-14,602,897.58**	**-16,988**

Balance Sheet of Epigenomics AG (according to HGB)

ASSETS	Dec 31, 2007 EUR	Dec 31, 2006 EUR thousand
A) Non-current assets	**12,691,000.02**	**13,587**
I) Intangible assets	**3,445,288.26**	**3,887**
1. Franchises, trademarks, patents, licenses and similar rights and licenses to such rights	3,445,288.26	3,887
II) Tangible assets	**909,829.96**	**1,573**
1. Leasehold improvements	94,495.93	150
2. Technical equipments and machines	801,860.79	1,402
3. Other equipment, furniture and fixtures	13,473.24	21
III) Financial assets	**8,335,881.80**	**8,126**
1. Shares in affiliated companies	3,487,047.49	3,487
2. Loans to affiliated companies	3,848,834.31	3,639
3. Non-current securities	1,000,000.00	1,000
B) Current assets	**11,826,608.52**	**18,769**
I) Inventories	**347,343.63**	**154**
1. Raw materials, supplies and production materials	120,849.76	154
2. Work in progress	226,493.87	0
II) Receivables and other current assets	**1,675,663.01**	**1,699**
1. Trade accounts receivable	356,291.95	271
2. Other current assets	1,319,371.06	1,428
III) Securities	**3,369,737.50**	**9,343**
1. Other securities	3,369,737.50	9,343
IV) Cash on hand and cash in banks	**6,433,864.38**	**7,573**
C) Prepaid expenses	**306,030.51**	**210**
Total assets	**24,823,639.05**	**32,566**

LIABILITIES AND SHAREHOLDERS' EQUITY	Dec 31,2007 EUR	Dec 31, 2006 EUR thousand
A) Shareholders' equity	**15,621,961.79**	**25,361**
I) Subscribed capital	18,252,824.00	16,916
Conditional capital: € 1,430,988		*1,432*
II) Capital reserves	3,689,881.07	17,151
III) Other retained earnings	8,282,154.30	8,282
IV) Net loss for the year	-14,602,897.58	-16,988
B) Accruals and provisions	**2,570,120.33**	**2,237**
1. Accruals and provisions for staff	324,711.65	1,038
2. Other accruals and provisions	2,245,408.68	1,200
C) Payables	**6,163,380.44**	**4,055**
1. Deferred income	312,705.00	0
2. Trade accounts payable	905,019.98	560
3. Liabilities due to affiliated companies	4,506,370.36	3,305
4. Other liabilities	439,285.10	190
D) Deferred income	**468,176.49**	**912**
Total liabilities and shareholders' equity	**24,823,639.05**	**32,566**

Scientific Advisory Board

Prof. Dr. Stefan Beck
The Wellcome Trust Sanger Institute
Cambridge, U.K.

Prof. Susan Clark, Ph.D.
Sydney Cancer Centre
Sydney, Australia

Prof. Dr. Manfred Dietel
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Prof. Peter Jones, Ph.D., DS
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Prof. Peter Laird, Ph.D.
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Prof. Dr. Jörn Walter
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Corporate Calendar 2008

» Monday, March 31, 2008
Annual Report 2007
Press Conference and Analyst Meeting in Frankfurt am Main

» Tuesday, May 6, 2008
3-Month Report 2008
January 1 – March 31

» Tuesday, June 3, 2008
Annual General Shareholders' Meeting 2008 in Berlin

» Tuesday, August 5, 2008
6-Month Report 2008
January 1 – June 30

» Tuesday, November 4, 2008
9-Month Report 2008
January 1 – September 30

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Disclaimer

Glossary

Assay. Chemical reactions that allow detection or quantification of substances or biomarkers in samples.

Biochip. Microarray. Technology for the simultaneous measurement of multiple biomarkers.

Biomarker. A characteristic that is objectively measured and evaluated as an indicator of normal biologic or pathogenic processes or pharmacological responses to a therapeutic intervention.

Biopsy. Sample of tissue from a living body extracted for diagnostic purposes.

CE marking. The CE marking is a mandatory safety mark on many products placed on the market in the European Economic Area (EEA). By affixing the CE marking, the manufacturer assures that the item meets the essential requirements of all applicable EU directives.

Classification. The division of a disease into medically relevant subtypes, such as aggressive and nonaggressive subclasses of tumors in oncology.

Clinical proof of concept. Demonstration that a diagnostic or therapeutic procedure (concept) can in principle be applied with success.

Colonoscopy. Invasive endoscopic examination of the large colon and the end section of the small bowel with a CCD camera or a fiber optic camera on a flexible tube passed through the anus. Frequently used to diagnose colorectal cancer and other colon diseases.

Cross-licensing agreement. Contract between two parties, that gives each party access to the patents of the other party.

CT. Computer tomography. Diagnostic imaging procedure that allows three-dimensional reconstruction of the body structure by use of serial x-ray images.

DNA. Dexyribonucleic acid. The carrier of genetic information for all complex organisms. DNA consists of four different bases bound to a sugar phosphate backbone: adenine (A), cytosine (C), guanine (G), thymine (T). The genetic information is encoded in the sequence of the four bases.

DNA methylation. Natural biological process by which a chemical methyl group is added stably to cytosine, one of the four bases of the DNA. DNA methylation serves the regulation of genes and the stability of the genetic information.

Endoscope. Optical device for the inspection of body cavities and minimally invasive surgery. See also colonoscopy.

Endoscopy. Visual inspection of body cavities by use of an endoscope. See also colonoscopy.

False-positive rate. Percentage of healthy individuals, falsely identified as sick due to the imprecision of a diagnostic procedure.

FDA. Food and Drug Administration. U.S. Government agency responsible for the approval of drugs and medical devices (e.g. IVD tests).

FOBT. Fecal Occult Blood Test. Test that detects blood in stool, a possible indicator of colorectal cancer.

Immunological FOBTs. Tests, that detect human blood in a stool sample by the use of antibodies.

Incidence. Number of new cases per year in a specific disease indication.

Indication. A valid reason to use a certain test, medication, procedure, or surgery.

In vitro. In a test tube.

IVD. In vitro diagnostic.

IVD platform. One or more instruments or devices by means of which an in vitro diagnostic test can be performed and the results analyzed.

LDT. Laboratory-developed test. Assay for a biomarker developed within a diagnostic laboratory following certain quality standards (CLIA) that can be offered – with certain restrictions – by that laboratory in the U.S. without prior regulatory clearance by the FDA. Also known as "homebrew" test.

Lead marker. Strongest biomarker of a panel; further biomarkers are selected to increase performance of the panel but would be insufficient without the lead marker.

Methylated Septin 9 DNA. DNA of the Septin 9 gene that at specific cytosine positions shows the pattern of methylgroups typical for colorectal cancer.

Milestone payment. One-time payment between contractual parties upon reaching important goals within a collaboration.

Molecular classification test. Diagnostic test that, based on the analysis of DNA or RNA allows the more precise classification of a disease in clinically or pathologically relevant subgroups.

Molecular diagnostics. Diagnostics based on genetic and epigenetic information.

Monitoring. The tracing of potential recurrence or assessment of progression of a disease.

Nonexclusive licensing model. Strategy for the commercialization of patents by which several licensees in a geographic region obtain the rights to use one or more patents for the same application.

Nonexclusive partnerships. Business partnerships of a company with several other companies in which each of the collaborations pursues the same or similar goals.

Oncology. The branch of medicine that studies tumors (cancer) and seeks to understand their development, diagnosis, treatment, and prevention.

PCR. Polymerase chain reaction. Method to multiply a section of the DNA in a test tube.

PET. Positron Emission Tomography. Diagnostic imaging procedure, by which the distribution of a slightly radioactive substance in an organism is visualized to map biochemical and physiological processes.

PIPE financing. Private Investment in Public Equity. Selling of shares from authorized capital to private investors without making a public offering and under exclusion of subscription rights. Under German law limited to up to 10% of the share capital within twelve months.

Prognosis. Prediction of how a patient's disease will progress, and the chance of recovery.

Prototype assay. Prototype of a test procedure as a starting point for the development of diagnostic products.

PSA. Prostate-specific Antigen. A biomarker currently used to screen for prostate cancer.

Reagents. Chemical substances needed for the performance of an assay.

Reference laboratory. Centralized diagnostic laboratory that provides testing services for routine and specialty applications.

Research market. Market for laboratory equipment and supplies not intended for therapeutic or diagnostic use in humans or animals.

RNA. Ribonucleic acid. Molecule build of similar components as DNA that mainly as an information carrier is involved in the use of genetic information to direct the synthesis of proteins. Compared to DNA, RNA is chemically and biologically considerably less stable.

RT PCR. Real-time PCR. PCR in which the amplification of a DNA segment is continuously measured.

RUO. Research-Use-Only. Label for products only intended for research applications.

Screening. The systematic and preventive mass screening of an asymptomatic population for early detection of disease.

Sensitivity. The measure of a test's ability to accurately detect the presence of a disease. For example, a sensitivity of 90% means that out of 100 patients which actually have the disease, on average 90 are correctly diagnosed.

Specificity. The measure for a test's ability to exclude a disease if it is truly not present. For example, a specificity of 90% means that out of 100 healthy people ten are falsely identified as having the disease.

Surveillance. Tight surveillance of individuals at high risk of developing a disease by using diagnostic procedure.

Test kit. Test reagent kit. A set of reagents, consumables and processing instructions necessary to perform a diagnostic laboratory test.

Test panel. Combination of different biomarkers in a diagnostic test.

Tumor. A mass of excess tissue that results from abnormal cell division.

Validation. Establishing documented evidence that a process or system, when operated within established parameters, can perform effectively and reproducibly and meet its predetermined specifications and quality attributes.

www.epigenomics.com