epigenomics

# 3-MONTH REPORT 2010

JANUARY 1 – MARCH 31

# GROUP KEY FIGURES

| EUR thousand (unless stated otherwise) | Q1 2009 (unaudited) | Q1 2010 (unaudited) |
|---|---|---|
| Revenue | 1,242 | 621 |
| Research and development costs | -1,759 | -1,864 |
| Earnings before interest and taxes (EBIT) | -2,311 | -2,605 |
| Earnings before interest, taxes, depreciation and amortization (EBITDA) | -2,156 | -2,450 |
| Net loss for the period | -2,421 | -2,589 |
| Weighted-average number of shares issued (notional par value: EUR 1 each) | 28,504,361 | 29,394,724 |
| Earnings per share (basic and diluted) in EUR | -0.08 | -0.09 |
| Cash flow from operating activities | -2,271 | -1,581 |
| Cash flow from investing activities | 471 | -221 |
| Cash flow from financing activities | 5,156 | 14,345 |
| Cash flow total | 3,356 | 12,543 |

| | Dec 31, 2009 (audited) | Mar 31, 2010 (unaudited) |
|---|---|---|
| Liquid assets at balance sheet date (incl. marketable securities) | 6,136 | 18,875 |
| Total equity at balance sheet date | 12,084 | 40,062 |
| Equity ratio in % | 73.9 | 90.5 |
| Total assets at balance sheet date | 16,354 | 44,256 |
| Share price at balance sheet date in EUR (Xetra) | 3.52 | 2.51 |
| Number of employees at balance sheet date | 86 | 86 |

# FIRST QUARTER OF 2010 AS OF MARCH 31, 2010

## THE FIRST QUARTER OF 2010 – OVERVIEW

During the first quarter of 2010, we focused our strategy on further evolving Epigenomics as a product-driven Company. To achieve that goal we pursue a dual strategy. We are focusing on driving market acceptance and sales of our blood-based Septin9 test "Epi *pro*Colon" for colorectal cancer on the one hand and of our partners' colorectal cancer blood tests based on Septin9 on the other. As expected, our revenue decreased since Q1 2009 had included certain residual revenue from service projects as well as sample collection for Abbott which no longer applied in Q1 2010. Cash used in our operating and investing activities excluding transactions in financial assets ("cash consumption") improved significantly year-over-year as certain larger one-time payments flew in Q1 2010, which were already recognized as revenue in 2009.

On January 11, 2010, we reported that our partner Quest Diagnostics Inc., Madison, NJ, U.S.A. ("Quest"), introduced on the same day its laboratory-developed blood test ("LDT") for aiding the detection of colorectal cancer in the United States. The test was independently developed by Quest based on our proprietary DNA methylation biomarker Septin9 and certain proprietary technologies that we licensed to Quest in 2008. The introduction follows the successful completion of the clinical validation of this LDT in November 2009 and the release of the test for offering to doctors and patients in December 2009.

In February 2010, we announced that only four months after the launch of the test, Epi *pro*Colon has been available nationwide in Germany and Switzerland. As of April 2010, Epi *pro*Colon was offered by 18 laboratories in Germany and Switzerland making it available to doctors and patients across both countries.

On March 30, 2010, we announced that we successfully completed the placement of 14,697,361 new ordinary bearer shares within a rights offering representing the entire authorized capital available. The rights offering started on March 15, 2010, and ended on March 29, 2010. The new shares were placed at a subscription price of EUR 2.25 per share resulting in gross proceeds of about EUR 33.1 million and in expected net proceeds of about EUR 30.3 million. At this point, payments to be made in Q2 2010 in connection with the transaction were already considered.

The subscription rate among the existing shareholders in the transaction was 46.2%, equaling 6,789,613 new shares. The remaining 7,907,748 new shares were sold to selected institutional investors in Germany and abroad, as well as to retail investors in Germany and Austria. This public offering was significantly oversubscribed, enabling us to place the maximum number of new shares. A sizeable portion of the new shares was placed with funds managed by Abingworth LLP, London, United Kingdom, that, in addition to exercising their pre-emptive rights, increased their stake in our Company to become combined our largest shareholder after the capital increase.

ICF Kursmakler AG (Frankfurt am Main, Germany) acted as sole lead manager and sole underwriter and Trout Capital LLC, New York, NY, U.S.A., acted as placement agent in the United States.

The registration of the implementation of the capital increase with the commercial register (Handelsregister) and the admission of the new shares to the Prime Standard of the regulated market (Regulierter Markt) of the Frankfurt Stock Exchange took place on March 31, 2010. Our total issued share capital increased from EUR 29,394,724 to EUR 44,092,085. Trading in the new shares began on April 1, 2010.

Furthermore, in the first quarter of 2010, we received a Notice of Allowance by the Japanese Patent Office stating that they intend to grant a patent for our HeavyMethyl™ technology. This notification is equivalent to a "Rule 71(3) notification" by the European Patent Office. Patent application 2002-571930 titled "Highly sensitive method for the detection of cytosine methylation patterns" claims very broadly a method for the detection of DNA methylation by means of amplification that employs blockers to prevent the amplification of background DNA while not affecting the amplification of target DNA. The patent is already granted in the U.S.A., in Europe, China, Russia, Australia, Republic of Korea, and New Zealand.

## RESEARCH AND DEVELOPMENT (R&D)

Also during Q1 2010, the PRESEPT Study stood in the core of our R&D activities. The PRESEPT Study was a prospective multicenter clinical study which started in 2008 to evaluate the performance characteristics and health economic benefit of colorectal cancer screening using our Septin9 blood test in a screening population. PRESEPT was one of the largest commercially sponsored colorectal cancer screening clinical studies ever conducted. Thereby, our R&D effort in Q1 2010 focused on finalizing and evaluating the study data.

After the successful enrolment of a total of 7,941 screening-eligible average-risk subjects until December 2009, including 53 cases of previously undetected colorectal cancer, one of the four blood samples collected from each study subject was used in an academic medicine study to characterize the performance of the Septin9 biomarker in the PRESEPT cohort when compared against the results of colonoscopy performed on all study subjects. We released the very first preliminary data from this study on January 15, 2010. That data had shown a sensitivity of 50% at a specificity of 91%. Upon successful completion of an audit of the study as well as a series of corrective actions implemented, on March 8, 2010, we reported updated top-line PRESEPT Study data showing that the Septin9 biomarker in this research study detected colorectal cancer cases with a sensitivity of approximately 63%. With this performance, the PRESEPT Study had met its objective of detecting the majority of prevalent and incident cancers in a screening cohort, a requirement for the non-invasive screening tests set forth in current joint guidelines by the American Cancer Society, the U.S. Multi-Society Task Force on Colorectal Cancer, and the American College of Radiology[1]. With a specificity of around 89%, the Septin9 testing result meets the targeted specificity range of 85% to 90%, which – based on an initial health economic analysis – should support public and private payer coverage and reimbursement.

On February 24, 2010, we introduced our novel lung cancer test Epi *pro*Lung BL Reflex Assay at the German Cancer Congress in Berlin, Germany. This diagnostic test is being developed as an aid in diagnosis for lung cancer and may help pathologists to confirm the diagnosis of malignant lung disease when current diagnostic procedures fail to establish the presence of malignancy in patients with suspected lung cancer. Our test determines the DNA methylation status of the $^{m}$SHOX2 gene in bronchial lavage material routinely obtained during the clinical workup of patients with suspected lung cancer, e.g. due to symptoms or accidental imaging findings. Increased DNA methylation of the $^{m}$SHOX2 gene indicates the presence of malignant lung disease. We expect our second in vitro diagnostic (IVD) product to be launched as a CE-marked diagnostic test kit in Europe in the second quarter of 2010.

[1] **Levin B, et al., Screening and surveillance for the early detection of colorectal cancer and adenomatous polyps, 2008: a joint guideline from the American Cancer Society, the U.S. Multi-Society Task Force on Colorectal Cancer, and the American College of Radiology. Gastroenterology 2008; 134(5): 1570-95.**

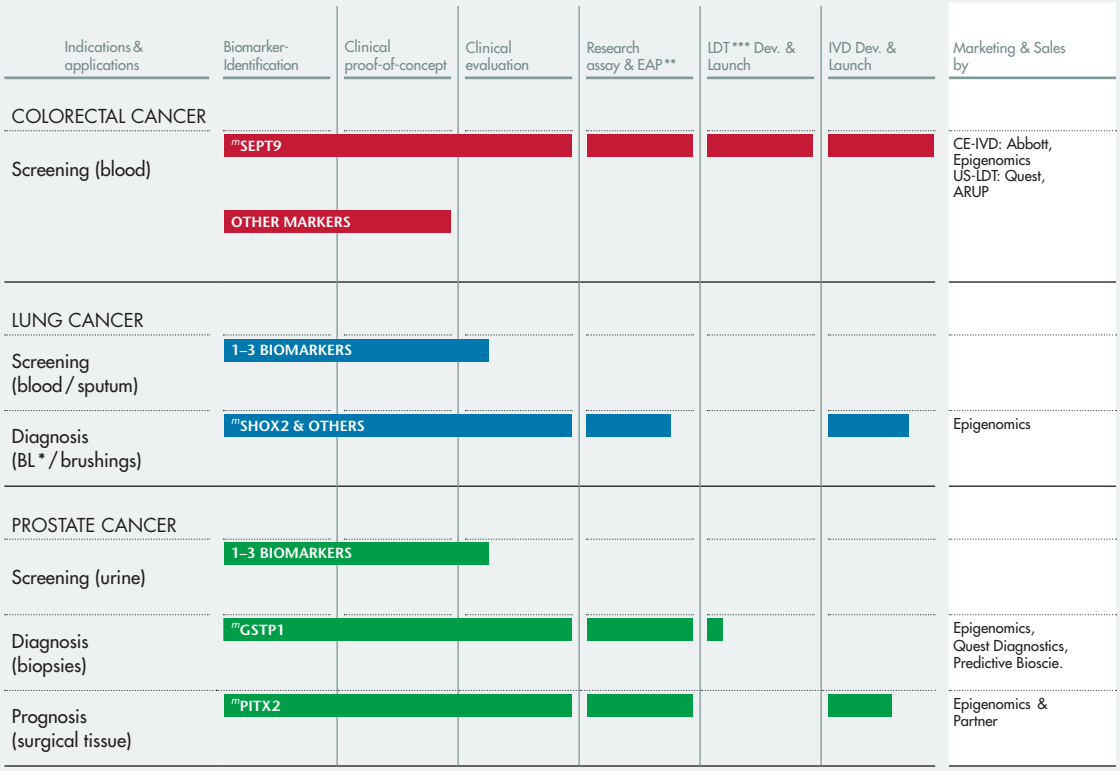
## PRODUCT DEVELOPMENT PIPELINE

Across all our product development programs and in all our commercial partnerships, we have made progress according to our plans.

After the launch of the Epi *pro*Colon test kit in October 2009, further German and Swiss laboratories have started offering mSEPT 9 testing using our Epi *pro*Colon test kit and we expect more European laboratories to follow in 2010.

In January 2010, Quest introduced its blood-based LDT in the U.S.A. for aiding the detection of colorectal cancer, based on our proprietary DNA methylation biomarker Septin9 and certain proprietary technologies that we licensed to Quest in 2008. Additionally, we expect our partner ARUP Laboratories, Inc. ("ARUP") to start offering mSEPT 9 testing in 2010.

We intend to launch our lung cancer diagnostic test Epi *pro*Lung in Europe in the first half of 2010. Finally, our mPITX2 prostate cancer prognostic assay is now available under an "Early Access Program" in Europe.




* Bronchial lavage

** "Early Access Program"

*** Laboratory-developed test

## KEY FINANCIAL DEVELOPMENTS

In line with our expectations, revenue for the first three months of 2010 decreased by 50% to EUR 0.6 million, from EUR 1.2 million in the comparable quarter of 2009. Revenue in Q1 2009 had included revenue recognition from non-recurring service projects initiated in 2008. Also, Q1 2009 had included significant revenue from sample collection under the Abbott collaboration agreement which has been completed by year-end 2009. Revenue in Q1 2010 was generated from continued collaborations and licensing agreements in the form of R&D payments, licensing fees and product sales from our Epi *pro*Colon kits. EBIT for Q1 2010 amounted to EUR -2.6 million and reduced thus by 13% compared to EBIT for the corresponding period in 2009 of EUR -2.3 million. Overall, operating costs during the first three months of 2010 decreased by 12% to EUR 3.4 million, compared to the same period in 2009 (EUR 3.8 million).

Short-term liquidity as of March 31, 2010, amounted to EUR 18.9 million, an increase of EUR 12.8 million from the EUR 6.1 million at year-end 2009 mainly due to overcompensation of the cash consumption from operating activities and investing in fixed assets by the net cash inflow from the capital increase realized in Q1 2010. As of March 31, 2010, the share premium from this capital increase has been recognized in other current assets as of the reporting date, since the cash settlement of EUR 18.4 million on our bank account took place one day after balance sheet date.

Cash consumption in Q1 2010 of EUR -1.8 million has improved substantially compared to the previous year's EUR -2.3 million figure.

## OUR STOCK

Trading volume in our stock drastically increased during Q1 2010 following the announcement of the release of preliminary PRESEPT Study data in January, upon announcing the completion of the PRESEPT audit as well as upon releasing revised PRESEPT top-line data and during the rights issue to a quarterly average of over 251,000 shares a day. The share price closed at EUR 2.51 (Xetra) on March 31, 2010, after a volatile first quarter of 2010 with a peak of EUR 3.57 per share compared to EUR 3.52 at year-end 2009.

During Q1 2010, 14,697,361 new shares were issued from Authorized Capital 2009/I and Authorized Capital 2009/II due to our capital increase, which has been settled as of March 31, 2010.

Key data of Epigenomics' stock (as of March 31, 2010)

| | |
|---|---|
| Ticker | ECX |
| Exchange | Frankfurter Wertpapierbörse, Regulierter Markt (Prime Standard) |
| Security code number | A0BVT9 |
| ISIN | DE000A0BVT96 |
| Shares outstanding | 44,092,085[2] |
| Price range in 3M 2010 | EUR 1.98–3.57 (Xetra closing prices) |
| | |
| **Analyst coverage** | |
| Midas Research | Thomas Schießle |
| fairesearch | Dr. Martin Schnee* |

* Under the label of Close Brothers Seydler Research AG

[2] **The new shares, issued on March 31, 2010, were admitted to trading on April 1, 2010.**

# FINANCIALS

## FINANCIAL POSITION AND CASH FLOW

In the first quarter of 2010, Epigenomics' financial position and its cash flow were mainly affected by the successful financing transaction. Overall, the cash flow from operating and investing activities in Q1 2010 has developed according to plan and liquid assets amounted to EUR 18.9 million as of March 31, 2010, compared to EUR 6.1 million as of December 31, 2009.

Cash outflow from operating activities in Q1 2010 totalled EUR 1.6 million. Cash outflow from investing activities amounted to EUR 0.2 million.

## RESULTS OF OPERATIONS

In Q1 2010, revenue decreased by 50% from EUR 1,242 thousand in Q1 2009 to EUR 621 thousand. This decrease is mainly the result of the completion of work within several collaborations, in particular with Abbott and within our biomarker R&D services, in Q1 2009 with no equivalent activities in the reporting quarter. Revenue from product sales developed according to plan and is expected to contribute increasing shares of total revenue over the next quarters.

Cost of sales decreased significantly by 82% from EUR 951 thousand in Q1 2009 to EUR 170 thousand in Q1 2010, mainly due to the completion of sample collection within our collaboration with Abbott which had strongly affected our cost of sales in 2009. Further, the completion of some of our work packages within our partnerships led to a drop of collaboration-driven product development expenses in the first quarter of 2010.

Other income decreased by over 45% from EUR 253 thousand in Q1 2009 to EUR 137 thousand in Q1 2010, mainly resulting from lower foreign exchange rate gains in the reporting period partly compensated by income from granted projects of EUR 49 thousand.

R&D costs increased slightly from EUR 1,759 thousand in the first quarter of 2009 to EUR 1,864 thousand in Q1 2010. This increase can mainly be explained by the simultaneous reduction of cost of sales as R&D staff was not utilized for collaboration projects to the same extent as in Q1 2009.

Sales, general and administrative costs increased by 26% from EUR 1,049 thousand in Q1 2009 to EUR 1,323 thousand in Q1 2010 due to intensified marketing, sales and technical support activities for our Epi *pro*Colon colorectal cancer blood test.

In the reporting period, other expenses decreased to EUR 6 thousand compared to the previous year (Q1 2009: EUR 47 thousand), attributable to lower foreign exchange rate losses.

EBIT decreased by 13% and amounted to EUR -2,605 thousand in Q1 2010, as the reduction in revenue could only partially be compensated by an overall decrease in operating costs.

The financial result in Q1 2010 of EUR 26 thousand suffered from low interest rates and significantly reduced average liquidity compared to Q1 2009 when the financial result had amounted to EUR 67 thousand.

Net loss for the period increased by 7% from EUR 2,421 thousand in Q1 2009 to EUR 2,589 thousand in Q1 2010.

### NET ASSETS POSITION

Total non-current assets have increased slightly during the reporting period from EUR 5.7 million at year-end 2009 to EUR 5.8 million at the end of March 2010, to a large degree as a result of the capitalization of development costs for our lung cancer test.

During Q1 2010, total current assets grew from EUR 10.6 million as of December 31, 2009, to EUR 38.5 million. This significant increase mirrors mainly the effect of the capital increase with cash and cash equivalents up by EUR 12.5 million and other current assets up by EUR 16.4 million compared to year-end 2009.

Our subscribed capital increased from EUR 29.4 million as of December 31, 2009, to EUR 44.1 million as of March 31, 2010, and simultaneously the capital reserve from EUR 6.2 million to EUR 21.9 million, as a consequence of the capital increase with 14,697,361 new shares placed at a price of EUR 2.25 each.

Therefore, the equity ratio improved from 73.9% at the end of 2009 to 90.5% as of March 31, 2010.

Current liabilities were down slightly to EUR 4.2 million at the reporting date from EUR 4.3 million at year-end 2009. This reduction is partially attributable to the settlement of payables in connection with the capital increase as well as to the revenue recognition of received prepayments within commercial collaborations and granted projects.

Epigenomics' balance sheet total rose from EUR 16.4 million as of December 31, 2009, to EUR 44.3 million as of March 31, 2010, almost exclusively a consequence of the capital increase.

| Employees | Berlin | Seattle | Total |
|---|---|---|---|
| **Number of employees as of March 31, 2010** | **68** | **18** | **86** |
| Number of employees as of December 31, 2009 | 68 | 18 | 86 |
| Number of employees as of March 31, 2009 | 65 | 17 | 82 |

## SUPPLEMENTARY REPORT

The following events occurred after the end of the reporting period:

On April 7, 2010, we have announced that synlab Services GmbH ("synlab"), one of the largest laboratory networks in Europe based in Augsburg, Germany, had started offering the blood-based Septin9 test Epi *pro*Colon for colorectal cancer early detection through its 55 German sites. For measurement of Septin9, synlab is using our Epi *pro*Colon kit on Applied Biosystem's 7500 Fast Real-time PCR System. Additional offering of Septin9 testing through synlab's network significantly increases coverage in Germany as well as in other countries making this innovative test even more broadly available to doctors and patients in Europe.

On April 27, 2010, we announced that we received a "Notice of Allowance" notification stating that the United States Patent and Trademark Office intends to grant a patent for our Septin9 DNA methylation biomarker ($^{m}$SEPT9). We received the grant of the corresponding patent in Europe in 2008. The application for which we received the Notice of Allowance covers "a method for the detection or classification of colorectal cancer by means of the DNA methylation status of the Septin9 gene".

## CORPORATE GOVERNANCE

The following section on Corporate Governance should be read in connection with our consolidated management report of the audited consolidated financial statements for the year ended December 31, 2009, especially with the respective section therein.

In December 2009, the Executive Board and the Supervisory Board issued a new declaration of conformity pursuant to Section 161 of the German Stock Corporation Act (Aktiengesetz), which is included in the corporate governance report of our annual report and is also permanently made accessible to shareholders on our website. In this declaration, we have committed ourselves to the German Corporate Governance Code and only in some cases we adopted Company-specific principles deviating from these recommendations.

Furthermore, according to Section 289a of the German Commercial Code (HGB), the declaration of governance was made permanently accessible to the general public in German and English language on our website under www.epigenomics.com/en/investor_relations/corporategovernance/.

During Q1 2010, the Executive Board of the Company made use of its authority to issue new shares according to the terms of the Authorized Capital 2009/I and the Authorized Capital 2009/II.[3]

## OPPORTUNITIES AND RISKS

In Q1 2010, the types of opportunities and risks, which we are exposed to, have not changed significantly as described in the management report published with the consolidated financial statements 2009. For a comprehensive overview on all risk factors, reference is made to the prospectus published as part of our rights issue in March 2010 which is available for download on our website. This successful capital increase has significantly helped mitigating the short- to medium-term financial risks the Company is facing.

Our opportunities and risks result from the following categories:

- business-related opportunities and risks,
- IP-related opportunities and risks,
- regulatory opportunities and risks,
- financial opportunities and risks, and
- other opportunities and risks.

## PROGNOSIS REPORT FOR 2010

We intend to build on the successful year 2009 as well as on the very promising start into 2010 with EUR 33.1 million gross proceeds from the recently settled financing transaction to complete the transformation from an R&D-driven organization into an integrated molecular diagnostics industry player. Focus will be on the commercial execution together with partners and licensees as well as on driving direct product sales in the home markets. To that end, we expect to grow the marketing and sales team in Europe by a handful of key additions and new hires in the following months.

[3] **See "The First Quarter of 2010 – Overview" for details on our capital increase.**

We anticipate traction of all Septin9-based tests that are commercially available to increase sales gradually during 2010 and to accelerate our product business in 2011 and beyond. The management expects direct product sales of the Epi *pro*Colon test in Germany, Switzerland and Austria as well as distributor sales in other key European markets to support revenue growth significantly. Furthermore, we expect to maintain a solid base of R&D collaboration, licensing- and partnering-based revenue generation at similar levels to the previous years, which assumes the closing of one additional IVD partnership in 2010. Royalty income from sales of the Abbott RealTi*me m*S9 Colorectal Cancer Assay and Quest's ColoVantage™ testing service should also gradually start to contribute to revenue in 2010 with accelerated growth anticipated for 2011 and beyond. The expected launch of ARUP's Septin9 testing service in 2010 should add to the royalty income going forward.

From the product development and pipeline progress, our management awaits the launch of the CE-marked Epi *pro*Lung BL Reflex Assays by midyear 2010. In line with the commercial strategy in colorectal cancer, the Company intends to market and sell directly in its home markets and work with distributors in other countries. The Company also plans to initiate its own clinical trial for regulatory approval of the Epi *pro*Colon test using the PRESEPT cohort in 2010 with a view to obtaining such regulatory approval in the U.S.A., ideally still in 2011. We also expect our partner Abbott to complete the clinical trial for regulatory approval of their RealTi*me m*S9 colorectal cancer test and to seek such regulatory approval for the United States by 2011.

R&D going forward will focus on enhancement and expansion of our Epi *pro*Colon product. As an example, the Company has recently launched an updated version of the product which can now be used on two real-time PCR devices, the Roche LightCycler™ 480 and the Applied Biosystems 7500 Fast Real-time PCR System. Further, R&D in the colorectal cancer program focuses on enhanced clinical characteristics for colorectal cancer early detection as well as on expansion of the clinical utility into disease monitoring and adenoma detection. Lung cancer test development will take second priority with prostate cancer taking third priority and requiring current and future partners to commercialize.

Financials for the fiscal year 2010 are expected to be characterized by continued fiscal discipline and focus on commercialization. Epigenomics anticipates 2010 revenue of at least EUR 5 million, with the potential to double in each of the following two years towards achieving profitability by the end of 2012 at the earliest. This will depend on successful commercialization of products as well as on current and new partners being successful in their test commercialization. For 2010, EBIT is expected to be similar to 2009 with a target of around EUR -10 million. Cash consumption will be closely monitored and is expected to remain around EUR 10 million for 2010 despite the completion of the PRESEPT Study and the lung cancer IVD development, as marketing and sales spending will now increase. Further, the Company plans to fund a clinical trial and a filing for regulatory approval in the U.S.A. in 2010 and 2011, before eventually commercializing a regulatory-approved Epi *pro*Colon product in the United States.

# INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF MARCH 31, 2010

## GROUP INCOME STATEMENT

### FOR THE PERIOD FROM JANUARY 1 TO MARCH 31, 2010

UNAUDITED

| EUR thousand | Q1 2009 | Q1 2010 |
|---|---|---|
| Revenue | 1,242 | 621 |
| Cost of sales | -951 | -170 |
| **Gross profit** | **291** | **451** |
| | | |
| Other income | 253 | 137 |
| Research and development costs | -1,759 | -1,864 |
| Selling, general and administrative costs | -1,049 | -1,323 |
| Other expenses | -47 | -6 |
| **Earnings before interest and taxes (EBIT)** | **-2,311** | **-2,605** |
| | | |
| Interest income | 63 | 27 |
| Interest expenses | -7 | 0 |
| Other financial result | 11 | -1 |
| **Net loss for the period before taxes on income** | **-2,244** | **-2,579** |
| | | |
| Taxes on income | -177 | -10 |
| **Net loss for the period** | **-2,421** | **-2,589** |
| | | |
| **Earnings per share (basic and diluted) in EUR** | **-0.08** | **-0.09** |

## STATEMENT OF INCOME AND EXPENSES RECOGNIZED IN GROUP EQUITY

UNAUDITED

| EUR thousand | Q1 2009 | Q1 2010 |
|---|---|---|
| Net loss for the period | -2,421 | -2,589 |
| Fair value adjustment of securities | 37 | 197 |
| **Total income and expenses recognized in Group equity** | **37** | **197** |
| **Total comprehensive income** | **-2,384** | **-2,392** |

# GROUP BALANCE SHEET

## AS OF MARCH 31, 2010

UNAUDITED

| ASSETS EUR thousand | Dec 31, 2009 | Mar 31, 2010 |
|---|---|---|
| *Non-current assets* | | |
| Intangible assets | 4,753 | 4,851 |
| *thereof goodwill* | *2,625* | *2,625* |
| Tangible assets | 572 | 530 |
| Deferred taxes | 391 | 417 |
| **Total non-current assets** | **5,716** | **5,798** |
| *Current assets* | | |
| Inventories | 160 | 54 |
| Trade receivables | 1,993 | 733 |
| Marketable securities | 2,182 | 2,379 |
| Cash and cash equivalents | 3,954 | 16,496 |
| Other current assets | 2,349 | 18,796 |
| **Total current assets** | **10,638** | **38,458** |
| | | |
| **Total assets** | **16,354** | **44,256** |

| EQUITY AND LIABILITIES EUR thousand | Dec 31, 2009 | Mar 31, 2010 |
|---|---|---|
| *Equity* | | |
| Subscribed capital | 29,395 | 44,092 |
| Capital reserve | 6,227 | 21,900 |
| Retained earnings | -12,271 | -22,494 |
| Net loss for the period | -10,223 | -2,589 |
| Other comprehensive income | -1,044 | -847 |
| **Total equity** | **12,084** | **40,062** |
| *Non-current liabilities* | | |
| Liabilities from leasing contracts | 9 | 2 |
| **Total non-current liabilities** | **9** | **2** |
| *Current liabilities* | | |
| Trade payables | 2,091 | 2,171 |
| Liabilities from leasing contracts | 28 | 28 |
| Deferred income | 720 | 566 |
| Other liabilities | 851 | 691 |
| Provisions | 571 | 736 |
| **Total current liabilities** | **4,261** | **4,192** |
| | | |
| **Total equity and liabilities** | **16,354** | **44,256** |

# GROUP CASH FLOW STATEMENT

## FOR THE PERIOD FROM JANUARY 1 TO MARCH 31, 2010

UNAUDITED

| EUR thousand | Q1 2009 | Q1 2010 |
|---|---|---|
| **Cash and cash equivalents at the beginning of the period** | **9,814** | **3,954** |
| *Operating activities* | | |
| **Net loss before taxes on income** | **-2,244** | **-2,579** |
| Corrections for: | | |
| Depreciation on tangible assets | 95 | 71 |
| Amortization of intangible assets | 60 | 84 |
| Losses from the disposal of assets | 1 | 1 |
| Stock option expenses | 29 | 88 |
| Foreign currency exchange gains | 0 | -27 |
| Interest income | -63 | -27 |
| Interest expenses | 7 | 0 |
| Taxes | -28 | -6 |
| **Operating result before changes in net current assets** | **-2,143** | **-2,395** |
| Changes in trade receivables and other current assets | -282 | -2,604 |
| Changes in inventories | 40 | 106 |
| Changes in current liabilities from operating activities | 47 | 3,312 |
| **Liquidity earned from operating activities** | **-2,338** | **-1,581** |
| Interest received | 67 | 0 |
| **Cash flow from operating activities** | **-2,271** | **-1,581** |
| *Investing activities* | | |
| Payments for investments in tangible assets | -27 | -38 |
| Payments for investments in intangible assets | -2 | -11 |
| Additions to capitalized development costs | 0 | -172 |
| Proceeds from the sale of marketable securities | 500 | 0 |
| **Cash flow from investing activities** | **471** | **-221** |
| *Financing activities* | | |
| Payments for the creation of new shares | -19 | -345 |
| Proceeds from the issue of new shares | 5,182 | 14,697 |
| Payments for lease financing | -7 | -7 |
| **Cash flow from financing activities** | **5,156** | **14,345** |
| | | |
| **Cash flow total** | **3,356** | **12,543** |
| | | |
| **Cash and cash equivalents at the end of the period** | **13,170** | **16,497** |

# STATEMENT OF CHANGES IN GROUP EQUITY

## AS OF MARCH 31, 2010

UNAUDITED

| EUR thousand | Subscribed capital | Capital reserve | Retained earnings | Net loss for the period | Other compreh. income | Group equity |
|---|---|---|---|---|---|---|
| **Dec 31, 2008** | **26,724** | **3,567** | **-12,271** | **0** | **-1,452** | **16,568** |
| **Total comprehensive income** | **0** | **0** | **0** | **-2,421** | **37** | **-2,384** |
| | | | | | | |
| Stock-based compensation | 0 | 29 | 0 | 0 | 0 | 29 |
| Capital increase from issue of shares | 2,671 | 0 | 0 | 0 | 0 | 2,671 |
| Premium from issue of shares | 0 | 2,511 | 0 | 0 | 0 | 2,511 |
| Financing costs | 0 | -19 | 0 | 0 | 0 | -19 |
| **Mar 31, 2009** | **29,395** | **6,088** | **-12,271** | **-2,421** | **-1,415** | **19,376** |

| EUR thousand | Subscribed capital | Capital reserve | Retained earnings | Net loss for the period | Other compreh. income | Group equity |
|---|---|---|---|---|---|---|
| **Dec 31, 2009** | **29,395** | **6,227** | **-22,494** | **0** | **-1,044** | **12,084** |
| **Total comprehensive income** | **0** | **0** | **0** | **-2,589** | **197** | **-2,392** |
| | | | | | | |
| Stock-based compensation | 0 | 88 | 0 | 0 | 0 | 88 |
| Capital increase from issue of shares | 14,697 | 0 | 0 | 0 | 0 | 14,697 |
| Premium from issue of shares | 0 | 18,372 | 0 | 0 | 0 | 18,372 |
| Financing costs | 0 | -2,787 | 0 | 0 | 0 | -2,787 |
| **Mar 31, 2010** | **44,092** | **21,900** | **-22,494** | **-2,589** | **-847** | **40,062** |

# NOTES TO THE Q1 2010 CONSOLIDATED FINANCIAL STATEMENTS

## 1. BASIC INFORMATION, PRINCIPLES AND METHODS

### GENERAL PRINCIPLES

The presented unaudited interim consolidated financial statements of Epigenomics AG are prepared according to the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB), London, and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) under consideration of IAS 34 Interim Financial Reporting in effect at the closing date March 31, 2010, as mandatory applicable in the European Union. Further, these statements are in accordance with German Accounting Standards (GAS) under consideration of GAS 16 Interim Financial Reporting. New standards adopted by the IASB and/or the German Accounting Standards Committee (GASC) apply from the date on which they came into effect. A critical review of this interim report was performed by the Company's auditors.

In the reporting period, Amendments to IAS 1: *Presentation of Financial Statements*, IAS 17: *Leases*, IAS 36: *Impairment of Assets*, IAS 38: *Intangible Assets*, IAS 39: *Financial Instruments: Recognition and Measurement,* IFRS 1: *First-time Adoption of International Financial Reporting Standards*, IFRS 2: *Share-based Payment*, IFRS 5: *Non-current Assets Held for Sale and Discontinued Operations* and IFRS 8: *Operating Segments* have become effective on January 1, 2010. The adoption of these amendments does not have a potential impact on the Group's accounting principles.

The reporting period as defined in these consolidated financial statements is the period from January 1, 2010, to March 31, 2010. The reporting currency is the euro.

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

### CONSOLIDATION GROUP

The consolidation group remained unchanged compared to the one as of December 31, 2009, and comprises the two companies Epigenomics AG, Berlin, Germany, and Epigenomics, Inc., Seattle, WA, U.S.A.

### CONSOLIDATION, ACCOUNTING AND VALUATION PRINCIPLES

The presented unaudited interim consolidated financial statements should be read in connection with the audited consolidated financial statements of Epigenomics AG for the year ended December 31, 2009. The consolidation, accounting and valuation principles presented in those statements were still valid during the reporting period unless explicitly mentioned otherwise below.

All intercompany transaction results, revenue, expenses, profits, receivables, and payables between the Group companies are eliminated in full upon consolidation.

## CHANGES IN DISCLOSURE

In the first quarter of 2010, we summarized marketing and business development costs together with general and administrative costs into a new position selling, general and administrative costs ("SG&A"). This disclosure is compatible with industry standards. The reason for this summarization was among others to achieve a better comparability with the financial statements of other international life sciences companies and competitors as well as the development of Epigenomics from a research focused to a product-driven Company. Furthermore, the summary solves the problem of proper cost allocation since the line between marketing and business development costs on the one hand and general and administrative costs on the other is sometimes not clear.

Thus, SG&A costs includes:

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

The comparable numbers of the previous year have been adjusted accordingly.

## CURRENCY TRANSLATION

Applied foreign currency exchange rates in the reporting period:

### Reporting date rates

| | Dec 31, 2009 | Mar 31, 2010 |
|---|---|---|
| EUR / USD | 1.4406 | 1.3479 |
| EUR / GBP | 0.88810 | 0.88980 |

### Average rates

| | Q1 2009 | Q1 2010 |
|---|---|---|
| EUR / USD | 1.2923 | 1.3672 |
| EUR / GBP | 0.90725 | 0.88302 |

# 2. NOTES TO THE GROUP INCOME STATEMENT

## REVENUE

| | Q1 2009 | | Q1 2010 | |
|---|---|---|---|---|
| | EUR thousand | in % | EUR thousand | in % |
| Licensing and royalty income | 351 | 28.3 | 478 | 76.9 |
| R&D payments | 835 | 67.2 | 61 | 9.8 |
| Product sales and other | 56 | 4.5 | 82 | 13.3 |
| **Total revenue** | **1,242** | **100.0** | **621** | **100.0** |

## COST OF SALES / GROSS PROFIT / GROSS MARGIN

| EUR thousand | Q1 2009 | Q1 2010 |
|---|---|---|
| Revenue | 1,242 | 621 |
| Cost of sales | 951 | 170 |
| Gross profit | 291 | 451 |
| **Gross margin in %** | **23.4** | **72.6** |

## OTHER INCOME

| EUR thousand | Q1 2009 | Q1 2010 |
|---|---|---|
| Currency exchange gains | 213 | 67 |
| Third-party research grants | 1 | 49 |
| Corrections of invoices of the previous year | 13 | 17 |
| Recoveries and refunds | 10 | 3 |
| Income from subleasing | 16 | 0 |
| Other | 0 | 1 |
| **Total other income** | **253** | **137** |

## PERSONNEL COSTS AND NUMBER OF EMPLOYEES

| EUR thousand | Q1 2009 | Q1 2010 |
|---|---|---|
| Personnel remuneration | 1,379 | 1,501 |
| Stock option expenses | 29 | 88 |
| Social security expenses | 206 | 218 |
| **Total personnel costs** | **1,614** | **1,807** |
| Average number of employees | 83 | 86 |
| Number of employees at balance sheet date | 82 | 86 |

## COST ANALYSIS

Q1 2009

| EUR thousand | Cost of sales | R&D costs | SG&A costs | Total |
|---|---|---|---|---|
| Materials/consumables | 186 | 203 | 7 | 396 |
| Depreciation and amortization | 30 | 108 | 17 | 155 |
| Personnel costs | 86 | 956 | 572 | 1,614 |
| Other costs | 649 | 492 | 453 | 1,594 |
| Capitalized development costs | 0 | 0 | 0 | 0 |
| **Total** | **951** | **1,759** | **1,049** | **3,759** |

Q1 2010

| EUR thousand | Cost of sales | R&D costs | SG&A costs | **Total** |
|---|---|---|---|---|
| Materials/consumables | 22 | 307 | 6 | 335 |
| Depreciation and amortization | 36 | 103 | 16 | 155 |
| Personnel costs | 25 | 1,107 | 675 | 1,807 |
| Other costs | 87 | 519 | 626 | 1,232 |
| Capitalized development costs | 0 | -172 | 0 | -172 |
| **Total** | **170** | **1,864** | **1,323** | **3,357** |

## OTHER EXPENSES

| EUR thousand | Q1 2009 | **Q1 2010** |
|---|---|---|
| Currency exchange losses | 46 | 4 |
| Other | 1 | 2 |
| **Total other expenses** | **47** | **6** |

## EARNINGS BEFORE INTEREST AND TAXES (EBIT) AND EBIT BEFORE DEPRECIATION AND AMORTIZATION (EBITDA)

| EUR thousand | Q1 2009 | **Q1 2010** |
|---|---|---|
| **EBIT** | **-2,311** | **-2,605** |
| Depreciation | 95 | 71 |
| Amortization | 60 | 84 |
| **EBITDA** | **-2,156** | **-2,450** |

## FINANCIAL RESULT

| EUR thousand | Q1 2009 | Q1 2010 |
|---|---|---|
| Interest and related income | 63 | 27 |
| Other financial income | 24 | 0 |
| **Total financial income** | **87** | **27** |
| | | |
| Interest expenses | -7 | 0 |
| Other financial expenses | -13 | -1 |
| **Total financial expenses** | **-20** | **-1** |
| | | |
| **Total financial result** | **67** | **26** |

## TAXES ON INCOME

| EUR thousand | Q1 2009 | Q1 2010 |
|---|---|---|
| Current tax expenses | 9 | 10 |
| Deferred tax expenses | 168 | 0 |
| **Total tax expenses** | **177** | **10** |

## EARNINGS PER SHARE

The earnings per share (basic and diluted) are calculated by dividing the Group's net loss for the period by the weighted-average number of shares issued and admitted to trading in the respective period.

| | Q1 2009 | Q1 2010 |
|---|---|---|
| Net loss in EUR thousand | -2,421 | -2,589 |
| Weighted-average number of shares issued | 28,504,361 | 29,394,724 |
| Earnings per share (basic and diluted) in EUR | -0.08 | -0.09 |

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 reporting date amounted to 44,092,085 (March 31, 2009: 29,394,724). The new shares, issued on March 31, 2010, were admitted to trading not before April 1, 2010, and were therefore not included in the calculation of the earnings per share.

# 3. NOTES TO THE GROUP BALANCE SHEET

## NON-CURRENT ASSETS

| EUR thousand | Dec 31, 2009 | Mar 31, 2010 |
|---|---|---|
| Software | 79 | 83 |
| Licenses, patents | 1,668 | 1,623 |
| Goodwill | 2,625 | 2,625 |
| Development costs | 381 | 520 |
| **Total intangible assets** | **4,753** | **4,851** |
| Fixtures, leasehold improvements | 17 | 9 |
| Technical equipment | 521 | 489 |
| Other fixed assets | 34 | 32 |
| **Total tangible assets** | **572** | **530** |
| **Deferred tax assets** | **391** | **417** |
| **Total non-current assets** | **5,716** | **5,798** |

The increase in deferred tax assets can be explained by exchange rate effects as of the reporting day.

## CURRENT ASSETS

### Inventories

| EUR thousand | Dec 31, 2009 | Mar 31, 2010 |
|---|---|---|
| Consumables, raw materials, supplies | 123 | 43 |
| Finished goods | 37 | 11 |
| **Total inventories** | **160** | **54** |

### Other current assets

| EUR thousand | Dec 31, 2009 | Mar 31, 2010 |
|---|---|---|
| Receivables from capital increase | 0 | 17,347 |
| Prepaid expenses | 923 | 1,024 |
| Receivables from tax authorities | 389 | 183 |
| Interest receivables | 59 | 85 |
| Claims based on granted projects | 59 | 80 |
| Advance payments | 13 | 23 |
| Excess payments | 18 | 8 |
| Deferred financing costs | 843 | 0 |
| Other | 45 | 46 |
| *– thereof with a maturity of > 1 year* | *38* | *38* |
| **Total other current assets** | **2,349** | **18,796** |

Receivables from the capital increase comprise of the share premium from the capital increase. While the par value of the new shares was already transferred and booked on the Company's bank account as of March 31, 2010, the share premium was still outstanding at the reporting date and finally settled not before April 1, 2010.

## EQUITY

The capital increase in Q1 2010 utilized the entire authorized capital of EUR 14.7 million available to increase the Company's share capital to EUR 44.1 million as of the reporting date.

| EUR thousand | Dec 31, 2009 | Mar 31, 2010 |
|---|---|---|
| Share capital | 29,394,724 | 44,092,085 |
| Conditional capital | 2,925,964 | 2,925,964 |
| Authorized capital | 14,697,361 | 0 |

The capital reserve was increased by EUR 15.7 million to EUR 21.9 million in Q1 2010 resulting from the aforementioned financing transaction.

Other comprehensive income rose from EUR -1.0 million as of December 31, 2009, to EUR -0.8 million as of the reporting date following a revaluation of the financial instruments available for sale.

## CURRENT LIABILITIES

### Deferred income

| EUR thousand | Dec 31, 2009 | Mar 31, 2010 |
|---|---|---|
| Payments from commercial partners | 660 | 534 |
| Payments for granted projects | 60 | 32 |
| **Total deferred income** | **720** | **566** |

There are no repayment obligations for the Company resulting from the deferred income. Deferred income in the amount of EUR 38 thousand as of March 31, 2010 (Dec 31, 2009: EUR 53 thousand), which will be recognized as revenue, has a duration exceeding twelve months. This corresponds to our usual licensing business cycle.

### Other liabilities

| EUR thousand | Dec 31, 2009 | Mar 31, 2010 |
|---|---|---|
| Payables due to staff | 416 | 322 |
| Payables due to tax authorities | 234 | 94 |
| Accrued audit fees | 119 | 138 |
| Down payments received | 45 | 45 |
| Accrued Supervisory Board fees | 0 | 45 |
| Payables due to social security institutions | 21 | 5 |
| Other | 16 | 42 |
| **Total other liabilities** | **851** | **691** |

# 4. NOTES TO THE GROUP CASH FLOW STATEMENT

## OPERATING ACTIVITIES

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

## INVESTING ACTIVITIES

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

## FINANCING ACTIVITIES

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

# 5. OTHER INFORMATION

## INFORMATION ON OTHER TRANSACTIONS WITH RELATED PARTIES

Except for the transactions described below in Directors' dealings no other transactions with related parties took place.

## CHANGES IN STOCK OPTIONS

No stock options were exercised in Q1 2010. In January and February 2010, a total of 140,000 stock options were granted to the members of the Executive Board of the Company under the stock option program 09-13 and 245,000 stock options were granted to employees of the Company, thereof 20,000 under the stock option program 06-10 and 225,000 under the stock option program 09-13. The total number of stock options held by the members of the Executive Board as of March 31, 2010, aggregated to 536,613 and the total number of stock options held by other beneficiaries aggregated to 952,422.

## DIRECTORS' DEALINGS

Following declared securities transactions took place during the first quarter of 2010:

| Members of the Executive Board | Transaction date | Type | Total number of shares traded | Transaction value in EUR |
|---|---|---|---|---|
| Geert Walther Nygaard, CEO | Jan 21, 2010 | buy | 20,000 | 44,200 |
| Geert Walther Nygaard, CEO | Mar 29, 2010 | buy | 10,002 | 22,505 |
| Oliver Schacht, Ph.D., CFO | Mar 29, 2010 | buy | 10,000 | 22,500 |

As of March 31, 2010, CEO Geert Walther Nygaard owned 50,000 shares of the Company and CFO Oliver Schacht, Ph.D., owned 127,050 shares of the Company. The Supervisory Board member Ann Clare Kessler, Ph.D., owned 14,000 shares of the Company.

This interim report has been approved and cleared for publication by the Executive Board of the Company on April 30, 2010.

Berlin, April 30, 2010
The Executive Board

## DISCLAIMER:

This interim report expressly or implicitly contains certain forward-looking statements concerning Epigenomics AG and its business. Such statements are not historical facts and sometimes are expressed by the words "will", "believe", "expect", "predict", "plan", "want", "assume" or similar expressions. Forward-looking statements are based on current plans, estimates, prognoses and expectations of the Company and on certain assumptions, and they involve certain known and unknown risks, uncertainties and other factors which could cause the actual results, financial condition, performance or achievements of Epigenomics AG to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Readers of this interim report are explicitly warned not to inadequately trust these forward-looking statements, which are only valid as of the date of this interim report. Epigenomics AG does not intend to and will not undertake to update any forward-looking statements contained in this interim report as a result of new information, future events or otherwise.

## Corporate Calendar 2010

*Annual General Shareholders' Meeting 2010 in Berlin*
Tuesday, June 8, 2010

*6-Month Report 2010*
January 1 – June 30
Tuesday, August 10, 2010

*9-Month Report 2010*
January 1 – September 30
Tuesday, November 9, 2010

## Contact

Dr. Achim Plum
Senior Vice President
Corporate Development
Phone: +49-30-24345-0
Fax: +49-30-24345-555
ir@epigenomics.com

This interim report is also available in both a German and an English version on the Company's website (www.epigenomics.com).

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